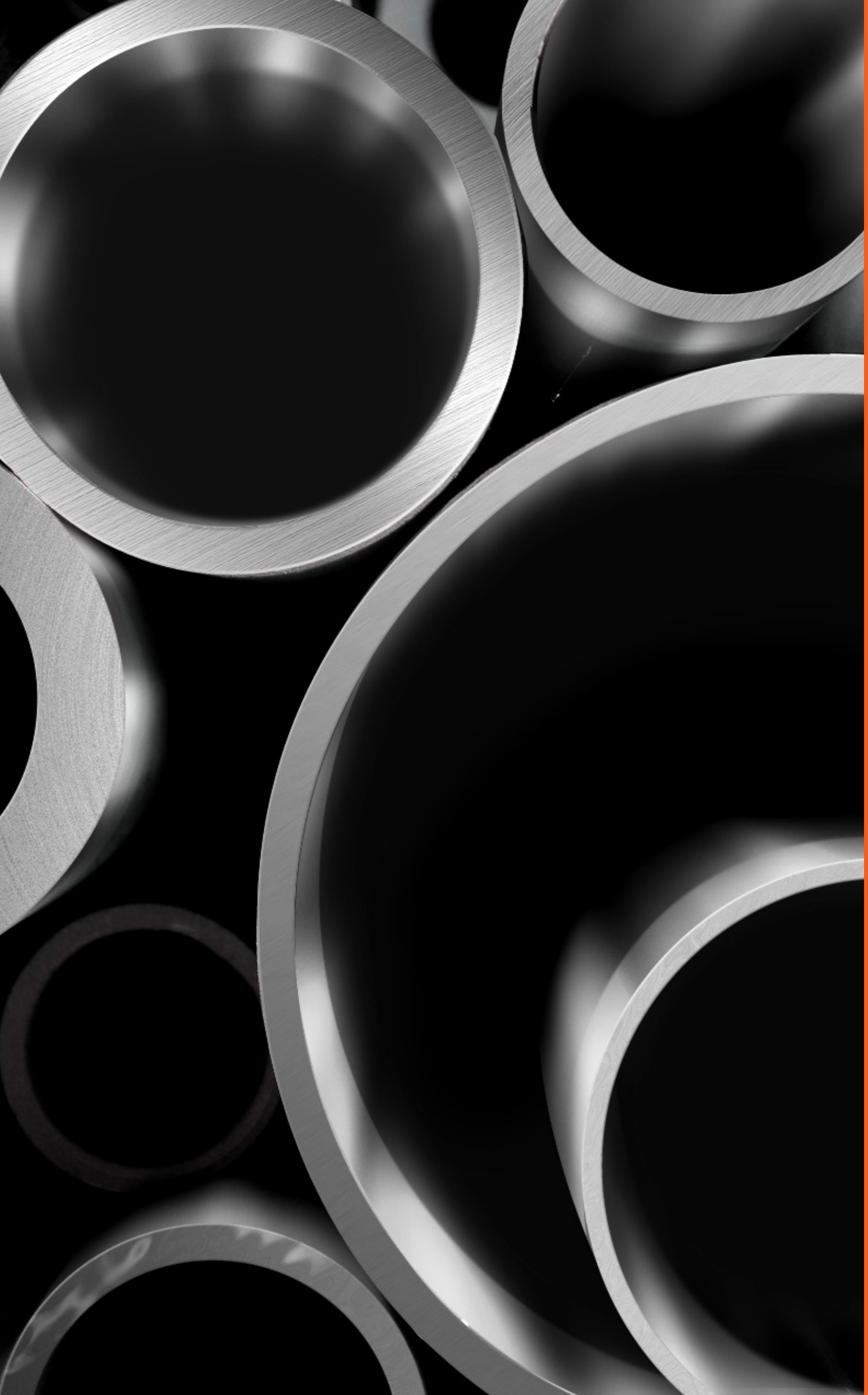

# OAO TMK
# Annual Report 2010

'10

www.tmk-group.com

10-Year Anniversary

OAO TMK
Annual Report 2010

## Contents



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# 1. TMK Profile and Key Indicators

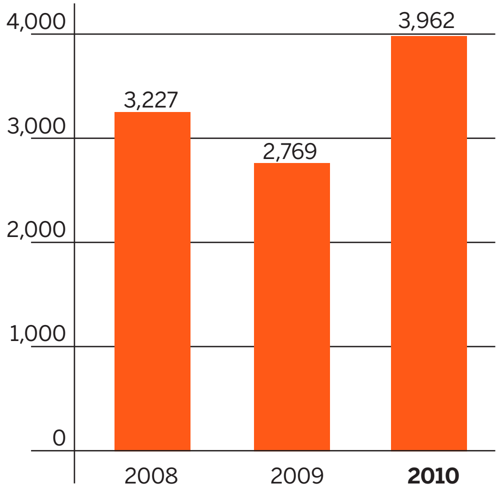
TMK is one of the world's leading producers of steel pipes, Russia's largest producer and exporter of pipes and a noted player on the North American market. The Company's shares are traded on the London Stock Exchange, the OTCQX International Premier trading platform in the United States, and on Russia's RTS and MICEX stock exchanges.

The Company was founded in 2001 and currently integrates production assets in Russia, the United States, Romania and Kazakhstan. TMK includes the Volzhsky Pipe Plant, Seversky Tube Works, Sinarsky Pipe Plant and Taganrog Metallurgical Works, located in Russia, TMK IPSCO, comprised of 11 production facilities in the United States, and TMK-Artrom and TMK-Resita in Romania. The Company also includes oil service assets: Orsky Machine-Building Plant, Truboplast, Central Pipe Yard and the Pipe Maintenance Department, located in Russia, and TMK-Kaztrubprom, located in Kazakhstan.

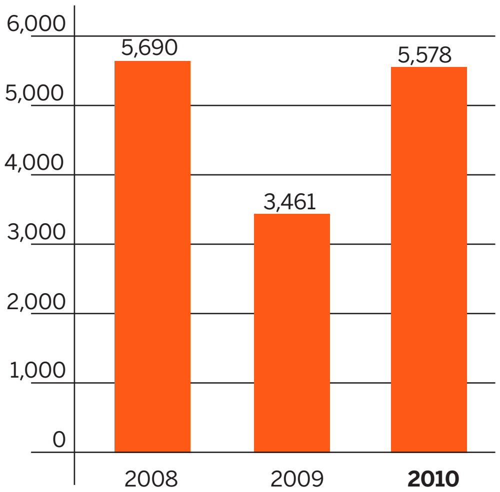
TMK is the largest supplier of tubular products for production and transport of oil and gas in Russia and the United States. The recovery of the North American market in 2010 has enabled the Company to strengthen its position in the segment of pipes for directional and horizontal drilling in North America. The continuing implementation of large pipeline projects in Russia has confirmed the correctness of the decision to favor development of longitudinally welded large diameter pipes. After overcoming the difficulties of 2009, TMK ended 2010 with significant growth in terms of volume of pipe sold, earnings and EBITDA.

The consolidation of production assets and the use of leading scientific and engineering developments has allowed the Company to create a modern technological complex that manufactures high-tech and competitive products. TMK's unique production and service capabilities allow it to satisfy the demands of a wide range of customers and offer effective solutions for their operational challenges.

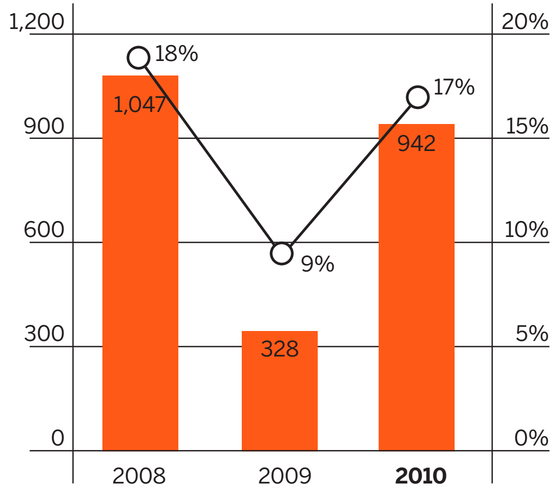
**Sales volume, thousand tonnes**



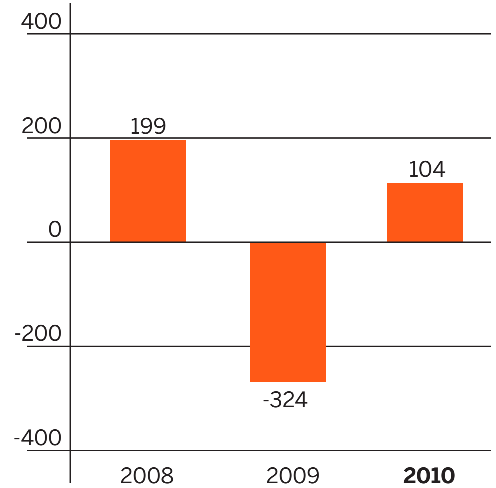

**Revenue, U.S.$ million**



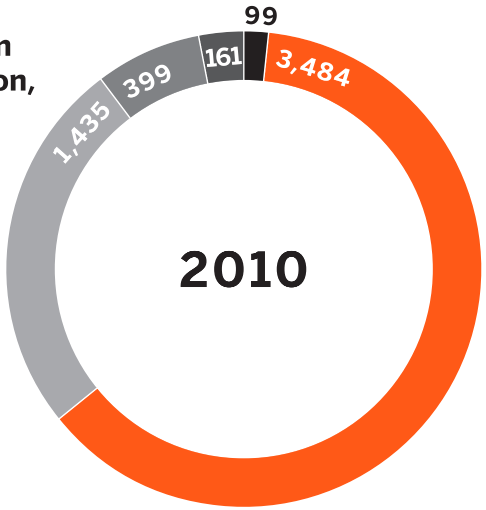
**EBITDA and EBITDA margin**




**Net income, U.S.$ million**

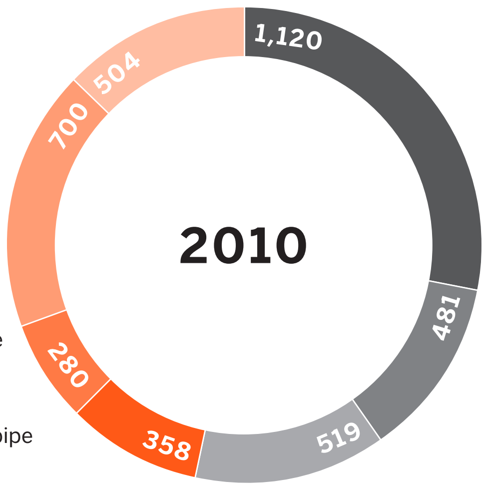



**Revenue breakdown by geographic region, U.S.$ million**




- Russia
- America
- Europe
- Central Asia and Caspian region
- Other regions

**Sales volume by product type, thousand tonnes**




- Seamless OCTG
- Seamless line pipe
- Seamless industrial pipe
- Welded OCTG
- Welded line pipe
- Welded large-diameter pipe
- Welded industrial pipe

# 2. Chairman's Letter

TMK has made it a priority to become one of the leading manufacturers in the segment of premium tubular products. I am confident that our focus on the latest developments and technologies, high-tech manufacturing and, in many respects, unique tubular products and solutions, will enable us to achieve this goal.

**Dmitry A. Pumpyanskiy**
Chairman of the Board of Directors

Dear shareholders,
TMK's results in 2010 show that the Company continues to successfully implement key strategic objectives, which are strengthening its position in comparison to a number of other global pipe manufacturers. In Russia, TMK still leads the pipe market, supplying products to the largest Russian companies in the fuel and energy industry. TMK is also a leader on the North American market for OCTG. Amid the global economic crisis and post-crisis market recovery, we passed a major test of strength and, consequently, not only finished last year with record production results but also secured a good foundation for the future thanks to our strong production and technological capabilities, as well as our innovative and flexible approach to creating new products.

Among our major areas of emphasis at TMK in 2010 has been the active development of technologies aimed at energy efficiency and nanotechnology, as well as environmental and scientific research. In particular, we have joined with RUSNANO to implement a project to produce stainless steel and alloy-based precision tubes through the use of nanotechnology. Innovative products like these will allow TMK to occupy a new market niche in the special-purpose pipe segment, and they will also enable the high-tech sectors of the Russian economy to become more competitive.

The Company has significantly strengthened its premium segment by offering consumers high-level, innovative products: premium connections; high-tech pipes for drilling, production and transport of hydrocarbons; and components of oil and gas columns that are individually designed for each field by taking into account its specific characteristics. The integrated use of innovative TMK products can reduce drilling costs by up to 20% and well operation costs by up to 17%. It can extend the life of well equipment twofold and reduce the total metal content used in well equipment by one third. TMK has made it a priority to become one of the leading manufacturers in the segment of premium tubular products. I am confident that our focus on the latest developments and technologies, high-tech manufacturing and, in many respects, unique tubular products and solutions, will enable us to achieve this goal.

TMK continues to employ the most advanced standards of corporate governance, adhering to principles of information disclosure and financial transparency.

I would like to mention TMK's Board of Directors and its committees, and their constructive engagement with the Company's management throughout 2010. Their effective collaboration has allowed us to successfully implement many solutions that are important to TMK both in its current work and in creating new benchmarks for the Company's long-term strategy.

In 2011, the Company is celebrating its 10th anniversary, and the trust placed in us by our investors, customers and partners all these years has played an important role in our achievements. In summing up another year at TMK, I thank you on behalf of the Company for our productive collaboration and look forward to further fruitful cooperation in the future. Today, TMK is faced with the global challenges of becoming a recognized world leader and achieving strong financial performance. I am certain that a clear vision about how the global pipe business will develop, an understanding and development of our competitive advantages, as well as the professionalism and cohesion of the Group's companies will all help us to successfully meet these challenges to grow even more shareholder value at TMK.

# 3. CEO's Letter

## Among recognized global steel pipe manufacturers, the Company ranked first by volume of products shipped



**Alexander G. Shiryaev**
CEO

Dear Ladies and Gentlemen,

TMK enjoyed strong performance in 2010. Among recognized global steel pipe manufacturers, the Company ranked first by volume of products shipped, increased its share on the world market, strengthened its activity in the premium segment of the business, implemented important projects in the oil and gas sector, and made new high-tech innovations.

Over the course of 2010, TMK sold 3,962 thousand tonnes of steel pipes, an increase of 43% in comparison to 2009. The OCTG segment demonstrated confident post-crisis recovery. On the whole, the growth of OCTG sales in 2010 over 2009 stood at 43%. All of 2010 saw high demand on the Russian market for large diameter pipes thanks to the wide-scale investment programs at Gazprom and Transneft, which allowed TMK to increase sales of large diameter pipes to 700 thousand tonnes in 2010, an increase over sales in 2009 by 125%.

TMK IPSCO, the Company's American division, sold 804 thousand tonnes of products in 2010, which is more than double the level of 2009. TMK's share on the American market for OCTG was 14% in 2010.

Strong demand from oil and gas companies was also observed for premium connections, an important segment for TMK. TMK shipped 397 thousand premium connections, which were developed by the Company's Russian and American divisions. This is a 27.2% increase over shipments made in 2009. TMK maintained a strong position on the North American market for premium connections, shipping more than 295 thousand ULTRATM Premium Connections, 36.5% more than in 2009.

In 2010, output at TMK's production facilities increased significantly, mainly due to the commissioning of new equipment as part of the Strategic Investment Program. In particular, productivity of the continuous PQF mill at Taganrog Metallurgical Works (TAGMET) reached 42 thousand tonnes per month, and the longitudinally welded large diameter pipe mill at the Volzhsky Pipe Plant has shown strong performance.

The Company has continued its investment activities aimed at modernizing all stages of the production process: steelmaking and production of billets, seamless pipes, large diameter pipes, pipes for industrial use, and finishing operations. Last year, TMK's facilities introduced investments that included a reconstructed section of Volzhsky's rolling mill #3, the installation of continuous casting and a section to produce couplings at Volzhsky, a shearing press in the drop hammer plant at Seversky Tube Works, a straightening machine at the #2 tube-draw shop and a section for nondestructive testing of couplings at the Sinarsky Pipe Plant, the installation of vacuum degassing at TAGMET, and lines to thread ULTRA Premium Connections at plants in the U.S. cities of Brookfield, Ohio and Catoosa, Oklahoma. The Company also developed many new types of pipes that are in demand by consumers, in particular, high grade drill pipes with the twin-pillar interlocking TMK TDS connection, tubing with the gas-tight TMK FMT Premium Connections, T95 grade tubing for sour service, seamless pipes for the Portovaya Compressor Station at the Nord Stream pipeline project, and others.

In accordance with the strategy to increase sales volumes of high-tech OCTG, premium connections, as well as to increase the share of these products in the Company's product mix, the Company expanded its market presence in complex drilling projects, including offshore projects. In 2010, TMK carried out the first deliveries of pipes for offshore fields, in particular, to Lukoil's project in the Caspian Sea and to Zarubezhneft in Vietnam. The Company is developing a program to participate in the development of offshore fields, including fields located in northern and Far Eastern regions.

A new stage in the development of research and academic ties at TMK has been the participation in the Industrial Liaison Program (ILP) at the Massachusetts Institute of Technology (MIT), which is intended to initiate joint research on key topics and business development trends. TMK is the first and only Russian participant in the elite MIT program, which involves approximately 200 major companies worldwide. To further strengthen its position in the area of innovation, TMK has begun construction of a research center in Houston, Texas (USA), which will be developed in parallel with RosNITI. This new research center will develop and test the latest products, including those used in offshore projects.

In 2010, TMK shored up its financial position significantly. Thanks to the work carried out to optimize the Company's loan portfolio, its share of long-term liabilities has almost doubled over the past year and a half to 82%. This will allow the Company to work more comfortably with its debt load going forward, gradually reducing it.

TMK has invested heavily in employee development, benefits, and special social projects for employees, as well as in charity projects.

In 2011, TMK celebrated its 10th anniversary. For 10 years the company has made vast efforts to modernize production and now has the world's largest capacity to manufacture a wide range of products. TMK is actively developing promising business segments, such as premium connections and high-margin seamless OCTG. It offers its customers a wide range of services, and is also focusing on developing the production of stainless steel pipes. All of this allows TMK to look into the future with confidence and continue to work as a stable and efficient company that operates in the interests of its customers and partners, adheres to high business standards and ensures that its goals are successfully implemented.

# Key Events

**Total hydrocarbon resources on Russia's continental shelf**

**100 billion tonnes**

Gazprom is a strategic partner of TMK, which has supplied the company with large diameter pipes for construction of the Nord Stream, Bovanenkovo-Ukhta, Sakhalin-Khabarovsk-Vladivostok and other gas pipelines. TMK has also supplied seamless pipes for the construction of floating drill rigs in Arctic environments, as well as for the Portovaya Compressor Station at the start of the Nord Stream gas pipeline.

# 4. Key Events

## 2010

### January

TMK completes certification of large diameter pipe production at the Volzhsky Pipe Plant in accordance with the DNV-OS-F101 standard for subsea pipelines.

Russian President Dmitry Medvedev visits TAGMET where he views the seamless pipe production complex with a continuous PQF mill.

### February

TMK places convertible Eurobonds in the amount of U.S.$ 412 million.

### March

TMK ADRs begin trading on the electronic OTCQX in New York under the ticker symbol TMKXY.

### April

As part of seamless large diameter pipe deliveries to the Bovanenkovo — Ukhta gas pipeline, TMK for the first time ships grade K65 pipes with a diameter of 1420mm.

Longitudinally welded large diameter pipe shipments begin to Transneft for construction of the Purpe-Samotlor mainline system, which will support transport of oil from the Vankor and Urengoiskoye fields.

### May

The 11th production facility of the Company's American division is opened in Brookfield, Ohio (USA). The facility is primarily engaged in pipe finishing on the ULTRA product line.

TMK takes part in the Offshore Technology Conference in the United States, the largest such conference in the world.

### June

Shipments of tubing with TMK FMT Premium Connections begin to Lukoil's offshore project at the Korchagin oil and gas condensate field in the Caspian Sea.

TMK Africa Tubulars is established and begins operating in Cape Town, South Africa in order to strengthen the Company's regional presence in Africa, which holds strong potential for the growth of the oil and gas industry.

### August

Pipes with TMK FMC Premium Connections receive ISO 13679:2002, CAL II certification at the research center of the China National Petroleum Company (CNPC).

TMK IPSCO opens sales office in Calgary, Canada to support exploration and development programs at both traditional and nontraditional hydrocarbon fields in Canada.

### October

Modernization of the steelmaking and pipe-rolling complex for seamless oil and gas pipe production is completed at the Volzhsky Pipe Plant.

TMK successfully places a series of three-year exchange bonds (BO-01) totaling 5 billion rubles on Russia's MICEX exchange.

### December

TMK and RUSNANO establish TMK-INOX, a joint enterprise to produce precision stainless steel and alloy-based pipes.

# 2011

## January

TMK places 7-year Eurobonds in the amount of U.S.$ 500 million.

TMK ships order of seamless pipes to Gazprom for construction of the Portovaya compressor station, which is unique in its technical and operating characteristics and the starting point for gas supplies via the Nord Stream gas pipeline.

## February

TMK ships longitudinally welded large diameter pipes to Lukoil for construction of pipeline system at the Pyakyakhinskoye gas condensate field.

## March

TMK IPSCO's facility in Brookfield, Ohio (USA) commissions a second line to thread ULTRA Premium Connections, which doubles threading capacity and expands the facility's product range.

TMK acquires a 25.5% stake in the Volgograd River Port in order to improve the logistics efficiency at the Volzhsky Pipe Plant.

## April

TMK ships an order of casing with ULTRA Premium Connections to Gazprom Neft for the Urmanskoye field.

# About the Company

Nord Stream gas pipeline

**1,224 km in length**

TMK has confirmed compliance of its longitudinally-welded large diameter pipes with the DNV standard for offshore pipelines. Certification of product compliance with the DNV-OS-F101 Standard for Offshore Pipelines was carried out by Det Norske Veritas.

# TMK: 10 Years of Success

## 2001
TMK was founded as an investment company in the pipe-producing sector and Trade House TMK was established.

## 2002
Volzhsky and Seversky Pipe Plants and Taganrog Metallurgical Works came under TMK management. A representative office was opened in Baku, Azerbaijan.

## 2003
Sinarsky Pipe Plant came under TMK management. TMK-Kazakhstan was also established that same year.

## 2004
TMK Warehouse Complex was established as a company.

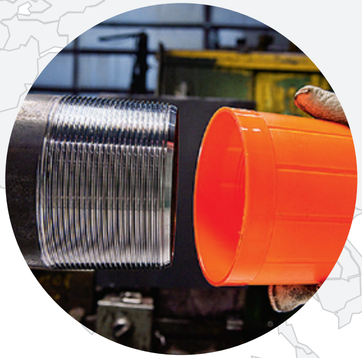
## 2005
TMK went global that year, establishing a trading company under the name of TMK North America and opening a representative office in Beijing, China.

## 2006
TMK fl oated its shares on the London Stock Exchange. The company took over the Romanian plants TMK-ARTROM and TMK-Resita, as well as the Russian joint venture, Orsk Machine-Building Plant. TMK Middle East was established as a trade house that same year.

## 2007
The company took over the service enterprises Truboplast, Pipe Maintenance Department, and Russia's only research institute specializing in the pipe industry, RosNITI. TMK-KPV and TMK-Premium Service were established. TMK's shares began trading on the MICEX exchange. Representative offi ces were opened in Turkmenistan and Singapore.

## 2008
American pipe assets were purchased and the TMK IPSCO division was established on this basis. The TMK Oilfi eld Services division was founded as well. TMK also took over TMK-Kaztrubprom (Kazakhstan).

## 2009
The TMK European division was established, consisting of TMK Europe, TMK Italia, TMK-ARTROM and TMK-Resita. TMK-INOX was established to focus on the production and sale of stainless steel pipes.



## 2010
TMK Africa Tubulars was established in Cape Town, South Africa, and a trading offi ce in Calgary, Canada was opened. TMK's shares began to trade on the OTCQX electronic platform.

# 5. About the Company

## 5.1. Structure


TMK's structure is organized on the basis of geography. In 2009, the Company acquired the assets that make up the European division. A year earlier, the Company's American division, TMK IPSCO, was formed from assets acquired in the United States. These divisions, together with the Russian division, make up TMK's operational segments. The table below depicts these segments as of December 31, 2010.

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

# OAO TMK

## Russian Division

| | |
|---|---|
| Volzhsky Pipe Plant | 100% |
| Seversky Tube Works | 94,37% |
| Sinarsky Pipe Plant | 94,27% |
| Taganrog Metallurgigal Works | 96,10% |
| TMK-CPW | 51% |
| TMK-INOX | 53% |
| TMK-Premium Service | 100% |
| TMK-Kaztrubprom | 100% |
| TMK Warehouse Complex | 100% |
| RosNITI | 97,36% |
| TMK Trade House | 100% |
| TMK Global | 100% |
| TMK-Kazakhstan | 100% |
| TMK Middle East | 100% |
| TMK Africa Tubulars | 100% |

## American Division

| | |
|---|---|
| TMK IPSCO (IPSCO Tubulars and TMK NSG) | 100% |
| TMK North America | 100% |
| TMK IPSCO Canada | 100% |

## European Division

| | |
|---|---|
| TMK-ARTROM | 92,66% |
| TMK-Resita | 100% |
| TMK Europe | 100% |
| TMK Italia | 100% |

## TMK Oilfield Services

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

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

## 5.2. Market Position in 2010

Based on its results for 2010, TMK retained its status as the largest producer of pipes, selling 3,962 million tonnes of tubular products, which is 43% more than in 2009. The world economic recovery has led to an increase in global demand for tubular goods. The Company estimates that global consumption of tubular products increased by 7% in 2010. Moreover, the recovery of global demand in key markets where the Company operates — Russia and the United States — was more significant. In the key segment of seamless OCTG, which is used for drilling and oil and gas production, TMK's Russian and global market shares in 2010 were estimated at 60% and 12%, respectively. TMK's share of the market for OCTG in the United States rose for the year to 14%.

### TMK sales volumes by division

| thousand tonnes | Russian Division | | | American Division | | | European Division | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | % change | 2010 | 2009 | % change | 2010 | 2009 | % change |
| **Seamless pipes** | **1 699** | **1 426** | **+19%** | **253** | **109** | **+132%** | **169** | **114** | **+48%** |
| OCTG | 876 | 794 | +10% | 238 | 98 | +143% | 7 | 2 | +250% |
| Line pipe | 444 | 277 | +60% | 8 | 6 | +33% | 29 | 36 | -19% |
| Industrial pipe | 379 | 355 | +7% | 7 | 5 | +40% | 133 | 76 | +75% |
| **Welded pipes** | **1 290** | **871** | **+48%** | **551** | **249** | **+121%** | **-** | **-** | |
| OCTG | - | 3 | n/a | 357 | 140 | +155% | - | - | |
| Line pipe | 221 | 169 | +31% | 59 | 14 | +321% | - | - | |
| Large diameter pipe | 700 | 311 | +125% | - | - | | - | - | |
| Industrial pipe | 369 | 388 | -5% | 135 | 95 | +42% | - | - | |
| **Total** | **2 989** | **2 297** | **+30%** | **804** | **358** | **+125%** | **169** | **114** | **+48%** |

TMK remains focused on supplying a wide range of products to the oil and gas industry, which in 2010 contributed to approximately 75% of the Company's total sales. In Russia, TMK's key customers are virtually all of the major oil and gas companies, including Gazprom, Rosneft, Transneft, TNK-BP, Surgutneftegaz and Lukoil. The Company's American division, together with supplies to pipe distributors, meets the need of large energy companies such as ExxonMobil, Chesapeake, BP, Chevron and Marathon Oil.

TMK's presence in global markets is supported by an extensive network of sales companies and representative offices. In 2010, the Company expanded its geographic presence by opening offices in two promising markets. Sales offices in the past year have been opened in Calgary, Canada, where new types of oil production are being developed, and Cape Town, South Africa, where the main objective is to strengthen TMK's presence in the markets of sub-Saharan Africa, which demonstrate strong potential for development of the oil and gas industry.

TMK ships to more than 65 countries worldwide. Increasing measures to protect domestic steel pipe markets in 2010, mostly in the United States, have affected the structure of TMK shipments in various regions around the world. Increased competition in the less profitable segments of the Middle Eastern and African pipe markets has led to some reduction in the share of these regions in the Company's total shipments. However, TMK increased exports of Russian-manufactured pipe products to the U.S. market, thereby offsetting increased price competition in other overseas markets.

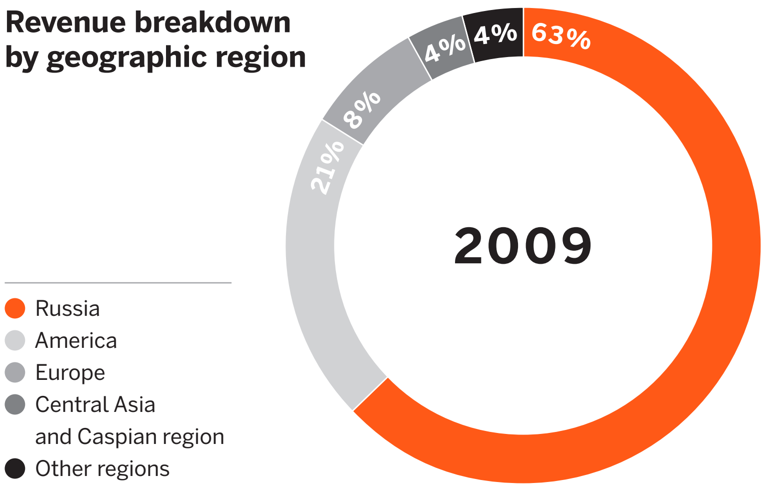
In 2010, the Company continued to qualify its products with major global oil and gas companies and has successfully completed the process at companies based in Saudi Arabia, the United States, the United Kingdom, Germany, Spain, Italy and Indonesia. Last year TMK acquired the status of a qualified supplier to companies such as Saipem, Repsol, NABUCCO, ENI, etc.

**Russia**

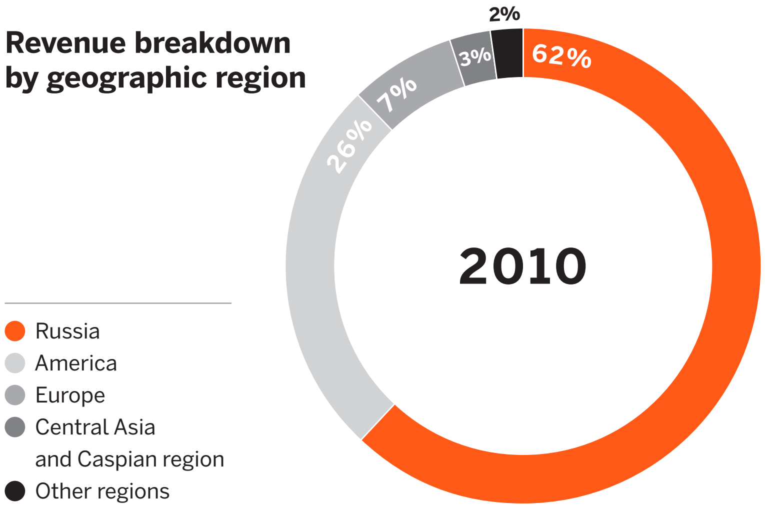
The Russian market remains a key region for TMK, as sales in Russia in 2010 amounted to 62% of the Company's total revenue. The Russian market for steel pipes grew in 2010 by 48% and reached a record 9.2 million tonnes amid rising industrial production, the implementation of major pipeline projects and increased demand for OCTG and line pipe by major Russian oil and gas companies.

Investment activity by Russian oil and gas companies in 2010 was primarily focused on the intensification of production at existing fields. Standard drilling conditions, typical for traditional production regions, required less high-tech pipes and joints, which determined

**Revenue breakdown by geographic region**




**Revenue breakdown by geographic region**



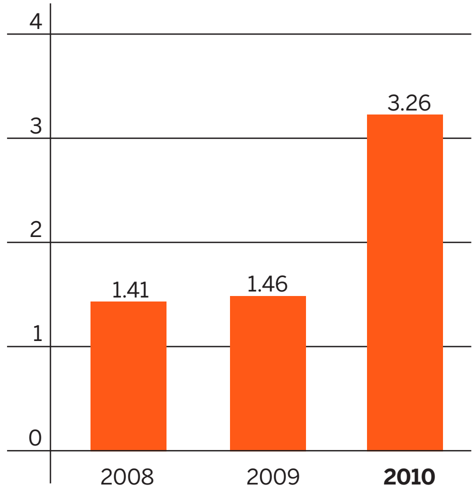
the structure of TMK's sales in Russia. At the same time, declining production in already developed regions has meant a shift in customer demand toward an increased share of high-tech products. In 2010, the Company's biggest customers, such as Lukoil and TNK-BP, served as an example of the beginning of the Russian oil and gas industry's shift to directional and horizontal drilling.

**TMK remains focused on supplying a wide range of products to the oil and gas industry, which in 2010 contributed to approximately 75% of the Company's total sales**

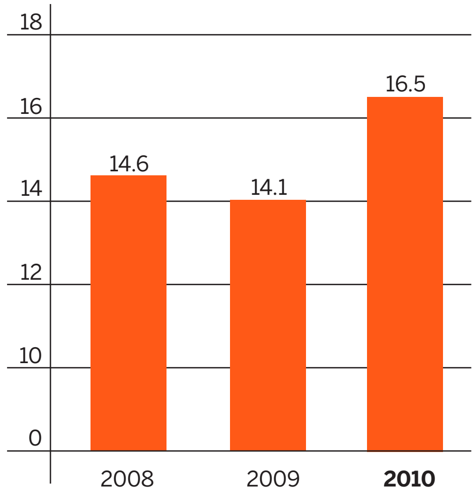
The Company estimates that the size of the Russian market for oil and gas pipes in 2010 was 5,600 million tonnes. Against the backdrop of the largest Russian oil and companies' investment budgets increasing by an average of 25%, the markets for OCTG and line pipe in Russia grew by 18% and 37%, respectively. TMK's sales of seamless OCTG and line pipe at the same time increased by 10% and 60%. TMK's share of the Russian market for seamless pipes, a key segment for the Company, reached 53% over the past year, and the market share of seamless OCTG pipes was 60%.

To a large extent the Russian market for large diameter pipes provided the sales growth for TMK in 2010. Thanks to active implementation of large pipeline projects in the Russian market in 2010 the market for large diameter pipes has more than doubled to reach 3.3 million tonnes. Following this growth, TMK increased sales of large diameter pipes more than twofold and has strengthened its stake in the Russian market to 20% compared with 15% in 2009. The Company continued to supply longitudinally welded pipes with a diameter of 1,020-1,420 mm for the Sakhalin-Khabarovsk-Vladivostok, Bovanenkovo-Ukhta, and Pochinki-Gryazovets pipeline projects being implemented by Gazprom, as well as to the ESPO-2 and BTC projects being implemented by Transneft. In April 2010, the Company began to supply longitudinally welded pipes for the

**Russian LD market, million tonnes**




**Oil production drilling volumes in Russia, thousand km**



Purpe-Samotlor pipeline connecting the Vankor field with oil refining points and the unified oil transport system. Significant growth in consumption of pipes for maintenance purposes provided additional demand for TMK's spirally welded large diameter pipes whose shipments to Russian and CIS markets grew to 263 thousand tonnes in 2010.

Thus, in the past year, TMK has maintained a leading position in the Russian market thanks to a substantial increase in the production and sale of oil and gas pipes. Production of less profitable pipes for industrial use grew at a slower pace. As a result, the Company's share in the market for steel pipes in Russia for the year amounted to 27%, as compared to 30% in 2009.

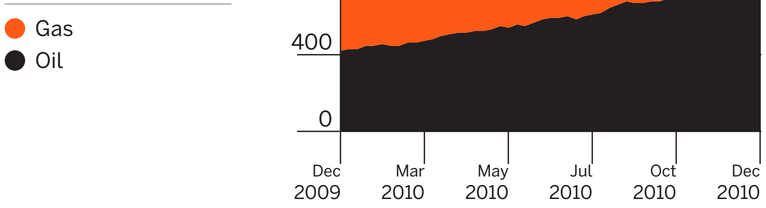
**United States**

The U.S. market for OCTG in 2010 recovered rapidly and grew by more than 45%, exceeding 4.5 million tonnes, according to Preston Pipe & Tube Report. The main component of this significant market growth was the active development of shale deposits in the country's gas sector, which by the end of 2010 according to some reports pushed the United States into first place in terms of global production of natural gas.

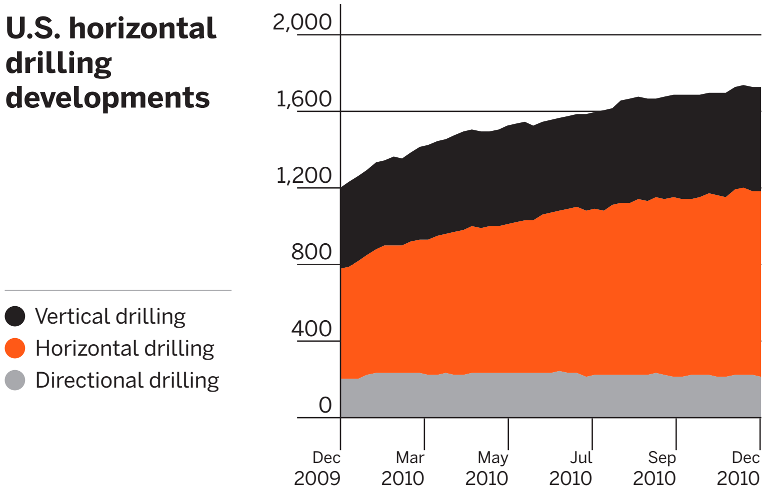
Despite low natural gas prices in 2010 (the average price amounted to U.S.$ 4.52 per 1 mmbtu — million British thermal units), gas companies have succeeded in reducing the breakeven point for most fields and have increased the number of operating rigs. As a result, the number of operating rigs for natural gas production in the United States increased for the year by 14% to 940 units as of December 2010.

Significant growth in oil production activity was also observed. The rise in prices for WTI crude oil has led to increased interest in crude oil in the United States, which is comparable with the level of the early 1990s. As a result, the share of oil rigs in the total number of active drilling rigs increased last year from 34% to 44%. In addition to application at gas fields, horizontal drilling technologies have been successfully introduced at oil shale oil deposits, such as the Bakken in North Dakota, Montana and Saskatchewan,

**Active Rig counts in the United States**




**U.S. horizontal drilling developments**



and the Eagle Ford in southern Texas. The number of operating oil rigs in the U.S. increased by 75% over 2010 to 759 units at the end of the year.

Amid sustained growth in drilling activity, sales of seamless and welded OCTG by TMK's American division increased in 2010 by a factor of 2.5 to 595 thousand tonnes, while the market share held by TMK IPSCO rose by 4% in 2010.

TMK increased sales of large diameter pipes more than twofold and has strengthened its stake in the Russian market to 20% compared with 15% in 2009

The market for line pipe in the United States also improved in 2010 in connection with the need for new infrastructure to transport oil and gas from the fields to places of consumption. According to Preston Pipe & Tube Report, the size of the line pipe market in the United States, including imports, reached 1.4 million tonnes last year. Sales of line pipe by TMK's American division at the same time increased by more than 3 times to 67 thousand tonnes last year.

As before, the capacities of domestic producers do not fully satisfy the demands of the U.S. market for oil and gas pipes. In 2010, the share of imported oil and gas pipes was 47% of the market. In 2010, the introduction of anti-dumping duties ranging from 29.9% to 99.1% and countervailing duties from 10.4% to 15.8% on Chinese-manufactured OCTG increased the potential for sales of pipe manufactured by TMK IPSCO, as well as exports of the Company's Russian plants.

**Europe**

The European pipe market's recovery in 2010 was generally faster than what the Company had expected, resulting in improved production volume of TMK in Romania. At the beginning of last year sales growth was primarily motivated by a desire to restore the level of pipe inventory among major distributors, which fell in 2009. At the same time, demand from end users remained limited. Thereafter, the steady growth in shipments satisfied increasing demand from end users of pipe products for industrial use.

The largest contribution to sales growth in the European market was made by the segments of mechanical tubes and pipes for the automotive industry. Sales of line pipe and water and gas pipes remained at a low level due to insufficient market demand. As a result of these trends, sales by the European division grew by 48% in 2010 to 169 thousand tonnes compared to 114 thousand tonnes a year earlier.

### Russian-manufactured premium connections

TMK's Russian plants produce an entire range of gas-tight premium connections. TMK premium connections for casing and tubing differ from standard types of threads by their high level of reliability, increased level of integrity and a wide range of applications in various operating conditions. In 2010, the Company continued to strengthen its market position in the premium connections market in Russia and the CIS. Shipments of these products manufactured by TMK's Russian plants and TMK-Kaztrubprom increased by 23% in comparison with 2009.

TMK has continued to work closely with Russian customers, and several of its main partners in 2010 were Gazprom and Novatek. Joint projects have focused primarily on substituting imports with Russian-manufactured products. Collaboration in 2010 led, among other things, to the supply of Sinarsky-manufactured tubing threaded with TMK FMT Premium Connections to Gazprom's Bovanenkovo field, as well as supplies of pipes with TMK PF Premium Connections to the two companies' northern projects. Previously, these kinds of pipes were purchased primarily from foreign manufacturers.

With respect to offshore drilling, the Company has carried out several successful projects. It has run pipes with TMK FMT and TMK GF Premium Connections at the Lukoil's Korchagin field in the Caspian Sea in 2010, and in early 2011, it also ran pipes with TMK PF Premium Connections at the offshore wells on Zarubezhneft's platform in Vietnam. In 2010, TMK was qualified by Shtokman Development, which will allow future supplies to one of the most important Russian projects in the gas industry and to the first project implemented on the Arctic shelf.

Currently, the Company pays special attention not only to the manufacture and supply of premium tubular products, but also to providing a comprehensive set of services that includes the supply of components for the columns — pipe, adapters and landing joints — as well as full after-sales service, including training, engineering maintenance and supervising. In 2010, production services implemented by TMK and associated with premium products have found wide application in both domestic and overseas markets.

### ULTRA family of premium connections

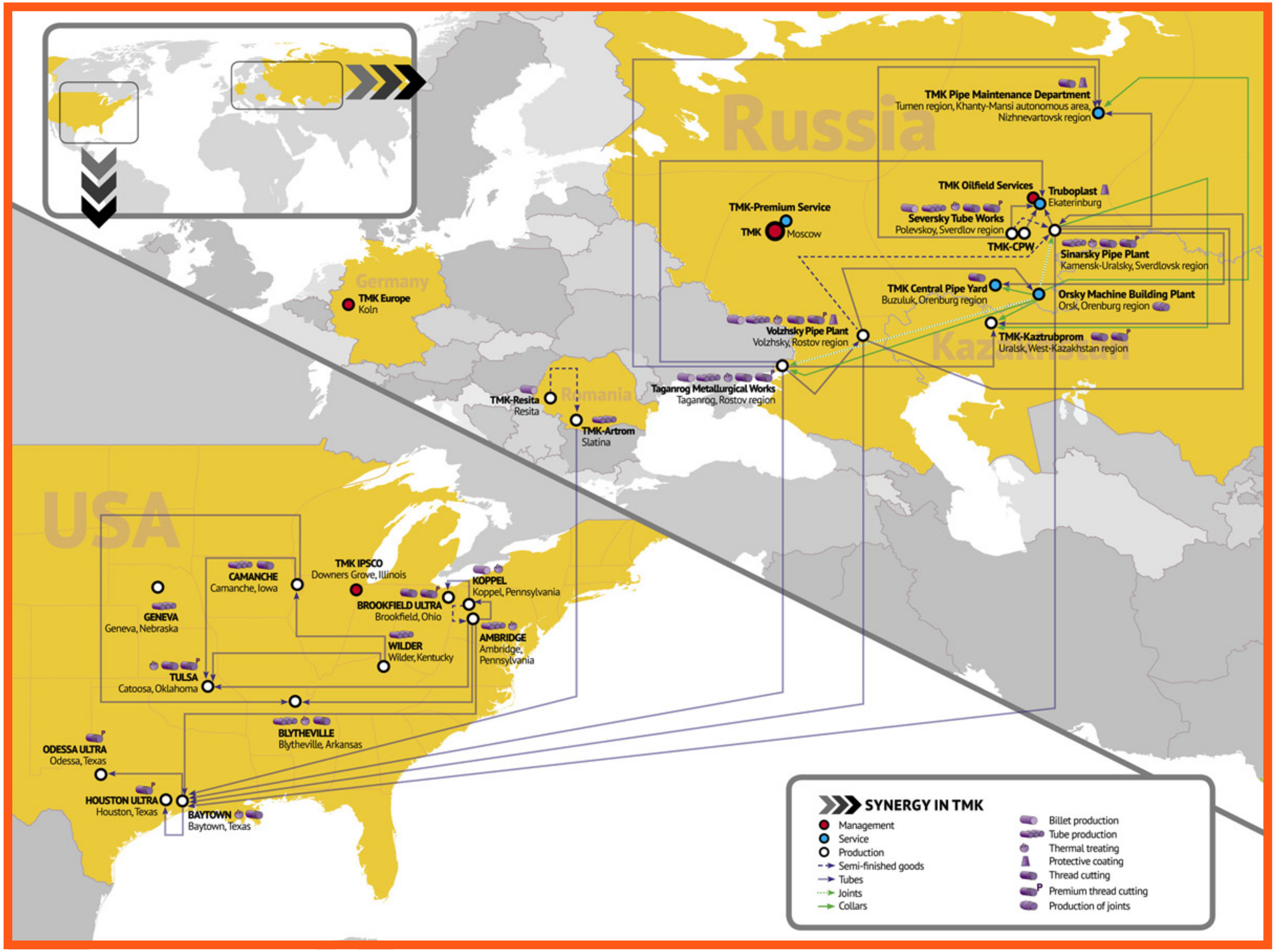
ULTRA Premium Connections are basically flush-joint threaded casing and tubing that is widely used in the development of shale gas in the United States. In 2010, the Company estimates that ULTRA held approximately 30% of the U.S. market for premium connections used in the development of shale gas.

In May 2010, to meet growing demand from U.S. producers of natural gas, TMK IPSCO opened a new production facility in Brookfield, Ohio, which focuses on finishing processes for the Company's line of ULTRA Premium Connections. In March 2011, a second thread line was commissioned at the same plant, doubling the capacity of the facility, which is now 480 thousand joints per year. The commissioning of the new line provides even faster response to the growing demands of the Marcellus Shale — the largest shale gas play in the United States.

Last summer the Company introduced the new ULTRA-DQX™ connection to the market. This connection combines a patented Full-Contact™ thread and fittings that comply with API standards. The new product quickly gained popularity among developers of gas shales due to its high torque capacity, gas tightness and cost-efficient design.

The prospect of active development of the bitumen oil sands in Canada also contributed to the expansion of TMK IPSCO's premium threading capacity in 2010. TMK IPSCO continues to expand its presence in promising markets in Latin America and in the past year has opened trade representations in Brazil and Bolivia for the sale of ULTRA Premium Connections.

## 5.4. Synergy


Russia
Germany
Romania
Kazakhstan
USA
TMK Pipe Maintenance Department
Tumen region, Khanty-Mansi autonomous area, Nizhnevartovsk region
TMK Oilfield Services
Truboplast
Ekaterinburg
TMK-Premium Service
TMK
Moscow
Seversky Tube Works
Polevskoy, Sverdlov region
TMK-CPW
Sinarsky Pipe Plant
Kamensk-Uralsky, Sverdlovsk region
TMK Central Pipe Yard
Buzuluk, Orenburg region
Orsky Machine Building Plant
Orsk, Orenburg region
Volzhsky Pipe Plant
Volzhsky, Rostov region
TMK-Kaztrubprom
Uralsk, West-Kazakhstan region
Taganrog Metallurgical Works
Taganrog, Rostov region
TMK Europe
Koln
TMK-Resita
Resita
TMK-Artrom
Slatina
TMK IPSCO
Downers Grove, Illinois
CAMANCHE
Camanche, Iowa
GENEVA
Geneva, Nebraska
BROOKFIELD ULTRA
Brookfield, Ohio
KOPPEL
Koppel, Pennsylvania
AMBRIDGE
Ambridge, Pennsylvania
WILDER
Wilder, Kentucky
TULSA
Catoosa, Oklahoma
BLYTHEVILLE
Blytheville, Arkansas
ODESSA ULTRA
Odessa, Texas
HOUSTON ULTRA
Houston, Texas
BAYTOWN
Baytown, Texas
SYNERGY IN TMK
Management
Service
Production
Semi-finished goods
Tubes
Joints
Collars
Billet production
Tube production
Thermal treating
Protective coating
Thread cutting
Premium thread cutting
Production of joints

TMK IPSCO's extensive customer base in North America provides demand for a wide range of pipes manufactured by the Company. The size range of products manufactured by the facilities that make up TMK's American division complement those made by the Company's Russian and Romanian plants, offering American customers a wider size range of seamless and welded pipes. Most of the

## The size range of products manufactured by the facilities that make up TMK's American division complement those made by the Company's Russian and Romanian plants, offering American customers a wider size range of seamless and welded pipes

Russian-manufactured pipes that enter the U.S. market come from the Volzhsky Pipe Plant and include casing, couplings, and line pipe. Supplies to the American division were also carried out from the PQF mills at TAGMET and the Sinarsky Pipe Plant. In order to optimize capacity utilization, TMK's Russian division ships to the United States both finished products and pipes that require additional finishing and heat treatment on-site at TMK IPSCO facilities. In 2010, active shale development contributed to the growth of shipments of Russian-manufactured products to the North American market. Supplies from TMK-Artrom in Romania to the U.S. market consist primarily of heavy wall mechanical pipe.

Development of the Premium business segment comes with considerable potential for greater synergy. Currently, the ULTRA family of connections is being used by Russian oil companies. In early 2011, TMK delivered casing with ULTRA SF Premium Connections to Gazprom Neft to develop the Urmanskoye field in the Tomsk Region. In 2010, ULTRA connections developed by TMK IPSCO were certified at Gazprom VNIIGAZ, the Russian research center for the gas industry, and recommended for use in Gazprom's fields.

Demand for ULTRA connections by Russian companies is due to the fact that increasing the proportion of Western drilling technologies like flush-joint casing significantly lowers metal consumption in wells, which is an important advantage when drilling deep wells and developing offshore fields. A very pertinent development has also been the introduction of ULTRA technology at TMK's Russian facilities, such as the Orsk Machine-Building Plant.

## 5.5. Research and Development

In 2010, in order to strengthen its position in the promising segment of stainless pipe products, the Company introduced a specialized and independent business aimed at production of stainless steel pipes. At the end of December 2010, the Sinarsky Pipe Plant became home to TMK-INOX, a joint project between TMK and the state corporation RUSNANO, which will produce precision stainless steel and alloy-based pipes. The main innovation in production has become the use of nanotechnology to process metal for a new generation of pipes. The project's launch was preceded by three years of research that was carried out by RosNITI — Russia's largest research institute in the field of pipe manufacturing technologies and a division of TMK. At present, Russian manufacturers lag behind foreign competitors in the stainless steel pipe segment, and 70% of this market in Russia is occupied by foreign suppliers. With the creation of TMK-INOX, the Company has been given a real opportunity to substitute imports on the Russian market with "specialized" pipes for the nuclear, aerospace, high tech industries.

One of the key technological development achievements in 2010 was TMK's joining the Industrial Liaison Program (ILP) at the Massachusetts Institute of Technology (MIT), which ranks among the top research centers in the world

One of the key technological development achievements in 2010 was TMK's joining the Industrial Liaison Program (ILP) at the Massachusetts Institute of Technology (MIT), which ranks among the top research centers in the world. TMK is the first and so far the only Russian company to join the program, which today counts approximately 200 globally-recognized companies as members. Established in 1948, the program aims to develop mutually beneficial cooperation between MIT, a world leader in science and technology, and the world's leading companies by actively introducing new technologies and innovations. In addition, a research center was established in Houston, Texas (USA), which will be developed in parallel with RosNITI in order to enhance the Company's opportunities on different continents.

Interaction between TMK's production facilities and RosNITI in the past year is also reflected in the intensive work to study the limits of TMK's premium connections in order to further develop their design and expand their usage.

Last year, the company developed and successfully tested a design for insulated lift pipes at VNIIGAZ for use in the construction and operation of wells in permafrost conditions.

### TMK-INOX

**TMK-INOX includes production workshops located at Volzhsky Pipe Plant and Sinarsky Pipe Plant TMK share in the joint project is 53%; Total investments are 3.7 billion roubles.**

**Production capacity is 7-8 thousand tonnes of precision stainless steel and alloy-based pipes per annum.**

## Russian Division

TMK's investment activity in Russia in recent years has been aimed at increasing the efficiency of seamless and large diameter welded pipe production, improving the quality of steel and pipe products, as well as optimizing production costs.

In 2010, the Volzhsky Pipe Plant completed reconstruction of its seamless pipe mill, including the transition from shaped to round billets. The reconstruction of continuous casting facilities was also completed, which supports production of seamless pipes with round billets.

In addition, reconstruction of the seamless mill equipment was also completed at the Volzhsky Pipe Plant, which increased the plant's seamless capacity by 210 thousand tonnes. The improvements that were carried out were the final stage of the plant's modernization, which resulted in Volzhsky becoming Russia's most modern complex for pipe production.

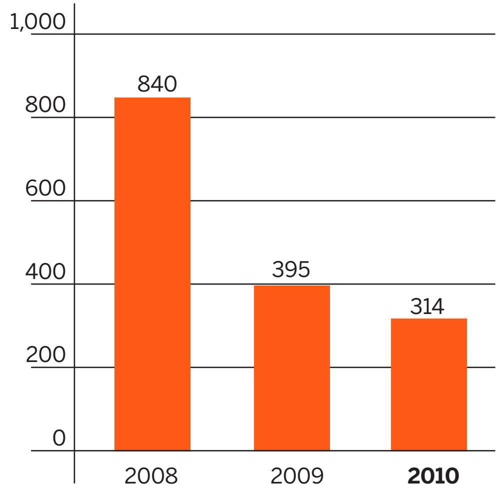
Development of production at TAGMET in 2010 included the commissioning of a vacuum degassing facility and continued construction of a new electric arc furnace, which the Company expects to complete in 2013.

At Seversky Tube Works, construction continued on a new FQM rolling mill, which TMK plans to commission in 2013. The new seamless mill is the final step of an integrated reconstruction of the production process at Seversky, which will allow the Company to increase production of high quality seamless pipes for the oil and gas industry, improve the quality and structure of production and reduce costs. The net increase in seamless production capacity at Seversky Pipe Plant will be in the range of 300-350 thousand tonnes.

The modernization of production at Sinarsky Pipe Plant in 2010 involved commissioning of a gas furnace with protective atmosphere for heat treatment of pipes up to 24 meters in length. This equipment is unique in Russia, and it will allow TMK to increase the competitiveness and profitability of its products.

In 2010, construction began on a line to produce premium threaded casing at the Orsk Machine-Building Plant, with total capacity at 30 thousand tonnes per year. Project completion is scheduled for 2011.

**TMK capital expenditures, million U.S.$**




## American Division

The main investments of the American division in 2010 were aimed at increasing capacity for pipe finishing. The need for investment was prompted by increasing demand for TMK IPSCO's premium products. In May 2010, a facility to thread pipes with ULTRA premium connections was opened in Brookfield, Ohio. The new, highly automated line was installed in the immediate vicinity of the Marcellus Shale — the largest shale gas play in the United States. High demand for premium products from companies producing shale gas led to the opening of a second ULTRA thread line at Brookfield in March 2011.

## European Division

During 2010, major investment projects at TMK-ARTROM and TMK-Resita were aimed at environmental protection, including the reduction of carbon dioxide emissions. Successful modernization of the heat treatment furnace at TMK-Artrom's Assel hot rolling mill has enabled the company to improve the quality of pipes that go through heat treatment, as well as to fully comply with European environmental legislation.

# Share Capital and Securities

Daily production volume
at the Khurais field

**1.2 million barrels**

TMK was the first company among Russian pipe producers to be qualified as a supplier of line pipe and casing for the state oil company Saudi Aramco. Saudi Aramco is the world's largest oil company by volume of production and the size of its oil reserves.

### Share capital structure

As of December 31, 2010, the share capital of OAO TMK consisted of 937,586,094 fully paid ordinary shares. The nominal value of one share is 10 rubles. OAO TMK does not have any outstanding or declared preferred shares.

In February 2010, TMK Bonds SA placed convertible bonds worth U.S.$ 412.5 million with a maturity in 2015. Bonds may be converted into global depository receipts (GDRs) under certain conditions on the rate of conversion, which shall represent U.S.$ 23.075 U.S. dollars per 1 GDR. In February 2010, TMK's Board of Directors approved increasing the authorized capital of the Company. In July 2010, the procedure to increase share capital by public offering was completed, and after the additional issue of 64,585,094 ordinary shares, the total number of issued and fully paid shares in OAO TMK was 937,586,094.

As of December 31, 2010

| | **Number of shares** | **%** |
|---|---|---|
| TMK Steel Ltd. (incl. affiliated companies) * | 653,264,243 | 69.68% |
| Subsidiaries of OAO TMK | 54,993 | 0.01% |
| TMK Bonds S.A. ** | 71,505,956 | 7.63% |
| Free float | 212,760,902 | 22.68% |
| Total: | 937,586,094 | 100.00% |

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

** TMK Bonds S.A. owns 71,505,956 shares of OAO TMK, which is 7.63% of the share capital, with a view to ensuring liabilities to convert into TMK GDRs obligations amounting to $412.5 million that were issued in February 2010 and mature in 2015.

As of December 31, 2010, 22.68% of shares of OAO TMK were in free circulation, of which approximately 90% are in the form of Global Depositary Receipts (GDR) circulating on the London Stock Exchange. Members of the Board of Directors of OAO TMK and the Company's management owned 798,821 shares, which is approximately 0.09% of share capital.

OAO TMK shares are traded on Russian and international exchanges: Shares are traded on:

- The MICEX stock exchange under the trade ticker TRMK (Bloomberg: TRMK:RM / Reuters: TRMK.MM); and
- The RTS stock exchange under the trade ticker TRMK (Bloomberg: TRMK:RU / Reuters: TRMK.RTS) on the classic market and TRMKG (Bloomberg: TRMKG:RU / Reuters: TRMKG.RTS) on the stock exchange market.

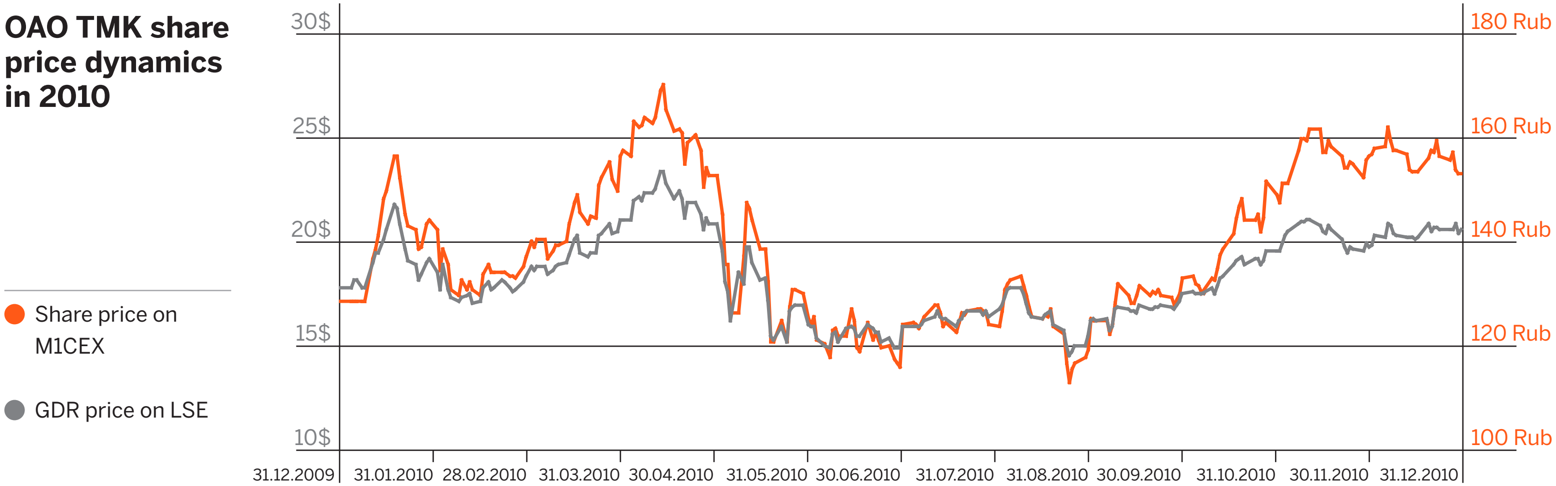
Global Depository Receipts (GDR) are traded on the London Stock Exchange under the trade ticker TMKS (Bloomberg: TMKS:LI / Reuters: TRMKq.L).

| | REG.S | 144A |
|---|---|---|
| CUSIP: | 87260R201 | 87260R102 |
| SEDOL: | B1FY0V4 | B1G3K21 |
| ISIN: | US87260R2013 | US87260R1023 |

Since March 3, 2010, American Depositary Receipts (ADR) are traded on the OTCQX trading platform under the trade ticker TMKXY TMKXY (Bloomberg: TMKXY:US / Reuters: TMKXY.PK).

| | |
|---|---|
| CUSIP: | 87260R300 |
| ISIN: | US87260R3003 |

### OAO TMK share price dynamics in 2010




The weight of TMK securities in the indexes as of December 31, 2010:

| Index | Weight |
|---|---|
| MSCI Russia | 0,40% (GDRs) |
| MICEX M&M | 4.93% (shares) |
| MICEX MC | 2.28% (shares) |

# Report on Corporate Governance

North American shale gas reserves

108 trillion $m^3$

TMK IPSCO's line of ULTRATM Premium Connections is widely used in shale gas plays in the United States, which are developed by means of hydraulic fracturing. TMK IPSCO's facilities are strategically located along a chain of the five largest gas shales in the United States: Barnet, Woodford, Haynesville, Fayetteville and Marcellus.

# 7. Report on Corporate Governance

## 7.1. Corporate Governance System

The corporate governance system of OAO TMK (hereafter in this section, the Company) is regulated by a combination of publicly available documents that are accessible on the TMK website (http://www.tmk-group.com/company_documents.php) and include the Company's Charter, regulations regarding executive management and control, the Code of Corporate Governance, the Code of Ethics, the information disclosure policy, the dividend policy, insider information regulations, the anti-corruption policy, the policy on selecting an external auditor, as well as the system of internal, regulatory and administrative documents.

The Company's corporate governance practices are fully in line with the provisions of TMK's Code of Corporate Governance (hereafter in this section, the Code). The Code was developed on the basis of Russian legislative requirements concerning joint stock companies and on the basis of the capital market regulator's standards for companies whose securities are included in the highest level of exchange listing. The Code also takes into account the corporate governance principles of the Organization for Economic Cooperation and Development (OECD), as well as best Russian and international corporate governance practices.

**The Code describes:**

- the Company's general corporate governance principles and structure;
- oprotection of shareholder rights;
- purview and composition of the Company's management bodies, requirements presented to members of the Board of Directors and executive bodies;
- the Company's interaction with other interested parties;
- organization of information disclosure processes;
- monitoring of the Company's financial and business operations;
- settlement of corporate conflicts.

**OAO TMK's Principles of Corporate Governance:**

- equal treatment of the Company's shareholders, observance and protection of their rights;
- accountability of the Board of Directors to the Company's shareholders, as well as performance monitoring of the Company's executive bodies from the Board of Directors;
- maintenance of an effective internal control and audit system at the Company;
- guarantee of informational and financial transparency concerning the Company's operations;
- adherence to ethical standards in business behavior;
- effective interaction with Company employees in resolving social issues and provision of comfortable working conditions.

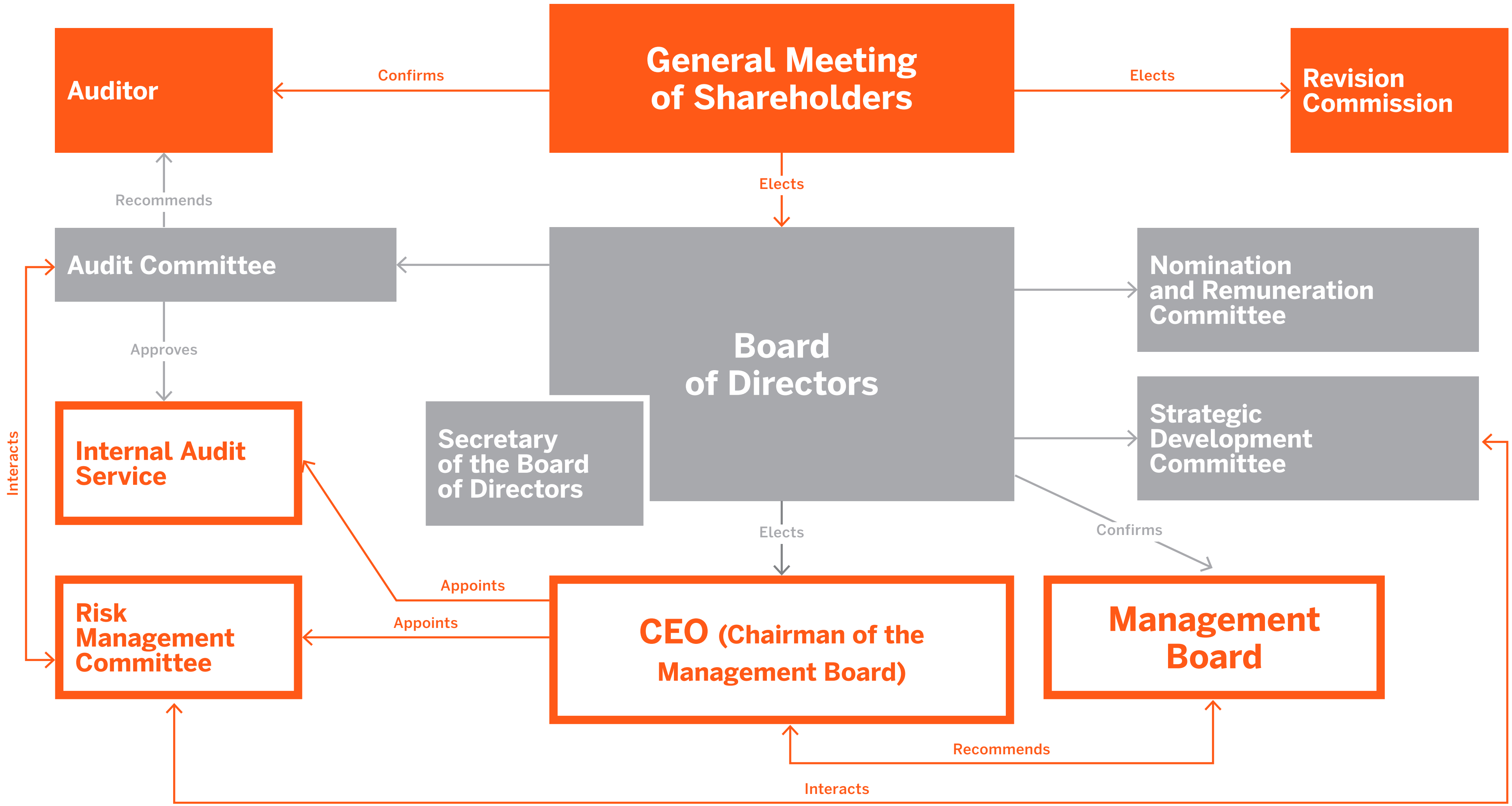
**OAO TMK's Corporate Governance Structure**

The Company's highest management body is the General Meeting of Shareholders. The Company's primary management powers are delegated by the shareholders to the Board of Directors. In order to ensure the Company's day-to-day management, the Board of Directors elects the CEO and confirms the members of the Management Board as advised by the CEO.

To ensure its efficiency, the Board of Directors establishes committees that are not bodies of the Company and whose resolutions are of an advisory nature.

In order to ensure effective control over the Company's financial and business operations, as well as the Company's adherence to Russian legislative requirements, the General Meeting of Shareholders elects the Revision Commission and confirms the Company's auditor.

## OAO TMK Corporate Governance Structure



The Code provides for the following measures to ensure the basic rights of the Company's shareholders:

| Shareholder rights | Measures to ensure rights |
|---|---|
| Reliable methods of certifying ownership of shares | Maintenance and safekeeping of a register of shareholders by an independent registrar who has the appropriate equipment, control systems and an impeccable reputation |
| Receipt of regular and timely information on the Company's operations | Constant improvement in the process of information disclosure, maintenance of a calendar of important future events, and the presence of special departments to work with shareholders and investors |
| Participation in the Company's management by adopting resolutions on the most important issues concerning the Company's operations at the General Meeting of Shareholders | Publication of notes on General Meetings of Shareholders no later than 30 days before the meeting is held;<br>Publication of draft documents brought up for discussion at General Meetings of Shareholders; information on candidates nominated for the Company's management and its internal control bodies;<br>Timely distribution of materials for the General Meeting of Shareholders to the Company's shareholders and holders of GDRs;<br>On the basis of the registrar's information, the Company independently verifies that shareholders have a sufficient number of shares to call a General Meeting of Shareholders and make recommendations for its agenda. |
| Receipt of a portion of the Company's net profits as dividends based on the results of the first quarter, half year, nine months and full year. | The Company is obligated to pay announced dividends, in the amount and in the time period approved by the General Meeting of Shareholders on the recommendation of the Board of Directors, to shareholders who are included in the register of shareholders on the date of its closing as having the right to participate in the General Meeting of Shareholders where resolutions on dividend payments are made.<br>It is the Company's dividend policy goal to pay dividends amounting to no less than 25% of annual consolidated net profits according to International Financial Reporting Standards (IFRS). |

## Management Bodies at OAO TMK

**General Meeting of Shareholders**

The primary means of implementing shareholders' rights, as reflected in the Company's Charter, is their participation in the General Meeting.

In 2010, the annual General Meeting of Shareholders was held, along with one extraordinary meeting. The following questions were included in the meetings' agendas: approval of OAO TMK's annual report and annual financial statements, distribution of profits based on the results of 2009, election of the Board of Directors and selection of a Revision Commission, confirmation of the auditor, and approval of interested-party transactions.

## 7.2. Board of Directors and Board Committees



The Board of Directors ensures the implementation and protection of shareholder rights, determines the areas of priority, approves the Company's strategic development, and ensures execution control and evaluation of its effectiveness. It also establishes the Company's values and corporate standards.

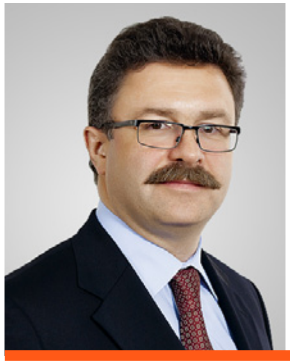
In order to ensure the implementation of the Board of Directors' mandated functions, its membership is formed on the basis of criteria such as independence, wide powers and professionalism. The Code provides for the presence of at least three independent directors on the Board of Directors. At the same time, the Code establishes criteria for independence that are more stringent than the requirements of Federal Service for the Financial Markets (FSFM) regulatory documents.

In 2010, the composition of the Board of Directors did not change and included 4 independent directors. It was composed of the following:

**Dmitry A. Pumpyanskiy**
Chairman of the Board of Directors

Graduated from the Kirov Urals Polytechnic Institute in 1986. Candidate of Technical Sciences and Doctor of Economic Sciences.

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 (RSPP), CEO of OAO TMK, CEO of ZAO Sinara Group, executive of metallurgical and pipe companies.



**Andrey Yu. Kaplunov**
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's Russian plants, TMK Trade House, member of the Board of Directors of a number of financial institutions, Vice President of Organizational Development at OAO TMK, Director of the HR and Organizational Development Department at OAO JSB Inkombank and JSB Rosbank, Vice President of ZAO CB Guta Bank, Deputy Head of the Currency and Finance Department of the foreign trade association Zarubezhneft, assistant professor in the Economic Theory Faculty at the Moscow Finance Institute.

**Josef Marous**
Member of the Board of Directors since 2005

Graduated from the Goethe University Frankfurt in 1976.

Experience: Chairman of TMK Europe GmbH, 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 Russia.

**Sergey T. Papin**
Has been with TMK since 2002

Graduated from the Donetsk Polytechnic Institute in 1977.

Experience: Vice President of ZAO Sinara Group, member of the Board of Directors of several companies, Vice President of External and Social Projects of OAO TMK, Vice President of OAO JSB Inkombank and ZAO CB Guta Bank.

**Thomas Reeve Pickering**
Member of the Board of Directors since 2009

Graduated from the University of Melbourne in Australia in 1956. Holds the distinction of Career Ambassador, the highest in the U.S. Foreign Service.

Experience: Vice Chairman of International Consultants Hills and Co., Senior Vice President for International Relations and member of the Executive Board at Boeing, Special Assistant to U.S. Secretary of State, U.S. Ambassador to Russia, India, Israel, El Salvador, Nigeria, Jordan; Undersecretary of State for Political Affairs; Ambassador to the United Nations.

**Geoffrey Townsend**
Member of the Board of Directors since 2005

Graduated from 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 of OAO Raspadskaya, Head of the Consulting Department and Corporate Finances Department at KPMG, independent consultant at KPMG.

**Igor B. Khmelevskiy**
Has been with TMK since 2003

Graduated from the Ural State Law Academy in 1995.

Experience: Vice President and member of the Board of Directors of ZAO Sinara Group, member of the board of directors at several financial institutions and TMK companies, Vice President of Legal Work at OAO TMK, Head of the Legal Department at ZAO Sinara Group.

**Alexander N. Shokhin**
Member of the Board of Directors since 2008

**Alexander G. Shiryaev**
Has been with TMK since 2003

**Mukhadin A. Eskindarov**
Member of the Board of Directors since 2005

Graduated from the Lomonosov Moscow State University in 1974, Doctor of Economic Sciences, professor.

Experience: President of RSPP, President 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 Civic Chamber of the Russian Federation, Chairman of the Supervisory Board of Renaissance Capital Investment Group, member of the State Duma (three convocations), Minister of Labor and Employment and Minister of Economic Affairs, Head of the Russian Agency for International Cooperation and Development; twice appointed as Deputy Prime Minister of Russia, represented Russia at the IMF and World Bank.

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; Vice President of Development, President and then member of the Board of Directors at ZAO Sinara Group, Vice President of Finance and Economics at OAO TMK, CEO of OAO Uralshina.

Graduated from the Moscow Finance Institute in 1976, Doctor of Economic Sciences, professor.

Experience: President of the Finance University under the Government of the Russian Federation, member of the Board of Directors at OAO Bank of Moscow, OAO VTB Bank, OAO Rosbank.

As of December 31, 2010, the Board of Directors of OAO TMK comprised 10 people.

| Name | Year of birth | Membership of the Board of Directors committees as of December 31, 2010 | Position (independence criterion) | Year of election to the Board of Directors | Participation in Board of Directors meetings in 2010 (49 meetings) | Share in the capital of OAO TMK as of December 31, 2010,%* |
|---|---|---|---|---|---|---|
| Pumpyanskiy, D.A. (Chairman) | 1964 | – | Non-executive director | 2004 | 49 | 0.007** |
| Kaplunov, A.Yu. | 1960 | – | Executive director | 2005 | 49 | 0.0116 |
| Marous, J. | 1949 | Member of SDC | Non-executive director | 2005 | 49 | 0.0032 |
| Papin, S.T. | 1955 | Member of NRC | Non-executive director | 2005 | 49 | 0.012 |
| Pickering, T. | 1931 | – | Independent director | 2009 | 48 | 0 |
| Townsend, G. | 1949 | Chairman of the AC Member of the NRC | Independent director | 2005 | 49 | 0.005 |
| Khmelevskiy, I.B. | 1972 | Member of the AC | Non-executive director | 2004 | 49 | 0.01 |
| Shiryaev, A.G. | 1952 | Member of the SDC | Executive director | 2003 | 48 | 0.017 |
| Shokhin, A.N. | 1951 | Chairman of the SDC | Independent director | 2008 | 48 | 0 |
| Eskindarov, M.A. | 1951 | Chairman of the NRC, Member of the AC | Independent director | 2005 | 49 | 0.0018 |

AC — Audit Committee;
NRC — Nomination and Remuneration Committee;
SDC — Strategic Development Committee

* Share Capital of OAO TMK only consists of ordinary shares.

** Information on beneficiary owners of OAO TMK is given in the Share Capital section of this report on p. 27.

### Activity of the Board of Directors in 2010

In 2010, the Board of Directors held 49 meetings, including 8 meetings that were held through joint attendance. Key items included:

- Development of TMK's investment projects;
- Implementation of TMK's HR policy;
- The Company's development strategy to 2020;
- Development of the Premium business;
- Consolidated budget of the TMK Group for 2011;
- Target capital structure of the TMK Group for 2011;
- Approval of large-scale and related-party transactions.

The Board of Directors also assesses the Company's Corporate Governance system every year based on the results of a corporate governance policy analysis that is conducted by the Nomination and Remuneration Committee.

### Remuneration

In accordance with the Regulation on OAO TMK's 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 July 1, 2010, the Board of Directors had 5 independent directors, 3 non-executive directors and 2 executive directors. As of July 1, the Board of Directors is comprised of 4 independent directors, 4 non-executive directors and 2 executive directors with the appointment of Josef Marous as Director of TMK's European division. On account of the latter, Josef Marous did not receive compensation as a member of the Board of Directors and as a member of a Board Committee in the second half of 2010.

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 of the Board of Directors, Chairman or member of a Board Committee, which is paid every six months in the amount of 1/2 of the annual additional remuneration.

In 2010, the aggregate remuneration of the members of the Board of Directors was USD 2.38 million[1].

## Committees of the Board of Directors

The Board of Directors has three committees:

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

The composition of the committees is formed in full accordance with the requirements of the Code, which establishes that the Audit Committee and Nomination and Remuneration Committee can include only independent directors, and if that not possible due to objective causes, then only independent directors and non-executive directors.

[1] Based on the average exchange rate for 2010 — 30.3692 RUB/U.S.$

**Participation of Board Committee Members in Committee Meetings in 2010**

| | Audit Committee (6 + 6 joint meetings) | Nomination and Remuneration Committee (8 + 1 joint meeting) | Strategic Development Committee (2 + 6 joint meetings) |
|---|---|---|---|
| Marous, J. | | 5 | 8 |
| Papin, S.T. | | 3 | |
| Townsend, G. | 12 | 2 | |
| Khmelevskiy, I.B. | 11 | 4 | |
| Shiryaev, A.G. | | | 8 |
| Shokhin, A.N. | | | 7 |
| Eskindarov, M.A. | 4 | 9 | |

## Audit Committee Report

**Reporting period**

This report covers the 2010 calendar year. Activities from January 1, 2011 to March 31, 2011 are also included in as much as activities undertaken relate to the 2010 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 http://tmk-group.com/files/audit_e.pdf.

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 Service;
- Cooperation with the Company's Revision Commission;
- Making recommendations to the Board of Directors 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;
- Overseeing the appointment of independent appraisers and review of any independent appraisers' reports.

**Audit Committee in 2010**

| | |
|---|---|
| Townsend, G. | Chairman, Independent director |
| Eskindarov, M.A. | Chairman of the Nomination and Remuneration Committee, Independent director |
| Khmelevskiy, I.B. | Non-executive director |

The Board considers that I. Khmelevskiy is independent in substance while not in form. Article 3.2 of the Regulations on the Audit Committee permits his membership.

The Board of Directors considers that G. Townsend has recent and relevant financial experience as required by the Guidance on Audit Committees published by the Financial Reporting Council (UK) in December 2010.

**Participation in committee meetings**

In general, members of the Board of Directors 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 2010 the Committee did not solicit such services.

**Areas of focus in 2010**

The Audit Committee recommended to the Board, and the Board subsequently adopted:

- TMK anti-corruption policy;
- TMK policy on the appointment of the group's external auditor;
- TMK policy on the provision of non-audit services by the group's external auditor.

The Audit Committee has paid particular attention to reporting issues arising from the issue of the convertible bond, to exchange rate risk management, to liquidity and to compliance with loan covenants.

**Committee oversight of the external audit of the 2010 financial statements**

The Audit Committee oversaw on the external audit of the Company's consolidated financial statements for 2010 (IFRS) and the parent company's financial statements prepared according to Russian accounting standards for 2010. Most of this work was carried out in 2011. The external auditor's opinion on the consolidated financial statements is key to external investors.

The external auditor discussed his 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 was 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. Management considers that the non-acceptance of these proposed adjustments to be immaterial to the consolidated financial statements of the Company, taken as whole, and the auditors concur with such assessment in the context of forming an opinion on the financial performance and financial position of the Company as shown by 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 with 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 material 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**

As noted above, the Audit Committee has recommended to the Board, and the Board has adopted, policies on the appointment of the group's external auditor and on the provision of non-audit services by the group's external auditor.

The group's external auditor is appointed for one year at a time. In the event of dissatisfaction with either the work or the proposed fees, the Company may put the contract for audit services to competitive tender by the Big Four (limitation to the Big Four is required, inter alia, by various loan covenants). Furthermore, even in the event of full satisfaction with the work and fees of the audit services, the Company will invite tenders every three years. The first tender will be for the 2012 audit.

The group's external auditor provides audit services in relation to the audit of the annual consolidated financial statements and the review of the six-monthly consolidated financial statements (from 2011, the review of the quarterly consolidated financial statements).

In 2010 the Audit Committee approved the appointment of the group external auditor to undertake a "fast close" project designed to significantly improve the timeliness of quarterly and annual financial reporting to shareholders. The Audit Committee was satisfied that the external auditor had taken sufficient steps to isolate project management from the audit team, and had thus avoided a potential conflict of interest.

The Committee has recommended that the Board of Directors propose to the shareholders the reappointment of Ernst & Young as external auditor for the 2011 financial year.

## Nomination and Remuneration Committee

On June 22, 2010, a change in the composition of the Nomination and Remuneration Committee took place. From January to June 2010, the Committee worked with the following composition:

| | |
|---|---|
| Eskindarov, M.A. | Chairman of the Committee, member of the Audit Committee, independent director |
| Marous, J. | Member of the Committee, Chairman of the Strategic Development Committee, non-executive director |
| Khmelevskiy, I.B. | Member of the Committee, non-executive director |

From June 22, 2010, the Committee had the following composition:

| | |
|---|---|
| Eskindarov, M.A. | Chairman of the Committee, member of the Audit Committee, independent director |
| Papin, S.T. | Member of the Committee, non-executive director |
| Townsend, G. | Member of the Committee, Chairman of the Audit Committee, independent 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 best international practice.

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 2010, the Committee reviewed and presented to the Board of Directors recommendations on the following key matters:

- Candidacy of senior managers and members of OAO TMK management bodies;
- Key performance indicators for executives and directors of TMK's main business units in accordance with established areas of responsibility and the conditions set forth in personal contracts;
- Incentive program for executives and directors of TMK's main business units;
- Conclusion on TMK's corporate governance practices in the 2009-2010 corporate year;
- Implementation of TMK's HR policy;
- Corporate structure, management system, and social policy of the Company's divisions and special-purpose facilities;
- Key indicators of the number of employees and salary for TMK's 2011 budget calculation;
- 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 regard to personnel management and Sales, General, and Administrative expenses.

## Strategic Development Committee

There were no changes to the composition of the Strategic Development Committee in 2010. On June 22, 2010, there was a change in the Chairmanship of the Committee in connection with the appointment of J. Marous to an executive position at the Company.

| | |
|---|---|
| Shokhin, A.N. | Chairman of the Committee, independent director |
| Marous, J. | Member of the Committee, non-executive director |
| Shiryaev, A.G. | Member of the Committee, CEO and President, Chairman of the Management Board |

The Committee's tasks are to develop recommendations on issues concerning the formulation of the Company's business priorities and its development strategy, as well as to present these recommendations to the Board of Directors.

In 2010, the Committee reviewed and presented to the Board of Directors recommendations on the following key matters:

- key indicators for TMK's 2011 budget calculation;
- primary areas of the Company's investment program for 2011;
- implementation of the joint TMK-INOX strategic project with RUSNANO;
- TMK's cooperation with organizations in which the Company has ownership;
- strengthening TMK's regional presence in Sub-Saharan markets: establishment of TMK-Africa;
- recommendations on M&A transactions, sales of assets and establishment of joint enterprises.

## Executive Management

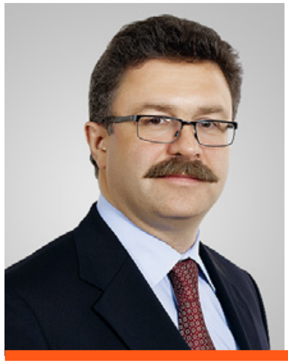
OAO TMK's day-to-day activities are managed by two executive bodies, the CEO and President and the Management Board, whose areas of authority are segregated as the Management Board decides on the more complex issues that require collegial decision-making.

In 2010, the Company's Management Board did not change and on December 31, 2010 included 8 members:

| Management Board members as of December 31, 2010 | Year of birth | Participation in OAO TMK share capital, % | Participation in the share capital of affiliated companies |
|---|---|---|---|
| Shiryaev, A.G.<br>Chairman of the Board,<br>President and CEO of OAO TMK | 1952 | 0.017 | - |
| Kaplunov, A.Yu. | 1960 | 0.0116 | - |
| Klachkov, A.A. | 1957 | 0.003 | - |
| Lyalkov, A.G. | 1961 | 0.0037 | - |
| Oborsky, V.B. | 1961 | 0.0008 | - |
| Petrosyan, T.I. | 1968 | 0.0046 | - |
| Semerikov, K.A. | 1959 | 0.01 | 0.02% of shares in OAO TAGMET |
| Shmatovich, V.V. | 1964 | 0 | - |

**Alexander G. Shiryaev**
President and CEO, Chairman of the Management Board

Biographical information appears in the Board of Directors section.



**Andrey Yu. Kaplunov**
Senior Vice President

Biographical information appears in the Board of Directors section.

**Alexander A. Klachkov**
Vice President — Chief Engineer

Has been with TMK since 2002. 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**
Senior Vice President

Has been with TMK since 2003. Graduated from the Volgograd Polytechnic Institute in 1989.

Experience: Vice President of Production, Technology and Quality at OAO TMK, CEO of OAO Volzhsky Pipe Plant. Has worked at Volzhsky in different positions since 1990.

**Vladimir B. Oborsky**
Vice President of Sales

Has been with TMK since 2005. Graduated from the Frunze Military Academy in 1982 and the Frunze Kiev Higher Combined-Arms Command Academy in 1994.

Experience: Vice President 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 Volzhsky Trade House.

**Konstantin A. Semerikov**
Senior Vice President — 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, Vice President of Production, then President and CEO of OAO TMK, mayor of Taganrog, CEO of OAO TAGMET.

**Tigran I. Petrosyan**
CFO

**Vladimir V. Shmatovich**
Vice President for Strategy and Business Development

Has been with TMK since 2001. In 1993, he graduated from the Erevan State University.

Experience: Vice President of Economy, Head of Economic and Planning Directorate of OAO TMK, Head of Economic and Planning Department of OAO Volzhsky Pipe Plant, Vice President of LLC Volzhsky Audit, officer at the Armenian Ministry of Economy.

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 of OAO TMK, Vice President, CFO at several companies (Udmurtneft, Sidanko, RusPromAvto), CEO of OAO Interros.

## 7.4. Information Disclosure



In 2010, there were 4 Management Board meetings, during which the following issues were discussed:

- integrated support for safety at TMK facilities;
- regulation of business processes and document management in the course of cooperation with TMK divisions and plants;
- effective measures for material and moral incentives;

TMK was again recognized as one of the most transparent Russian public companies, improving its position (to 6th) in the transparency ranking of Russian companies in 2010, which is published by Standard & Poor's.

- TMK's anti-corruption policy;
- the performance of the Company's subdivisions.

### Remuneration

The remuneration paid to the President and CEO and to 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 President and CEO and to members of the Management Board if they achieve their key performance indicators, subject to the approval of performance reports by the Board of Directors.

In 2010, the aggregate remuneration of the President and CEO and the members of the Management Board was U.S.$2.43 million[2].

[2] Based on the average exchange rate for 2010 — 30.3692 RUB/U.S.$

### Information Disclosure

The Company ensures timely and accurate disclosure of information on material corporate actions or other actions that could affect the financial and business activities of the Company to the extent necessary so that all stakeholders can make an informed decision about participating in the Company.

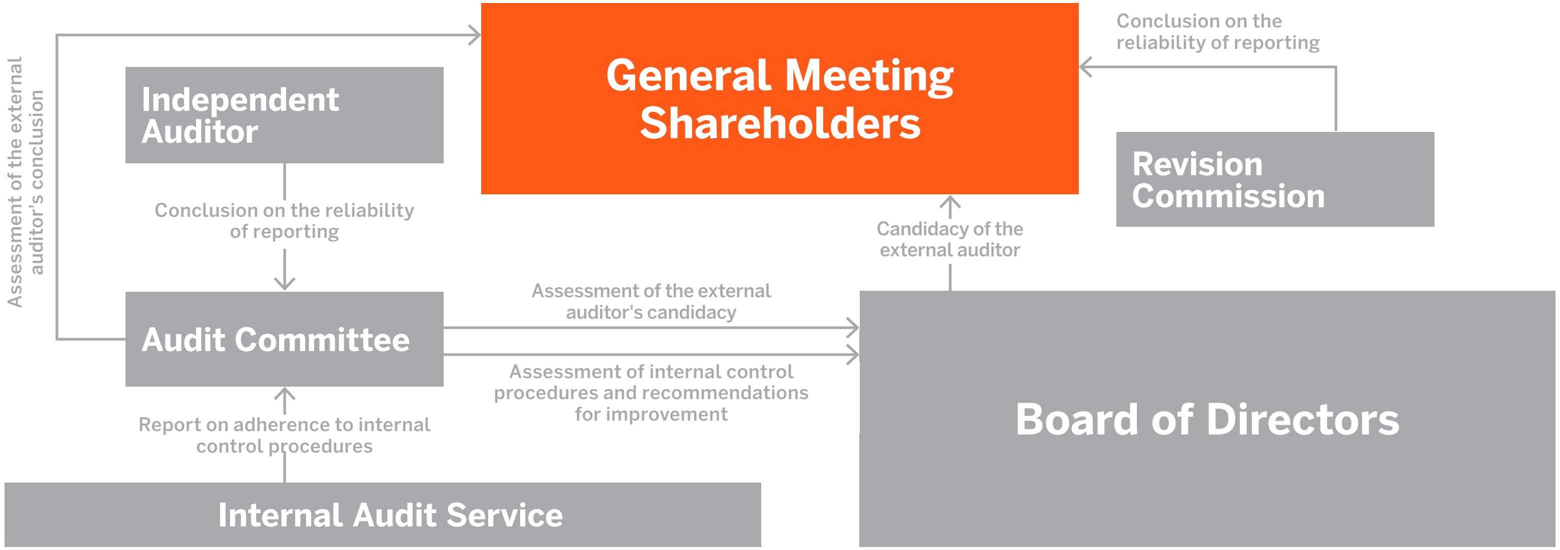
The Company maintains its accounting records and generates its financial and accounting records in accordance with Russian and international standards. The financial statements are posted on the Company's website: http://ir.tmk-group.com/preview/phoenix.zhtml?c=200536&p=irol-resultcenter. To further inform stakeholders, a press release is distributed that contains an analysis of changes in the Company's financial performance, and a conference call is held with members of executive bodies.

The processes of information disclosure are regulated by the Regulation on Information Policy, the Company's Regulations on Insider Information and regulations governing the interaction of OAO TMK business units and TMK plants with respect to information disclosure by issuers of securities and reporting to stock exchanges.

The Company operates a business unit that oversees the formation and implementation of a uniform information policy, and has identified a responsible person who, on an ongoing basis, monitors compliance with regulatory requirements and internal documents when disclosing information.

TMK was again recognized as one of the most transparent Russian public companies, improving its position (to 6th) in the transparency ranking of Russian companies in 2010, which is published by Standard & Poor's.

## Control System for Financial and Business Activities




Internal control at TMK is a system of procedures that is implemented by the Board of Directors, executive and supervisory bodies, officials and other employees of TMK. They aim to ensure the effectiveness of TMK's operational and investment activities, the reliability of all types of reporting, compliance with laws and internal TMK regulations.

Control over financial and business activities is exercised by the Board of Directors, the Audit Committee, Revision Commission, as well as the Company's independent auditor.

The **Board of Directors** approves internal control procedures and ensures effective control over the Company's finance and business activities.

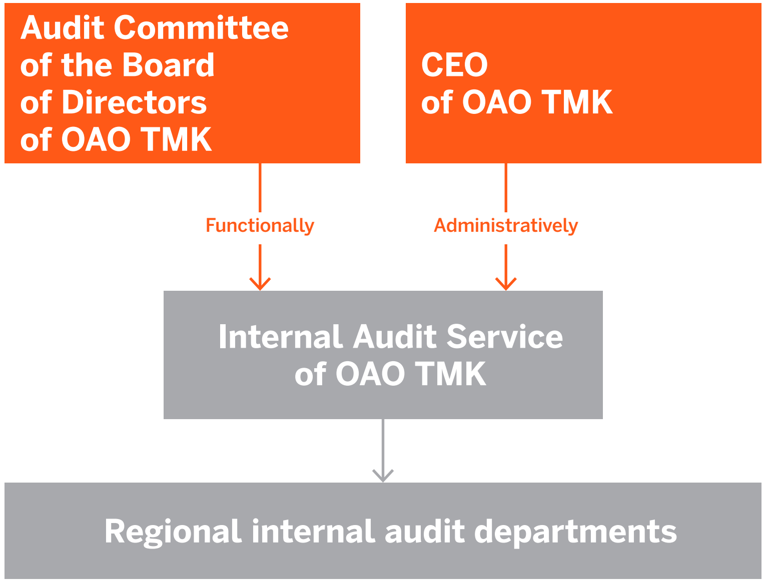
The **Audit Committee** enhances the effectiveness of the internal control and risk management systems based on its assessment and its formulation of corresponding recommendations.

The **Revision Commission** oversees the Company's financial and business activities on behalf of shareholders and, on the basis of its review, provides the General Meeting of Shareholders a conclusion on the adequacy of accounting data, as well as information on deficiencies or violations detected in the Company's activities. In 2010, 4 meetings of the Revision Commission were held.

| Members of the Revision Commission | Year of Birth | Year of Election to the Revision Commission |
|---|---|---|
| Maksimenko, A.V. (Chairman) | 1955 | 2005 |
| Vorobyev, A.P. | 1957 | 2005 |
| Pozdnyakova, N.V. | 1979 | 2009 |

The **Internal Audit Service** operates on the basis of the Regulations of the Internal Audit Service, which has been approved by the Board of Directors, and implements internal audit reviews of the systems of corporate governance, internal control and risk management. The annual Audit Plan is approved by the Audit Committee and confirmed by the CEO. In 2010, members of the Internal Audit Service, whose structure also includes the regional internal audit departments at TMK production facilities, conducted 137 reviews of the Company's business units. The results of the reviews and proposals to enhance the effectiveness of the audited systems were reviewed by the managing directors at the plants, the CEO of OAO TMK and the Audit Committee.

The centralized Internal Audit Service is directly subordinate to CEO, and its director regularly reports on the performance of the service to the Audit Committee.




**The main functions of the Internal Audit Service that are stated in the Code of Corporate Governance include:**

- assessment of the soundness of TMK assets;
- assessment of the quality of processes for compiling all types of accounting;
- assessment of how the Company, TMK's production facilities, its business units and employees adhere to the requirements of Russian legislation, internal corporate documents, and the decisions of management bodies;
- assessment of how internal corporate documents adhere to legislation, global best practice, the Company's strategic goals and the interests of shareholders;
- assessment of the extent of lost profits or damage to the Company by the actions of employees and third parties.

In the course of reviews conducted in 2010, the Internal Audit Service studied, tested and evaluated the existing audit and internal control systems for:

- the reliability of accounting and reporting information,
- implementation of legislative and corporate requirements,
- safekeeping of TMK production facilities' property,
- compliance with technical standards for metal consumption in the production process,
- reliability of information technology,
- functioning of the risk management system.

The Internal Audit Service presents recommendations on eliminating all deficiencies that have been detected, as well as improving the existing internal control system.

The **external auditor** verifies the adherence of the Company's financial statements to accounting rules and international financial reporting standards and expresses an opinion on the truthfulness of the financial statements based on an audit conducted in accordance with International Auditing Standards.

By decision of TMK's Annual General Meeting of Shareholders on June 22, 2010, OOO Ernst & Young, a member of the non-profit partnership Russian Chamber of Auditors, was approved as the Company's auditor for 2010.

The candidature of the external auditor is suggested to the executive management of OAO TMK and is discussed at the Audit Committee and Board of Directors.

On August 28, 2010, the Board of Directors approved the policy to select the Group's external auditor of the consolidated financial statements, which defines the process for the appointment, reappointment and analysis of the external auditor who is carrying out the audit of the Company's reporting under IFRS.

In order to reduce the effects of long-term relationships on the external auditor's independence, members of the audit and the lead partner responsible for the audit are rotated.

The auditor's remuneration for auditing the annual accounts and interim review (including audit reports of some local TMK facilities) for 2010 amounted to U.S.$ 3.728 million dollars, for other audit-related services- U.S.$ 0.8 million and for non-audit services — U.S.$ 0.2 million.

## Internal control over financial reporting

TMK's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

The company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorizations of the Company's management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

Throughout the year ended 31st December 2010, and to date, the Company has had an operational system of internal control which provides reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls, as well as compliance with laws and regulations.

# Corporate Citizenship

ROSNEFT

Vankor field — Projected annual production of

**25.5 million tonnes**

TMK supplies pipes with premium connections to the Rosneft Oil Company for the development and operation of the Vankor field, the primary source of crude oil for the Eastern Siberia-Pacific Ocean (ESPO) pipeline.

# Corporate Citizenship

## 8.1. Human Resources and Social Policy

In 2010, following the financial crisis, TMK implemented a series of measures to improve the efficient use of resources to achieve an optimal balance in the Company's organizational structure, its number of employees, staff costs and productivity growth. This was done to ensure the implementation of the Company's key business objectives.

TMK employees

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Total, as of 31 December, 2010 | 48,941 | 46,013 | 46,273 |
| **including;** | | | |
| Russian division [3] | 44,086 | 42,100 | 41,850 |
| European division | 2,566 | 2,037 | 1,946 |
| American division | 2,289 | 1,876 | 2,477 |

Completion of the main stages in the modernization of TMK's facilities was accompanied by a series of measures for training and retraining of personnel to work at modern metallurgical sites. In 2010, training costs amounted to U.S.$ 2.23 million. Particular attention was paid to the implementation of the Integrated Specialist Training Program at TMK Trade House, which boosted the Company's sales. The process of inter-plant cooperation received new impulse, including exchange of knowledge between professionals at TMK's facilities in Russia, the United States and Romania.

Amid a challenging demographic situation and a lack of specialists in the labor market, preventive measures for staffing of the production facilities were taken, and active cooperation with the educational institutions on targeted training was carried out. The main bases for training the Company's specialists are the National Research Technological University MISA and the Yeltsin Ural Federal University.

In the area of remuneration TMK's facilities have largely overcome the effects of the global economic crisis: regular and appropriate market level salaries are guaranteed, as well as the preservation of basic social benefits. The Company is committed to increasing the average pay of its employees based on the dynamics of productivity growth. In 2010, wage growth in various businesses ranged from 10-15% relative to the level in 2009

Wage dynamics

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| % from 2007 level | 134.8 | 141.5 | 162.0 |

In order to improve the performance indicators in 2010, new forms of incentives were introduced at a number of the Company's facilities to encourage employees to optimize costs. The American division has developed and implemented an incentive program whereby payments to employees are based on their work performance. New motivational provisions aimed at increasing sales are being used successfully in a number of trading companies.

The Company aspires to use a unified approach to working with employees in all countries and regions where it operates, taking the local context into account, focusing on staff development, dissemination of best practices, development of managerial competencies and motivation of young professionals toward innovative solutions to production problems. In 2010, an annual company-wide contest called "Best Young Master of TMK" was held for the first time, and implementation of a scientific and technical creativity program for youth was continued. Another scientific research conference held by TMK provided an opportunity to identify the most active and enterprising young people at the Company. The best solutions presented in the conference papers are being implemented at TMK facilities.

TMK focuses on providing safe working conditions and ensuring the health of Company employees by solving the following problems:

[3] Russian division includes employees, among others, TMK-Kazakhstan, TMK-Kaztrubprom, TMK Africa, TMK Global and TMK Middle East

- introduction of modern technologies and production processes that eliminate occupational hazards and risks;
- reduction in the level of occupational injuries and harmful production factors;
- elimination of occupational diseases and maintaining the physical and mental health of workers at a high level;
- formation in the Company's employees of a sense of personal responsibility for complying with the rules of safe operation and ability to predict dangerous situations.

## TMK focuses on providing safe working conditions and ensuring the health of Company employees

The Company's production activities are regulated in strict accordance with the laws of the countries where it operates and with international laws. All plants are certified and audited annually for compliance with the international standard Occupational Safety and Health Management System OHSAS 18001:2007. Supervisory audits conducted in 2010 confirmed compliance with the requirements of OHSAS 18001:2007.

The system of occupational health and safety is under constant control of plants' administrations and trade union committees, and upcoming events in this area are included in the collective bargaining agreement. In 2010, the Company sent 720 million rubles to implement health and safety measures, purchase of personal protection equipment and compensation. As a result of improved working conditions at 1,207 jobs, there has been a 12% decrease in the level of occupational sickness, and in some plants it has been completely eliminated.

TMK plants are actively cooperating with regional supervisory officials. Routine inspections and examination of dangerous industrial sites are conducted, and actions designed to improve the health and safety system are carried out. The following awards were given to plants for strong performance in the area of health and safety in 2010:

- Seversky Tube works was declared the winner of the regional stage of the national contest "Russian Organization of High Social Efficiency" in 2009 for the reduction of workplace injuries and occupational sickness.
- Sinarsky Pipe Plant took second place in a competition for culture of production and occupational safety among the organizations located in the Sverdlov Region in 2009 (by Sverdlov regional government decree of May 24, 2010). The plant was also awarded a certificate for second and third places in an occupational safety competition among organizations Kamensk-Uralsky in 2009 in a group in the group of companies employing more than 1,000 people.
- In April 2010, TAGMET received a letter of gratitude from the Taganrog City Administration and the Center for Occupational Safety for "Best Occupational Safety Organization" based on the results of a city-wide seminar on "Safe Work-Everyone's Right 2010" that was held among companies in the city.
- A number of TMK IPSCO facilities received local awards for best occupational safety practices.

**TMK's social policy** is based on the principles of maintaining a stable balance between the interests of the Company and its employees, compliance with national laws, human rights, elimination of all forms of discrimination, and promotion of cooperation with trade unions and social organizations at TMK facilities that is based on annually negotiated collective agreements and social programs.

At TMK's facilities the following types of social support programs are carried out:

- Medical insurance, health care facilities; partial payment vouchers for spa facilities.
- Additional pension provisions and implementation of pension schemes.
- Provision of benefits to employees and preferences concerning lower production volumes.
- Programs to support the family members of Company employees.

Using the advanced experience of countries where the Company operates and under programs offered by the Russian government, the Company has introduced trial corporate pension plans in the Russian Federation, which has been a significant factor in improving staff performance and retention of highly qualified personnel. The American division successfully operates a program that distributes benefits whereby employees are awarded annually with additional payments to their retirement accounts based on performance achievements.

In 2010, new approaches were identified to solve the housing problem for workers at TMK's Russian plants through the implementation of low-rise construction programs. Construction of the first cottage village is taking place at Seversky Tube Works. The Company will support "key" staff in acquiring housing.

2010 was the final year in the implementation of the HR policy 2006-2010, the results of which were reviewed and approved by TMK's Board of Directors. The Company has begun to develop a new HR management strategy based on TMK's medium-term strategic goals.

## Environmental Management

The purpose of TMK's environmental policy is to create a sustainable, responsible and competitive business, ensuring environmental safety in a fast-growing industry. Management of environmental impact at the Company is based on a systematic approach that meets the international standard ISO 14001:2004. The Environmental Management System has been implemented at all of TMK's production facilities, 10 of which have been certified.

### Environmental investments

At all TMK facilities, systematic work was conducted to reduce the environmental footprint on natural ecosystems. In its investment activities, the Company solves the problem of combining the interests of economics and ecology. A priority of TMK's Strategic Investment Program is the phasing-out of obsolete equipment and the transition to the best available technologies with high economic and environmental performance.

In 2010, 11 environmental investment activities were implemented in the amount of U.S.$ 9.2 million related to the following projects:

- developing production;
- reducing water consumption for technological needs through the development of water recycling systems;
- reducing emissions of pollutants;
- improving the quality of wastewater.

The total costs of TMK's environmental activities in 2010 were U.S.$ 24.9 million.

### Emissions Control

TMK takes a balanced approach in its choice of modern technology and gives priority to equipment that provides a high degree of industrial emissions purification. In recent years, specific emissions are steadily trending downward due to the continuous modernization of production; improvements in the efficiency of gas cleaning and annual repairs. Total emissions of the facilities do not exceed the established standards.

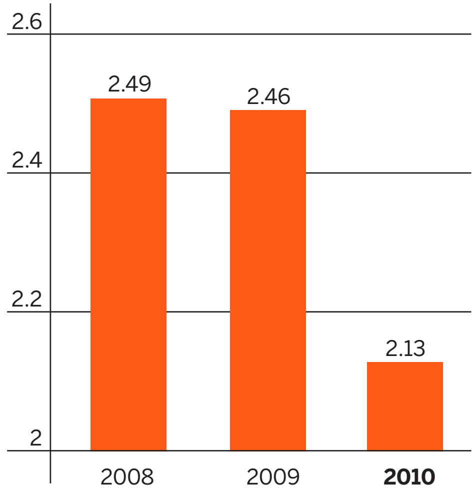
**Water Management**
The main tasks in this area — reducing water consumption and a gradually reducing the impact on water bodies — were solved in 2010 through the development of water recycling systems and improvement in the operational efficiency of existing treatment facilities. A transition to the recycling of water is a prerequisite for the introduction of new production capacity, modernization and reconstruction.

A comprehensive and rational approach to the issue of water use has allowed for reduced consumption of water for technological needs from surface water bodies. The proportion of recycled water and water reuse in 2010 reached 94.65%.

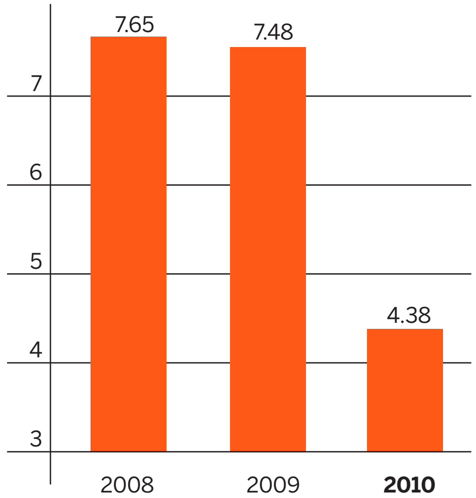
TMK's basic indicators on water consumption and wastewater have improved in comparison with the previous year:

- water savings directed at production needs were 1.3 million cubic meters;
- the volume of wastewater discharge into water bodies decreased by 12.1%;
- entry of pollutants from sewage to water bodies fell by 8.8%;
- specific water consumption for industrial needs has decreased by 41.4%.

**Specific emissions of pollutants by TMK facilities, kg/t production**




**Specific water consumption for production, m³/tonne**



### Waste Management

The Company's system to manage waste from production aims to implement practical actions to reduce waste generation, recycling, disposal and minimization of placement in the environment.

| Waste management tasks for 2010 | Realization |
|---|---|
| Decrease waste volumes | The amount of waste to be placed on own sites decreased by 24.8% |
| Decrease in the amount of waste to be stored and disposed of at special sites | The amount of waste sent for disposal to third parties decreased by 31.5% |
| Processing of previously accumulated waste products, including metal | Processed 18.4% of previously accumulated waste |
| Increasing amounts of waste that is recyclable, recycling and reuse as a raw material in own plants and at facilities of other industries | The amount of accumulated waste has decreased by 1.2% |

In 2010, expenditures on reclamation were 10.7 times higher than they were in 2009, with 26.4 hectares of contaminated land being reclaimed.

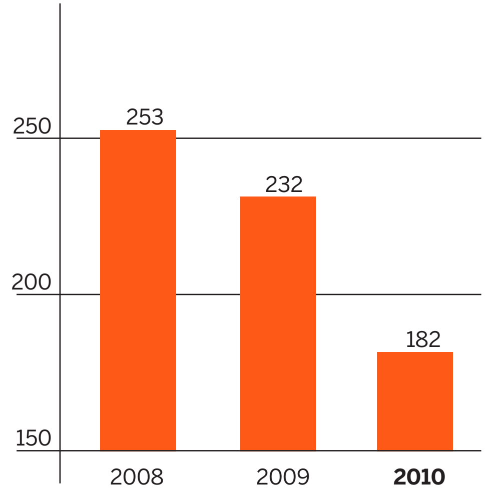
Payments from TMK facilities for negatively impacting the environment decreased by 18% during the reporting period and amounted to 27.7 million rubles.

### International Standards and Initiatives

TMK supports and implements international initiatives and agreements on environmental protection. In its activities, the Company takes into account the commitments made by Russia in ratifying the UN Framework Convention on Climate Change. Implementation of the project "Reconstruction of Steelmaking at Seversky Tube Works," together with its high environmental and energy efficiency, as well as social importance, has led to a reduction in greenhouse gas emissions. In 2010, project received a letter of approval letter from the Russian government, which allows it to employ an economic mechanism stipulated by Article 6 of the Kyoto Protocol. Cash received from the sale of greenhouse gas emission reductions will be fully channeled to further modernize production, as well as improve its environmental and energy efficiency.

The Company's Romanian and American plants fully comply with the requirements and obligations on greenhouse gas emissions set by law.

**Specific waste generation, kg/tonne of production**



## 8.3. Quality Control



TMK strives to follow best global practice in management of business processes. The Company operates and is continuously upgrading its corporate quality management system, and TMK's plants make use of local systems of environmental management and occupational health and safety that are certified and audited annually by recognized international certification bodies. All TMK tubular products comply with the standards and technical requirements established by international, regional and national standardization organizations.

In 2010, TMK implemented the following projects in the area of quality management:

**Upgrading of the corporate quality management system:**

- a new system for measuring corporate quality goals was developed and implemented;
- a method to evaluate the performance of the "Production Planning — Monitoring the Performance of Production Programs" process was developed;
- the use of Six Sigma methodology was initiated in order to implement the principle of ISO 9001 «Continuous Improvement.» A pilot project at Seversky Tube Works that was carried out by specialists from TMK IPSCO has led, among other things, to a reduction in defects in the production of 150 continuous cast billets;
- a certifying audit for the compliance of the corporate quality management system at TMK's oilfield service facilities to the requirements of ISO 9001 was conducted;
- TMK-Kaztubprom passed a certification audit for the compliance of its quality management system and products to the requirements API Q1 and API 5CT specifications, and was licensed according to the standards of API Spec 5CT for threaded connections and installing couplings on tubing. It also received a certificate for the quality management system according to API Spec Q1 for the provision of OCTG threading services.

**The corporate quality management system has included** TMK Oilfield Services and TMK-INOX, which have received certification from Lloyd's Register.

**New API standards were also implemented:** at TAGMET, Sinarsky Pipe Plant and Orsky Machine-Building Plant, API Spec 5DP was implemented to replace API Spec 5D and API Spec 7. Licenses have also been obtained to use API monograms.

**Making intra-company cooperation more effective:** TAGMET, Sinarsky and the American division, TMK IPSCO, have undertaken joint work to give TMK IPSCO plants the rights to use alternative API markings.

**Certification of products according to EU directives:** TMK-CPW received PED 97/23/EG and AD-2000-W0 certification, and the right to use CE markings for products manufactured according to DIN EN 10217-1 and DIN EN 10219-1 standards has also been granted.

**Certification of products with Premium Connections:** in 2010, qualification testing of casing with TMK FMC premium connections was successfully carried out at the TGRC pipe product research center at the China National Petroleum Corporation (CNPC). Based on the test results a certificate of the TGRC Institute was received, which confirms the compliance of the TMK FMC thread's operating characteristics with standard ISO 13679:2002, CAL II, which extends the opportunities for TMK to supply pipes with premium connections to Chinese and other foreign oil companies that require compliance of tubular products to this standard.

**Certification of pipes for offshore projects:** in January 2010 certification according to standard DNV-OS-F101 for subsea pipelines was completed for large diameter pipes produced by Volzhsky Pipe Plant. In early 2011, TMK's the Company completed the process of certifying longitudinally welded large diameter pipes made from Russian steel and received a corresponding certificate of compliance with the DNV-OS-F101 standard.

As an example of socially responsible behavior and in response to society's demands of a modern business, TMK carries out sponsorship and charity activities in all regions where it operates.

## TMK's charitable activities are traditionally carried out in collaboration with nonprofit organizations

TMK pays particular attention to the development of sports in Russia. In particular, since 2002, the Company has actively supported the development of football in the Sverdlov Region and is a sponsor of Ural Football Club in Ekaterinburg. Through years of cooperation the club has all the necessary conditions for the preparation of the team and coaching athletes. Currently, the Ural Football Club appears in the Championship of Russia among clubs belonging to the Russian National Football League and is a competitor for entry into the Russian Premier League. TMK also supports the Sinara mini-football club in Ekaterinburg (in 2010 twice champion of Russia) and the Dinamo Women's Handball Club in Volgograd, a six-time champion in Russia.

In Russia, TMK is implementing sponsorship programs not only regionally but also at the federal level. TMK is involved in developing the Russian Olympic movement. The Company sponsors the Olympic Support Foundation and the Federation of Ski-Jumping & Nordic Combined of Russia.

TMK's charitable activities are traditionally carried out in collaboration with nonprofit organizations. For example, the Sinara Charitable Foundation, which is under the trusteeship of TMK, carries out charitable programs in the Ural Federal District. In particular, the Foundation has traditionally held a grant competition for projects aimed at solving social problems in the Sverdlov Region in the areas of culture, education, health, environment and sports. In addition, with the Company's support, there is an organized competition for socially important programs and projects called "12 Civil Initiatives of the Ural Federal District," as well as an exhibition of social projects carried out in the region. In 2010, 24 nonprofit organizations received funding under the grant and provided targeted assistance to 70 beneficiaries.

Also as part of the regional program "The Spiritual Center of the Urals," TMK supports activities to restore the monastery complex and the construction of the Verkhoturye Monastery Hospital at the St. Nicholas Monastery (Verkhoturye, Sverdlov Region), where not only residents of the city can come, but pilgrims from all over Russia.

In 2010, TMK was a co-founder of the Prince Michael of Kent Foundation, which is based in Russia and handles earmarked funding for community service projects.

The Company's American division, TMK IPSCO, offers various forms of charitable support. Each production facility has a charity committee, which provides assistance to local communities. In 2010, approximately 100 organizations received direct support from TMK IPSCO through these committees. TMK IPSCO also participates in the charitable work of The United Way.

# Management discussion and analysis of financial condition and results of operations

LUKOIL
OIL COMPANY

Yuri Korchagin field —
Natural reserves of

**500 million barrels**

TMK supplies pipes with premium connections to Lukoil for the development and operation of the Yuri Korchagin gas condensate field, which is located offshore in the Caspian Sea.

# 9. Management discussion and analysis of financial condition and results of operations

The following review of the financial condition and results of operations of TMK are based on, and should be read in conjunction with, TMK's Consolidated Financial Statements and related notes for the twelve months ended 31 December, 2010 and 2009.

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

## Overview of TMK's Business

In 2010, TMK retained its leading market position among the world's largest steel pipe manufacturers. The combination of global demand growth and TMK's solid production base built in the previous years has allowed the Company to recover from the recent downfall in the economy. TMK is one of the principal suppliers of OCTG and line pipe to the oil and gas industry in Russia and the CIS and is seeking to become a leading supplier of these pipe products in the United States and globally.

In 2010, TMK sold 3,962 thousand tonnes of pipe products, including 2,119 thousand tonnes of seamless pipes. The Company's sales volumes increased by 43% year-on-year as demand from principal end-markets was restored. Continuing market recovery after the recent financial and economic crisis resulted in worldwide growth of oil and gas exploration and production expenditure in 2010. Demand for seamless and welded pipe from oil and gas producers recovered substantially. Seamless and welded OCTG volumes grew from 1,037 thousand tonnes in 2009 to 1,478 thousand tonnes in 2010. With this growth in the pipe market, TMK's share by sales volume (based on its own estimates) in the worldwide market for seamless pipe increased from 5% in 2009 to 6% in 2010. Seamless OCTG, the high margin products, comprised a 12% worldwide market share by sales volume in 2010 compared to 10% in 2009.

Work was recommenced on several large-scale pipeline construction projects in Russia in 2010 which brought a considerable growth in demand for large diameter pipe. The Company's enhanced capacity, derived from the commissioning of a longitudinal large diameter pipe mill at Volzhsky plant in late 2008, allowed TMK to meet demand recovery. Thus TMK's sales of large diameter pipe tripled in 2010.

TMK's production facilities are geographically diversified with locations in Russia, the CIS, the USA and Eastern Europe. TMK's sales outside Russia represented 37% and 33% of total sales volumes in 2010 and 2009, respectively. Sales of Russian produced pipes outside Russia constituted 12% and 16% of total sales volumes in 2010 and 2009, respectively.

As a result of growing demand in all pipe products markets, TMK's total consolidated revenue increased by 61% and amounted to U.S.$5,578 million as compared to total consolidated revenue of U.S.$3,461 million in 2009. Adjusted EBITDA[4] almost tripled from U.S.$328 million in 2009 to U.S.$942 million in 2010 due to increased sales volumes and better capacity utilisation. Adjusted EBITDA margin improved from 9% in 2009 to 17% in 2010.

## Certain Factors Affecting TMK's Results from Operations

TMK's results from operations were affected by a number of factors, including, among others, global and Russian macroeconomic trends, oil and gas industry dynamics, TMK's development and leverage level.

### The Recent and Current Economic Environment

In 2010, global markets demonstrated strong improvement after a recent financial and economic crisis of late 2008 indicating demand recovery for consumer and industrial products. The Russian economy emerged from recession in the third quarter of 2009.

TMK is a company with global presence and geographically diversified production facilities, although most of its operations are

[4] See "Selected financial data" for calculation methodology.

based in Russia and 62% of its revenue is generated from Russian customers. Consequently, TMK is exposed to both macroeconomic trends in global as well as Russian economy.

Throughout 2010, global financial markets, though generally improving, remained uncertain. After the stock market crash in the second half of 2008, stock indexes have recovered worldwide and, particularly, in Russia, but still are highly volatile.

The implementation of anti-crisis policies by the Russian government helped the economy to survive the financial and economic crisis of late 2008. Stable economic growth resumed in the second half of 2009. However, the economic activity in Russia in 2010 was impacted by severe summer drought and wrecked harvests. The Gross Domestic Product ("GDP") in Russia increased by 4.0% in 2010 compared to a 7.9% decrease in 2009.

Other markets of TMK presence have also been seriously affected by the recent financial and economic crisis. In 2010, the European economy showed a gradual GDP recovery by 1.8% in comparison with a negative growth rate of 4.2% in 2009. The U.S. GDP rose by 2.8% in 2010 as compared to a decline by 2.6% in 2009.

In addition, recent and continuing political crisis in North Africa and Middle East where a substantial proportion of the world's oil reserves is located, press up the price of oil which may negatively impact worldwide economic conditions. The risks of worsening of economic conditions may influence TMK's operating results.

**Global and Russian Oil and Gas Industry**

Sales to oil and gas companies in Russia and worldwide represent the lion's share of TMK's total sales of pipe products. Pipe demand from the global oil and gas industry significantly affects both sales volumes and pipe prices. Global prices for crude oil are rather volatile and reached a peak in July 2008, U.S.$147/bbl, then fell significantly after the onset of the global economic slowdown in late 2008 reaching an average monthly price for crude oil of U.S.$40/bbl in December 2008. Crude oil prices strengthened in 2010 and in January 2011 stood at around U.S.$96/bbl. Since the start of political crisis in the Middle East region in January-February 2011, the crude oil price has surged over U.S.$115/bbl. Market analysts forecast further growth in prices for crude oil. Henry Hub prices for natural gas have also fallen sharply since their peak price of U.S.$13.31 per million British thermal units ("mmBtu") in July 2008 and, in December 2010, natural gas prices were approximately U.S.$4.1-4.4 mmBtu. The increase of shale gas production has contributed to the general price weakness in the U.S. market as production (or supply) has outpaced recent demand growth.

**TMK 2010 Development Highlights**

As part of its strategy to enhance its position as one of the leading producers of steel pipes, TMK continued to extend its production capacity and achieve technological improvements:

- The intensive development of U.S. shale plays made it necessary to increase ULTRA production volumes at TMK IPSCO facilities. In May 2010, TMK IPSCO opened a new ULTRATM Premium Connections facility in Ohio, USA, close to the Marcellus Shale Region, one of the U.S. largest shale gas deposits. This new manufacturing facility will help TMK to meet the growing demand from gas shale developments.
- In 2010, TMK modernised the continuous casting machine and seamless rolling mill at Volzhsky plant and installed the ancillary equipment needed for the plant's full ramp-up for the production of pipes. As a result, production capacity of seamless pipe at the Volzhsky plant increased by 210,000 tonnes.
- TMK and RUSNANO established a strategic venture, TMK-INOX, for the production of precision stainless steel and alloy tubes. The joint project aims to create modern high-tech production of pipes for special applications.

TMK sold a non-core asset:

- At the end of 2010, TMK entered into a contractual agreement to sell a 100% ownership interest in TMK Hydroenergy Power S.R.L. ("TMK-Hydro") whose assets consists of four hydropower generating units located in Romania and previously owned by TMK-Resita.

TMK continued to expand its global presence:

- TMK IPSCO opened a new sales office, TMK IPSCO Canada, in Calgary in August 2010, which functions as a head office for sales in Canada and supports conventional and unconventional hydrocarbon exploration and development programs in the country. TMK believes the success of ULTRA premium connections will serve as a platform for the supply of tubular goods to Canadian oil sands development.
- In June 2010, TMK established TMK Africa Tubulars, a trading subsidiary incorporated in Cape Town, South Africa, to strengthen its commercial presence in sub-Saharan oil and gas markets.

**Leverage Level and Liquidity Profile**

Following the recovery in economies and through refinancing of short-term debt on a long-term basis, the Company improved its financial performance and liquidity position. The following table sets forth certain information regarding TMK's indebtedness, working capital, leverage and certain key related financial measures as of and for the dates/periods indicated:

On the other hand, TMK's net debt increased significantly primarily as a result of: (a) borrowings undertaken in connection with the Company's acquisition of TMK IPSCO, which comprised IPSCO Tubulars, Inc. and NS Group, Inc., in 2008 and the further exercise of an option to purchase the remaining 49% interest in NS Group, Inc.; and (b) the continued capital investment programme. The Net-Debt-to-EBITDA ratio reached an historic high of 10.7 as of 31 December 2009.

Prior to getting the access to international capital markets TMK has relied on cash provided by operations and short-term debt to finance its working capital and other capital requirements. In addition, a bridge financing attained for acquisition of U.S. operations coincided with the global economic crisis and the Company's financial position worsened. Since the onset of the global economic downturn, TMK has been actively implementing certain cost-optimising measures as part of its programme to manage the consequences of the financial crisis, and concentrated on cuts in its operating costs and optimising its working capital and operating performance. At the same time, TMK has been negotiating extensions of credit terms and refinancing its short-term indebtedness. As a result of refinancing TMK's debt on a long-term basis, the share of TMK's long-term debt increased from 59% at the end of 2009 to 82% at the end of 2010. TMK has also successfully negotiated lower interest rates on certain borrowings. Consequently, its weighted average nominal in-

| | December 31, 2010 | June 30, 2010 | December 31, 2009 | June 30, 2009 | December 31, 2008 |
|---|---|---|---|---|---|
| | in millions of U.S. dollars | | | | |
| Net debt[5] | 3,711 | 3,555 | 3,504 | 3,561 | 3,064 |
| Adjusted EBITDA[6] | 942 | 597 | 328 | 776 | 1,047 |
| Net-debt-to-EBITDA ratio[7] | 3.9 | 6.0 | 10.7 | 4.6 | 2.9 |
| Share of short-term loans and borrowings[8] | 18% | 23% | 41% | 54% | 69% |
| Working capital excess/(deficit)[9] | 595 | 147 | (645) | (952) | (1,446) |

Since late 2008, a combination of factors related to the global financial and economic crisis has adversely affected TMK's operating performance. As a result, the Company's Adjusted EBITDA decreased from U.S.$1,047 million in 2008 to U.S.$328 million in 2009.

[5] Net debt calculation — See "Selected financial data".

[6] Calculated on a rolling twelve-month basis. Adjusted EBITDA — See "Selected financial data".

[7] Net-Debt-to-EBITDA ratio is defined as Net Debt at the end of the given measurement date to Adjusted EBITDA for the 12 months immediately preceding the given measurement date.

[8] Share of short-term loans and borrowings is calculated as based on the information presented in the Consolidated Statement of Financial Position.

[9] Working capital is calculated as current assets at the end of the given measurement date net of current liabilities.

terest rate as of 31 December 2010 decreased to 7.86% as compared to 10.72% as of 31 December 2009.

However, as the increase in operating activity in 2010 required additional working capital, total TMK's debt increased from U.S.$3,752 million as of 31 December 2009 to U.S.$3,872 million as of 31 December 2010. Implemented investment projects also required financing.

Restructuring of TMK's loan portfolio and cost optimisation programs over the last two years have enabled the Company to significantly improve its working capital position and reduce its leverage ratio. Thus, as of 31 December 2010, TMK total current assets exceeded its total current liabilities by U.S.$595 million. Its Net-Debt-to-EBITDA ratio decreased to 3.9 as of 31 December 2010 from a historical high of 10.7 as of 31 December 2009. Its debt maturity profile has improved substantially as TMK has refinanced its short-term debt and increased the share of long-term facilities in its credit portfolio. Adjusted EBITDA for the twelve-month period ended 31 December 2010 almost tripled to U.S.$942 million from U.S.$328 million for the twelve-month period ended 31 December 2009.

TMK is continuing to carry out a series of measures to maintain sufficient liquidity and improve its loan portfolio structure.

**Issuance of Convertible Eurobonds**

In February 2010, TMK, through TMK Bonds S.A., issued U.S.$413 million 5.25% bonds due 2015 convertible into TMK Global Depository Receipts. The bonds are convertible at the option of bondholders on any date starting from 24 March 2010 until 2 February 2015, or, if earlier, on the seventh London business day prior to any earlier date fixed for redemption of the Convertible Bonds. The bonds are convertible into GDRs at a conversion price of U.S.$23.075 per GDR.

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

As disclosed in Note 25 of TMK Consolidated Financial Statements, TMK determined that 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 ("embedded conversion option"). Generally, conversion options are recognised as a part of equity, however, IFRS requires that in the specific case when the conversion option is denominated in currency other than issuing entity's functional currency, no equity component can be recognised prior the conversion of the bond. As a result, in accordance with IFRS, TMK recognised a bond liability of U.S.$368 million (net of transaction costs of U.S.$9 million) and the liability under embedded conversion option of U.S.$35 million at the initial recognition date.

The liability component is subsequently carried at amortised cost using the effective interest rate method. The derivative component is subsequently remeasured at fair value at each reporting date. As of 31 December 2010, the bond liability and the liability under the embedded conversion option were U.S.$378 million and U.S.$48 million, respectively. TMK recorded a loss on changes in the fair value of the derivative financial instrument in the twelve months of 2010 of U.S.$12 million.

Nevertheless TMK's management believes that 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 from the Company. In the event of the bond not being converted, the liability under the conversion option will be recognised as a gain in TMK's 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 TMK to recognise changes in the fair value of the embedded instrument in the income statement. The price and volatility of TMK's GDRs have significant impact on fair value of the embedded derivative. In the event the GDRs perform well, the Company's liability under the conversion option will increase and result in losses in the income statement. The changes in fair value may be material in comparison to TMK's net profit and may cause distortions in the income statement. As such, for management discussion and analysis purposes, in addition to net profit (loss) as reflected in the 31 December 2010 consolidated income statement, TMK has decided to present in this management's discussion and analysis, adjusted net profit (loss) so that it does not reflect gains or losses on the changes in fair value with respect to the embedded derivative component of the convertible bond. Such adjusted net profit (loss) figure is an alternative performance measure that is not reflected in TMK's consolidated financial statements and has not been audited or reviewed in accordance with ISA.

**Issuance of Capital**

On 5 February 2010, the Company's Board of Directors authorised an increase of share capital. In June 2010, TMK received RUB 8,590 million or U.S.$279 million from its shareholders as consideration for the issuance of 64,585,094 shares, representing approximately 7% of its issued and fully paid share capital before the additional issue. In November 2010, the increase of share capital was finalised by means of an open subscription at the price of RUB 133 per share. After completion of the share capital increase, the total number of TMK's issued and fully paid shares amounts to 937,586,094. Furthermore, during the six months ended 30 June 2010, TMK purchased 64,478,432 of its shares from TMK Steel for U.S.$281 million to guarantee the fulfillment of the Company's obligation to bondholders in respect of its convertible bonds. The net effect of these two transactions has not materially altered TMK's total equity.

## Results of Operations

TMK's operating results for 2010 have considerably improved as compared to 2009 reflecting the recovery in worldwide economy. The following table provides TMK's consolidated operating results for the twelve-month periods ended 31 December:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | in millions of U.S. dollars | % of revenue | in millions of U.S. dollars | % of revenue |
| Revenue | 5,578 | 100% | 3,461 | 100% |
| Cost of sales | (4,285) | (77)% | (2,905) | (84)% |
| **GROSS PROFIT** | **1,293** | **23%** | **556** | **16%** |
| Selling and distribution expenses | (403) | (7)% | (313) | (9)% |
| General and administrative expenses | (232) | (4)% | (204) | (6)% |
| Advertising and promotion expenses | (11) | (0)% | (5) | (0)% |
| Research and development expenses | (13) | (0)% | (10) | (0)% |
| Other operating (expenses)/income, net | (35) | (1)% | (14) | (0)% |
| Impairment of assets | - | - | (47) | (1)% |
| Foreign exchange gain/(loss), net | 10 | 0% | 14 | 0% |
| Loss on changes in fair value of derivative financial instrument | (12) | (0)% | - | - |
| Finance (costs)/income, net | (412) | (7)% | (404) | (12)% |
| **INCOME/(LOSS) BEFORE TAX** | **185** | **3%** | **(427)** | **(12)%** |
| Income tax (expense)/benefit | (81) | (1)% | 103 | 3% |
| **NET INCOME/(LOSS)** | **104** | **2%** | **(324)** | **(9)%** |
| **ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | **104** | **2%** | **(316)** | **(9)%** |
| **NET INCOME/(LOSS) ADJUSTED FOR LOSS ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT**[10] | **116** | **2%** | **(316)** | **(9)%** |

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

Net income for the twelve months ended 31 December 2010 has been adjusted for loss on changes in fair value of derivative financial instrument in the amount of U.S.$12 million to reflect TMK's management's position in respect of the treatment of the conversion option. See "Issuance of Convertible Eurobonds".

As a consequence of its international expansion and associated changes to TMK's management reporting methods and approach to segments, TMK presents its operations in three reporting segments:

- Russia: manufacturing facilities located in the Russian Federation and Kazakhstan, an oil and gas services division and trading companies in Russia, Kazakhstan, Switzerland, the United Arab Emirates and South Africa;
- America: manufacturing facilities and trading companies located in Northern America;
- Europe: manufacturing facilities located in Romania and trading companies located in Italy and Germany.

## Revenue

**Sales Volumes**

In 2010, TMK's sales volumes grew in all reporting segments. The following table shows TMK's pipe sales volumes by reporting segment for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | | in thousand tonnes | in thousand tonnes | in % |
| Russia | 2,989 | 2,297 | 692 | 30% |
| America | 804 | 358 | 446 | 125% |
| Europe | 169 | 114 | 55 | 48% |
| **TOTAL PIPES** | **3,962** | **2,769** | **1,193** | **43%** |

The strongest sales growth in 2010 derived from large diameter pipes as well as OCTG and line pipes. The table below presents pipe sales volumes by product type for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | | in thousand tonnes | in thousand tonnes | in % |
| OCTG | 1,478 | 1,037 | 441 | 43% |
| Line | 761 | 502 | 259 | 52% |
| Large Diameter | 700 | 311 | 389 | 125% |
| Industrial | 1,023 | 919 | 104 | 11% |
| **TOTAL PIPES** | **3,962** | **2,769** | **1,193** | **43%** |

TMK's sales volumes reached 3,962 thousand tonnes in 2010 or 43% more than in the same period of the last year. Sales of OCTG (seamless and welded) and large diameter pipe constituted the majority of the total increase in sales volumes in 2010, making a 43% and 125% growth, respectively.

**Russia.** In 2010, the Russian division achieved a year-on-year 30% increase in sales volumes. It mainly resulted from an increase in pipes supplied to the oil and gas companies as previously postponed projects revived in 2010. TMK's sales volumes of large diameter pipe grew by 125% in 2010 in comparison with 2009. TMK managed to increase production and supplies of large diameter pipe in 2010 as a result of the successful commissioning of the large diameter mill at Volzhsky in 2008. Sales of OCTG and line pipe in the Russian division in 2010 grew by 10% and 49%, respectively. The PQF mill put into operation at TAGMET contributed to this increase. However growth in OCTG and line pipe sales was partly offset by restricted production capacities and a slowdown in sales resulted from reconstruction of a seamless hot-rolling mill at Volzhsky plant. TMK is a leading pipe producer in the Russian seamless OCTG market accounting for a 60% market share in 2010. Given the on-going competition, sales volumes of industrial pipe, which are not TMK's first-strategy, were slightly above last-year sales.

**America.** The American division more than doubled its sales volumes in 2010 in comparison to 2009 — to 804 thousand tonnes. The American division's share of TMK's total sales volumes increased from 13% in 2009 to 20% in 2010. The key reasons for the increase in sales were (a) a substantial increase in onshore oil and gas drilling activity in the NAFTA region, (b) growth in unconventional drilling activity, mainly in the shale gas sector, and (c) the introduction of countervailing duties on the importation of Chinese pipes. In the second half of 2009 and in 2010, the U.S. government implemented certain measures against low-cost Chinese pipe products resulting in imposition of countervailing duties which caused a reduction in the import of Chinese OCTG and line pipe. TMK's sales of seamless and welded OCTG increased by 150% in 2010 as compared to 2009. Based on TMK's estimates, TMK IPSCO OCTG market share increased from 10% in 2009 to 14% in 2010. Sales volumes of industrial pipe grew by 42% in 2010 as compared to 2009.

**Europe.** Pipe sales volumes in the European division increased by 48% year-on-year. The majority of the European division sales are in Europe. The growth was derived from the overall recovery of demand in the European automotive and engineering industries in 2010 as compared to 2009. Thus TMK recorded growth in sales volumes of industrial pipe by 74% in 2010 as compared to 2009. The European division's share of TMK's total sales volumes was 4% in both 2010 and 2009.

**Revenue**

Driven largely by the growth in sales volumes, revenue also increased significantly in 2010. The table below presents revenue by reporting segment for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | in millions of U.S. dollars | | in millions of U.S. dollars | in % |
| Russia | 3,998 | 2,639 | 1,359 | 51% |
| America | 1,324 | 655 | 669 | 102% |
| Europe | 256 | 167 | 89 | 53% |
| **TOTAL REVENUE** | **5,578** | **3,461** | **2,117** | **61%** |

Sales growth in the American and Russian markets were the most significant in 2010. The following table presents revenue by geographic region (based on the location of the customer) for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | in millions of U.S. dollars | | in millions of U.S. dollars | in % |
| Russia | 3,484 | 2,170 | 1,314 | 61% |
| America | 1,435 | 739 | 696 | 94% |
| Europe | 399 | 272 | 127 | 47% |
| Central Asia and Caspian region | 161 | 134 | 27 | 20% |
| Other regions | 99 | 146 | (47) | (32)% |
| **TOTAL REVENUE** | **5,578** | **3,461** | **2,117** | **61%** |

In 2010, TMK's revenue from sales of pipe products increased significantly by 64% to U.S.$5,305 million compared to 2009 primarily because of sales volume growth. Revenue from other operations that arise, among others, from sales of billets, rendering of pipe-related services, rent provided and sales of other services, increased by 21% in 2010 as compared to 2009.

**Russia.** Revenue generated by sales of pipe products in the Russian division increased by 51% in 2010 as compared to 2009 mainly due to increased sales volumes and selling prices for pipe products. The portion of an increase in revenue attributable to changes in sales volumes accounted for U.S.$765 million. Changes in selling prices and product mix contributed U.S.$389 million to total growth in the Russian division revenue. Other revenue grew by U.S.$34 million mainly due to an increase in revenue from pipe-related services rendered, such as protective coating, repair and field services. The effect of translation from the functional to presentation currency[11] accounted for a U.S.$171 million increase.

**America.** In 2010, the American division revenue from sales improved, posting 102% growth as compared to 2009 due to substantially recovered drilling activity in the NAFTA region. Sales volumes accounted for a U.S.$695 million contribution to the increase in sales. The growth was slightly offset by a U.S.$11 million decline due to changes in product mix and a decrease in selling prices. As a result of the global economic downturn, selling prices decreased sharply in the second half of 2009 and only started to recover in the second half of 2010, resulting in lower average selling prices in 2010 as compared to 2009. Other revenue decreased by U.S.$15 million.

**Europe.** TMK achieved 49% increase in the European division revenue from sales of pipe products in 2010 as compared to 2009 due to demand recovery in the automotive and engineering industry in Europe. The portion attributable to changes in sales volumes accounted for U.S.$65 million growth. Prices for pipe products decreased sharply in the second part of 2009. In 2010, growth in average selling prices for pipe products combined with product mix contributed a U.S.$12 million increase in revenue. Other revenue, which constituted 20% of the division revenue, grew by U.S.$24 million mainly due to growing billets sales. The growth of the European division sales was offset by a U.S.$12 million decrease in the effect of translation from the functional to presentation currency.

## Cost of Sales

In 2010, the cost of sales increased by 48% or by U.S.$1,380 million from U.S.$2,905 million in 2009 to U.S.$4,285 million in 2010 representing 84% and 77% of total revenue in 2009 and 2010, respectively. The improvement was achieved mainly due to better production capacity utilisation and cost saving efforts.

The following table sets out TMK's cost of sales for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | in millions of U.S. dollars | | in millions of U.S. dollars | in % |
| Russia | 3,065 | 2,101 | 964 | 46% |
| America | 1,023 | 668 | 355 | 53% |
| Europe | 197 | 136 | 61 | 45% |
| **TOTAL COST OF SALES** | **4,285** | **2,905** | **1,380** | **48%** |

**Russia.** The cost of sales growth in the Russian division in 2010 was substantially affected by the demand recovered from its main customers and significantly expanded sales volumes of large diameter pipe. Increasing prices for goods and services consumed in production and changes in the product mix also significantly affected cost of sales. The effect of translation from functional to presentation currency led to an increase of U.S.$128 million in cost of sales.

[11] For the purposes of this management's discussion and analysis the translation effect on revenues/costs and incomes/expenses illustrates an influence of different rates used for translation of such revenues/costs or incomes/expenses from functional to presentation currency in different reporting periods

**America.** The increase in cost of sales (53%) resulted from the 125% growth in the volume of sales, improved by changes in product mix and in cost per tonne. Production cost per tonne decreased due to considerable improvements in the utilisation of production capacity resulting in a strong improvement in the fixed production costs absorption ratio.

**Europe.** The cost of sales change in the European division was mainly the result of growing purchase prices and sales volumes as well as the changes in the product mix. The effect of translation from functional to presentation currency resulted in a reduction of U.S.$9 million in the cost of sales.

The table below provides a breakdown of TMK's cost of sales for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | in millions of U.S. dollars | | in millions of U.S. dollars | in % |
| Raw materials and consumables | 2,972 | 1,660 | 1,312 | 79% |
| Staff costs | 540 | 388 | 152 | 39% |
| Energy and utilities | 336 | 216 | 120 | 56% |
| Depreciation | 218 | 193 | 25 | 13% |
| Other costs | 313 | 170 | 143 | 84% |
| **TOTAL PRODUCTION COST** | **4,379** | **2,627** | **1,752** | **67%** |
| Change in finished goods and work in progress | (171) | 244 | (415) | (170)% |
| Cost of externally purchased goods and obsolete stock and write offs | 77 | 34 | 43 | 126% |
| **TOTAL COST OF SALES** | **4,285** | **2,905** | **1,380** | **48%** |

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

**Raw materials and consumables**

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

The significant production volumes growth due to the recovery of the economy after the crisis contributed U.S.$929 million to the increase of cost of raw materials and consumables. Increased prices for raw materials consumed in the production as well as changes in product mix resulted in U.S.$301 million of the total growth.

The increased share of large diameter pipe in TMK's product mix had an impact on cost of raw materials as purchase prices of steel plates and coil used in production of this type of pipe are higher than raw material costs of other pipe products. Prices for certain types of raw materials and supplies varied depending on the region. In 2010, in the Russian division, the average purchase cost of metal scrap increased by 16%, average price for coils increased by 28% and the average purchase price for pig iron increased by 57% as compared to 2009. The average purchase cost of metal scrap and coils in the

American division increased by 59% and 28%, respectively, as compared to 2009. Average purchase costs for metal scrap in the European division were higher by 53% in 2010 than those in 2009.

The effect of translation from the functional to presentation currency accounted for a U.S.$82 million increase in these types of costs.

**Labour costs**

Labour costs include wages and related taxes for employees directly engaged in the production.

Labour cost growth was mainly driven by increased payroll rates and bonuses resulting in a U.S.$121 million increase. The greatest part of the increase derived from the American division where outstanding operational performance resulted in higher payroll rates and bonuses growth. Changes in labour costs by U.S.$16 million occurred due to the headcount increase, particularly in the American division. The effect of translation from the functional to presentation currency accounted for a U.S.$15 million increase.

**Energy and utilities**

The costs of energy and other utilities include the costs of gas, electricity, heat energy, water and other utilities.

Significant production volumes increase resulted in U.S.$97 million of the costs of energy and utilities growth.

Growing prices for energy and utilities consumed in the production as well as the changes in product mix resulted in U.S.$14 million of the energy and other utilities expenses growth.

Prices for certain types of energy and other utilities varied depending on the region. In 2010, in the Russian division, the average electricity purchase costs increased by 18% and natural gas purchase costs increased by 26% as compared to 2009. The average electricity and gas purchase cost in the American division decreased by 9% and 32%, respectively, as compared to 2009 due to regressive tariffs that decreases as the volume of energy used grow. In 2010, average purchase costs for electricity and gas in the European division were lower by 5% and 6% respectively as compared to those in 2009.

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

**Depreciation**

The increase in depreciation expenses by U.S.$19 million was principally the result of the overall growth attributable to new equipment put into operation during 2010 as part of TMK's capital expenditure program. The effect of translation from the functional to presentation currency accounted for a U.S.$6 million increase.

**Other costs**

Other costs include repair and maintenance, contracted manufacture, transportation, taxes and other expenses. Growth of other costs correlates with production volumes and increased by U.S.$136 million primarily because of the production volumes dynamics. The American division contributed the majority to the total change. The outstanding production and sales growth in the American division resulted in additional outsourced processing services, repair and maintenance and extensive usage of more expensive transportation means for the transportation of semi-finished products between production and finishing capacities. The effect of translation from the functional to presentation currency accounted for a U.S.$7 million increase.

**Change in own finished goods and work in progress**

Managing the consequences of economic crisis and decreased production in 2009 TMK put its efforts on optimising the size and structure of working capital through reducing balances of finished goods and work in progress. However in 2010 as a result of growing operating activity TMK significantly increased its finished goods and work in progress.

## Gross Profit

The following table shows gross profit and gross margin by for twelve-month periods ended 31 December:

| | 2010 | | 2009 | | Change |
|---|---|---|---|---|---|
| | in millions of U.S. dollars | in % | in millions of U.S. dollars | in % | in millions of U.S. dollars |
| Russia | 933 | 23% | 538 | 20% | 395 |
| America | 301 | 23% | (13) | (2)% | 314 |
| Europe | 59 | 23% | 31 | 19% | 28 |
| **TOTAL GROSS PROFIT** | **1,293** | **23%** | **556** | **16%** | **737** |

In 2010, TMK's gross profit increased by 133% or U.S.$737 million as compared to 2009, and amounted to U.S.$1,293 million. Gross margin grew from 16% in 2009 to 23% in 2010. It reflects the growth in sales volumes and prices, high capacity utilisation, improved fixed production costs absorption ratio.

**Russia.** Gross profit in the Russian division grew 1.7 times in 2010 and reached U.S.$933 million reflecting enhanced production and successful selling activity in the recovering principal pipe markets. The increased share of high-margin large diameter pipe in TMK's sales had a solid impact on the gross profit.

**America.** Outstanding sales and production growth in the American division positively affected gross profit through the overall revenue growth, as well as improved production overhead absorption rates resulted from extended and more efficient utilisation of production capacities. However, these positive developments were partially offset by the combined effect of changes in selling prices and product mix as selling prices in the USA started to recover only in the second half of 2010. The combination of all the factors allowed the American division to earn U.S.$301 million of the gross profit in 2010 as compared to U.S.$13 million loss in 2009.

**Europe.** In 2010, the European division achieved high operating results both in production and sales of pipe products and billets. However a slight increase in the sales share of billets (which generate lower margins than pipes) in the European division sales had a moderate negative impact on the average gross margin.

## Operating Expenses

### Selling and distribution expenses

Resulting from the 61% rise in revenues, the percentage of selling and distribution expenses to revenue decreased from 9% in 2009 to 7% in 2010. The following table sets out TMK's selling and distribution expenses for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | in millions of U.S. dollars | | in millions of U.S. dollars | in % |
| Russia | 292 | 187 | 105 | 56% |
| America | 92 | 110 | (18) | (16)% |
| Europe | 19 | 16 | 3 | 19% |
| **TOTAL SELLING AND DISTRIBUTION EXPENSES** | **403** | **313** | **90** | **29%** |

The table below provides a breakdown of TMK's selling and distribution expenses for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | in millions of U.S. dollars | | in millions of U.S. dollars | in % |
| Freight | 207 | 118 | 89 | 75% |
| Depreciation | 81 | 100 | (19) | (19)% |
| Staff costs | 54 | 45 | 9 | 20% |
| Other expenses | 61 | 50 | 11 | 22% |
| **TOTAL SELLING AND DISTRIBUTION EXPENSES** | **403** | **313** | **90** | **29%** |

**Russia.** Selling expenses growth was foremost caused by the considerable increase in freight costs as a result of increased sales volumes, transportation tariffs and certain Transneft large-diameter supply contracts with extended delivery terms that contributed U.S.$76 million to the expenses growth. Growing wages, salaries, bonuses and related taxes resulted in U.S.$5 million growth. Other expenses rose by U.S.$11 million. The effect of translation from the functional to presentation currency accounted for U.S.$13 million of the increase.

**America.** There was a decrease in depreciation expense of U.S.$18 million. The greater part of the value of the intangible asset "Customer relationships" was amortised in prior years due to the amortisation method used. The asset was amortised using the diminishing balance method which reflected the pattern of consumption of the future expected economic benefits that the assets provided. Moderate increases in salaries and wages, bonuses and related taxes, as well as freight costs were offset by reductions in other selling expenses, resulting in no combined net impact on the total change.

**Europe.** Enhanced selling activity in the European division caused freight expenses to grow by U.S.$4 million. The effect of translation from the functional to presentation currency accounted for a U.S.$1 million expenses decrease.

**General and administrative expenses**
The share of general and administrative expenses in revenue decreased from 6% in 2009 to 4% in 2010. The following table sets out TMK's general and administrative expenses for the twelve-month periods ended 31 December:

**Russia.** The growth in general and administrative expenses was primarily the result of increased salaries and wages, bonuses and related taxes that contributed U.S.$10 million to the change. The effect of translation from the functional to presentation currency and changes in other expenses accounted for a U.S.$7 million and U.S.$4 million respectively.

**America.** Dramatically improved operational and selling activity in the American division in 2010 as opposed to poor results in 2009 had an impact on staff costs. Increase in salaries and wages, bonuses

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | in millions of U.S. dollars | | in millions of U.S. dollars | in % |
| Russia | 166 | 145 | 21 | 14% |
| America | 57 | 49 | 8 | 16% |
| Europe | 9 | 10 | (1) | (10)% |
| **TOTAL GENERAL AND ADMINISTRATIVE EXPENSES** | **232** | **204** | **28** | **14%** |

The table below provides a breakdown of TMK's general and administrative expenses for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | in millions of U.S. dollars | | in millions of U.S. dollars | in % |
| Staff costs | 126 | 101 | 25 | 25% |
| Professional services | 48 | 45 | 3 | 7% |
| Depreciation | 13 | 16 | (3) | (19)% |
| Travel | 9 | 6 | 3 | 50% |
| Other expenses | 36 | 36 | - | - |
| **TOTAL GENERAL AND ADMINISTRATIVE EXPENSES** | **232** | **204** | **28** | **14%** |

and related taxes to management contributed U.S.$11 million to the total growth of general and administrative expenses. In 2009 intangible asset "Backlog" was fully depreciated that caused U.S.$4 million expenses decline in 2010. Changes in other general and administrative expenses had an effect of U.S.$1 million increase.

**Europe.** In 2010, the European division's general and administrative expenses were at the prior year levels. The effect of translation from the functional to presentation currency accounted for a U.S.$1 million expenses decrease.

## Foreign Exchange Gain/Loss, net

The functional currency of the Company and its subsidiaries located in the Russian Federation, Kazakhstan and Switzerland is the Russian ruble. The functional currency of the Romanian subsidiaries is the Romanian lei 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.

In 2010, TMK recognised a foreign exchange gain in the amount of U.S.$10 million as compared to U.S.$14 million in 2009. In addition, TMK recognised foreign exchange losses of U.S.$9 million and U.S.$124 million in 2010 and 2009, respectively, in the statement of other comprehensive income, representing effective portion of foreign exchanges losses on the hedged financial instruments. At the date of acquisition of controlling interests in NS Group, Inc. and IPSCO Tubulars, Inc. the Company hedged its net investment in these operations against foreign currency risk using US dollar denominated borrowings made by the Russian entities of TMK. The aim of the hedging was to eliminate foreign currency risk associated with the repayment of these liabilities resulting from changes in US dollar/Russian rouble spot rates.

Foreign exchange gains and losses derived mainly from the following captions of statement of financial position: interest-bearing loans and borrowings (including intercompany ones), trade and other receivables and trade and other payables (including intercompany ones) and cash and cash equivalents.

## Loss on Changes in Fair Value of Derivative Financial Instrument

In February 2010, TMK 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, TMK recognised a bond liability of U.S.$368 million (net of transaction costs of U.S.$9 million) and the liability under embedded conversion option of U.S.$35 million at the initial recognition date.

As of 31 December 2010, the bond liability and the liability under the embedded conversion option were U.S.$378 million and U.S.$48 million, respectively. In 2010, TMK recorded a loss on changes in the fair value of the derivative financial instrument of U.S.$12 million. However for the purpose of management's discussion and analysis the net profit for the period was adjusted so that it does not reflect gains or losses on the changes in fair value of the derivative financial instrument See "Issuance of Convertible Eurobonds".

## Finance (costs)/income, net

Finance costs include interest expenses and amortisation of the costs incurred in connection with financing arrangements. Finance income includes interest income on bank accounts and deposits, dividends received, gain on extinguishment of debt, gains on disposal of available-for sale and other investments. Finance costs decreased by 4% or U.S.$16 million in 2010 as compared to 2009. In 2009, the controlling shareholder of the Company pledged shares of OAO "TMK" to guarantee certain TMK long-term loans. TMK incurred expenditures on commission fees which were amortised over the term of the debt using the effective interest method and recognised in finance costs. At the end of 2010, TMK repaid part of the debts and negotiated amendments cancelling the security in respect of the outstanding part of the affected loans. Furthermore, the Company recognised as expense the remaining unamortised part of the commission fees as finance costs which resulted in an increase in related expenses from U.S.$19 million in 2009 to U.S.$76 million in 2010. Excluding this effect on expenses, finance costs decreased by 17% or U.S.$ 73 million in 2010 as compared to 2009. During 2010 TMK negotiated lower interest rates with major creditors. As a result, the weighted average nominal interest rate declined gradually throughout the year and reached 7.86% as of 31 December 2010 as compared with 10.72% as of 31 December 2009. The favorable effect from the decrease in interest rates decrease was partially offset by new loans to finance capital expenditures and working capital. Finance costs were also affected by the changes in the currency structure of the credit portfolio and the volatility of the US dollar, the Euro and the Russian ruble.

Finance income decreased by 56% from U.S.$43 million in 2009 to U.S.$ 19 million in 2010.

As a result of the changes stated above net finance costs increased by 2% or U.S.$8 million in 2010 as compared with 2009.

## Income Tax

TMK, as a global company with production facilities and trading offices geographically diversified and located in Russia and the CIS, the United States, and Europe, is exposed to tax burden charged to business in those countries. In both 2010 and 2009, the following main corporate income tax rates were in force in the countries where most of TMK's production plants located: 20% in Russia, 35% (federal tax rate) in the United States, 16% in Romania.

In 2010, TMK reported a pre-tax profit of U.S.$185 million as compared to a pre-tax loss of U.S.$427 million in 2009. As a result, in 2010 TMK recognised an income tax expense of U.S.$81 million versus an income tax benefit of U.S.$103 million in 2009. The effective income tax rate rise, to 44% in 2010 from 24% in 2009, was primarily due to an outstanding increase in income generated by the American division (it's operating profit amounted to U.S.$150 million in 2010 as opposed to operating loss of U.S.$173 million in 2009) where corporate income tax rate is considerably higher than in the Russian division, as well as due to non-deductible expenses growth.

## Net Income/(Loss) for the Year

As a result of the above-mentioned factors, TMK recognised net income in the amount of U.S.$104 million in 2010 as compared to a U.S.$324 million loss in 2009. Net profit adjusted to the loss on changes in the fair value of the derivative financial instrument equals to U.S.$116 million See "Issuance of Convertible Eurobonds". Net profit margin increased to 2% in 2010 as compared to 9% negative in 2009.

## Liquidity and Capital Resources

### Cash Flows

The following table illustrates TMK's total cash flows for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | in millions of U.S. dollars | | in millions of U.S. dollars | in % |
| Net cash flows from operating activities | 386 | 853 | (467) | (55)% |
| Net cash flows used in investing activities | (271) | (891) | 620 | (70)% |
| Net cash flows (used in)/ from financing activities | (186) | 135 | (321) | (238)% |
| **(Decrease)/increase in cash and cash equivalents** | **(71)** | **97** | **(168)** | **(173)%** |
| Effect of exchange rate changes on cash and cash equivalents | (15) | 4 | (19) | n/m |
| Cash and cash equivalents as of 1 January | 244 | 143 | 101 | 71% |
| **CASH AND CASH EQUIVALENTS AS OF 31 DECEMBER** | **158** | **244** | **(86)** | **(35)%** |

### Operating Activities

Net cash flow provided by operating activities in 2010 was down 55% to U.S.$386 million from U.S.$853 million in 2009.

Net cash flows from operating activities before changes in working capital tripled from U.S.$328 million in 2009 to U.S.$942 million in 2010. This increase was mainly attributable to a pre-tax profit of U.S.$185 million in 2010 as compared to a pre-tax loss of U.S.$427 million in 2009. In 2010, cash flows in the amount of U.S.$527 million were used to finance working capital as opposed to a working capital release of U.S.$558 million in 2009.

### Investing Activities

In 2010, net cash used for investing activities equalled to U.S.$271 million, or 70% less than the U.S.$891 million in 2009.

The reduction in net cash used in investing activities was mainly attributable to the absence of acquisition of subsidiaries in 2010 as compared to 2009 when TMK exercised its call option for the remaining 49% interest in NS Group, Inc. for a total amount of U.S.$508 million. Decline in net cash used in investing activities also resulted from disposal of TMK-Hydro, in late 2010 for cash consideration of Euro 20 million. Selling of TMK-Hydro, a non-core TMK's asset, was performed in order to optimise TMK's assets structure. With the onset of the global economic crisis, TMK reviewed its Strategic Investment Program for the period from 2004 to 2011. Thus capital expenditures decreased from U.S.$395 million in 2009 to U.S.$314 million in 2010 as a result of certain projects postponements in TMK's Strategic Investment Program.

### Financing Activities

In 2010, net cash used in financing activities amounted to U.S.$186 million as compared to U.S.$135 million net cash received from financing activities in 2009.

A reduction in net cash from financing activities was principally attributable to a change in cash flows from borrowings: net cash inflow amounted to U.S.$103 million in 2010 as compared to U.S.$582 million in 2009. In January 2009, TMK exercised its option for the remaining 49% interest in NS Group, Inc. in the amount of U.S.$508 million. See "Investing activities". In 2010, TMK made interest payments in the amount of U.S.$343 million as compared to U.S.$444 million in 2009.

TMK received U.S.$33 million for sales of non-controlling interests in OOO "TMK-INOX" and a U.S.$23 million contribution from non-controlling interests owners of OAO "Sinarskaya heat and power plant" in 2010.

TMK completed the placement of 64,585,094 additional ordinary shares for a total amount of U.S.$279 million in 2010. In 2010, in connection with the convertible bonds issue, TMK purchased 64,478,432 treasury shares for a total of U.S.$281 million to secure the fulfillment of the obligation to the holders of the convertible bonds to convert the bonds into GDRs.

In 2010, TMK purchased non-controlling shares in subsidiaries for U.S.$1 million as compared to U.S.$9 million in 2009.

**Dividends**

In 2010, TMK made no dividend payments for 2009 to shareholders of OAO TMK as decided by the Company's shareholders at the annual shareholders meeting in June 2010. TMK paid dividends to non-controlling shareholders of its subsidiaries in the amount of U.S.$1 million in 2010 as compared to U.S.$2 million in 2009.

### Indebtedness

TMK's debt is nominated in different currencies and comprises mainly fixed-rate credit facilities. The following table presents information on TMK's debt as of 31 December 2010:

| | in RUB | in U.S.S | in EUR | in LEI | Total debt |
|---|---|---|---|---|---|
| | in millions of U.S. dollars | | | | |
| Fixed-rate debt | 1,641 | 1,816 | 84 | 2 | 3,543 |
| Floating-rate debt | - | 113 | 179 | - | 292 |
| **Total loans and borrowings** | **1,641** | **1,929** | **263** | **2** | **3,835** |
| Finance lease liability | - | 37 | 0 | - | 37 |
| **TOTAL DEBT** | **1,641** | **1,966** | **263** | **2** | **3,872** |

TMK's maturity profile has significantly improved with a declining share of short-term loans in the credit portfolio. The following table illustrates TMK's indebtedness maturity profile as of the end of 2010 and 2009:

**Loans and borrowing maturity profile**

| | < 1 year | 1-3 years | > 3 years | unamortised debt issue costs | Total debt |
|---|---|---|---|---|---|
| | in millions of U.S. dollars | | | | |
| As of December 31, 2010: | 706 | 1,222 | 1,968 | (24) | 3,872 |
| As of December 31, 2009: | 1,549 | 1,114 | 1,164 | (75) | 3,872 |

The Company's outstanding loans and borrowings increased by 3% from U.S.$3,752 million as of 31 December 2009 to U.S.$3,872 million as of 31 December 2010. TMK managed to improve the structure of its credit portfolio by extending its maturity profile. Its short-term borrowings accounted for 18% of total borrowings as of 31 December 2010 as compared to 41% as of 31 December 2009.

**Bank Loans**

TMK's most significant borrowings as of 31 December 2010 were as follows:

| Type of borrowing | Bank | Original currency | Outstanding principal amount (in thousands) in original currency | Outstanding principal amount (in thousands) in U.S. dollars | Maturity date |
|---|---|---|---|---|---|
| Loan | ZAO AB Gazprombank | USD | 1,107,542 | 1,107,542 | January 2017 |
| Convertible bonds | - | USD | 412,500 | 412,500 | February 2015 |
| Loan | OAO Alfa-bank | RUR | 10,200,000 | 334,680 | November 2016 |
| Credit facility | Sberbank of the Russian Federation | RUR | 10,000,000 | 328,117 | September 2015 |
| Bonds | - | USD | 186,700 | 186,700 | July 2011 |
| Bonds | - | RUR | 5,000,000 | 164,059 | February 2011 |
| Bonds | - | RUR | 5,000,000 | 164,059 | October 2013 |
| Credit facility | Sberbank of the Russian Federation | RUR | 5,000,000 | 164,059 | July 2016 |
| Credit facility | Sberbank of the Russian Federation | RUR | 4,000,000 | 131,247 | June 2015 |
| Credit facility | Sberbank of the Russian Federation | RUR | 3,680,000 | 120,747 | September 2012 |
| Loan | Wells Fargo Capital Finance | USD | 96,706 | 96,706 | December 2014 |
| | | | | **3,210,416** | |
| Other borrowings | | | | 621,660 | |
| **Total borrowings** | | | | **3,832,076** | |

In January 2011, TMK partially repaid U.S.$1,108 million Gazprombank loan facilities using proceeds from the issuance of 2,500 loan participation notes in the amount of U.S$500 million.

In February 2011, TMK entered into new credit line agreements with Gazprombank for the amount of RUB 12,000 million with a maturity in 2014 for refinancing of maturing Russian bonds and certain other credit facilities.

**Russian Bond Issuances**

On 21 February 2006, TMK issued non-convertible interest-bearing bonds in the aggregate principle amount of RUB 5,000 million due on 15 February 2011. In February 2010, a buy-back option on the outstanding bonds has expired and the full bond issue was left outstanding. As of 31 December 2010, an aggregate of RUB 5,000 million remained outstanding under the bond series. On 15 February 2011, the bonds were fully redeemed.

In December 2009, TMK established a Russian bond programme in the total amount of RUB 30,000 million registered at MICEX on 30 December 2009. Under the programme, TMK may issue bonds in four tranches, each with a three-year maturity, with two tranches in the amount of RUB 5,000 million each and two tranches in the amount of RUB 10,000 million each. On 26 October 2010, TMK placed the first tranche of the bonds in the aggregate amount of RUB 5,000 million due on 22 October 2013. As of 31 December 2010, an aggregate of RUB 5,000 million remained outstanding under the bond series. TMK has made no decision with respect to the timing of issue of the remaining bond series under the programme.

**Eurobonds**

On 29 July 2008, TMK completed an offering of U.S.$600 million 10% loan participation notes due July, 2011. The notes have been admitted to trading on the London Stock Exchange. The proceeds of the notes were used to partially repay a U.S.$1,200 million syndicated bridge loan for the TMK IPSCO acquisition. In July 2009, TMK redeemed notes with a par value of U.S.$413 million using the proceeds of the August 2009 OAO Bank VTB facility. As of 31 December 2010, the aggregate principal amount of outstanding notes was U.S.$187 million.

**Convertible Bonds**

On 11 February 2010, TMK completed an offering of U.S.$413 million 5.25% convertible bonds due in February 2015. As of 31 December 2010, the carrying value of the bond liability component and the liability under the embedded conversion option were U.S.$378 million and U.S.$48 million, respectively. There were no conversions of these bonds. See "Issuance of Convertible Eurobonds".

## Capital Expenditures

The following table provides information on TMK's capital expenditures in each segment for the twelve-month periods ended 31 December:

| | 2010 | 2009 | Change | Change |
|---|---|---|---|---|
| | in millions of U.S. dollars | | in millions of U.S. dollars | in % |
| Russia | 229 | 371 | (142) | (38)% |
| America | 36 | 27 | 9 | 33% |
| Europe | 5 | 14 | (9) | (64)% |
| **TOTAL CAPITAL EXPENDITURES[12]** | **270** | **412** | **(142)** | **(34)%** |

Given the difficult financial and economic situation that began in late 2008, TMK adjusted its strategic capital expenditure programme for the period from 2004 to 2011 and, accordingly, put on hold certain spending under the programme. Consequently, in 2010, TMK's capital expenditures decreased by 34% as compared to 2009.

Throughout the year, TMK completed a modernisation of a continuous casting machine as well as a seamless rolling mill (MPM) at the Volzhsky plant. As a result, production of seamless pipe at the Volzhsky plant increased by 210,000 tonnes.

In 2010, TMK successfully commissioned a degassing mill and on-going construction of an EAF at TAGMET.

TMK IPSCO opened new facilities in 2010 which carried out premium threading in Brookfield and Catoosa, USA. The new production facilities strengthened TMK IPSCO market position in the premium products segment.

In 2010, TMK implemented environmental protection projects focused on reducing atmospheric emissions at TMK-ARTROM and TMK-RESITA. As a result, these production facilities managed to comply with strict environmental legislation in the European Union.

## Development Trends

TMK expects the demand for pipe products to remain strong during 2011 driven by high oil prices and continuing economic recovery.

Russian oil companies continue to increase exploration and production (E&P) expenditures in order to sustain the oil production volumes at maturing oil fields. Given the current level of oil price, the Company expects E&P budgets to further increase in 2011, which should result in a sustainable growth of OCTG and line pipe demand. The consumption of large diameter pipe in Russia reached high levels in 2010 and is expected to hold up in 2011 and further years, driven by construction of Gazprom's and Transneft's major pipelines.

Drilling activity in North America remains robust on the back of growing operations in shale gas and oil, as well as oil sands plays. The structure of drilling continues to shift from traditional operations to higher share of unconventional drilling, which results in a favorable product mix change. With current levels of rig count expected to be sustainable, the Company plans to further increase OCTG and line pipe shipments in North America in 2011. Overall, TMK expects to increase sales should current market trends continue to prevail.

To address significant raw material price increases observed since the beginning of 2011, the Company increased prices for pipe products in the first quarter of 2011. Although the Company has an ability to pass on the cost increase to customers in the medium term, the recent spike in ore and steel prices adversely affected the margins in the first quarter of 2011. The Company expects ore and steel prices to decline going into the second quarter of 2011 which should support the Company's margins for the remainder of the year.

[12] Capital expenditures are defined as additions to property, plant and equipment

## Selected financial data

Reconciliation of profit/(loss) before tax to Adjusted EBITDA to for the twelve-month periods ended:

| | 31 December 2010 | 30 June 2010 | 31 December 2009 | 30 June 2009 | 31 December 2008 |
|---|---|---|---|---|---|
| | in millions of U.S. dollars | | | | |
| Profit (loss) before tax | 185 | (59) | (427) | (198) | 308 |
| Depreciation and amortisation | 301 | 313 | 313 | 308 | 248 |
| Finance costs/(income), net | 412 | 414 | 404 | 365 | 264 |
| Impairment of assets | - | 10 | 47 | 112 | 87 |
| Loss/(gain)on changes in fair value of derivative financial | 12 | (32) | - | - | - |
| Foreign exchange (gain)/loss, net | (10) | (40) | (14) | 127 | 100 |
| Loss on disposal of property, plant and equipment | 10 | 10 | 4 | 3 | 2 |
| Movement in provisions | 32 | (18) | 3 | 60 | 36 |
| Other non-cash items | - | (1) | (2) | (1) | 2 |
| **Adjusted EBITDA** | **942** | **597** | **328** | **776** | **1,047** |

Net debt has been calculated as of:

| | 31 December 2010 | 30 June 2010 | 31 December 2009 | 30 June 2009 | 31 December 2008 |
|---|---|---|---|---|---|
| | in millions of U.S. dollars | | | | |
| Short-term loans and borrowings | 702 | 829 | 1,538 | 1,969 | 2,217 |
| Long-term loans and borrowings | 3,170 | 2,815 | 2,214 | 1,682 | 994 |
| **TOTAL DEBT** | **3,872** | **3,644** | **3,752** | **3,651** | **3,211** |
| Net of: | | | | | |
| Cash and short-term financial investments | (161) | (89) | (248) | (90) | (147) |
| **NET DEBT** | **3,711** | **3,555** | **3,504** | **3,561** | **3,064** |

## 9.1. Principal risks and uncertainties

### Industry risks

**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 TMK sales, in particular sales of OCTG, line pipes and large diameter welded pipes. In 2010, sales volumes of pipes used in oil and gas industry (mainly OCTG, line pipes and large diameter pipes) accounted for approximately 75% of the Company's produced tubular products. The oil and gas industry has historically been volatile and downturns in the oil and gas markets can adversely affect demand for our products which largely depends on the number of oil and gas wells being drilled, completed and reworked, the depth and drilling conditions of wells and on the construction of oil and gas pipelines. The level of such industry specific activities in turn depends on the level of capital spending by major oil and gas companies. The level of investment activities of oil and gas companies, which are 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 oil and natural gas prices energy companies could reduce their levels of expenditures. As a result, the demand for oil and gas pipes can substantially decrease, which also leads to tightening of competition and a possible decrease 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 the Company's results of operations and financial position.

**Increases in the cost of raw materials**

The Company requires substantial quantities of raw materials to produce steel pipes. The principal raw materials used in production processes include scrap, pig iron, 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 is generally correlated with macroeconomic fluctuations, which are in turn affected by global economic conditions.

In 2010, the costs of raw materials and consumables accounted for 68% of total cost of production. The prices for raw materials and supplies are one of the main factors affecting TMK results of operations. These prices are influenced by many factors, including oil and gas prices, worldwide production capacity, capacity utilisation rates, inflation, exchange rates, trade barriers and improvements in steelmaking processes. After a considerable decline in prices on the back of decreased demand in 2009, prices for principal raw materials increased during 2010 as compared to 2009 with the return of market demand. Prices for certain types of raw materials and supplies varied depending on the region. In 2010 at Russian division, the average purchase cost of metal scrap increased by 16%, average price for coils increased by 28% and the average purchase price for pig iron increased by 57% as compared to 2009. The average purchase cost of metal scrap and coils at American division increased by 59% and 28%, respectively, as compared to 2009. Average purchase costs for metal scrap at European division were higher by 53% in 2010 than those in 2009. As a result of both increases in prices for raw materials and increased sales volumes, our costs of raw materials and consumables increased from U.S.$1,660 million in 2009 to U.S.$2,972 in 2010.

The price for raw materials continue to have a key influence on the production costs of the Company. The increase in prices for scrap, coils and other raw materials, if not passed on to customers in a timely fashion, can adversely affect TMK profit margins and results of operations.

TMK plants also consume significant quantities of energy, particularly electricity and gas. In 2010, energy costs amounted to 8% of the cost of production. The Russian electricity market was further liberalised in 2010, which resulted in an increase in electricity tariffs. Average natural gas tariffs in Russia, although remaining significantly below Western European levels, also increased in 2010. At the same time, natural gas consumption has been decreasing recently as the Company has replaced most of open hearth furnaces with EAFs. Further price increases for energy resources will increase TMK costs of production and could have an adverse effect on results of operations and financial results.

**Dependence on a small group of customers**

As the Company focuses on supplying the oil and gas industry, TMK largest customers are oil and gas companies. In 2010, our five largest customers were Gazprom (excluding Gazprom Neft), Transneft, Rosneft, Surgutneftegas and TNK BP, which together accounted for 32% of total pipe sales. A high proportion of sales to a limited number of companies indicates a strong business relationship with key customers, and the Company expects this concentration of customers in Russia to continue for the foreseeable future. Nevertheless, the increased dependence of pipe sales on a single large customer bears the risk of an adverse effect on TMK results of operations in the event that our relationship with any of these major customers deteriorated. In the United States, TMK IPSCO cooperates with a wide range of distributors in North America, each of whose share in total TMK sales is not significant.

TMK large diameter welded pipe business is largely dependent on one of our largest customers, Gazprom, and is subject to increasing competitive pressures. Gazprom is one of the Company's largest customers for 1,420 mm diameter welded pipes used for construction of gas trunk pipelines. Increased competition in the supply of large-diameter pipes or a change in relationships with Gazprom could negatively affect TMK competitive position in the 1,420 mm diameter pipe market, resulting in decreased revenues from sales of these products and adversely affecting the Company's business, financial position and results of operations. 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 TMK sales of large diameter welded pipes, and thus on the Company's results of operations and financial position.

**Competition**

The global market for steel pipe products, 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, TMK faces competition primarily from ChTPZ, which produces both welded and seamless pipes, OMK, which produces welded pipes, and Ukrainian pipe producers. Outside Russia and the CIS, we compete against a limited number of producers of premium-quality principally seamless steel pipe products, including Tenaris, Vallourec, Sumitomo and a limited number of Chinese producers, including Baosteel and TPCO. In the United States, TMK IPSCO faces competition primarily from Tenaris, U.S. Steel and V&M Star, a subsidiary of Vallourec, as well as from imported OCTG and line pipe products, principally from Asia, Canada and Mexico. In 2010, several TMK key competitors added new capacities and started their ramp-up, which is expected to increase competition we face in the market for large-diameter welded pipes in Russian and CIS and in the international seamless pipe markets.

## Financial risks

**Liquidity risk**

As a result of borrowings undertaken for the acquisition of TMK IPSCO in 2008, as well as a result of continued large-scale capital expenditure program, TMK leverage remains significant. As at 31 December 2010, the Company's total debt amounted to U.S.$3,872 million as compared to U.S.$3,752 million at the end of 2009. The increase of total debt in 2010 was primarily attributable to the fact that TMK had to significantly increase working capital to meet a recovery in market demand for pipe products and finance certain capital expenditure projects. Together with the improvement of operating performance in 2010, the Company's leverage levels continued to decrease. TMK Net-Debt-to-EBITDA ratio reduced to 3.9 as at 31 December 2010, as compared to historical highs of 6.0 and 10.7 as of 30 June 2010 and 31 December 2009, respectively.

In 2010, TMK continued to concentrate on improving its liquidity profile and optimising financial performance. The Company negotiated extensions of credit terms and lower interest rates in order to improve overall debt maturity profile. The actions relating to the loan portfolio allowed TMK to further decrease its ratio of short-term debt relative to long-term debt, which stood at 18% as of 31 December 2010 as compared to 41% at the end of 2009.

Improving liquidity profile remains one of the Company's priorities, and TMK continues to carry out measures to maintain sufficient liquidity and improve loan portfolio structure. Thus, in January 2011 TMK issued 7.75% U.S.$500 million Eurobonds due 2018. Nevertheless, there can be no assurance that the Company's efforts to improve liquidity profile and reduce leverage will prove successful. The negative market reaction on deteriorating global financial situation may have an adverse impact on TMK ability to borrow in the bank or capital markets, and may put pressure on the Company's liquidity, increase borrowing costs, temporary reduce the availability of credit lines and lead to unavailability of financing on acceptable terms.

**Compliance with covenants**

Certain of the Company's loan agreements and public debt securities currently include financial covenants. For example, some covenants are set in relation to leverage, total indebtedness and tangible net worth, and impose financial ratios that must be maintained. Other covenants impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness. 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 TMK obligations.

In order to be in compliance with covenants the Company previously obtained necessary waivers of financial covenants from the relevant lenders and reset the level of the certain financial covenants for 2010. In January 2010 and 2011, TMK also undertook two consent solicitations in relation to loan participation notes due 2011 issued by TMK Capital S.A. to modify certain covenants under the notes and further enhance the Company's flexibility to implement refinancing plan.

Nevertheless, in case financial markets deteriorate in the future, TMK may not comply with relevant covenants. Though, historically, TMK has successfully secured from the relevant lenders all necessary waivers or standstill letters to address possible breaches of financial covenants, the Company may not be able to secure such necessary waivers or standstill letters during future reporting periods if not in compliance with financial covenants. TMK does not expect the occurrence of such events in the near future.

**Interest rate risk**

Interest expenses are the prevailing part of the Company's finance costs. In 2010, in spite of a certain increase of total debt, TMK finance costs decreased by 4% or U.S.$16 million and amounted to U.S.$431 million, as compared to U.S.$447 million in 2009. The decrease in nominal interest expense, net of transaction and issue costs, was more considerable and achieved primarily due to lower interest rates as a result of the Company's negotiations to reduce interest rates on most of significant borrowings as part of the measures to improve the structure of our loan portfolio. As a result, TMK weighted average nominal interest rate as at 31 December 2010 decreased by 286 basis points as compared to 31 December 2009. Although TMK currently benefits from relatively low interest rates, there can be no assurance that rates will stay on their low levels in the future. The cost of funding for Russian and international banks may increase in the future, which can increase TMK interest expense and adversely affect the Company's financial position.

Additionally, certain part of TMK loan portfolio is represented by loans taken out at floating interest rates. As of 31 December 2010, loans with floating interest rates represented U.S.$292 million or 8% of the total TMK credit portfolio. The underlying rates in current loans with floating interest rates are LIBOR and EURIBOR. In 2010, floating interest rates remained close to their historical lows, which kept the Company's interest expense on the relevant loans low. Taking into account the insignificant share of floating rate loans, TMK considers relevant interest risk negligible and, at present, does not use derivative instruments to hedge such interest rate risks. Nevertheless, should floating interest rates increase in the future, the Company's interest expenses on relevant loans will increase.

**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 Company's direct costs, including raw materials, labour and transportation costs, are largely incurred in roubles, and, with the acquisition of TMK IPSCO, in U.S. dollars. Other costs, such as interest expense, are currently incurred largely in U.S. dollars and roubles, and capital expenditures are incurred principally in roubles, euros and U.S. dollars.

TMK hedges its net investment in operations located in the Unites States against foreign currency risks using US dollar denominated liabilities. Gains or losses on the hedging instruments 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. In 2010 TMK incurred gains from spot rate changes in the amount of U.S.$0.7 million, including gains in the amount of U.S.$9.5 million recognised in the income statement and losses in the amount of U.S.$8.8 million recognised in the statement of comprehensive income. Gains in the income statement were primarily attributable to the fact that in 2010 the euro exchange rate decreased and the income arose from euro denominated loans. Such gains were partially compensated by the losses from non-hedged part of U.S. denominated loans. Losses in the statement of comprehensive income from foreign exchange difference relating to hedged financial instruments arose from the revaluation of dollar denominated loans attracted by Russian companies of the Group.

Though the rouble has recovered somewhat from its lows, it remains volatile. TMK debt is currently largely denominated in U.S. dollars, and the possible devaluation of the ruble against the dollar in the future could result in foreign exchange losses. To mitigate this risk, during 2010 TMK refinanced certain existing U.S. denominated loans with a series of loans taken in roubles. As a result, the share of U.S. denominated loans in the loan portfolio as of 31 December 2010 was decreased to 51% as compared to 61% at the end of 2009.

Nevertheless, if U.S. dollar appreciates against rouble in the future, this could adversely affect the Company's net profit.

**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 2010, inflation rate in Russia reached 8.8% and generally corresponded with 2009 rate. In spite of the intention of the Russian government to decrease inflation rates in the coming years, inflation may increase in the future. 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. In 2010, U.S. inflation reached 1.5%. Accordingly, high rates of inflation, especially in Russia, could increase TMK costs, decrease operating margins and materially adversely affect the Company's business and financial position.

## 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 financial results. 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 generally 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 operating results.

In 2010 the Russian government returned to the system of separate contributions by employers to the state pension, medical insurance and social insurance funds, which are payable in connection with employee salaries. Starting on 1 January 2011, the applicable rate for social contributions increased from 26% to 34%. As a result of these changes, from 2011 the total costs of social contributions for TMK in Russia are expected to increase.

In 2010, Russia recorded a federal budget deficit, and according to Russia's Finance Ministry forecasts the budget will remain deficit in 2011, in spite of cuttings and improvements in the effectiveness of budget spending. Should the Russian government increase tax burden on corporate sector to finance the budget deficit, the Company can be subject to higher tax payments in the future, which may adversely affect TMK financial results.

In addition, the Russian oil industry is subject to substantial taxes, including significant resources production taxes and significant export customs duties. 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 TMK products sold in Russia.

**Changes in environmental law**

TMK meets 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 the Company 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, pay fees and fines or make other payments if not in compliance with new environmental laws and regulations. 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 or unforeseen environmental liabilities, 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 stringent U.S. laws on the environment. The environmental protection regime in the United States is more onerous than what TMK faces with respect to operations in Russia and other countries and compliance with these U.S. laws may expose the Company to additional costs. 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. 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 the Company does 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**

TMK 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 steelmaking and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of 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. Any interruption in production capability may require TMK to make significant and unanticipated capital expenditures to affect relevant repairs, which could have a negative effect on the Company's profitability and cash flows. TMK currently maintains insurance against losses that may arise in case of property damage, accidents and transportation of goods. 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.

**Insurance against all potential risks and losses**

TMK does not carry insurance against all potential risks 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 currently maintains no business interruption insurance. Losses or liabilities arising from these or other 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 labor**

TMK 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 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.

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. TMK expects 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 the Company's 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.

# Consolidated Financial Statements

Samotlor field in-place reserves

**7.1 billion tonnes**

TMK is working with TNK-BP under a strategic partnership to supply OCTG pipes. This unprecedented agreement is the largest such contract in the history of collaboration between Russian pipe producers and the oil and gas industry.

# 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 2010, 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 consolidated financial statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

Ernst & Young LLC
March 31, 2011
Moscow, Russia

## Contents

## Consolidated Income Statement for the year ended December 31, 2010

(All amounts in thousands of US dollars)

| | NOTES | Year ended December 31, 2010 | 2009 |
|---|---|---|---|
| Revenue: | 1 | 5,578,599 | 3,460,997 |
| Sales of goods | | 5,421,084 | 3,393,303 |
| Rendering of services | | 157,515 | 67,694 |
| Cost of sales | 2 | (4,285,349) | (2,904,597) |
| **Gross profit** | | **1,293,250** | **556,400** |
| Selling and distribution expenses | 3 | (403,143) | (312,551) |
| Advertising and promotion expenses | 4 | (11,099) | (4,579) |
| General and administrative expenses | 5 | (231,975) | (203,748) |
| Research and development expenses | 6 | (13,309) | (10,214) |
| Other operating expenses | 7 | (44,978) | (33,157) |
| Other operating income | 9 | 11,042 | 16,006 |
| Impairment of goodwill | 20 | - | (10,053) |
| Impairment of property, plant and equipment | 19 | - | (37,276) |
| Foreign exchange gain, net | | 9,512 | 14,233 |
| Finance costs | | (430,586) | (446,875) |
| Finance income | 10 | 18,895 | 43,264 |
| Loss on changes in fair value of derivative financial instrument | 25 | (12,361) | - |
| Share of profit in associate | 8 | - | 1,416 |
| Gain on disposal of associate | 8 | - | 379 |
| **Profit/(loss) before tax** | | **185,248** | **(426,755)** |
| Income tax (expense)/benefit | 12 | (81,174) | 103,010 |
| **Profit/(loss) for the year** | | **104,074** | **(323,745)** |
| **Attributable to:** | | | |
| Equity holders of the parent entity | | 104,334 | (315,726) |
| Non-controlling interests | | (260) | (8,019) |
| | | **104,074** | **(323,745)** |
| **Earnings/(loss) per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)** | 13 | **0.12** | **(0.36)** |

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

## Consolidated Statement of Comprehensive Income for the year ended December 31, 2010

(All amounts in thousands of US dollars)

| | NOTES | 2010 | 2009 |
|---|---|---|---|
| **Profit/(loss) for the year** | | **104,074** | **(323,745)** |
| Exchange differences on translation to presentation currency [a] | | (12,547) | 60,200 |
| Foreign currency loss on hedged net investment in foreign operation [b] | 30 (xi) | (8,847) | (124,077) |
| Income tax [b] | 30 (xi) | 1,769 | 7,698 |
| | | **(7,078)** | **(116,379)** |
| Net unrealised gain on available-for-sale investments | | - | 312 |
| Income tax | | - | (62) |
| | | - | 250 |
| Reclassification of the net gains on available-for-sale investments to the income statement | | - | (312) |
| Income tax | | - | 62 |
| | | - | (250) |
| **Other comprehensive loss for the year, net of tax** | | **(19,625)** | **(56,179)** |
| **Total comprehensive income/(loss) for the year, net of tax** | | **84,449** | **(379,924)** |
| **Attributable to:** | | | |
| Equity holders of the parent entity | | 85,929 | (368,319) |
| Non-controlling interests | | (1,480) | (11,605) |
| | | **84,449** | **(379,924)** |

(a) The amount of exchange differences on translation to presentation currency represents other comprehensive loss of 11,327 (2009: income 63,786) attributable to equity holders of the parent entity and other comprehensive loss of 1,220 (2009: loss 3,586) attributable to non-controlling 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, 2010

(All amounts in thousands of US dollars)

| | NOTES | 2010 | | 2009 | |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 14, 28 | 157,524 | | 243,756 | |
| Financial investments | | 3,966 | | 4,075 | |
| Trade and other receivables | 15 | 716,897 | | 578,956 | |
| Accounts receivable from related parties | 28 | 3,395 | | 1,240 | |
| Inventories | 18 | 1,207,540 | | 926,394 | |
| Prepayments and input VAT | 16 | 154,302 | | 176,489 | |
| Prepaid income taxes | | 18,099 | 2,261,723 | 46,104 | 1,977,014 |
| Assets classified as held for sale | 21 | 8,003 | **2,269,726** | - | **1,977,014** |
| **Non-current assets** | | | | | |
| Intangible assets | 20 | 474,791 | | 558,359 | |
| Accounts receivable from related parties | 28 | - | | 68 | |
| Property, plant and equipment | 19 | 3,386,660 | | 3,402,680 | |
| Goodwill | 20 | 554,353 | | 555,462 | |
| Deferred tax asset | 12 | 135,307 | | 135,652 | |
| Other non-current assets | 17 | 40,697 | 4,591,808 | 51,874 | 4,704,095 |
| **TOTAL ASSETS** | | | **6,861,534** | | **6,681,109** |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 22 | 732,733 | | 709,480 | |
| Advances from customers | | 136,885 | | 325,549 | |
| Accounts payable to related parties | 28 | 8,434 | | 21,772 | |
| Provisions and accruals | 23 | 42,153 | | 18,740 | |
| Interest-bearing loans and borrowings | 24, 25 | 701,864 | | 1,537,382 | |
| Derivative financial instrument | 25 | 47,816 | | - | |
| Dividends payable | | 430 | | 469 | |
| Income tax payable | | 3,846 | 1,674,161 | 8,596 | 2,621,988 |
| Liabilities directly associated with the assets classified as held for sale | 21 | 143 | **1,674,304** | - | **2,621,988** |

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

## Consolidated Statement of Financial Position as at December 31, 2010 (continued)

(All amounts in thousands of US dollars)

| | NOTES | 2010 | | 2009 | |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Interest-bearing loans and borrowings | 24, 25 | 3,169,714 | | 2,214,168 | |
| Deferred tax liability | 12 | 300,484 | | 271,664 | |
| Provisions and accruals | 23 | 24,096 | | 21,851 | |
| Employee benefit liability | 26 | 24,009 | | 18,441 | |
| Other liabilities | | 32,020 | 3,550,323 | 13,701 | 2,539,825 |
| **Total liabilities** | | | **5,224,627** | | **5,161,813** |
| **Equity** | 30 | | | | |
| Parent shareholders' equity | | | | | |
| Issued capital | | 326,417 | | 305,407 | |
| Treasury shares | | (318,351) | | (37,378) | |
| Additional paid-in capital | | 362,898 | | 104,003 | |
| Reserve capital | | 15,387 | | 15,387 | |
| Retained earnings | | 1,122,771 | | 1,019,322 | |
| Foreign currency translation reserve | | 18,276 | 1,527,398 | 36,681 | 1,443,422 |
| Non-controlling interests | | | 109,509 | | 75,874 |
| **Total equity** | | | **1,636,907** | | **1,519,296** |
| **TOTAL EQUITY AND LIABILITIES** | | | **6,861,534** | | **6,681,109** |

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

## Consolidated Statement of Changes in Equity for the year ended December 31, 2010

(All amounts in thousands of US dollars)

| | Attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital | Treasury shares | Additional paid-in capital | Reserve capital | Retained earnings | Foreign currency translation reserve | Total | Non-controlling interests | TOTAL |
| **At January 1, 2010** | **305,407** | **(37,378)** | **104,003** | **15,387** | **1,019,322** | **36,681** | **1,443,422** | **75,874** | **1,519,296** |
| Profit/(loss) for the year | - | - | - | - | 104,334 | - | **104,334** | (260) | **104,074** |
| Other comprehensive income/(loss), net of tax | - | - | - | - | - | (18,405) | **(18,405)** | (1,220) | **(19,625)** |
| **Total comprehensive income/(loss), net of tax** | - | - | - | - | **104,334** | **(18,405)** | **85,929** | **(1,480)** | **84,449** |
| Issue of share capital (Note 30 i) | 21,010 | - | 258,417 | - | - | - | **279,427** | - | **279,427** |
| Purchase of treasury shares (Note 30 xii) | - | (280,973) | - | - | - | - | **(280,973)** | - | **(280,973)** |
| Dividends by subsidiaries of the Group to the non-controlling interest owners in subsidiaries (Note 30 vii) | - | - | - | - | - | - | **-** | (8) | **(8)** |
| Sale of non-controlling interests (Note 30 v) | - | - | - | - | (741) | - | **(741)** | 13,587 | **12,846** |
| Contributions from non-controlling interest owners (Note 30 vi) | - | - | - | - | - | - | **-** | 23,124 | **23,124** |
| Acquisition of non-controlling interests (Note 30 iv) | - | - | 478 | - | (144) | - | **334** | (1,588) | **(1,254)** |
| **At December 31, 2010** | **326,417** | **(318,351)** | **362,898** | **15,387** | **1,122,771** | **18,276** | **1,527,398** | **109,509** | **1,636,907** |

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

## Consolidated Statement of Changes in Equity for the year ended December 31, 2010 (continued)

(All amounts in thousands of US dollars)

| | Attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital | Treasury shares | Additional paid-in capital | Reserve capital | Retained earnings | Foreign currency translation reserve | Total | Non-controlling interests | TOTAL |
| **At January 1, 2009** | **305,407** | **(37,827)** | **97,915** | **15,387** | **1,343,255** | **89,274** | **1,813,411** | **97,011** | **1,910,422** |
| Loss for the year | - | - | - | - | (315,726) | - | **(315,726)** | (8,019) | **(323,745)** |
| Other comprehensive income/ (loss), net of tax | - | - | - | - | - | (52,593) | **(52,593)** | (3,586) | **(56,179)** |
| **Total comprehensive income/ (loss), net of tax** | **-** | **-** | **-** | **-** | **(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 30 xii) | - | (89) | - | - | - | - | **(89)** | - | **(89)** |
| Purchase of treasury shares (Note 30 xii) | - | (221) | - | - | - | - | **(221)** | - | **(221)** |
| Sale of treasury shares (Note 30 xii) | - | 759 | - | - | - | - | **759** | - | **759** |
| Expiration of warrants (Note 30 x) | - | - | 5,590 | - | (5,590) | - | **-** | - | **-** |
| Dividends by subsidiaries of the Group to the non-controlling interest owners in subsidiaries (Note 30 vii) | - | - | - | - | - | - | **-** | (2,302) | **(2,302)** |
| Acquisition of non-controlling interests (Note 30 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 Cash Flows for the year ended December 31, 2010

(All amounts in thousands of US dollars)

| | NOTES | Year ended December 31, 2010 | 2009 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) before tax | | 185,248 | (426,755) |
| Adjustment to reconcile profit before tax to net cash flows | | | |
| **Non-cash:** | | | |
| Depreciation of property, plant and equipment | | 215,416 | 205,288 |
| Amortisation of intangible assets | 20 | 85,199 | 107,798 |
| Loss on disposal of property, plant and equipment | 7 | 10,195 | 3,959 |
| Impairment of goodwill | 20 | - | 10,053 |
| Impairment of property, plant and equipment | 19 | - | 37,276 |
| Foreign exchange gain, net | | (9,512) | (14,233) |
| Finance costs | | 430,586 | 446,875 |
| Finance income | 10 | (18,895) | (41,276) |
| Gain on disposal of available-for-sale investments | 10 | - | (1,988) |
| Loss on changes in fair value of derivative financial instrument | 25 | 12,361 | - |
| Share of profit in associate | 8 | - | (1,416) |
| Gain on disposal of associate | 8 | - | (379) |
| Allowance for net realisable value of inventory | 18 | (4,818) | (4,559) |
| Allowance for doubtful debts | 31 | 5,420 | 4,219 |
| Movement in other provisions | | 31,115 | 3,232 |
| **Operating cash flow before working capital changes** | | **942,315** | **328,094** |
| **Working capital changes:** | | | |
| (Increase)/decrease in inventories | | (277,508) | 226,912 |
| (Increase)/decrease in trade and other receivables | | (148,208) | 183,001 |
| Decrease in prepayments | | 21,095 | 5,152 |
| Increase/(decrease) in trade and other payables | | 90,862 | (77,213) |
| Increase/(decrease) in advances from customers | | (213,250) | 219,747 |
| **Cash generated from operations** | | **415,306** | **885,693** |
| Income taxes paid | | (28,987) | (33,387) |
| **Net cash flows from operating activities** | | **386,319** | **852,306** |

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

## Consolidated Statement of Cash Flows for the year ended December 31, 2010 (continued)

(All amounts in thousands of US dollars)

| | NOTES | Year ended December 31, 2010 | 2009 |
|---|---|---|---|
| **Investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | | (314,096) | (395,318) |
| Proceeds from sale of property, plant and equipment | | 386 | 1,323 |
| Proceeds from disposal of subsidiaries | 21 | 26,027 | - |
| Sale of available-for-sale investments | | - | 8,177 |
| Disposal of associate | | - | 785 |
| Acquisition of subsidiaries, net of cash acquired | | - | (509,714) |
| Issuance of loans | | (968) | (1,833) |
| Proceeds from repayment of loans issued | | 1,277 | 991 |
| Interest received | | 2,120 | 2,013 |
| Dividends received | | 14,092 | - |
| Dividends received from associate | | - | 2,676 |
| **Net cash flows used in investing activities** | | **(271,162)** | **(890,900)** |
| **Financing activities** | | | |
| Purchase of treasury shares | 30 (xii) | (280,973) | (310) |
| Proceeds from sales of treasury shares | 30 (xii) | - | 759 |
| Proceeds from issue of share capital | 30 (i) | 279,427 | - |
| Proceeds from borrowings | | 3,097,306 | 4,190,093 |
| Repayment of borrowings | | (2,994,735) | (3,608,268) |
| Interest paid | | (342,743) | (444,111) |
| Reimbursement of interest paid | | 3,905 | 10,498 |
| Payment of finance lease liabilities | | (2,822) | (2,809) |
| Acquisition of non-controlling interest | | (1,085) | (8,961) |
| Proceeds from sale of non-controlling interests | 30 (v) | 32,939 | - |
| Contributions from non-controlling interest owners | 30 (vi) | 23,124 | 46 |
| Dividends paid to non-controlling interest shareholders | | (599) | (2,069) |
| **Net cash flows from financing activities** | | **(186,256)** | **134,868** |
| Net (decrease)/increase in cash and cash equivalents | | (71,099) | 96,274 |
| Net foreign exchange difference | | (15,133) | 4,089 |
| Cash and cash equivalents at January 1 | | 243,756 | 143,393 |
| **Cash and cash equivalents at December 31** | | **157,524** | **243,756** |

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

**Notes to the Consolidated Financial Statements for the year ended December 31, 2010**
(All amounts are in thousands of US dollars, unless specified otherwise)

### Corporate Information

These consolidated financial statements of OAO TMK and its subsidiaries (the «Group») for the year ended December 31, 2010 were authorised for issue in accordance with a resolution of the General Director on March 30, 2011.

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

As at December 31, 2010, the Company's controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D. A. Pumpyanskiy.

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

### Basis of Preparation of the Financial Statements

#### Statement of Compliance

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

#### Basis of Accounting

Group companies maintain their accounting records in their local currency and prepare their statutory financial statements in accordance with the regulations on accounting and reporting of the country in which the particular subsidiary is resident. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in compliance with IFRS. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) use of fair values, (6) business combinations and (7) translation to the presentation currency.

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

#### Functional and Presentation Currency

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

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

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the 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 hedges of net investment in foreign operations. 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.

The Group hedges its net investment in operations located in the Unites States against foreign currency risks using US dollar denominated liabilities. Gains or losses on the hedging instruments 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 a component of other comprehensive income is transferred to the income statement.

### 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:

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

## Significant Estimates and Assumptions (continued)

### 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 2010, no impairment losses were recognised in respect of property, plant and equipment. In 2009, the Group recognised impairment losses of 37,276 in respect of property, plant and equipment (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 2010.

### 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.

### 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, 2010 was 554,353 (2009: 555,462). In 2010, no impairment losses were recognised in respect of goodwill (Note 20) (2009: 10,053).

### 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 26).

### 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, 2010 and 2009, allowances for doubtful accounts have been made in the amount of 17,947 and 15,172, respectively (Notes 15, 17, 31).

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

## Notes to the Consolidated Financial Statements (continued)

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

### Significant Estimates and Assumptions (continued)

Allowances (continued)

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, 2010 and 2009, allowances for net realisable value of inventory were 17,112 and 22,133, respectively (Note 18).

Litigations

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. Furthermore, 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, 2010, 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 29).

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 are 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 30 ix.

**Significant Judgments**

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

Consolidation of Special Purpose Entities

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 to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

**Significant Judgments (continued)**
Consolidation of Special Purpose Entities (continued)
notes due September 2009 and July 2011 respectively to provide financing to the Group's companies (Note 24).

The Group determined that the substance of the relationship between the Group and TMK Bonds, a special purpose entity, indicates that the Group controls TMK Bonds. In February 2010, TMK Bonds completed the offering of convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK to provide financing to the Group's companies (Note 25).

**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, 2010:

- IFRS 2 Share-based Payment (amended);
- IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (amended);
- IAS 39 Financial Instruments: Recognition and Measurement (amended);
- IFRIC 17 Distribution of Non-cash Assets to Owners;
- Improvements to IFRSs (April 2009)

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

IFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions
The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

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

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

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

IAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items The amendment clarifies that the entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position or performance of the Group.

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

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

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

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

## Changes in Accounting Policies (continued)

### Reclassifications

Certain corresponding information, presented in the consolidated financial statements for the year ended December 31, 2009 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 intends to adopt these standards when they become effective.

IAS 12 Income Taxes (amended) — Deferred Tax: Recovery of Underlying Assets (effective for financial years beginning on or after January 1, 2012)

The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application.

IAS 24 Related Party Disclosures (revised) (effective for financial years beginning on or after January 1, 2011)

The revision clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application, introduces a partial exemption of disclosure requirements for government — related entities. The Group does not expect a significant impact of the revised standard on its results of operations and financial position in the period of initial application.

IAS 32 Financial Instruments: Presentation (amended) — Classification of Rights Issues (effective for financial years beginning on or after February 1, 2010)

The amendment alters the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application.

IFRS 7 Financial Instruments: Disclosures (amended) — Disclosures — Transfers of Financial Assets (effective for financial years beginning on or after July 1, 2011)

The International Accounting Standards Board has amended the required disclosures relating to transfers of financial assets. The objective of the amendments is to help users of financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application.

IFRS 9 Financial Instruments (effective for financial years beginning on or after January 1, 2013)

The standard as issued reflects the first phase of the International Accounting Standards Boards work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities. In subsequent phases, the International Accounting Standards Board will address impairment methodology and hedge accounting. The adoption of the first phrase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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. The amendment is deemed to have no impact on the financial statement of the Group.

**Notes to the Consolidated Financial Statements (continued)**

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

### Changes in Accounting Policies (continued)

New Accounting Pronouncements (continued)

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 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to recognise a prepayment of pension contributions as an asset rather than an expense. The amendment is deemed to have no impact on the financial statement of the Group.

Improvements to IFRSs (effective for financial years beginning on or after either July 1, 2010 or January 1, 2011)

In May 2010 the International Accounting Standards Board issued "Improvements to IFRSs", primarily with a view to removing inconsistencies and clarifying wording. These are separate transitional provisions for each standard. The document sets out amendments to International Financial Reporting Standards, which are mainly related to changes for presentation, recognition or management purposes terminology or editorial changes.

**Notes to the Consolidated Financial Statements (continued)**

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

## Significant Accounting Policies

### Index to Accounting Policies

Notes to the Consolidated Financial Statements (continued)
(All amounts are in thousands of US dollars, unless specified otherwise)

## Significant Accounting Policies

### A) Principles of Consolidation

Basis of Consolidation from January 1, 2010

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.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests at the end of reporting period represent the non-controlling interest shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the non-controlling interests' portion of movements in equity since the date of the combination. Non-controlling interest is presented within equity, separately from the parent's shareholders' equity.

Losses within subsidiary are attributed to the non-controlling interest even if that results in deficit balance.

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 non-controlling 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.

When the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of Consolidation prior to January 1, 2010

Certain of the above-mentioned requirements were applied on prospective basis. The following differences however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Acquisition of Subsidiaries: Business Combinations from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are included in administrative expenses in the periods in which the costs are incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

## Significant Accounting Policies (continued)

### A) Principles of Consolidation (continued)

Acquisition of Subsidiaries: Business Combinations from January 1, 2010 (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of Subsidiaries: Business Combinations prior to January 1, 2010

In comparison to the above-mentioned requirements, the following differences applied:

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Acquisition of Subsidiaries from Entities under Common Control

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

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

### B) Cash and Cash Equivalents

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

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

B) Cash and Cash Equivalents (continued)

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, revaluates 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.

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.

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.

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 at 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.

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 mea-

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

C) Investments and Other Financial Assets (continued)
surable 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.

**D) Trade Receivables**
Trade receivables, which generally are 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 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.

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 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.

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.

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

G) Property, Plant and Equipment (continued)
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 fulfilment 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 finance costs in the income statement.

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

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

**I) Goodwill**
Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is immediately recognised as profit.

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 associ-

Significant Accounting Policies (continued)

I) Goodwill (continued)

ated with the operation disposed of is included in the carrying amount of the operation when determining gain or loss on disposal of the operation.

**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.

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.

**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 fair value less costs to sell and the value in use.

Fair value less costs to sell 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 income statement 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

Significant Accounting Policies (continued)

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

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.

**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.

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

## Significant Accounting Policies (continued)

### O) Deferred Income Tax (continued)

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 be reversed in the near future.

### P) Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from 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.

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

## Index to the Notes to the Consolidated Financial Statements

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

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

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

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on adjusted EBITDA. Adjusted EBITDA represents net profit before depreciation and amortisation, finance costs and finance income, exchange rate fluctuations, impairment of non-current assets, income tax expenses and other non-cash items which comprise share of profit in associate, loss (gain) on disposal of property, plant and equipment, share-based payments, inventory and doubtful debts allowances and movement in other provisions and embedded financial instrument gain/loss, determined based on IFRS Financial Statements. Group financing (including finance costs and finance income) is managed on a group basis and is 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, 2010 and 2009, respectively.

| Year ended December 31, 2010 | Russia | Americas | Europe | TOTAL |
|---|---|---|---|---|
| Revenue | 3,997,737 | 1,324,380 | 256,482 | **5,578,599** |
| Cost of sales | (3,065,574) | (1,022,663) | (197,112) | **(4,285,349)** |
| **GROSS PROFIT** | **932,163** | **301,717** | **59,370** | **1,293,250** |
| Selling, general and administrative expenses | (470,495) | (152,734) | (36,297) | **(659,526)** |
| Other operating income/(expenses), net | (32,867) | 700 | (1,769) | **(33,936)** |
| **OPERATING PROFIT/(LOSS)** | **428,801** | **149,683** | **21,304** | **599,788** |
| **ADD BACK:** | | | | |
| Depreciation and amortisation | 172,647 | 119,928 | 8,040 | **300,615** |
| Loss/(gain) on disposal of property, plant and equipment | 9,650 | (26) | 571 | **10,195** |
| Allowance for net realisable value of inventory | (3,247) | (529) | (1,042) | **(4,818)** |
| Allowance for doubtful debts | 6,520 | (1,103) | 3 | **5,420** |
| Movement in other provisions | 18,346 | 12,603 | 166 | **31,115** |
| | **203,916** | **130,873** | **7,738** | **342,527** |
| **ADJUSTED EBITDA** | **632,717** | **280,556** | **29,042** | **942,315** |

**Notes to the Consolidated Financial Statements (continued)**

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

1) Segment Information (continued)

| Year ended December 31, 2010 | Russia | Americas | Europe | TOTAL |
|---|---|---|---|---|
| **RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:** | | | | |
| **ADJUSTED EBITDA** | **632,717** | **280,556** | **29,042** | **942,315** |
| Reversal of adjustments from operating profit to EBITDA | (203,916) | (130,873) | (7,738) | **(342,527)** |
| **OPERATING PROFIT/(LOSS)** | **428,801** | **149,683** | **21,304** | **599,788** |
| Foreign exchange gain/(loss), net | 19,391 | - | (9,879) | **9,512** |
| **OPERATING PROFIT/(LOSS) AFTER FOREIGN EXCHANGE GAINV(LOSS)** | **448,192** | **149,683** | **11,425** | **609,300** |
| Finance costs | | | | **(430,586)** |
| Finance income | | | | **18,895** |
| Loss on changes in fair value of derivative financial instrument | | | | **(12,361)** |
| **PROFIT/(LOSS) BEFORE TAX** | | | | **185,248** |

## Notes to the Consolidated Financial Statements (continued)

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

### 1) Segment Information (continued)

| 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/(LOSS)** | **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/(gain) 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** |

**Notes to the Consolidated Financial Statements (continued)**
(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 | (259) | - | (37,017) | **(37,276)** |
| 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 sales of investments in associate | | | | **379** |
| **PROFIT/(LOSS) BEFORE TAX** | | | | **(426,755)** |

## Notes to the Consolidated Financial Statements (continued)

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

### 1) Segment Information (continued)

The following tables present additional information of the Group's reportable segments as at December 31, 2010 and 2009:

| **Year ended December 31, 2010** | **Russia** | **Americas** | **Europe** | **TOTAL** |
|---|---|---|---|---|
| Segment assets | 4,585,342 | 1,941,572 | 334,620 | **6,861,534** |
| Property, plant and equipment expenditure | 228,657 | 36,188 | 5,456 | **270,301** |

| **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** |

The following table presents the revenues from external customers for each group of similar products and services for the year ended December 31, 2010 and 2009, respectively:

| | **Welded pipes** | **Seamless pipes** | **Other operations** | **TOTAL** |
|---|---|---|---|---|
| **Sales to external customers** | | | | |
| Year ended December 31, 2010 | 2,351,729 | 2,951,592 | 275,278 | **5,578,599** |
| Year ended December 31, 2009 | 1,150,370 | 2,082,945 | 227,682 | **3,460,997** |

## Notes to the Consolidated Financial Statements (continued)

(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, 2010 | Russia | Americas | Cent.Asia & Caspian Region | Middle East & Gulf Region | Africa | Europe | Asia & Far East | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Revenue | 3,485,287 | 1,434,653 | 161,115 | 56,132 | 13,030 | 398,586 | 29,796 | **5,578,599** |
| Non-current assets | 2,882,293 | 1,330,740 | 25,270 | 46 | 23 | 177,432 | - | **4,415,804** |

| 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** |

**Notes to the Consolidated Financial Statements (continued)**

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

### 2) Cost of Sales

Cost of sales for the year ended December 31 was as follows:

| | 2010 | 2009 |
|---|---|---|
| Raw materials and consumables | 2,971,841 | 1,660,289 |
| Staff costs including social security | 540,214 | 387,596 |
| Energy and utilities | 336,072 | 216,478 |
| Depreciation and amortisation | 218,251 | 192,540 |
| Repairs and maintenance | 110,087 | 70,706 |
| Contracted manufacture | 70,597 | 17,720 |
| Freight | 52,259 | 24,558 |
| Taxes | 43,543 | 32,225 |
| Professional fees and services | 19,986 | 12,244 |
| Rent | 8,900 | 4,121 |
| Travel | 1,568 | 1,042 |
| Communications | 858 | 886 |
| Insurance | 774 | 646 |
| Other | 4,045 | 5,946 |
| **Total production cost** | **4,378,995** | **2,626,997** |
| Change in own finished goods and work in progress | (170,645) | 244,396 |
| Cost of sales of externally purchased goods | 80,949 | 26,705 |
| Obsolete stock, write-offs/(reversal of write-offs) | (3,950) | 6,499 |
| **Cost of sales** | **4,285,349** | **2,904,597** |

### 3) Selling and Distribution Expenses

Selling and distribution expenses for the year ended December 31 were as follows:

| | 2010 | 2009 |
|---|---|---|
| Freight | 207,384 | 117,550 |
| Depreciation and amortisation | 81,304 | 100,006 |
| Staff costs including social security | 53,980 | 45,079 |
| Consumables | 18,465 | 12,974 |
| Professional fees and services | 18,196 | 15,634 |
| Rent | 6,690 | 6,386 |
| Bad debt expense | 5,740 | 4,219 |
| Travel | 4,185 | 2,613 |
| Utilities and maintenance | 1,587 | 2,131 |
| Insurance | 1,303 | 1,416 |
| Communications | 1,282 | 1,242 |
| Taxes | 1,281 | 1,703 |
| Other | 1,746 | 1,598 |
| | **403,143** | **312,551** |

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

### 4) Advertising and Promotion Expenses

Advertising and promotion expenses for the year ended December 31 were as follows:

| | 2010 | 2009 |
|---|---|---|
| Outdoor advertising | 5,800 | 2,248 |
| Exhibits and catalogues | 4,014 | 1,410 |
| Media | 636 | 564 |
| Other | 649 | 357 |
| | **11,099** | **4,579** |

### 5) General and Administrative Expenses

General and administrative expenses for the year ended December 31 were as follows:

| | 2010 | 2009 |
|---|---|---|
| Staff costs including social security | 126,525 | 100,838 |
| Professional fees and services | 47,737 | 44,753 |
| Depreciation and amortisation | 12,658 | 15,678 |
| Travel | 9,132 | 6,398 |
| Utilities and maintenance | 7,626 | 6,743 |
| Rent | 5,427 | 6,029 |
| Taxes | 5,241 | 5,113 |
| Transportation | 4,571 | 4,700 |
| Communications | 4,102 | 4,160 |
| Insurance | 3,957 | 4,977 |
| Consumables | 2,795 | 2,468 |
| Other | 2,204 | 1,891 |
| | **231,975** | **203,748** |

### 6) Research and Development Expenses

Research and development expenses for the year ended December 31 were as follows:

| | 2010 | 2009 |
|---|---|---|
| Staff costs including social security | 9,510 | 7,990 |
| Professional fees and services | 1,578 | 563 |
| Depreciation and amortisation | 643 | 536 |
| Utilities and maintenance | 426 | 336 |
| Consumables | 379 | 323 |
| Travel | 378 | 119 |
| Transportation | 153 | 131 |
| Communications | 39 | 48 |
| Other | 203 | 168 |
| | **13,309** | **10,214** |

### 7) Other Operating Expenses

Other operating expenses for the year ended December 31 were as follows:

| | 2010 | 2009 |
|---|---|---|
| Social and social infrastructure maintenance expenses | 12,104 | 10,266 |
| Charitable donations | 10,207 | 8,330 |
| Loss on disposal of property, plant and equipment | 10,195 | 3,959 |
| Other | 12,472 | 10,602 |
| | **44,978** | **33,157** |

Other operating expenses include expenses and additional provisions related to tax issues, tax fines and other fines in the amount of 8,675 (8,694 in 2009).

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

### 8) Share of Profit in Associate and Disposal of Associate

Share of Profit in Associate

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

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, 2010, the investment in North-Europe Pipe Project was stated at cost as part of Other non-current assets.

### 9) Other Operating Income

Other operating income for the year ended December 31 was as follows:

| | 2010 | 2009 |
|---|---|---|
| Gain from penalties and fines | 2,340 | 5,560 |
| Income from emission rights sale | 2,149 | 3,290 |
| Gain on sales of current assets | 296 | - |
| Assets received for free | 553 | - |
| Gain from reversal of litigation provision | - | 1,994 |
| Other | 5,704 | 5,162 |
| | **11,042** | **16,006** |

### 10) Finance Income

Finance income for the year ended December 31 was as follows:

| | 2010 | 2009 |
|---|---|---|
| Gain on extinsuishment of debts | - | 38,928 |
| Dividends received | 14,992 | - |
| Interest income — bank accounts and deposits | 3,024 | 2,348 |
| Gain on disposal of available-for-sale investments | - | 1,988 |
| Gain on disposal of other investments | 879 | - |
| | **18,895** | **43,264** |

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).

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.

On September 10, 2009 the Group disposed of 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.

In December 2010, the Group sold 2.05% participation in North-Europe Pipe Project to a third party for a total consideration of 28,809 thousand Russian roubles (945 at the exchange rate as at December 31, 2010). The Group recognised gain on disposal of 879 as finance income for the year ended December 31, 2010.

**Notes to the Consolidated Financial Statements (continued)**

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

### 11) Acquisition of Subsidiaries

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.

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).

### 12) Income Tax

Income tax expense/(benefit) for the year ended December 31 was as follows:

| | 2010 | 2009 |
|---|---|---|
| Current income tax expense | 53,985 | 17,133 |
| Current income tax benefit | (2,430) | (36,777) |
| Adjustments in respect of income tax of previous periods | (1,697) | 1,269 |
| Deferred tax expenses arising from write-down of deferred tax asset | 46 | 1,464 |
| Deferred income tax expense/(benefit) related to origination and reversal of temporary differences | 31,270 | (86,099) |
| **Total income tax expense/(benefit)** | **81,174** | **(103,010)** |

Profit/(loss) before tax for financial reporting purposes is reconciled to tax expense as follows:

| | 2010 | 2009 |
|---|---|---|
| Profit/(loss) before tax | 185,248 | (426,755) |
| Theoretical tax charge at statutory rate in Russia of 20% | 37,050 | (85,351) |
| Adjustment in respect of income tax of previous years | (1,697) | 1,269 |
| Effect of items which are not deductible or assessable for taxation purposes | 30,455 | 23,887 |
| Effect of different tax rates in countries other than Russia | 14,689 | (38,447) |
| Effect of changes in tax rate in Kazakhstan | - | (98) |
| Effect of differences in tax rates on dividend income | 436 | - |
| Effect of change of US (state) effective tax rate | 1,317 | (5,163) |
| Effect of previously unrecognised tax credits and temporary difference of a prior period | (971) | - |
| Other | (105) | 893 |
| **Total income tax expense/(benefit)** | **81,174** | **(103,010)** |

**Notes to the Consolidated Financial Statements (continued)**
(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 years ended December 31, 2010 and December 31, 2009 were as follows:

| | 2010 | Change recognised in income statement | Change recognised in other comprehensive income | Foreign currency translation reserve | 2009 | Change recognised in income statement | Change recognised in other comprehensive income | Foreign currency translation reserve | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| **Deferred income tax liability:** | | | | | | | | | |
| Valuation and depreciation of property, plant and equipment | (271,776) | (18,945) | - | 1,481 | (254,312) | (26,752) | - | 3,672 | (231,232) |
| Valuation and amortisation of intangible assets | (59,285) | 13,331 | - | (2) | (72,614) | 32,012 | - | 141 | (104,767) |
| Valuation of accounts receivable | (6,157) | 455 | - | 49 | (6,661) | 851 | - | 264 | (7,776) |
| Prepayments and other current assets | (2,494) | (2,996) | - | (3) | 505 | (686) | - | (124) | 1,315 |
| | **(339,712)** | **(8,155)** | - | **1,525** | **(333,082)** | **5,425** | **-** | **3,953** | **(342,460)** |
| **Deferred income tax asset:** | | | | | | | | | |
| Tax losses available for offset | 131,696 | (21,395) | 1,769 | (975) | 152,297 | 76,852 | 7,698 | 1,040 | 66,707 |
| Impairment of accounts receivable | 2,413 | (423) | - | (13) | 2,849 | (2,294) | - | (264) | 5,407 |
| Valuation of inventory | 9,310 | (8,854) | - | (30) | 18,194 | (1,904) | - | (795) | 20,893 |
| Provisions and accruals | 7,747 | 3,151 | - | (46) | 4,642 | (6,195) | - | (274) | 11,111 |
| Finance lease obligations | 7,019 | (1) | - | (55) | 7,075 | 5,780 | - | 253 | 1,042 |
| Trade and other payable | 10,590 | 3,775 | - | (8) | 6,823 | 950 | - | (380) | 6,253 |
| Other | 5,760 | 586 | - | (16) | 5,190 | 6,021 | - | (24) | (807) |
| | **174,535** | **(23,161)** | **1,769** | **(1,143)** | **197,070** | **79,210** | **7,698** | **(444)** | **110,606** |
| **Net deferred income tax liability** | **(300,484)** | **(30,076)** | **-** | **1,256** | **(271,664)** | **93,258** | **-** | **5,639** | **(370,561)** |
| **Net deferred income tax asset** | **135,307** | **(1,240)** | **1,769** | **(874)** | **135,652** | **(8,623)** | **7,698** | **(2,130)** | **138,707** |

**Notes to the Consolidated Financial Statements (continued)**
(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, 2010, the deferred tax asset for 3,633 (2009: 3,661) 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 are offset only against future taxable profits generated in transactions with securities over a period of 4 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, 2010, the Group has not recognised deferred tax liability in respect of 1,321,361 (2009: 1,335,353) 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.

### 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.

| | Year ended December 31, | |
|---|---|---|
| | **2010** | 2009 |
| Net profit/(loss) attributable to the equity holders of the parent entity | 104,334 | (315,726) |
| Weighted average number of ordinary shares outstanding | 860,480,570 | 865,857,940 |
| **Earnings/(loss) per share attributable to equity holders of the parent entity, basic and diluted in US dollars (3.68 RUR and (11.57) RUR for 2010 and 2009, respectively)** | **0.12** | **(0.36)** |

In 2010, the Group issued bonds due 2015 which are convertible into 71,505,956 shares, which could potentially dilute basic earnings per share (Note 25).

In 2010, the convertible bonds were antidilutive as the interest expense and other gains and losses for the year ended December 31, 2010, net of tax, relating to convertible bonds divided by the number of ordinary shares obtainable on the conversion of the convertible bonds exceeded basic earnings per share.

Share options under the TMK share options programme expired in 2009 (Note 30 ix) were not included in the calculation of diluted earnings per share because they were antidilutive in 2009.

**Notes to the Consolidated Financial Statements (continued)**
(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:

| | 2010 | 2009 |
|---|---|---|
| Russian rouble | 108,516 | 185,710 |
| US dollar | 39,819 | 43,363 |
| Euro | 4,823 | 13,810 |
| Romanian lei | 4,035 | 149 |
| Other currencies | 331 | 724 |
| | **157,524** | **243,756** |

The above cash and cash equivalents consisted of the following:

| | 2010 | 2009 |
|---|---|---|
| Cash and cash equivalents | 156,320 | 210,082 |
| Deposits | 1,204 | 33,674 |
| | **157,524** | **243,756** |

As at December 31, 2010, the amount of cash and cash equivalents included 1,000 million Russian roubles (32,812 at the exchange rate as at December 31, 2010) of cash received as a consideration from sales of non-controlling interests in OOO "TMK-INOX" (Note 30 v) and 700 million Russian roubles (22,968 at the exchange rate as at December 31, 2010) of cash received as contribution from non-controlling interest owners in OAO "Sinarskaya heat and power plant" (Note 30 vi) which are available to finance investing activities only.

Bank accounts and a cash deposit in the amount of 1,181 have been pledged as security for borrowings at December 31, 2010 (December 31, 2009: 130) (Note 24).

### 15) Trade and Other Receivables

Trade and other receivables consisted of the following:

| | 2010 | 2009 |
|---|---|---|
| Trade receivables | 710,714 | 576,132 |
| Officers and employees | 2,235 | 1,471 |
| Other accounts receivable | 21,884 | 16,514 |
| **Gross accounts receivable** | **734,833** | **594,117** |
| Allowance for doubtful debts | (17,936) | (15,161) |
| **Net accounts receivable** | **716,897** | **578,956** |

Accounts receivables in the amount of 91,661 has been pledged as security for borrowings at December 31, 2010 (December 31, 2009: nil) (Note 24).

### 16) Prepayments and Input VAT

Prepayments and input VAT consisted of the following:

| | 2010 | 2009 |
|---|---|---|
| Prepayment for VAT, Input VAT | 92,304 | 123,351 |
| Prepayment for services, inventories | 45,778 | 37,171 |
| Prepayment for insurance | 9,887 | 9,858 |
| Deferred charges | 4,372 | 3,365 |
| Prepayment for other taxes | 1,551 | 2,293 |
| Prepayment for rent | 231 | 267 |
| Prepayment for property tax | 179 | 184 |
| | **154,302** | **176,489** |

**Notes to the Consolidated Financial Statements (continued)**

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

### 16) Prepayments and Input VAT (continued)

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) Other Non-Current Assets

Other non-current assets consisted of the following:

| | 2010 | 2009 |
|---|---|---|
| Prepayments for acquisition of property, plant and equipment | 29,774 | 37,996 |
| Loans to employees | 5,357 | 5,796 |
| Restricted cash deposits for fulfillment of guaranties | 1,659 | 2,237 |
| Prepaid debt issue costs | 5 | 2,136 |
| Other | 3,913 | 3,720 |
| **Gross investments and other long-term receivables** | **40,708** | **51,885** |
| Allowance for doubtful debts | (11) | (11) |
| **Net investments and other long-term receivables** | **40,697** | **51,874** |

### 18) Inventories

Inventories consisted of the following:

| | 2010 | 2009 |
|---|---|---|
| Raw materials | 335,362 | 233,924 |
| Work in process | 325,386 | 244,998 |
| Finished goods and finished goods in transit | 364,211 | 282,795 |
| Goods for resale | 4,084 | 4,688 |
| Supplies | 195,609 | 182,122 |
| **Gross inventories** | **1,224,652** | **948,527** |
| Allowance for net realisable value of inventory | (17,112) | (22,133) |
| **Net inventories** | **1,207,540** | **926,394** |

Inventories carried at net realisable value in the amount of 262,328 (December 31, 2009: 194,494) are included in inventories as at December 31, 2010.

As at December 31, 2010, certain items of inventory with a carrying amount of 122,794 (December 31, 2009: 166,182) were pledged as security for borrowings (Note 24).

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

| | 2010 | 2009 |
|---|---|---|
| Balance at the beginning of the year | 22,133 | 28,587 |
| Additional decrease in allowance | (4,818) | (4,559) |
| Currency translation adjustments | (203) | (1,895) |
| **Balance at the end of the year** | **17,112** | **22,133** |

Notes to the Consolidated Financial Statements (continued)
(All amounts are in thousands of US dollars, unless specified otherwise)

### 19) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2010 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, 2010 | 1,243,839 | 2,370,728 | 59,571 | 40,466 | 9,439 | 567,204 | **4,291,247** |
| Additions | - | - | - | - | - | 270,301 | **270,301** |
| Assets put into operation | 32,374 | 232,626 | 4,263 | 8,172 | 485 | (277,920) | **-** |
| Transfer to assets held for sale | (8,844) | (730) | (301) | (13) | - | (158) | **(10,046)** |
| Disposals | (1,779) | (33,227) | (1,289) | (576) | - | (707) | **(37,578)** |
| Currency translation adjustments | (17,103) | (32,477) | (1,927) | (464) | (13) | (4,614) | **(56,598)** |
| **BALANCE AT DECEMBER 31, 2010** | **1,248,487** | **2,536,920** | **60,317** | **47,585** | **9,911** | **554,106** | **4,457,326** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | | | |
| Balance at January 1, 2010 | (150,761) | (692,309) | (23,150) | (20,758) | (1,589) | - | **(888,567)** |
| Depreciation charge | (35,720) | (177,543) | (4,165) | (6,506) | (1,024) | - | **(224,958)** |
| Transfer to assets held for sale | 1,486 | 527 | 59 | 3 | - | - | **2,075** |
| Disposals | 563 | 21,129 | 1,027 | 424 | - | - | **23,143** |
| Currency translation adjustments | 2,698 | 14,119 | 642 | 261 | (79) | - | **17,641** |
| **BALANCE AT DECEMBER 31, 2010** | **(181,734)** | **(834,077)** | **(25,587)** | **(26,576)** | **(2,692)** | **-** | **(1,070,666)** |
| **NET BOOK VALUE AT DECEMBER 31, 2010** | **1,066,753** | **1,702,843** | **34,730** | **21,009** | **7,219** | **554,106** | **3,386,660** |
| **NET BOOK VALUE AT JANUARY 1, 2010** | **1,093,078** | **1,678,419** | **36,421** | **19,708** | **7,850** | **567,204** | **3,402,680** |

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

### 19) Property, Plant and Equipment (continued)

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 | 94,581 | 475,804 | 1,452 | 6,771 | 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** | **1,243,839** | **2,370,728** | **59,571** | **40,466** | **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 | - | (37,276) | - | - | - | - | **(37,276)** |
| 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** | **1,093,078** | **1,678,419** | **36,421** | **19,708** | **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** |

As at December 31, 2010, bank borrowings are secured by properties and equipment with the carrying value of 746,307 (December 31, 2009: 817,520) (Note 24).

In 2010, no impairment losses were recognised in respect of property, plant and equipment.

At December 31, 2009, the Group conducted an impairment test of property, plant and equipment and recognised impairment of property, plant and equipment in the amount of 37,276.

## Notes to the Consolidated Financial Statements (continued)

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

### 19) Property, Plant and Equipment (continued)

Capitalised borrowing costs

The Group started to capitalise borrowing costs for all eligible assets where construction was commenced on or after January 1, 2009. The amount of borrowing costs capitalised during the year ended December 31, 2010 was 4,488 (2009: 1,702). The rate of the specific borrowing used to determine the amount of borrowing costs eligible for capitalisation was 5.19% in 2010 (2009: 5.11%).

### 20) Goodwill and Other Intangible Assets

Movement in intangible assets for the year ended December 31, 2010 was as follows:

| | Patents and trademarks | Goodwill | Software | Customer relationships | Proprietary technology | Backlog | Other | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | | |
| Balance at January 1, 2010 | 209,740 | 568,891 | 17,049 | 472,300 | 14,100 | 8,500 | 5,708 | **1,296,288** |
| Additions | 28 | - | 75 | - | - | - | 1,907 | **2,010** |
| Disposals | (181) | - | - | - | - | - | (304) | **(485)** |
| Currency translation adjustments | (9) | (1,210) | (152) | - | - | - | (46) | **(1,417)** |
| **BALANCE AT DECEMBER 31, 2010** | **209,578** | **567,681** | **16,972** | **472,300** | **14,100** | **8,500** | **7,265** | **1,296,396** |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT** | | | | | | | | |
| Balance at January 1, 2010 | (217) | (13,429) | (8,930) | (147,092) | (2,737) | (8,500) | (1,562) | **(182,467)** |
| Amortisation charge | (82) | - | (3,118) | (79,297) | (1,762) | - | (940) | **(85,199)** |
| Disposals | 61 | - | - | - | - | - | 143 | **204** |
| Currency translation adjustments | 7 | 101 | 85 | - | - | - | 17 | **210** |
| **BALANCE AT DECEMBER 31, 2010** | **(231)** | **(13,328)** | **(11,963)** | **(226,389)** | **(4,499)** | **(8,500)** | **(2,342)** | **(267,252)** |
| **NET BOOK VALUE AT DECEMBER 31, 2010** | **209,347** | **554,353** | **5,009** | **245,911** | **9,601** | - | **4,923** | **1,029,144** |
| **NET BOOK VALUE AT JANUARY 1, 2010** | **209,523** | **555,462** | **8,119** | **325,208** | **11,363** | - | **4,146** | **1,113,821** |

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

## 20) Goodwill and Other Intangible Assets (continued)

Movement in intangible assets for the year ended December 31, 2009 was as follows:

| | 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** |

Customer relationships represent non-contracted interactions with clients. Remaining amortisation period for customer relationships is 6-8 years. Customer relationships are amortised using the diminishing balance method which reflects the pattern of consumption of the economic benefits that customer relationships provide.

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 (2009: 208,700).

**Notes to the Consolidated Financial Statements (continued)**
(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:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Goodwill | Intangible assets with indefinite useful lives | Goodwill | Intangible assets with indefinite useful lives |
| American division | 472,968 | 208,700 | 472,968 | 208,700 |
| European division | 6,324 | - | 6,855 | - |
| Kaztrubprom Plant | 8,301 | - | 8,365 | - |
| Oilfield division | 31,648 | - | 31,891 | - |
| Other cash generating units | 35,112 | - | 35,383 | - |
| | **554,353** | **208,700** | **555,462** | **208,700** |

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate the goodwill and intangible assets may be impaired.

Goodwill and intangible assets with indefinite useful lives were tested for impairment at December 31, 2010. As a result of the test, the Group determined that the carrying values of all cash generating units do not exceed their recoverable amounts. Consequently, no impairment losses were recognised in the year ended December 31, 2010 (2009: 10,053).

For the purpose of impairment testing of goodwill the Group has determined value in use of each of its cash generating units. The value in use has been calculated using cash flow projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash generating unit or group of cash generating units. The key assumptions used by management in calculation of the value in use are presented in the table below. For the periods not covered by management plans, cash flow projections have been estimated by extrapolating the respective business plans taking into account business cycles using zero growth rate.

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

## 20) Goodwill and Other Intangible Assets (continued)

| Cash generating units | Period of forecast, years | Pre-tax discount rate, % |
|---|---|---|
| American division | 5 | 10.71 |
| European division | 5 | 12.53 |
| Kaztrubprom Plant | 5 | 11.16 |
| Oilfield division | 5 | 11.68 |
| Other cash-generating units | 5 | 11.54-12.92 |

With regard to the assessment of values in use of European division, Oilfield service division and other cash generating units no reasonably possible change in the key assumptions would cause the carrying value of each of these units to materially exceed its recoverable amount.

The calculation of American division and Kaztrubprom Plant cash generating unit's value in use was the most sensitive to the following assumptions:

Costs and Expenses
The recoverable amounts of American division cash generating unit and Kaztrubprom Plant cash generating unit are based on the business plans approved by management. The reasonably possible deviation of costs from these plans could lead to an impairment.

If the actual raw material costs of Kaztrubprom Plant cash generating unit were 7% higher than those assumed in the impairment test, this would lead to an impairment of goodwill in the amount of 1,324.

If the actual raw material costs of American division cash generating unit were 7% higher than those assumed in the impairment test, this would lead to an impairment of goodwill in the amount of 113,824.

Volume of production of OCTG pipes (American division cash generating unit)
The management assumed that sales volume of OCTG pipes would increase by 29% in 2011 in comparison with 2010. This growth will be provided by increase of plant's production capacity and increase of demand.

Reasonably possible changes in quantities of produced and sold units could lead to an impairment. If the quantities of the units sold were 10% lower than those assumed in the impairment test, this would lead to an impairment of goodwill in the amount of 143,840.

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

### 21) Assets Held for Sale

On December 23, 2010, the Group entered into a contractual agreement to sell a 100% ownership interest in TMK HYDROENERGY POWER S.R.L. ("TMK-Hydro"), four hydropower plants located in Romania, for cash consideration of 19.8 million Euro.

Under the terms of the agreement, control over TMK-Hydro will be transferred to the purchaser within five months from the date of agreement upon obtaining the approval from the competition authority of Romania.

As at December 31, 2010, TMK-Hydro was classified as a disposal group held for sale.

As at December 31, 2010, the major classes of assets and liabilities of the disposal group measured at the lower of carrying amount and fair value less costs to sell were as follows:

| | 2010 |
|---|---|
| Inventories | 59 |
| Prepayments | 9 |
| **Current assets** | **68** |
| Property, plant and equipment | 7,785 |
| Intangible assets | 150 |
| **Non-current assets** | **7,935** |
| **Assets classified as held for sale** | **8,003** |
| Current liabilities | (143) |
| **Liabilities directly associated with the assets classified as held for sale** | **(143)** |
| **Net assets directly associated with disposal group** | **7,860** |

In December 2010, the Group received 26,027 as a consideration from the purchaser. The cash consideration received was included in advances from customers.

TMK-Hydro assets were included in the Europe segment of the Group's operations.

### 22) Trade and Other Payables

Trade and other payables consisted of the following:

| | 2010 | 2009 |
|---|---|---|
| Trade payables | 531,888 | 417,108 |
| Accounts payable for property, plant and equipment | 65,410 | 138,092 |
| Payroll liabilities | 29,942 | 26,861 |
| Accrued and withheld taxes on payroll | 14,368 | 13,091 |
| Liabilities for VAT | 27,994 | 58,779 |
| Liabilities for property tax | 10,281 | 7,537 |
| Liabilities under put options of non-controlling interest shareholders in subsidiaries | 14,934 | 15,836 |
| Notes issued to third parties | 7,226 | 5,941 |
| Sales rebate payable | 7,134 | 1,541 |
| Liabilities for other taxes | 4,500 | 5,165 |
| Deferred VAT | 126 | 73 |
| Other payables | 18,930 | 19,456 |
| | **732,733** | **709,480** |

**Notes to the Consolidated Financial Statements (continued)**

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

### 23) Provisions and Accruals

Provisions and accruals consisted of the following:

| | 2010 | 2009 |
|---|---|---|
| **Current:** | | |
| Accrual for bonuses | 20,710 | 1,873 |
| Accrual for unused annual leaves, current portion | 9,546 | 8,030 |
| Accrual for long-service benefit | 8,468 | 5,872 |
| Current portion of employee-benefit liability | 1,850 | 1,540 |
| Environmental provision, current portion | 1,338 | 719 |
| Provision for tax and other fines | 241 | 706 |
| | **42,153** | **18,740** |
| **Non-current:** | | |
| Accrual for unused annual leaves | 19,379 | 15,405 |
| Environmental provision | 4,717 | 6,446 |
| | **24,096** | **21,851** |

### 24) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

| | 2010 | 2009 |
|---|---|---|
| **Current:** | | |
| Bank loans | 201,585 | 1,251,575 |
| Interest payable | 26,473 | 24,891 |
| Current portion of non-current borrowings | 125,104 | 105,858 |
| Current portion of bearer coupon debt securities | 350,759 | 165,321 |
| Unamortised debt issue costs | (3,648) | (11,858) |
| | **700,273** | **1,535,787** |
| Finance lease liability — current | 1,591 | 1,595 |
| **Total short-term loans and borrowings** | **701,864** | **1,537,382** |
| **Non-current:** | | |
| Bank loans | 2,733,457 | 2,160,060 |
| Bearer coupon debt securities | 897,034 | 352,021 |
| Unamortised debt issue costs | (20,048) | (63,470) |
| Less: current portion of non-current borrowings | (125,104) | (105,858) |
| Less: current portion of bearer coupon debt securities | (350,759) | (165,321) |
| | **3,134,580** | **2,177,432** |
| Finance lease liability — non-current | 35,134 | 36,736 |
| **Total long-term loans and borrowings** | **3,169,714** | **2,214,168** |

In addition to collaterals disclosed in Notes 14, 15, 18, 19 the Group pledged its rights under sales contracts in Romania totaling to 9,444 as collateral under loan agreements as at December 31, 2010 (December 31, 2009: 4,914). Proceeds from sales pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

**Notes to the Consolidated Financial Statements (continued)**
(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 the year | 2010 | Interest rates for the year | 2009 |
|---|---|---|---|---|
| Russian rouble | Fixed 4.3% — 10% | 1,640,713 | Fixed 5% — 17% | 1,153,219 |
| | Fixed 10% | 193,129 | Fixed 10% | 192,812 |
| | Fixed 5.25% | 377,910 | | |
| | Fixed 2.6% — 8.5% | 1,244,629 | Fixed 6.48% — 12.1% | 2,048,035 |
| US Dollar | Variable: | 112,546 | Variable: | 4,179 |
| | Libor (1m) + 1.75% — 5.65% | | Libor (3m) + 1.7% | |
| | Libor (1w) + 2.39% | | Libor (1w) + 1.8% | |
| | Fixed 5.19% | 84,420 | Fixed 1.3% — 5.11% | 91,044 |
| | | | Cost of funds + 1.25% (*) | 34,611 |
| | Variable: | 179,248 | Variable: | 189,319 |
| | Euribor (1m) + 1.6% | | Euribor (1m) + 0.23% — 1.6% | |
| Euro | Euribor (3m) + 2.7% — 4% | | Euribor (3m) + 0.45% — 4% | |
| | Euribor (5m) + 1.1% | | | |
| | Euribor (6m) + 0.26% — 1.1% | | Euribor (6m) + 0.23% — 4% | |
| | Euribor (8m) + 1.1% | | | |
| | Euribor (12m) + 1.2% | | | |
| Romanian Lei | Fixed 10.5% — 11% | 2,253 | | - |
| Swiss Frank | Variable: | 5 | | - |
| | Libor (1w) + 2.39% | | | |
| | | **3,834,853** | | **3,713,219** |

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

### 24) Interest-Bearing Loans and Borrowings (continued)

Bank Loans

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. The Group amended the agreement with Gazprombank in August and December 2009, extending the loan term from 2.5 to 5 years and reducing interest rate. In August 2010, the Group further amended the agreement changing the repayment schedule and reducing interest rate. In December 2010, the Group amended the terms of the agreement with Gazprombank by extending the loan term up to 8 years and cancelling a security in the form of pledged shares of OAO TMK. As at December 31, 2010, the principal outstanding balance of the loan was 1,107,542.

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

On March 23, 2010, the Group fully repaid a short-term loan from VTB in the principal amount of 90,185 in accordance with the terms of the loan agreement and entered into a new loan agreement with VTB in the amount of 94,000 with an initial maturity of 1 year and an option to extend the maturity up to 5 years. As at December 31, 2010, the principal outstanding balance of the loan was 94,000.

In September — December 2010, the Group entered into several loan agreements with Sberbank for the aggregated amount of 14,000 million Russian roubles due 2015, which were used for debt refinancing. As at December 31, 2010, the aggregated principle outstanding balance of the Sberbank's loans was 14,000 million Russian roubles (459,364 at the exchange rate at December 31, 2010).

In November 2010, the Group entered into a loan agreement with Alfa-Bank in the amount of 10,200 million Russian roubles due November 2016. As at December 31, 2010, the principal outstanding balance of the loan was 10,200 million Russian roubles (334,680 at the exchange rate at December 31, 2010).

In December 2010, the Group received 96,706 under a senior secured credit facility with Wells Fargo Capital Finance due 2014. As at December 31, 2010, the principal outstanding balance of the loan was 96,706.

In December 2010, the Group fully refinanced 450,000 VTB loan due 2012 using the proceeds from Wells Fargo Capital Finance, Alfa-Bank and Sberbank borrowing facilities.

Loan Participation Notes

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 1,200 million.

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 and to increase the amount of outstanding secured indebtedness up to 40% of total assets or to 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 were financed by 450,000 loan provided by VTB. As at December 31, 2010, an aggregate of 186,700 of notes remained outstanding.

Bearer Coupon Debt Securities

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 was 9.6% per annum. On February 16 and 19, 2010 a buy-back option on the 5,000,000 outstanding interest-bearing coupon bonds took place. The full bonds issue was left outstanding. The new rate for the ninth

Notes to the Consolidated Financial Statements (continued)
(All amounts are in thousands of US dollars, unless specified otherwise)

### 24) Interest-Bearing Loans and Borrowings (continued)

Bearer Coupon Debt Securities (continued)

and tenth semi-annual coupons was set at 9.8%. As at December 31, 2010, an aggregate of 5,000 million Russian roubles (164,059 at the exchange rate as at December 31, 2010) remained outstanding under these bonds series.

On October 26, 2010, the Group issued 5,000,000 bonds with a nominal value of 1,000 Russian roubles (33.08 US dollars at the exchange rate as at the date of issuance) each, with 6 coupon periods of 182 days each. The maturity date is October 22, 2013. The interest rate for each semi-annual coupon was 8.85%. As at December 31, 2010, an aggregate of 5,000 million Russian roubles (164,059 at the exchange rate as at December 31, 2010) 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, 2010, the Group had unutilised borrowing facilities in the amount 588,281 (December 31, 2009: 411,175).

Finance Lease Liabilities

Starting from 2001, the Group entered into lease agreements under certain of which it has a bargain option to acquire the leased assets at the end of lease term ranging from 2 to 20 years. The estimated average remaining useful life of leased assets varies from 13 to 18 years.

The leases are accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows as at December 31:

| | 2010 | 2009 |
|---|---|---|
| Machinery and equipment | 28,372 | 30,298 |
| Transport and motor vehicles | 183 | 342 |
| | **28,555** | **30,640** |

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

Future minimum lease payments under finance leases with the present value of the net minimum lease payments were as follows at December 31, 2010:

| | Minimum payments | Present value of payments |
|---|---|---|
| 2011 | 2,779 | 1,591 |
| 2012-2015 | 10,779 | 6,571 |
| after 2015 | 35,142 | 28,563 |
| Total minimum lease payments | **48,700** | **36,725** |
| Less amounts representing finance charges | (11,975) | |
| Present value of minimum lease payments | **36,725** | **36,725** |

Future minimum lease payments under finance leases with the present value of the net minimum lease payments were 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** |

In the years ended December 31, 2010 and December 31, 2009, the average interest rate under the finance lease liabilities was 3%.

Notes to the Consolidated Financial Statements (continued)
(All amounts are in thousands of US dollars, unless specified otherwise)

**25) Convertible Bonds**

On February 11, 2010, TMK Bonds S.A., the Group's special purposes entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK. The bonds are listed on the London Stock Exchange. The bonds have nominal value of 100,000 US dollars each and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis. The conversion can be exercised at the option of bondholders on any date during the period commencing 41 days following the February 11, 2010 and ending on the date falling seven London business days prior to the maturity date or, if earlier, ending on the seventh day prior to any earlier date fixed for redemption of the Convertible bonds. The bonds are convertible into GDRs at conversion price of 23.075 US dollars per GDR. In connection with the issue of convertible bonds the Group purchased 64,478,432 treasury shares to guarantee the fulfilment of an obligation to bondholders (Note 30 xii).

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

There were no conversions of the bonds during the period ended December 31, 2010.

The Group determined that the convertible bonds represent a combined financial instrument containing two components: the bond liability (host component) and an embedded derivative representing conversion option in foreign currency combined with the Issuer Call (the "Embedded Conversion Option").

The Embedded Conversion Option in foreign currency was classified as financial instrument at fair value through profit or loss. The Embedded Conversion Option was initially recognised at the fair value of 35,455. The Group used binomial options pricing model for initial and subsequent measurement of fair value of this embedded derivative. For the purposes of this model, the Group assesses implied volatility on the basis of market quotes of the bonds and the implied credit spread. Consequently, the Group assessed that the credit spread comprised 800 bps and 650 bps as at the initial recognition date and December 31, 2010, respectively. The change in the fair value of the embedded derivative during the reporting period resulted in a loss of 12,361, which has been recorded as loss on changes in fair value of derivative financial instrument in the income statement for the year ended December 31, 2010.

The fair value of the host component of 368,149 at the initial recognition date has been determined as a residual amount after deducting the fair value of the Embedded Conversion Option from the issue price of the convertible bonds of 412,500 adjusted for transaction costs of 8,896. The host component is subsequently carried at the amortised cost using the effective interest method. As at December 31, 2010, the carrying value of the host component was 377,909.

**Notes to the Consolidated Financial Statements (continued)**

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

**26) 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 lumpsum 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 | | USA | Total | |
|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | **2010** | 2009 |
| Movement in the benefit liability: | | | | | | | |
| At January 1 | 18,639 | 17,543 | 1,342 | 1,513 | - | 19,981 | 19,056 |
| Benefit expense | 6,136 | 2,464 | 595 | 28 | 458 | 7,189 | 2,492 |
| Benefit paid | (1,363) | (941) | (157) | (112) | - | (1,520) | (1,053) |
| Other | - | - | - | - | 498 | 498 | - |
| Currency translation adjustment | (160) | (427) | (129) | (87) | - | (289) | (514) |
| **At December 31** | **23,252** | **18,639** | **1,651** | **1,342** | **956** | **25,859** | **19,981** |
| **Short-term** | **1,772** | **1,540** | **78** | **-** | **-** | **1,850** | **1,540** |
| **Long-term** | **21,480** | **17,099** | **1,573** | **1,342** | **956** | **24,009** | **18,441** |
| Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses): | | | | | | | |
| Current service cost | 796 | 718 | 65 | 29 | 290 | 1,151 | 747 |
| Interest cost on benefit obligation | 1,807 | 1,613 | 121 | 128 | 30 | 1,958 | 1,741 |
| Net actuarial (gain)/loss recognised in the period | 3,363 | (30) | 202 | (129) | 138 | 3,703 | (159) |
| Past service cost | 170 | 163 | 207 | - | - | 377 | 163 |
| **Net benefit expense / (income)** | **6,136** | **2,464** | **595** | **28** | **458** | **7,189** | **2,492** |

## Notes to the Consolidated Financial Statements (continued)

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

### 26) Employee Benefit Liability (continued)

The Group expects to contribute 1,850 to its defined post-employment benefit programme in 2011.

| | 2010 | 2009 |
|---|---|---|
| Present value of defined benefit obligation | 28,052 | 22,362 |
| Unrecognised past service cost | (2,193) | (2,381) |
| **Benefit liability as at December 31** | **25,859** | **19,981** |

The Group had no plan assets and unrecognised actuarial gains or losses in the year ended December 31, 2010.

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

| | 2010 | 2009 |
|---|---|---|
| **Defined benefit obligation as at December 31** | **28,052** | **22,362** |
| Experience adjustments on plan liabilities | 4,120 | (1,485) |

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

| | Russia | | Romania | | USA |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 |
| Discount rate | 7.96% | 8.75% | current 8.74%, decreasing to 4.29% in the long-term | current 9.98%, decreasing to 3.53% in the long-term | 5.75% |
| Average long-term rate of compensation increase | 6.3% | 6.8% | current 5.5%, decreasing to 3.5% in the long-term | current 4.0%, decreasing to 2.0% in the long-term | 3.5% |

**Notes to the Consolidated Financial Statements (continued)**

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

## 27) Principal Subsidiaries

| Company | Location | Main activity | Actual ownership interest | Effective ownership interest | Actual ownership interest | Effective ownership interest |
|---|---|---|---|---|---|---|
| | | | December 31, 2010 | | December 31, 2009 | |
| IPSCO Tubulas Inc. | USA | Manufacturing of welded steel pipes | 100.00% | 100.00% | 100.00% | 100.00% |
| TMK NSG, L.L.C. (former NS Group, Inc.) | USA | Holding company of US assets | 100.00% | 100.00% | 100.00% | 100.00% |
| OAO "Sinarsky Pipe Plant" | Russia | Manufacturing of seamless steel pipes | 94.27% | 94.27% | 94.16% | 94.16% |
| OAO "Seversky Pipe Plant" | Russia | Manufacturing of seamless and welded steel pipes, steel billets | 94.37% | 94.37% | 94.22% | 94.22% |
| OAO "Volzhsky Pipe Plant" | Russia | Manufacturing of seamless and welded steel pipes, steel billets | 100.00% | 100.00% | 100.00% | 100.00% |
| OAO "Taganrog Metallurgical Plant" | Russia | Manufacturing of seamless and welded steel pipes, steel billets | 96.10% | 96.10% | 96.06% | 96.06% |
| OAO "Orsky Machine Building Plant" | Russia | Manufacturing of joints for drill pipes and other products | 75.00% | 75.00% | 75.00% | 75.00% |
| ZAO "Trade House TMK" | Russia | Sales & distribution of pipes, raw materials procurement | 100.00% | 100.00% | 100.00% | 100.00% |
| OOO "TMK-INOX" | Russia | Manufacturing and sales of steel pipes | 53.00% | 49.97% | 100.00% | 94.16% |
| OOO "Skladskoy Kompleks TMK" | Russia | Sales & distribution 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 "TMK-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% | 100.00% | 100.00% | 100.00% |
| OOO "SinaraTransAvto" | Russia | Services | 100.00% | 94.27% | 100.00% | 94.16% |
| TMK Global S.A. | Switzerland | Sales & distribution of pipes | 100.00% | 100.00% | 100.00% | 100.00% |
| 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% |

**Notes to the Consolidated Financial Statements (continued)**

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

### 27) Principal Subsidiaries (continued)

| Company | Location | Main activity | Actual ownership interest | Effective ownership interest | Actual ownership interest | Effective ownership interest |
|---|---|---|---|---|---|---|
| | | | December 31, 2010 | | December 31, 2009 | |
| 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% | 92.66% | 92.66% |
| SC TMK-RESITA SA | Romania | Manufacturing of steel billets | 100.00% | 100.00% | 100.00% | 100.00% |
| TMK Capital S.A. | Luxembourg | Financing (SPV) | 0.00% | 0.00% | 0.00% | 0.00% |
| TMK Bonds S.A. | Luxembourg | Financing (SPV) | 0.00% | 0.00% | 0.00% | 0.00% |
| OAO "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 of 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 Ltd. | Cyprus | Stock servicing | 100.00% | 100.00% | 100.00% | 100.00% |
| ZAO "TMK-CPW" * | Russia | Manufacturing of welded steel pipes | 51.00% | 48.13% | 51.00% | 48.05% |
| OOO TMK Metallurgical Service | Russia | Maintenance and repair of equipment | 100.00% | 94.37% | 51.00% | 48.05% |
| TMK Africa Tubulars (PTY) Ltd. | South Africa | Sales & distribution of pipes | 100.00% | 100.00% | 0.00% | 0.00% |
| OAO "TMK Oilfield Services" | Russia | Management services | 100.00% | 100.00% | 100.00% | 100.00% |
| SC TMK Hydroenergy Power SRL | Romania | Electrical energy production | 100.00% | 100.00% | 0.00% | 0.00% |
| OAO "Sinarskaya heat and power plant" | Russia | Heat and electrical energy production | 68.79% | 64.85% | 0.00% | 0.00% |
| Blytheville Finance Corporation | USA | Financial Investments | 100.00% | 100.00% | 100.00% | 100.00% |

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

27) Principal Subsidiaries (continued)

| Company | Location | Main activity | Actual ownership interest | Effective ownership interest | Actual ownership interest | Effective ownership interest |
|---|---|---|---|---|---|---|
| | | | December 31, 2010 | | December 31, 2009 | |
| TMK IPSCO Canada, Ltd. | USA | Sales & distribution of pipes | 100.00% | 100.00% | 0.00% | 0.00% |
| IPSCO Koppel Tubulars Corporation, LLC | USA | Manufacturing of seamless steel pipes | 100.00% | 100.00% | 100.00% | 100.00% |
| IPSCO Tubulars (KY) Inc | USA | Manufacturing of welded steel pipes | 100.00% | 100.00% | 100.00% | 100.00% |
| IPSCO Tubulars (OK) Incorporated | USA | Manufacturing of seamless and welded steel pipes | 100.00% | 100.00% | 100.00% | 100.00% |
| UPOS GP, LLC | USA | Holding company of US assets | 100.00% | 100.00% | 100.00% | 100.00% |
| UPOS, LLC | USA | Holding company of US assets | 100.00% | 100.00% | 100.00% | 100.00% |
| Ultra Premium Oilfield Services, Ltd | USA | Manufacturing of premium pipes connections, services for oil and gas industries | 100.00% | 100.00% | 100.00% | 100.00% |

* 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 non-controlling interests in subsidiaries that hold ownership interest in other subsidiaries.

**28) 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, 2010 and 2009 are detailed below.

Transactions with the Parent Company and Entity with Significant Influence

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. In 2010, the Group paid to the parent company 16,300 for the guarantee (2009: 56,300). 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. In 2010, the Group paid 10,700 to Bravecorp for the guarantee (2009: 6,000). As at December 31, 2010, the unpaid fees for the guarantee provided by Bravecorp amounted to 5,300. As at December 31, 2009, the unpaid fees for the guarantees provided by TMK Steel and Bravecorp amounted to 16,300 and 4,000, respectively.

In 2010, the Group amended the terms of the agreement with Gazprombank cancelling a security in the form of pledged shares of OAO TMK. The Group concluded

**Notes to the Consolidated Financial Statements (continued)**

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

### 28) Related Parties Disclosures (continued)

Transactions with the Parent Company and Entity with Significant Influence (continued)

that this amendment of the terms of the agreement with Gazprombank represents a substantial modification of the terms of the agreement and accounted this modification as an extinguishment of the original financial liability under the agreement with Gazprombank and the recognition of a new financial liability under the agreement with Gazprombank.

Also, in 2010 the Group repaid VTB borrowing facilities in the amount of 750,000 secured by pledged shares of OAO TMK (Note 24).

The commission to TMK Steel and Bravecorp was amortised during the period commencing on the date of loans received and ending on the date of the cessation of a security. The Group recognised the commission to TMK Steel and Bravecorp in the amounts of 57,436 and 18,516, respectively, as finance costs in the income statement for the year ended December 31, 2010. In 2009, amortisation of the commission to TMK Steel and Bravecorp amounted to 15,164 and 3,484, respectively.

The Group paid no dividends to the parent company in 2010 (2009: nil).

Compensation to 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, 2010 (26 persons as at December 31, 2009).

The Group provides compensation to key management personnel only in the form of short-term employee benefits, which include:

- Wages, salaries and social security contributions in the amount of 9,136 for the year ended December 31, 2010 (2009: 13,231);
- Bonuses payable within twelve months after December 31, 2010 in the amount of 3,086 (December 31, 2009: nil). The exact amount of bonuses is determined within next four months after December 31, 2010 based on the analysis of fulfilment of certain conditions.

The amounts disclosed above are recognised as general and administrative expenses in the income statement during the reporting period.

In the years ended December 31, 2010 and 2009, the Group did not provide compensation to key management personnel in the form of post-employment benefits, other long-term benefits, sharebased payment or termination benefits.

The balance of loans issued to key management personnel amounted to 396 as at December 31, 2010 (December 31, 2009: 360).

The Group guaranteed debts of key management personnel outstanding as at December 31, 2010 in the amount of 3,368 with maturity in 2011 — 2017 (December 31, 2009: 3,201).

In 2010, the Group paid 2,494 to the member of key management personnel for the guarantee issued.

Transactions with Other Related Parties

The following table provides outstanding balances with other related parties as at December 31:

| | 2010 | 2009 |
|---|---|---|
| Cash and cash equivalents | 47,151 | 86,541 |
| Accounts receivable — current | 3,305 | 818 |
| Prepayments — current | 90 | 422 |
| Accounts receivable — non-current | - | 68 |
| Accounts payable — current | (2,157) | (949) |
| Interest payable | (977) | (523) |

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

### 28) Related Parties Disclosures (continued)

Transactions with Other Related Parties (continued)

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

| | 2010 | 2009 |
|---|---|---|
| Sales revenue | 4,718 | 1,201 |
| Purchases of goods and services | 7,509 | 6,897 |
| Interest income from loans and borrowings | 521 | 216 |
| Interest expenses from loans and borrowings | 460 | 489 |

In the year ended December 31, 2010, sales transactions with related parties constituted approximately 0.08% of the total Group's sales (2009: 0.03%).

### 29) Contingencies and Commitments

Operating Environment of the Group

Significant part of the Group's principal assets are located in the Russian Federation and USA, therefore its significant operating risks are related to the activities of the Group in these countries.

In 2010, the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. The stabilisation measures have led to stronger customer demand, increased production levels and improved liquidity in the banking sector.

The United States economy completed its sixth consecutive quarter of recovery by the end of 2010. Recent growth in consumer spending reflects improvements in sentiment, in the stock market, and in banks' willingness to lend, easing many of the adverse shocks received during the recession.

Despite some indications of recovery there continues to be uncertainty regarding further economic growth which could negatively affect the Group's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above 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 unfavourable 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.

In 2009 and 2010, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 684,178 thousand Russian roubles (22,449 at the exchange rate as at December 31, 2010). Up to the date of authorisation of these consolidated financial statements for issuance, the Group defended its position in the courts and settled the claims in the pre-trial dispute resolution procedures in the amount of 548,289 thousand Russian roubles (17,990 at the exchange rate as at December 31, 2010). The court proceedings had not been finalised for the remaining claims in the amount of 130,346 thousand Russian roubles (4,277 at the exchange rate as at December 31, 2010).

Notes to the Consolidated Financial Statements (continued)
(All amounts are in thousands of US dollars, unless specified otherwise)

## 29) Contingencies and Commitments (continued)

Taxation (continued)

Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Consequently, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2010.

Contractual Commitments and Guarantees

As at December 31, 2010, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,402,296 thousand Russian roubles (46,012 at the exchange rate as at December 31, 2010), 42,700 thousand Euros (56,509 at the exchange rate as at December 31, 2010), 2,615 thousand Romanian lei (805 at the exchange rate as at December 31, 2010) and 15,880 thousand US dollars for the total amount of 119,206 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 29,774 with respect to such commitments (2009: 37,996).

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 8,330 (2009: 52,458).

Insurance Policies

The Group currently maintains insurance against losses that may arise in case of property damage, accidents and transportation of goods. The Group also maintains corporate product liability and directors and officers' liability insurance policies. Nevertheless, any recoveries under maintained insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

Legal Claims

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

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding at December 31, 2010 in the amount of 4,664 (December 31, 2009: 4,246).

## 30) Equity

i) Share Capital

| | 2010 | 2009 |
|---|---|---|
| **Number of shares** | | |
| Authorised | | |
| Ordinary shares of 10 Russian roubles each | 937,586,094 | 873,001,000 |
| Issued and fully paid | | |
| Ordinary shares of 10 Russian roubles each | 937,586,094 | 873,001,000 |

On February 5, 2010, the Board of Directors authorised an increase of share capital.

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

On November 30, 2010, the Group finalised the increase of share capital by 64,585,094 shares with par value of 10 Russian roubles each by means of an open subscription at price of 133 Russian roubles per share. Number of shares subscribed represented approximately 7.4% of the Company's issued and fully paid share capital before additional issue. After completion of the share capital increase, the total number of the issued and fully paid shares was 937,586,094.

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

## Notes to the Consolidated Financial Statements (continued)

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

### 30) Equity (continued)

ii) Reserve Capital (continued)

for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

iii) Dividends

The Company declared no final dividends in respect of 2009. No interim dividends were declared during 2010.

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 276,155 of undistributed and unreserved earnings recognised in Russian statutory financial statements as at December 31, 2010. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 1,435,233 as at December 31, 2010.

iv) Acquisition of Non-controlling Interests in Subsidiaries

In the year ended December 31, 2010, the Company purchased additional 0.15% of the shares of OAO "Seversky Pipe Plant", 0.11% of the shares of OAO "Sinarsky Pipe Plant", 0.04% of the shares of OAO "Taganrog Metallurgical Plant" and 49% ownership interest in OOO "TMK-SMS Metallurgical Service". The total cash consideration for the shares amounted to 1,254.

The excess in the amount of 144 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" and OAO "Taganrog Metallurgical Plant" was charged to accumulated profit. The excess in the amount of 478 of the carrying values of net assets attributable to interest in OAO "Seversky Pipe Plant" over the consideration paid for such non-controlling interest is recorded in additional paid-in capital.

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 non-controlling interest is recorded in additional paid-in capital.

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 non-controlling interest decreased and the Group increased its interest in this subsidiary by 12.10%. The effect of the decrease of share of noncontrolling 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 non-controlling interest shareholders comprised 145.

v) Sale of Non-controlling Interests

In December 2010, the Group increased share capital of OOO "TMK-INOX". The share capital increase was partially financed by non-controlling interest shareholder. Cash consideration received from non-controlling interest shareholder amounted to 1,000 million Russian roubles (32,939 at historical exchange rate). As a result of the transaction, the ownership interest of the Group in OOO "TMK-INOX" decreased and amounted to 53.00%. The difference between the consideration received and the carrying values of net assets attributable to non-controlling interest in the amount of 741 was charged to accumulated profit. As non-controlling interest shareholder has a right to sell its ownership interest to the Group under certain circumstances beyond the Group's control starting 2018, the Group recognised the amount of 20,015 at the exchange rate as at December 31, 2010 as a liability to non-controlling interest shareholder under put option and included it in other non-current liabilities. Also, the Group recognised non-controlling interest in the amount of 13,587. Cash in the amount of 1,000 million Russian roubles received as a consideration for 47.00% of ownership interest in OOO "TMK-INOX" from non-controlling interest shareholder is available to finance investing activities of OOO "TMK-INOX" only.

vi) Contributions from Non-controlling Interest Owners

In 2010, the Group established a new subsidiary, OAO "Sinarskaya heat and power

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

### 30) Equity (continued)

vi) Contributions from Non-controlling Interest Owners (continued)

plant". The 31.21% ownership interest in OAO "Sinarskaya heat and power plant" was acquired by a third party for 700 million Russian roubles (23,124 at historical exchange rate). As a result of the transaction, the Group's ownership interest in OAO "Sinarskaya heat and power plant" amounted to 68.79%. As at the date of transaction, the Group recognised non-controlling interest in the amount of 23,124. Cash in the amount of 700 million Russian roubles received as a consideration for 31.21% of ownership interest in OAO "Sinarskaya heat and power plant" from non-controlling interest shareholder is available to finance investing activities of OAO "Sinarskaya heat and power plant" only.

vii) Dividends by Subsidiaries of the Group to the Non-controlling Interest Owners in Subsidiaries

Dividends declared by subsidiaries of the Group to the non-controlling interest owners in subsidiaries were recorded as a reduction in non-controlling interests of 8 and 2,302 in the consolidated financial statements for the years ended December 31, 2010 and 2009, respectively.

viii) Non-controlling Interests Put Options

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

ix) 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 217.60 Russian roubles per share. The exercise price for options under the second phase was fixed at 226.68 Russian roubles per share. The exercise price for options under the third phase was fixed at 228.60 Russian roubles per share.

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.

**Notes to the Consolidated Financial Statements (continued)**

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

## 30) Equity (continued)

### ix) Share-Based Payments (continued)

The number and weighted average exercise price (WAEP) of share options as of January 1, 2009 were 3,841,204 and 7.78 US dollars per share, respectively. No share options have been granted or exercised during 2009.

The Programme expired on October 1, 2009.

### x) 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.

### xi) 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 borrowings in US dollars made by Russian companies of the Group. As at December 31, 2010, the Group designated US dollar denominated loans in the amount of 1,158,610 (December 31, 2009: 1,158,610) as the hedging instrument. The aim of the hedging was to eliminate foreign currency risk associated with the repayment of these liabilities resulting from changes in US dollar/Russian rouble spot rates.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the year ended December 31, 2010, the effective portion of net losses from spot rate changes in the amount of 269,609 thousand Russian roubles (8,847 at historical exchange rate), net of income tax benefit of 53,922 thousand Russian roubles (1,769 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

### xii) Treasury shares

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Number of shares** | **Cost** | **Number of shares** | **Cost** |
| Outstanding as at January 1 | 7,097,364 | 37,378 | 7,167,049 | 37,827 |
| Purchased during the period | 64,478,432 | 280,973 | 105,791 | 310 |
| Sold during the year | - | - | (175,476) | (759) |
| **Outstanding as at December 31** | **71,575,796** | **318,351** | **7,097,364** | **37,378** |

In the year ended December 31, 2010, the Group purchased 64,478,432 shares of the Company from TMK Steel for 280,973 (including transaction fees of 2,000). As at December 31, 2010, the Group owned 71,575,796 treasury shares.

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

During 2009, the Group purchased 105,791 treasury shares for 310, including 34,318 shares that were purchased back from the Share option programme participants for the amount of 89 (Note 30 ix), and sold 175,476 treasury shares for 759.

**Notes to the Consolidated Financial Statements (continued)**

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

### 31) Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise bank loans, bonds issued, trade payables, liabilities under put options of non-controlling 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 8% of the total loan portfolio at the end of 2010 (5% at the end of 2009), 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 2010** | | |
| Increase in LIBOR | 100 | (1,126) |
| Decrease in LIBOR | (25) | 281 |
| Increase in EURIBOR | 100 | (1,792) |
| Decrease in EURIBOR | (25) | 448 |
| **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 |

#### 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.

**Notes to the Consolidated Financial Statements (continued)**

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

### 31) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk

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

| | 2010 | 2009 |
|---|---|---|
| USD/RUR (*) | (1,457,948) | (1,692,345) |
| EUR/RUR | (323,931) | (418,433) |
| EUR/USD | 21,467 | (5,018) |
| USD/RON | (90,967) | (94,818) |
| EUR/RON | (5,541) | (39,380) |

*As disclosed in Note 30 the Group hedged its net investments in foreign operations against borrowings in US dollars made by Russian companies of the Group. The net monetary position in USD/RUR included the hedging instruments in the amount of 1,158,610 (2009: 1,158,610) which exposure to currency risk is reflected directly in other comprehensive income.

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.

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 estimating reasonably possible changes for 2010 and 2009 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of reporting period.

| | As at December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Volatility range | | Effect on Income Statement | | Effect on Statement of Comprehensive Income | |
| | Low | High | Low | High | Low | High |
| USD/RUR | 11.91% | -11.91% | (35,651) | 35,651 | (137,990) | 137,990 |
| EUR/RUR | 10.07% | -10.07% | (32,620) | 32,620 | - | - |
| EUR/USD | 11.75% | -11.75% | 2,522 | (2,522) | - | - |
| USD/RON | 16.49% | -16.49% | (15,000) | 15,000 | - | - |
| EUR/RON | 7.85% | -7.85% | (435) | 435 | - | - |

**Notes to the Consolidated Financial Statements (continued)**

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

### 31) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

| | 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 | - | - |

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's exposure to other price risk relates to changes of the fair value of its derivative financial instrument as a result of fluctuations of GDR's quotations. The Group manages its exposure to other price risk by holding of treasury shares in the quantity corresponding to the number of shares in which convertible bonds are convertible.

The reasonably possible changes in the price of underlying GDRs, with all other variables held constant, would have an effect on the Group's profit before tax. In estimating of reasonably possible fluctuations of GDR's quotations, the Group assessed the volatility of GDRs during the period starting the date of convertible bonds issuance (Note 25) till the end of the reporting period. A 34.10% increase to the value of GDR as at December 31, 2010 would reduce profit before tax by 83,962. A 34.10% decrease from the value of GDR as at December 31, 2010 would result in the increase of profit before tax by 41,379.

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.

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

### 31) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

| As at 31 December 2010 | 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 | 617,862 | 5,171 | - | - | - | - | **623,033** |
| Accounts payable to related parties | 7,457 | 977 | - | - | - | - | **8,434** |
| Interest-bearing loans and borrowings: | | | | | | | |
| Principal | 346,061 | 332,978 | 429,252 | 822,783 | 560,812 | 1,407,200 | **3,899,086** |
| Interest | 91,411 | 207,935 | 238,268 | 189,386 | 139,254 | 171,767 | **1,038,021** |
| Dividends payable | 261 | 169 | - | - | - | - | **430** |
| Liabilities under put options of non-controlling interest shareholders in subsidiaries | 14,934 | - | - | - | - | - | **14,934** |
| Other non-current liabilities | - | - | 599 | 1,040 | 20,481 | 9,900 | **32,020** |
| | **1,077,986** | **547,230** | **668,119** | **1,013,209** | **720,547** | **1,588,867** | **5,615,958** |

**Notes to the Consolidated Financial Statements (continued)**

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

### 31) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

| 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 non-controlling 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** |

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, 2010, accounts receivable from the three biggest debtors of the Group amounted to 234,055 (December 31, 2009: 184,756). Management determines concentration by reference to receivables from particular customers as percentage of total accounts receivable.

**Notes to the Consolidated Financial Statements (continued)**

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

## 31) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which are disclosed below:

| | 2010 | 2009 |
|---|---|---|
| Cash and cash equivalents | 157,524 | 243,756 |
| Financial investments | 3,966 | 4,075 |
| Trade and other receivables | 716,940 | 578,973 |
| Accounts receivable from related parties | 3,305 | 886 |
| Other | 7,016 | 8,033 |
| | **888,751** | **835,723** |

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Gross amount | Impairment | Gross amount | Impairment |
| Current Trade and other receivables — not past due | 578,481 | (292) | 486,826 | (27) |
| Current Trade and other receivables — past due | | | | |
| less than 30 days | 65,141 | (43) | 56,977 | (35) |
| between 30 and 90 days | 33,412 | (229) | 14,498 | (55) |
| over 90 days | 57,799 | (17,372) | 35,816 | (15,044) |
| Accounts receivable from related parties — not past due | 3,305 | - | 886 | - |
| Non-current Trade and other receivables — not past due | 54 | (11) | 28 | (11) |
| Other — not past due | 7,016 | - | 8,033 | - |
| | 745,208 | (17,947) | 603,064 | (15,172) |

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

## 31) Financial Risk Management Objectives and Policies (continued)

### Credit Risk (continued)

The movement in allowance for doubtful accounts was as follows:

| | 2010 | 2009 |
|---|---|---|
| Balance at the beginning of the year | 15,172 | 13,132 |
| Utilised during the year | (2,347) | (2,199) |
| Additional increase in allowance | 5,420 | 4,219 |
| Currency translation adjustment | (298) | 20 |
| **Balance at the end of the year** | **17,947** | **15,172** |

### 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 2010, the Group 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 dividend 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.

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

### 31) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

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

| | 31 December 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| | Net carrying amount | Fair Value | Net carrying amount | Fair Value |
| **Financial Liabilities** | | | | |
| Fixed rate long term bank loans | 2,471,628 | 2,469,174 | 1,953,175 | 1,934,655 |
| Variable rate long term bank loans | 244,378 | 242,660 | 158,093 | 140,903 |
| Bonds due 2013 | 164,059 | 165,371 | - | - |
| Bonds due 2011 | 164,059 | 165,010 | 165,321 | 165,445 |
| 5.25 per cent convertible bonds | 382,216 | 404,123 | - | - |
| 10 per cent loan participation notes due 2011 | 186,700 | 193,261 | 186,700 | 191,834 |

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 9%, 8% and 5% per annum for loans denominated in Russian rouble, US dollar and Euro, respectively, as at December 31, 2010 (14%, 10% and 5% per annum for loans denominated in Russian rouble, US dollar and Euro, respectively, as at December 31, 2009).

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

**Notes to the Consolidated Financial Statements (continued)**
(All amounts are in thousands of US dollars, unless specified otherwise)

### 31) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

As at December 31, 2010 and 2009, the Group held the following financial instruments measured at fair value:

| | 2010 | Level 2 | 2009 | Level 2 |
|---|---|---|---|---|
| **Liabilities measured at fair value** | | | | |
| Derivative financial instrument | 47,816 | 47,816 | - | - |

During the reporting period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

### 32) Subsequent Events

Loan Participation Notes

On January 27, 2011, TMK Capital S.A. completed the offering of loan participation notes due 2018 in the total amount of 500,000 with a coupon of 7.75% per annum, payable on semi-annual basis. The notes are admitted for trading on the London Stock Exchange.

Bank Loans

In January 2011, the Group partially repaid 1,107,542 Gazprombank loan facilities using the proceeds from issuance of 7.75% loan participation notes in the amount of 500,000.

In February 2011, the Group entered into new credit line agreements with Gazprombank for the amount of 12,000,000 thousand Russian roubles (407,587 at the exchange rates as at the cash proceeds dates) with a maturity in 2014.

Russian Bond Obligations

On February 15, 2011, the Group fully repaid its liability under 5,000,000 thousand Russian roubles bonds issued on February 21, 2006 (170,892 at the exchange rate as at the payment date) using the proceeds from the loan provided by Gazprombank.

Acquisition of the Shares of Volgograd River Port

In March 2011, the Group won an auction for acquisition of 25.5% of Volgograd River Port for 112,825 thousand Russian roubles (3,928 at the exchange rate as at the date of auction). The transfer of ownership is expected to be finalized in the second quarter of 2011.

# Major Transactions and Related Party Transactions Undertaken by OAO TMK in 2010


**Eastern Siberia-Pacific Ocean (ESPO) pipeline**

**4,770 km in length**

TMK has supplied large diameter pipes to Transneft for the construction and operation of the following large-scale pipeline projects: Baltic Pipeline System (BPS-1, BPS-2), Eastern Siberia-Pacific Ocean (ESPO), Skovorodino-Daqing, and Purpe-Samotlor.

# 11. Major Transactions and Related Party Transactions Undertaken by OAO TMK in 2010

## 11.1. Major Transactions

(approved by the Board of Directors of OAO TMK)

| # | Parties to the Transaction | Subject of the Transaction and Essential Conditions |
|---|---|---|
| 1 | Lender — TMK Bonds SA;<br>Borrower — OAO TMK | The Lender transfers the ownership of the funds with interest payments to the borrower.<br>The size of the transaction in monetary terms:<br>RUB 16,121,134,807.<br>Deadline for the fulfillment of obligations under the transaction: Feb. 10, 2015 |
| 2 | Guarantor — OAO TMK;<br>Issuer — special purpose company TMK Bonds SA.;<br>Trustee -Deutsche Trustee Company Limited | Guarantee for fulfillment of obligations of the issuer to place 4,125 convertible Eurobonds with a nominal value of U.S.$ 100,000 each with a maturity in 2015.<br>Size of the transaction in monetary terms:<br>RUB 12,476,557,500;<br>Deadline for the fulfillment of obligations under the transaction: Feb. 11, 2015 |

## 11.2. Related Party Transactions

All translations with interested parties were carried out on market conditions.

**Transactions approved by the General Meeting of Shareholders of OAO TMK**

| # | Parties to the Transaction | Subject of the Transaction and Main Terms | Related Parties |
|---|---|---|---|
| 1 | Bank — OAO Bank VTB;<br>Applicant — OAO Volzhsky Pipe Plant,<br>Guarantor — OAO TMK | Guarantee of security to fulfill obligations of the applicant in the amount of RUB 132,274,426.<br>Period — 17.06.2011 | Members of the Board of Directors: Pumpyanskiy, D.A., Kaplunov, A.Yu., Eskindarov, M.A.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I., Lyalkov, A.G. |
| 2 | Principal — OAO Volzhsky Pipe Plant,<br>Guarantor — OAO TMK;<br>Bank — OAO Bank VTB | Guarantee to secure the obligations of the Principal according to guarantee.<br>Amount RUB 2,442,430<br>Period: 05.10.2013 | Members of the Board of Directors:<br>Pumpyanskiy, D.A., Kaplunov, A.Yu.,<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I., Lyalkov, A.G. |
| 3 | Creditor — OAO Bank VTB,<br>Borrower — OAO TMK | Credit agreement(s)<br>Amount: no more than RUB 2,757,856, 600<br>Period: 23.03.2015 | Members of the Board of Directors Eskindarov, M.A. |
| 4 | Bank — OAO Bank VTB,<br>Guarantor — OAO TMK<br>Applicant — OAO Seversky Tube Works | Guarantee to the bank to secure obligations of the Applicant on L.C. for the amount of — RUB 310,355 993.<br>Period: up to 730 days | Members of the Board of Directors:<br>Pumpyanskiy, D.A., Kaplunov, A.Yu.,<br>Eskindarov, M.A., Shiryaev, A.G.;<br>Members of the Management Board:<br>Semerikov, K.A., Petrosyan, T.I. |
| 5 | Bank — OAO Bank VTB<br>Guarantor — OAO TMK;<br>Principal — ZAO TMK Trade House | Under agreement(s) for a bank guarantee, provide a guarantee to the bank to secure the obligations of the Principal to reimburse the Bank those amounts paid by the Bank under the Guarantee.<br>Amount: RUB 473,704,143<br>Period: up to 06.05.2014 | Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G., Eskindarov, M.A.<br>Members of the Management Board:<br>Semerikov, K.A., Petrosyan, T.I. |
| 6 | Lender — OAO TMK,<br>Borrower — ZAO TAGMET | Loan Agreement<br>Amount — RUB 430,000,000.<br>Period: 24.08.2011 | Members of the Board of Directors:<br>Pumpyanskiy, D.A., Kaplunov, A.Yu., Shiryaev, A.G.,<br>Members of the Management Board:<br>Semerikov, K.A., Petrosyan, T.I. |

| # | Parties to the Transaction | Subject of the Transaction and Main Terms | Related Parties |
|---|---|---|---|
| 7 | Lender — OAO TMK,<br>Borrower — OAO Volzhsky Pipe Plant | Loan Agreement<br>Amount — RUB 700,000,000.<br>Period: 24.08.2011 | Members of the Board of Directors:<br>Pumpyanskiy, D.A., Kaplunov, A.Yu., Shiryaev, A.G.,<br>Members of the Management Board:<br>Semerikov, K.A., Petrosyan, T.I. |
| 8 | Creditor — OAO MDM<br>Guarantor — OAO TMK,<br>Borrower — ZAO TMK Trade House | Guarantee to secure the obligations of the Borrower on credit line agreement(s) or credit agreements .<br>Amount of all loans: no more than RUB 1,850,000,000 + interest of no more than 12% annually<br>Period: 17.08.2011 | Members of the Board of Directors: Kaplunov, A.Yu. Shiryaev, A.G., Eskindarov, M.A.<br>Members of the Management Board:<br>Semerikov, K.A., Petrosyan, T.I. |
| 9 | Lender — OAO TMK,<br>Borrower — OAO Seversky Tube Works | Loan Agreement<br>Amount: RUB 1,000,000,000<br>Period: 27.10.2011 | Members of the Board of Directors:<br>Pumpyanskiy, D.A., Kaplunov, A.Yu., Shiryaev, A.G.,<br>Members of the Management Board:<br>Semerikov, K.A., Petrosyan, T.I. |
| 10 | Creditor — OAO Uralsib;<br>Guarantor — OAO TMK;<br>Borrower — ZAO TMK Trade House | Guarantee agreement to secure the obligations of the Borrower on credit line agreement(s).<br>Amount — RUB 4,000,000,000 (four billion).<br>Period: 09.05.2015 | Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G., Eskindarov, M.A.<br>Members of the Management Board:<br>Semerikov, K.A., Petrosyan, T.I. |
| 11 | Creditor — OAO Sberbank of Russia,<br>Guarantor — OAO TMK;<br>Borrower — OAO Seversky Tube Works | Guarantee agreement to secure the obligations of the Borrower on the agreement(s) to open a credit line.<br>Amount — RUB 3,000,000,000 (three billion).<br>Period: 28.09.2018 | Members of the Board of Directors:<br>Pumpyanskiy, D.A., Kaplunov, A.Yu., Eskindarov, M.A., Shiryaev, A.G.<br>Members of the Management Board:<br>Semerikov, K.A., Petrosyan, T.I. |
| 12 | Creditor — OAO Sberbank of Russia, Guarantor — OAO TMK;<br>Borrower — OAO TAGMET | Guarantee agreement to secure the obligations of the Borrower on the agreement(s) to open a credit line.<br>Amount — RUB 3,000,000,000.<br>Period: 28.09.2018 | Members of the Board of Directors:<br>Pumpyanskiy, D.A., Kaplunov, A.Yu., Eskindarov, M.A., Shiryaev, A.G.<br>Members of the Management Board:<br>Semerikov, K.A., Petrosyan, T.I. |

| # | Parties to the Transaction | Subject of the Transaction and Main Terms | Related Parties |
|---|---|---|---|
| 13 | Creditor — OAO Sberbank of Russia,<br>Guarantor — OAO TMK;<br>Borrower — OAO Sinarsky Pipe Plant | Guarantee agreement between OAO TMK and VTB Bank to secure the obligations of OAO Sinarsky Pipe Plant to VTB Bank on the agreement(s) to open a credit line.<br>Amount — RUB 4,000,000,000.<br>Period: 28.09.2018 | Members of the Board of Directors: Pumpyanskiy, D.A., Kaplunov, A.Yu., Eskindarov, M.A., Shiryaev, A.G.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 14 | Bank — OAO Bank VTB,<br>Guarantor — OAO TMK;<br>Principal — ZAO TMK Trade House | Under agreement(s) for a bank guarantee, provide a guarantee to the bank to secure the obligations of the Principal to reimburse the Bank those amounts paid by the Bank under the Guarantee.<br>Amount: RUB 492,794,407,<br>Period: 06.05.2014 | Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G., Eskindarov, M.A.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 15 | Creditor — OAO Uralsib<br>Guarantor — OAO TMK;<br>Borrower — ZAO TMK Trade House | Guarantee agreement to secure the obligations of the Borrower on the agreement(s) to open a credit line.<br>Amount — RUB 3,986,666,657.<br>Period: 09.05.2015 | Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G., Eskindarov, M.A.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |

**Transactions approved by the Board of Directors of OAO TMK**

| # | Parties to the Transaction | Subject of the Transaction and Main Terms | Related Parties |
|---|---|---|---|
| 1 | Creditor — OAO Bank VTB,<br>Guarantor — OAO TMK;<br>Borrower — OAO OMZ | Guarantee to the creditor for the full amount of obligations of the Borrower<br>Amount: no more than RUB 50,728,860.<br>Period: 16.03.2015 | Member of the Board of Directors Eskindarov, M.A. |
| 2 | Creditor — OAO Bank VTB,<br>Guarantor — OAO TMK;<br>Borrower —<br>OAO Sinarsky Pipe Plant | Guarantee to creditor for the full amount of obligations of the Borrower<br>Amount — RUB 144,111,006 Period: 30.01.2013 | Members of the Board of Directors: Pumpyanskiy, D.A., Kaplunov, A.Yu., Eskindarov, M.A., Shiryaev, A.G.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 3 | Creditor — OAO Bank VTB,<br>Guarantor — OAO TMK;<br>Borrower —<br>ZAO TMK Trade House | Guarantee to the creditor for the full amount of obligations of the Borrower in accordance with the terms of trade announced by OAO Transneft<br>Amount: RUB 3,000,000<br>Period: 01.05.2013. | Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G., Eskindarov, M.A.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 4 | Bank — OAO Bank VTB;<br>Guarantor — OAO TMK;<br>Principal — ZAO TMK Trade House | Under agreement(s) for a bank guarantee, provide a guarantee to the bank to secure the obligations of the Principal to reimburse the Bank those amounts paid by the Bank under the Guarantee.<br>Amount: RUB 966,498,550<br>Period: 16.07.2013 | Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G., Eskindarov, M.A<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 5 | Pledgor — Bravecorp Limited<br>Borrower — OAO TMK,<br>Creditor, pledge holder —<br>OAO Bank VTB | Supplementary Agreement to Agreement dated 03.08.2009 on remuneration of the securities for obligations. The Borrower is required to pay compensation to the pledge holder for providing in security to the Creditor 25% +1 share of the Borrower belonging to the pledge holder as security for the obligations of the Borrower to the Creditor.<br>Amount: RUB 355,886,400.<br>Period: up to 1,095 days from the day the Credit Agreement went into force. | Member of the Board of Directors Khmelevsky, I.B. |

| # | Parties to the Transaction | Subject of the Transaction and Main Terms | Related Parties |
|---|---|---|---|
| 6 | Creditor — ZAO Surgutneftegazbank Guarantor — OAO TMK, Borrower — ZAO TMK Trade House | Guarantee agreement to secure the obligations of the Borrower on the credit agreement Amount: no more than RUB 800,000,000. + interest no more than 8.75% annual Period: 06.09.2011 | Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G. Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 7 | Creditor OAO MDM Guarantor — OAO TMK, Brorrower — OAO Volzhsky Pipe Plant | Guarantee to secure the obligations of the Borrower on credit line agreement(s) or credit agreements Amount of all loans: no more than RUB 2,000,000,000. + interest no more than 10% annual Period: 28.03.2011 | Members of the Board of Directors: Pumpyanskiy, D.A, Kaplunov, A.Yu., Shiryaev, A.G., Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 8 | OAO TMK OAO Sinarsky Pipe Plant | Supplementary Agreement to the agreement on the transfer to OAO TMK of the powers of sole executive body of OAO Sinarsky Pipe Plant, which stipulates the extension of the powers of sole executive body and an increase in the costs of the service Amount: RUB 538,080,000 Period: 01.01.2013 | Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G., Pumpyanskiy, D.A. Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 9 | OAO TMK OAO Seversky Tube Works | Supplementary Agreement to the agreement on the transfer to OAO TMK of the powers of sole executive body of OAO Seversky Tube Works, which stipulates the extension of the powers of sole executive body and an increase in the costs of the service Amount: RUB 538,080,000 Period: 01.01.2013 | Members of the Board of Directors: Pumpyanskiy, D.A, Kaplunov, A.Yu., Shiryaev, A.G. Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 10 | OAO TMK OAO TAGMET | Supplementary Agreement to the agreement on transfer to OAO TMK of the powers of sole executive body of OAO TAGMET, which stipulates the extension of the powers of the sole executive body and an increase in the costs of the service Amount: RUB 538,080,000 Period: 01.01.2013 | Members of the Board of Directors: Pumpyanskiy, D.A, Kaplunov, A.Yu., Shiryaev, A.G. Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |

| # | Parties to the Transaction | Subject of the Transaction and Main Terms | Related Parties |
|---|---|---|---|
| 11 | OAO TMK<br>OAO Volzhsky Pipe Plant | Supplementary Agreement to the agreement on transfer to OAO TMK of the powers of sole executive body of OAO Volzhsky Pipe Plant, which stipulates the extension of the powers of the sole executive body and an increase in the costs of the service<br>Amount: RUB 538,080,000<br>Period: 01.01.2013 | Members of the Board of Directors: Pumpyanskiy, D.A, Kaplunov, A.Yu., Shiryaev, A.G.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I., Lyalkov, A.G. |
| 12 | State Corporation RUSNANO , OAO TMK, OAO Sinarsky Pipe Plant, OOO TMK-INOX. | Investment agreement.<br>Amount: RUB 2,650,000.<br>Period: to the date of termination of the agreement | Member of the Board of Directors Eskindarov, M.A. |
| 13 | Creditor — Unicredit Tiriac bank S.A., Guarantor — OAO TMK Borrower — SC TMK — Resita | Guarantee to secure the fulfillment of obligations by the Borrower<br>Amount: RUB 802,008,900<br>Period: 30.07.2011 | Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 14 | Guarantor — OAO MDM Bank<br>Principal — ZAO TMK Trade House<br>Guarantor — OAO TMK | Guarantee to the Guarantor on obligations of the Principal on agreements on the provision of bank guarantees<br>Amount RUB: 1,850,000,000<br>Period: 17.02.2011 | Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.,<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 15 | Lender — OAO TMK<br>Borrower — OAO TAGMET | Loan Agreement<br>Amount: RUB 1,500,000,000<br>Period: 27.10.2011 | Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I. |
| 16 | Lender — OAO TMK<br>Borrower —<br>OAO Volzhsky Pipe Plant | Loan Agreement<br>Amount: RUB 1,500,000,000<br>Period: 27.10.2011 | Members of the Board of Directors: Pumpyanskiy, D.A, Kaplunov, A.Yu., Shiryaev, A.G.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I., Lyalkov, A.G. |
| 17 | Lender — OAO TMK<br>Borrower —<br>OAO Volzhsky Pipe Plant | Loan Agreement<br>Amount: RUB 1,400,000,000<br>Period: 01.12.2013 | Members of the Board of Directors: Pumpyanskiy, D.A, Kaplunov, A.Yu., Shiryaev, A.G.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I., Lyalkov, A.G |
| 18 | Lender — OAO TMK<br>Borrower —<br>OAO Volzhsky Pipe Plant | Loan Agreement<br>Amount: RUB 1,600,000,000<br>Period: 01.12.2013 | Members of the Board of Directors: Pumpyanskiy, D.A, Kaplunov, A.Yu., Shiryaev, A.G.<br>Members of the Management Board: Semerikov, K.A., Petrosyan, T.I., Lyalkov, A.G |

# Glossary and Contacts

Kenkiyak-Kumkol oil pipeline

793 km in length

TMK is actively participating in long-distance pipeline projects in the countries of the CIS. The Company has supplied large diameter pipes for the Kenkiyak-Kumkol oil pipeline (Kazakhstan), Malai-Bagtyyarlyk pipeline (Turkmenistan), the Central Karakumy — Yylanlynskaya gas-compressor station (Turkmenistan), and others.

## 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. |
| **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 9000** | Series of standards for quality management systems (www.iso.org). |
| **ISO 13679:2002** | A standard which establishes minimum design verification testing procedures and acceptance criteria for casing and tubing connections for the oil and natural gas industries (www.iso.org). |
| **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. |
| **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. |
| **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). |
| **RSPP** | 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. |
| **Tubing** | A pipe that is inserted inside the casing string to bring oil or gas to the surface. |
| **Welded pipe** | Pipe that is made from metal coil, plate, strip or sheet, rolled and welded, manufactured on a tube welding mill. |

## Contacts

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