

**IMPORTANT:** You must read the following before continuing. The following applies to the Offering Circular following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. The Offering Circular has been prepared solely in connection with the proposed offering to certain institutional investors of the securities described herein.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE OFFERING CIRCULAR (THE “**SECURITIES**”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE U.S. OR TO PERSONS THAT ARE U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR MAY NOT BE FORWARDED TO ANY U.S. ADDRESS OTHER THAN AS PERMITTED BY REGULATION S. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS RESTRICTION MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your representation:** In order to be eligible to view the following Offering Circular or make an investment decision with respect to the Securities being offered, you must be a person other than a U.S. person that is outside the United States. By accepting the e-mail to which the following Offering Circular is attached and accessing the following Offering Circular, you shall be deemed to have represented to us that you are outside the United States and that you consent to delivery of such Offering Circular by electronic transmission.

Under no circumstances shall this Offering Circular constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Securities being offered, in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Offering Circular who intend to subscribe for the Securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the final offering circular to be published in due course. This Offering Circular may only be provided to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer and the Guarantors (each as defined herein).

Under Russian law, the Securities are securities of a foreign issuer. The Securities are not eligible for initial offering and public circulation in the Russian Federation. Neither the issue of the Securities nor a securities prospectus in respect of the Securities has been, or is intended to be, registered with the Federal Financial Markets Service of the Russian Federation. The information provided in this Offering Circular is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Securities in the Russian Federation or to or for the benefit of any Russian person or entity.

You are reminded that you are accessing the Offering Circular on the basis that you are a person by whom the Offering Circular may be lawfully accessed in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

The materials relating to the offering do not constitute and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Managers, as named in this Offering Circular, or any affiliate of any of the Managers, is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the relevant Manager or such affiliate on behalf of the Issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, any Guarantor and the Managers nor any person who controls them nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the offices of the Issuer and the Principal Paying, Transfer and Conversion Agent.



# TMK Bonds SA

*(incorporated as a public limited liability company in Luxembourg and registered with the Luxembourg trade and companies register under number B.149.705)*

**U.S.\$412,500,000**

**5.25 per cent. Guaranteed Convertible Bonds due 2015**  
**initially unconditionally and irrevocably guaranteed, on a joint and several basis, by**

## OAOTMK

*(an Open Joint Stock Company organised under the laws of the Russian Federation with state registration number 1027739217758),*

**ZAO TMK Trade House and OAOTMK Volzhsky Pipe Plant and to be additionally guaranteed, unconditionally and irrevocably, on a joint and several basis, by**  
**OAOTMK Seversky Pipe Plant, OAOTMK Sinarsky Pipe Plant, OAOTMK Taganrog Metallurgical Works and IPSCO Tubulars Inc**

The issue price of the U.S.\$412,500,000 5.25 per cent. Guaranteed Convertible Bonds due 2015 (the “**Bonds**”) of TMK Bonds SA (the “**Issuer**”) is 100 per cent. of their principal amount. The Bonds will bear interest from (and including) the closing date, which is expected to be on or about 11 February 2010 (the “**Closing Date**”), at the rate of 5.25 per cent. per annum. Interest shall be payable on the Bonds quarterly in arrear in equal instalments on 11 February, 11 May, 11 August and 11 November in each year commencing on 11 May 2010.

OAOTMK (“**TMK**” or the “**TMK Group**”), OAOTMK Volzhsky Pipe Plant (“**Volzhsky**”) and ZAO TMK Trade House (“**TMK Trade House**”) (the “**Initial Guarantors**”) will unconditionally and irrevocably, jointly and severally, guarantee the payment of all amounts payable in respect of the Bonds and all other moneys payable under or pursuant to the trust deed dated on or about 11 February 2010 (the “**Trust Deed**”) between the Issuer, TMK and Deutsche Trust Company Limited (the “**Trustee**”), in the case of TMK, and a deed of guarantee dated on or about 11 February 2010 (the “**Deed of Guarantee**”) between Volzhsky, TMK Trade House and the Trustee, in the case of Volzhsky and TMK Trade House, and the performance by the Issuer of all its obligations relating to payment and conversion under the Bonds and the Trust Deed (together, the “**Initial Guarantee**”), and TMK and the Issuer have agreed in the terms and conditions of the Bonds (the “**Conditions**”) to procure that each of TMK’s subsidiaries: OAOTMK Seversky Pipe Plant (“**Seversky**”), OAOTMK Sinarsky Pipe Plant (“**Sinarsky**”), OAOTMK Taganrog Metallurgical Works (“**Tagmet**”) and IPSCO Tubulars Inc. (“**IPSCO Tubulars**”) (the “**Additional Guarantors**”) and, together with the Initial Guarantors, the “**Guarantors**”) shall also provide an unconditional and irrevocable guarantee of the Bonds, on a joint and several basis (the “**Additional Guarantee**”), and together with the Initial Guarantee, the “**Guarantee**”), within 90 days of the Closing Date. Failure to procure any such Additional Guarantees by such date shall entitle the holders of the Bonds to request that the Issuer repurchase the Bonds, as set out in the Conditions.

Unless previously purchased and cancelled, redeemed or converted, each Bond will be convertible, at the option of the holder, into global depositary receipts each representing fully paid ordinary shares of TMK of par value RUB 10 each (the “**Ordinary Shares**”) and delivered in reliance on Regulation S (“**Regulation S**”) under the U.S. Securities Act of 1933 (the “**Securities Act**”) (the “**GDRs**”), at any time, subject to any applicable fiscal or other laws or regulations and as provided in the Conditions, on and after 24 March 2010 and until the close of business on (i) unless redemption arises earlier, the date falling seven business days prior to the Final Maturity Date (both days inclusive) or (ii) if the Bonds are called for redemption prior to the Final Maturity Date, the seventh business day prior to the relevant date for redemption. Each GDR currently represents four Ordinary Shares. The initial conversion price will be U.S.\$23.075 per GDR. The conversion price is subject to adjustment in certain circumstances as described herein. For the terms of the Conversion Rights, see “*Terms and Conditions of the Bonds — Conversion*”.

The Bonds are subject to various Issuer calls and Bondholder puts, all as described in “*Terms and Conditions of the Bonds — Redemption and Purchase*”. The Bonds are also subject to redemption in whole (but not in part only) at their Tax Redemption Amount (as defined herein) together with accrued interest at the option of the Issuer in the event of certain changes in Luxembourg, Russian or United States taxation affecting the Bonds, subject to the right of each Bondholder to elect, in lieu of redemption, thereafter to receive all payments of principal and interest in respect of the Bonds subject to withholding of any applicable Luxembourg, Russian or United States taxes.

Unless previously purchased and cancelled, redeemed or converted, the Bonds will be redeemed at their principal amount together with unpaid accrued interest on 11 February 2015 (the “**Final Maturity Date**”).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for the Bonds to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Bonds to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Regulated Market**”). The Regulated Market is a regulated market for the purpose of Directive 2004/39/EC (the “**Markets in Financial Instruments Directive**”). References in this offering circular (this “**Offering Circular**”) to the Bonds being “**listed**” (and all related references) shall mean that the Bonds have been admitted to the Official List and have been admitted to trading on the Regulated Market.

### **See “Risk Factors” for a discussion of certain factors that should be considered in connection with an investment in the Bonds.**

The Bonds have not been, and will not be, registered under the Securities Act. The Bonds have been offered outside the United States by the Managers (as defined in “*Subscription and Sale*”) in accordance with Regulation S under the Securities Act, and may not be offered, sold or delivered within the United States or to U.S. persons as defined in Regulation S under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

It is expected that the Bonds will be rated “B” by Standard & Poor’s Rating Services (“**S&P**”). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Bonds are in registered form and issued in the principal amounts of U.S.\$100,000 and integral multiples thereafter in excess thereof. The Bonds will initially be represented by a temporary global Bond (the “**Temporary Global Bond**”) in registered form, without interest coupons, which will be deposited on the Closing Date with a common depositary for, and registered in the name of a nominee for a common depositary on behalf of, Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). The Temporary Global Bond will be exchangeable for interests in a permanent global Bond (the “**Permanent Global Bond**”) and together with the Temporary Global Bond, the “**Global Bonds**”), without interest coupons, on or after the Exchange Date specified herein, upon certification as to non-U.S. beneficial ownership. The Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for definitive Bonds in registered form in principal amounts equal to or greater than U.S.\$100,000 each. See “*Summary of Provisions Relating to the Bonds in Global Form*”.

JOINT LEAD MANAGERS AND JOINT BOOKRUNNERS

**Morgan Stanley**

**UBS Investment Bank**

**VTB Capital**

The date of this Prospectus is 5 February 2010

## IMPORTANT INFORMATION ABOUT THIS OFFERING CIRCULAR

This offering circular (the “**Offering Circular**”) constitutes a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “**Prospectus Directive**”). This Offering Circular is issued in compliance with the Prospectus Directive compliant listing rules of the Financial Services and Markets Act 2000 (“FSMA”) for the purpose of giving information with respect to the Issuer, the TMK Group, the Guarantors, the Bonds, the Guarantee and the GDRs and which is necessary to enable prospective investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Guarantors and the TMK Group. The Issuer and each of the Guarantors accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer and each of the Guarantors, each of which has taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer and each of the Guarantors confirm that (i) this Offering Circular contains all information with respect to the Issuer, TMK, the Guarantors, the Bonds, the Guarantee and the GDRs that is material in the context of the issue and offering of the Bonds; (ii) the statements contained in this Offering Circular relating to the Issuer, TMK and the Guarantors are true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Offering Circular with regard to the Issuer, TMK and the Guarantors are honestly held, have been reached after considering all relevant circumstances, and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, TMK, the Guarantors, the Bonds, the Guarantee or the GDRs, the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer, TMK and the Guarantors to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular does not constitute an offer to sell of, or an invitation by or on behalf of the Issuer, TMK, the Guarantors or the Managers (as defined in “*Subscription and Sale*”) to subscribe for or purchase any Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, TMK, the Guarantors and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and distribution of this Offering Circular, see “*Subscription and Sale*”.

No person is authorised to provide any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be reached upon as having been authorised by or on behalf of the Issuer, TMK, the Guarantors, the Trustee or the Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. TMK Group’s websites do not form any part of the contents of this Offering Circular.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Bond shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer, TMK or the Guarantors since the date of this Offering Circular.

None of the Issuer, TMK, the Guarantors, the Managers, the Trustee or any of its or their respective representatives or affiliates makes any representation to any offeree or purchaser of the Bonds offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Bonds.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Bonds or possess this Offering Circular. Any consents or approvals that are needed in order to purchase any Bonds must be obtained. The Issuer, TMK, the Guarantors, the Trustee and the Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of the Bonds under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Bonds, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which the Bonds constitute a legal investment for investors whose investment authority is subject to legal restrictions, and investors should consult their legal advisers regarding such matters.

In connection with the issue of the Bonds, Morgan Stanley & Co. International plc (the “**Stabilising Manager**”) (or any person acting on behalf of any Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Bonds is made and, if commenced, may be discontinued at any time and must be

brought to an end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF OR THE TRUSTEE AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT, AND NOTHING CONTAINED IN THIS DOCUMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION BY THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF OR THE TRUSTEE ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT.

EACH PERSON RECEIVING THIS OFFERING CIRCULAR ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE BONDS MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER AND TMK AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

## TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| IMPORTANT INFORMATION ABOUT THIS OFFERING CIRCULAR .....                                      | ii          |
| FORWARD-LOOKING STATEMENTS .....  | v           |
| ENFORCEABILITY OF JUDGEMENTS .....  | vi          |
| PRESENTATION OF FINANCIAL AND OTHER INFORMATION .....   | vii         |
| OVERVIEW OF THE GROUP .....   | x           |
| OVERVIEW OF THE OFFERING .....  | 1           |
| SUMMARY CONSOLIDATED HISTORICAL FINANCIAL DATA .....  | 6           |
| RISK FACTORS .....  | 9           |
| USE OF PROCEEDS .....   | 40          |
| CAPITALISATION .....  | 41          |
| MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF<br>OPERATIONS ..... | 42          |
| BUSINESS .....  | 87          |
| RELATED PARTY TRANSACTIONS .....  | 124         |
| PRINCIPAL SHAREHOLDERS .....  | 126         |
| DIRECTORS AND MANAGEMENT .....  | 127         |
| THE ISSUER .....  | 135         |
| THE GUARANTORS .....  | 138         |
| TERMS AND CONDITIONS OF THE BONDS .....   | 144         |
| SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM .....                              | 181         |
| DESCRIPTION OF THE ORDINARY SHARES .....  | 183         |
| TERMS AND CONDITIONS OF THE GDRS .....  | 197         |
| SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM .....                         | 214         |
| GDR PRICE HISTORY .....   | 216         |
| SUBSCRIPTION AND SALE .....   | 217         |
| INFORMATION RELATING TO THE DEPOSITARY .....  | 219         |
| TAXATION OF THE BONDS AND THE GDRS .....  | 220         |
| INDEPENDENT AUDITORS .....  | 229         |
| GENERAL INFORMATION .....   | 230         |
| INDEX TO CONSOLIDATED FINANCIAL STATEMENTS .....  | F-1         |

## FORWARD-LOOKING STATEMENTS

This Offering Circular includes “forward looking statements,” which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words “targets,” “believes,” “expects,” “aims,” “intends,” “plans,” “will,” “may,” “anticipates,” “would,” “could” or similar expressions or the negative thereof. Such forward looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Among the important factors that could cause our actual results, performance or achievements to differ materially from those expressed in such forward looking statements are those under the headings “*Overview of the Group*,” “*Management’s Discussion and Analysis of Financial Position and Results of Operations*,” “*Risk Factors*,” “*Business*” and elsewhere in this Offering Circular. These forward looking statements speak only as at the date of this Offering Circular. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any of such statements are based unless required to do so by applicable laws.



## ENFORCEABILITY OF JUDGEMENTS

The Guarantors (other than IPSCO Tubulars Inc.) are incorporated under the laws of the Russian Federation and substantially all of the assets of the Guarantors are located outside the United Kingdom. In addition, a substantial majority of the directors and executive officers of the Guarantors are residents of countries other than the United Kingdom. As a result, it may not be possible for Bondholders to:

- effect service of process within the United Kingdom upon any of the directors or executive officers of the Guarantors; or
- enforce, in the English courts, judgments obtained outside English courts against the Guarantors or any of their respective directors and executive officers in any action.

In addition, it may be difficult for the holders of Bonds to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only (i) if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments. No such federal law has been passed and no such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments. However, the Russian courts have recognised and enforced an English court judgment in at least one instance, on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both United Kingdom and the Russian Federation are parties.

The Bonds, the Trust Deed and the Deed of Guarantee will be governed by English law and will provide for disputes, controversies and causes of action (“**Disputes**”) brought by any party thereto to be settled by arbitration in accordance with the LCIA Arbitration Rules (the “**Rules**”). In addition, at the Trustee’s option, prior to the commencement of arbitration, Disputes may be brought before a court of law. Each of the Issuer and each Guarantor has submitted to the jurisdiction of the courts of England. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules and the application of English law to the Trust Deed and the Deed of Guarantee may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies in particular.

In September 2002 the Arbitration Procedural Code of the Russian Federation (the “**Arbitration Procedural Code**”) came into force. The Arbitration Procedural Code established the procedure for Russian courts to refuse to recognise and enforce any arbitral award. The Arbitration Procedural Code and other Russian procedural legislation could change; therefore other grounds for Russian courts to refuse the recognition and enforcement of foreign courts’ judgments and foreign arbitral awards could arise in the future. In practice, the requirement of international treaties may be met with resistance or a lack of understanding by a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcement of any foreign judgment or any foreign arbitral award in the Russian Federation.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

Our financial information set forth herein has, unless otherwise indicated, been derived, without material adjustment, from our audited consolidated financial statements as at and for the years ended 31 December 2008, 2007 and 2006, as set forth on pages F-34 — F-117 in this Offering Circular (the “**Annual Consolidated Financial Statements**”), and our unaudited interim condensed consolidated financial statements as at and for the six-month period ended 30 June 2009, as set forth on pages F-2 to F-33 in this Offering Circular (the “**2009 Interim Condensed Consolidated Financial Statements**” and, together with the Annual Consolidated Financial Statements, the “**Consolidated Financial Statements**”). The Annual Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”). The 2009 Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 (*Interim Financial Reporting*).

### Presentation of Certain Terminology

In this Offering Circular, all references to:

- “**OAo TMK**” and the “**Company**” are to OAo TMK on an unconsolidated basis, unless the context otherwise requires;
- “**TMK**,” “**TMK Group**,” “we,” “us” and “our” are to OAo TMK and its consolidated subsidiaries, unless the context otherwise requires;
- “**Corinth Pipeworks**” are to Corinth Pipeworks S.A.;
- “**Evrax**” are to Evrax Group S.A.;
- “**IPSCO Tubulars**” are to IPSCO Tubulars Inc.;
- “**NS Group**” are to NS Group, Inc.;
- “**Orsky Machine Building Plant**” are to OAo Orsky Machine Building Plant;
- “**Rockarrow**” are to Rockarrow Investments Limited;
- “**Seversky**” are to OAo Seversky Pipe Plant;
- “**Sinarsky**” are to OAo Sinarsky Pipe Plant;
- “**SSAB**” are to Swedish Steel AB;
- “**Tagmet**” are to OAo Taganrog Metallurgical Works;
- “**TMK-Artrom**” are to SC TMK-ARTROM S.A.;
- “**TMK-CPW**” are to ZAO TMK-CPW;
- “**TMK Europe**” are to TMK Europe GmbH;
- “**TMK Global**” are to TMK Global AG;
- “**TMK Italia**” are to TMK Italia S.r.L.;
- “**TMK IPSCO**” are to IPSCO Tubulars, NS Group and their subsidiaries;
- “**TMK-Kazakhstan**” are to TOO TMK-Kazakhstan;
- “**TMK-Kaztrubprom**” are to TOO TMK-Kaztrubprom;
- “**TMK Middle East**” are to TMK Middle East FZCO;
- “**TMK North America**” are to TMK North America Inc.;
- “**TMK-Resita**” are to SC TMK-Resita S.A.;
- “**TMK Steel**” are to TMK Steel Limited;
- “**TMK Trade House**” are to ZAO TMK Trade House;
- “**Truboplast**” are to OOO Predpriyatiye “Truboplast”; and
- “**Volzhsky**” are to OAo Volzhsky Pipe Plant.

### Volume Measurement

In this Offering Circular all references to “**tonnes**” are to metric tonnes; one metric tonne is equal to 1,000 kilograms, 2,204.62 pounds, or 1.102 U.S. (short) tons.



## ***Currencies***

In this Offering Circular, all references to:

- “**EUR**” and “**euro**” are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community, as amended;
- “**RON**” are to Romanian lei, the currency of the Republic of Romania;
- “**RUB**,” “**RUR**,” “**Russian rouble**” and “**rouble**” are to the currency of the Russian Federation;
- “**USD**,” “**U.S. dollar**” and “**U.S.\$**” are to the currency of the United States of America; and

## ***Certain Jurisdictions***

In this Offering Circular, all references to:

- “**China**” are to the People’s Republic of China;
- “**CIS**” are to the Commonwealth of Independent States and its member states as of the date of this Offering Circular: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. In this Offering Circular, references to “**sales to the CIS**” (and derivations thereof) mean sales to customers in CIS member states other than Russia;
- “**EU**” are to the European Union;
- “**Kazakhstan**” are to the Republic of Kazakhstan;
- “**Romania**” are to the Republic of Romania;
- “**Russia**” are to the Russian Federation;
- “**Singapore**” are to the Republic of Singapore;
- “**U.K.**” and “**United Kingdom**” are to the United Kingdom of Great Britain and Northern Ireland; and
- “**U.S.**” and “**United States**” are to the United States of America.

## **Market and other Statistical Data**

Market data used in this Offering Circular, including without limitation under the captions “*Overview of the Group*,” “*Management’s Discussion and Analysis of Financial Position and Results of Operations*” and “*Business*,” have been extracted from official and industry sources and other sources we believe to be reliable but have not been independently verified.

Where information has been sourced from a third party, this information has been accurately reproduced and so far as the Issuer and the Guarantors are aware and are able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information sourced from third parties contained in this Offering Circular, including official data published by certain Russian government agencies, relates to the Russian steel pipe production industry and TMK’s competitors (and may include estimates and approximations). See “*Risk Factors — Risks relating to Our Business and the Pipe Industry*”, “*Risk Factors — Risks relating to the Russian Federation*”, “*Managements’ Discussion and Analysis of Financial Position and Results of Operations — Certain Factors Affecting Our Results of Operations*”, “*Managements’ Discussion and Analysis of Financial Position and Results of Operations — Disclosures about Market Risk*”, “*Business — Investment Highlights*” and “*Business — Production Facilities*”.

Throughout this Offering Circular, we have set forth certain statistical information sourced from third parties which has been accurately reproduced and so far as the Issuer and the Guarantors are aware and are able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. In particular, (i) data relating to our estimated share of the worldwide steel pipe market is based upon steel pipe production data for 2008 made publicly available by Wirtschaftsvereinigung Stahlrohre (the German Steel Tube Manufacturer’s Association) and World Steel Association (former IISI); (ii) data relating to our estimated shares of the worldwide seamless and welded pipe markets are based upon seamless and welded pipe production data for 2008 contained in the monthly Metal Bulletin Research Seamless and Welded, SBB Daily Briefing Global Edition and SBB Insight Reports, Preston Pipe & Tube Reports, an industry research report, PipeLogix Line Pipe and oil country tubular goods (“**OCTG**”) monthly reports; and (iii) data relating to our share of the steel pipe market in Russia is based upon Russian steel pipe production data for 2008 and 2009 contained in the Metal Expert Reports dated February 2008 and February 2009, a compilation of statistical data from the Russian Ministry of Economics as well as Russian statistical and customs authorities, as well as information published by the Russian Federal Service for State Statistics (“**Rosstat**”). We accept responsibility for accurately reproducing

such information, data and statistics. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In addition, the official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on bases different from those used in Western countries. Any discussion of matters relating to Russia in this Offering Circular must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. Moreover, the veracity of some official data released by the Russian government may be questionable.

This Offering Circular contains certain statistical information relating to the volume of pipe and other products that TMK has shipped and/or sold to its customers. As used in this Offering Circular, the term “shipment volumes” (and corresponding derivative forms thereof) refers to the total volumes of products that TMK has (over a referenced period) shipped or otherwise transported from its production facilities for delivery to customers, irrespective of whether the legal ownership of such products has been transferred to the customer. The term “sales volumes” (and corresponding derivative forms thereof) refers to the total volume of products the TMK has (over a referenced period) delivered in a manner such that legal ownership has been transferred to that customer. TMK recognises revenue in its financial statements based upon the transfer of legal ownership of its products and, accordingly, for IFRS purposes, sales volumes are a more relevant measurement than shipment volumes. As a result, in certain cases, for any given period, there may be some difference between the volumes of shipped products and the volumes of sold products recorded by TMK.

### Rounding

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

### Exchange Rate Information

The functional currency of OAO TMK and its subsidiaries located in the Russian Federation, Kazakhstan and Switzerland is the Russian rouble. The Romanian lei is the functional currency of our Romanian subsidiaries and the euro is the functional currency of TMK Europe and TMK Italia. The functional currency of TMK IPSCO, TMK North America and TMK Middle East is the U.S. dollar. The presentation currency for our Consolidated Financial Statements included in this Offering Circular is the U.S. dollar. See the Notes to our Consolidated Financial Statements included elsewhere in this Offering Circular for a description of the methodology we use to translate our financial position and results of operations from Russian roubles and other currencies to U.S. dollars.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Russian rouble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the “CBR”). Fluctuations in the exchange rate between the Russian rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of our Consolidated Financial Statements and other information presented in this Offering Circular.

|   | RUB per U.S.\$1.00 |       |                               |            |
|---|--------------------|-------|-------------------------------|------------|
|   | High               | Low   | Period average <sup>(1)</sup> | Period end |
| <b>Period ended 3 February 2010</b> . . . . . | 30.43              | 29.38 | 29.98                         | 30.18      |
| <b>Year ended 31 December</b>                 |                    |       |                               |            |
| 2009 . . . . .                                | 36.43              | 28.67 | 31.72                         | 30.24      |
| 2008 . . . . .                                | 29.38              | 23.13 | 24.86                         | 29.38      |
| 2007 . . . . .                                | 26.58              | 24.26 | 25.58                         | 24.55      |
| 2006 . . . . .                                | 28.78              | 26.18 | 27.19                         | 26.33      |
| 2005 . . . . .                                | 29.00              | 27.46 | 28.29                         | 28.78      |

(1) Weighted-average value of nominal exchange rates for each day of the period concerned for which the CBR quotes the Russian rouble to U.S. dollar exchange rate.

Solely for the convenience of the reader, and except as contained in the Consolidated Financial Statements, “*Management’s Discussion and Analysis of Financial Position and Results of Operations*”, or as otherwise stated, this Offering Circular contains translations of some rouble amounts into U.S. dollars at the rate of RUB 30.24 to U.S.\$1.00, which was the rate published by the CBR on 31 December 2009.

## OVERVIEW OF THE GROUP

*This overview may not contain all the information that may be important to prospective purchasers of the Bonds and, therefore, should be read in conjunction with this entire Offering Circular, including the more detailed information regarding our business and the Consolidated Financial Statements and related notes included elsewhere in this Offering Circular. Prospective purchasers of the Bonds should also carefully consider the information set forth under the heading “Risk Factors”. Certain statements in this Offering Circular include forward-looking statements that also involve risks and uncertainties as described under “Forward-Looking Statements”.*

*Information in this Offering Circular is presented on the basis of certain conventions that are set forth under “Presentation of Financial and Other Information”.*

### Our Business

We believe that we are among the world’s largest steel pipe producers, with approximately a 6% worldwide market share for seamless pipes and a 12% worldwide market share for OCTG by sales volume in the first half of 2009, according to our estimates. We are also Russia’s largest manufacturer and supplier of steel pipes. We estimate that we had a 31% market share for steel pipes, a 57% market share for seamless pipes and an approximately 70% market share for seamless OCTG in Russia by sales volume in the first half of 2009. In June 2008, we acquired IPSCO Tubulars and NS Group, two significant manufacturers and suppliers of steel pipes and value-added products, including principally premium connections, in the United States, and we estimate that in 2008 (on an annualised basis) we had an approximate 10% market share for OCTG in the United States based on sales volumes. In the first six months of 2009 we sold approximately 1.2 million tonnes of steel pipes, including 0.8 million tonnes of seamless pipes, of which approximately 447,900 tonnes comprised seamless OCTG. In 2008, we sold approximately 3.2 million tonnes of steel pipes, including 2.0 million tonnes of seamless pipes, of which approximately 970,400 tonnes comprised seamless OCTG. Pipes for the oil and gas industry accounted for approximately 67% and 68% of our total sales volume in the first half of 2009 and the year ended 31 December 2008, respectively. We also believe that we are a leading exporter of pipes produced in Russia, with sales volumes of pipe products produced at our Russian plants accounting for 28% and 44% of the volume of all steel pipe exports from Russia in the first six months of 2009 and in the year ended 31 December 2008, respectively.

We produce both seamless and welded pipes, and, though we have historically focused on developing our seamless pipe business, which we believe generally offers higher margins and better growth opportunities, we have recently also been concentrating on developing our welded pipe business and, particularly, our welded OCTG and large diameter welded pipe business. Since our acquisition of IPSCO Tubulars and NS Group in 2008, we are also focusing on our welded OCTG and higher value-added products operations in the United States, where welded pipes represent a significant portion of the OCTG market and where welded OCTG pipes can be used interchangeably with seamless products in many applications. We have recently significantly enhanced our production capacity for large diameter welded pipes used for oil and gas transportation as a result of the recent completion of a state of the art longitudinal large diameter welded pipe mill at our Volzhsky plant, which we believe provides us with a strong platform to expand our share of the important Russian large diameter pipe market.

We currently have the following seven principal product lines:

- *seamless OCTG*, which are used in oil and gas production applications;
- *seamless line pipes*, which are used for oil and gas transportation;
- *seamless industrial pipes*, which are used in various industrial applications by the machine building, chemicals and petrochemicals, power generation, automotive and other industries;
- *welded OCTG*, which are used in oil and gas production applications, principally in the United States;
- *welded line pipes*, which are used for oil and gas transportation;
- *large diameter welded pipes*, which are used for the transportation of oil and gas, typically over long distances; and
- *industrial welded pipes*, which are used in a wide variety of infrastructure and industrial applications.

As at 30 June 2009 and 31 December 2008, our nominal annual production capacity for steel pipes was approximately 6.5 million tonnes, including 2.9 million tonnes of seamless pipes. As a vertically integrated steel pipe producer, we also operate our own steel making facilities and plan to further develop this part of our business. In the first six months of 2009 and in the year ended 31 December 2008, we produced 0.8 million tonnes and

2.3 million tonnes of steel, respectively, which satisfied approximately 82% and 92%, respectively, of our steel billet requirements for our seamless pipe production. We principally use electric arc furnaces (“EAF”) in connection with our steelmaking operations, the principal input for which is metal scrap that we source from third parties. We purchase steel plate and coils for use in our welded pipe production.

We currently deliver our products to customers in more than 60 countries. Our principal customers include major Russian oil and gas companies, such as the Rosneft Group (“**Rosneft**”), OAO TNK-BP (“**TNK-BP**”), the Surgutneftegas Group (“**Surgutneftegas**”), the Gazprom Group (“**Gazprom**”), the LUKOIL Group (“**LUKOIL**”) and OAO Transneft (“**Transneft**”) and, major multinational oil and gas companies, such as Royal Dutch Shell, Agip, Total and ExxonMobil and national oil companies, such as Saudi Arabian Oil Company (“**Saudi Aramco**”), Oil and Natural Gas Corporation Limited of India (“**ONGC**”) and Kuwait Oil Company (“**KOC**”). In the United States, our major customers include ExxonMobil, BP, Chevron and Marathon Oil. In addition, we are currently participating as a supplier of pipes in such major national and international projects as the Baltic Pipeline System 2 oil pipeline (“**BPS-2**”), which connects oil fields in Western Siberia to a Russian port on the Gulf of Finland, and the Sakhalin-Khabarovsk-Vladivostok gas pipeline. We are also supplying or have previously supplied pipes to many other significant international pipeline projects, including the onshore portion of the Nord Stream gas pipeline, which will connect Russia to Germany via the Baltic Sea and is expected to be completed in 2010; the construction of the Central Asia-China gas pipeline (“**CAC Pipeline**”), which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to China; and the Yamal Europe gas pipeline, which connects Western Siberian gas fields to Poland and Western Europe. We are also supplying pipes for phase two of the Eastern Siberia-Pacific Ocean oil pipeline (“**ESPO Pipeline**”), which will run from Eastern Siberia to the Amur region near the border with China.

We operate primarily through our seven principal production subsidiaries, four of which — Volzhsky, Seversky, Tagmet and Sinarsky — are located in Russia, one of which — TMK IPSCO (comprised of IPSCO Tubulars and NS Group) — is located in the United States, and two of which — TMK-Artrom and TMK-Resita — are located in Romania.

In June 2008, we acquired IPSCO Tubulars and NS Group, which now comprise our U.S. TMK IPSCO operations. This acquisition has allowed us to diversify geographically by establishing a strong foothold in the U.S. market, the world’s largest oil and gas pipe market, and broaden our product mix with a position in value-added products. IPSCO Tubulars produces a wide range of welded pipe products primarily for energy applications, including casing and tubing for oil and gas wells, line pipe, standard pipe and hollow structural sections (“**HSS**”). NS Group is a manufacturer of a diverse range of carbon and alloyed seamless and welded pipe products for the oil and gas sector, and its product offering includes seamless tubing and casing, drill pipe, line pipe, coupling stock, premium connections and oilfield accessories. See “*Management’s Discussion and Analysis of Financial Position and Results of Operations — Certain Factors Affecting our Results of Operations — Acquisition of TMK IPSCO*”.

We further broadened our product and service offerings through our acquisition in late 2007 of certain service assets of TNK-BP, which provide transportation services and specialise in the repair of tubing pipes, piston rods and pipe coatings, and our acquisition in 2008 of TMK-Kaztrubprom, which specialises in high-technology pipe threading and is based in Kazakhstan. In 2008, we established the service businesses TMK Oilfield Services and TMK-Premium Service, which provide comprehensive solutions for the construction, repair and efficient operation of wells, including, among other things, the manufacture and delivery of premium threaded pipes and connections for the oil and gas industry, logistics, repair and process consulting services.

In 2004, we launched a strategic capital expenditure programme which focused principally on increasing our seamless pipe production and increasing the efficiency of our production processes. We have now completed most of the principal projects of the programme, which has served to modernise significantly our Russian seamless pipe operations. In light of the current uncertain global financial and economic situation, we have decided to postpone certain additional planned capital investment projects under the programme until we see improvement in global pipe demand and better credit market conditions. The remaining key projects that we intend to implement in the next several years, markets and our financial condition permitting, include the construction of a one million tonne EAF at our Tagmet plant and a 600,000 tonne Fine Quality Mill (“**FQM**”) at our Seversky plant. See “*Business — Capital Expenditures — Strategic Capital Expenditure Programme*.”

In the first half of 2009, we had total consolidated revenue of U.S.\$1,478.6 million and incurred a loss before tax of U.S.\$266.1 million, compared to total consolidated revenue of U.S.\$2,368.4 million and profit before tax of U.S.\$240.4 million in the first half of 2008. In 2008, we had total consolidated revenue of U.S.\$5,690.0 million and profit before tax of U.S.\$308.1 million, compared to total consolidated revenue of U.S.\$4,178.6 million and profit before tax of U.S.\$698.8 million in 2007.

## Investment Highlights

We believe that the following investment highlights should be considered by potential investors:

- We are an important participant in the oil and gas services market;
- We are a leader in a consolidated industry with high barriers to entry;
- We believe that we have a strong international and export platform;
- We have a leading cost position in the market;
- We have a high degree of vertical integration, with in-house steel making capacity at most of our facilities; and
- We have strong organic growth potential and are well placed to benefit from the anticipated market recovery in light of our acquisition of TMK IPSCO and our recent completion of key phases of our strategic capital expenditure programme in Russia.

See “*Business — Investment Highlights*”.

## Trading Update

### *Production results*

During the second half of 2009, our shipment volumes increased by approximately 32% to 1,590,000 tonnes as compared to 1,203,000 tonnes in the first half of 2009. This increase comprised an approximately 15% increase in shipment volumes in the third quarter of 2009, as compared to the second quarter of 2009, followed by a 22% increase in shipment volumes in the fourth quarter of 2009 as compared to the third quarter of 2009. For an explanation of the difference between “shipment volumes” and “sales volumes” see “*Presentation of Financial and other information — Market and other Statistical Data*”.

The following table shows shipment volumes of our principal pipe products for the periods indicated.

| <u>Product</u>                    | <u>Six months ended<br/>31 December<br/>2009</u> | <u>Six Months ended 30 June<br/>2009</u> | <u>% change</u> | <u>Year ended<br/>31 December<br/>2009</u> | <u>Year ended<br/>31 December<br/>2008</u> | <u>% change</u> |
|-----------------------------------|--|--|-----------------|--|--|-----------------|
|                                   | (thousands of tonnes, except percentages)        |  |                 |  |  |                 |
| <b>Seamless Pipes</b> . . . . .   | 905  | 765                                      | 18%             | 1,670                                      | 1,985                                      | (16)%           |
| <b>Welded Pipes</b> . . . . .     | 684  | 437                                      | 57%             | 1,122                                      | 1,242                                      | (10)%           |
| <b>Total Pipes</b> . . . . .      | <u>1,589</u>                                     | <u>1,203</u>                             | <u>32%</u>      | <u>2,792</u>                               | <u>3,227</u>                               | <u>(13)%</u>    |
| <b>Total OCTG Pipes</b> . . . . . | 549  | 498                                      | 10%             | 1,046                                      | 1,261                                      | (17)%           |

We attribute the increase in shipment volumes during the second half of 2009 (and, particularly, during the fourth quarter of 2009) to an increase in demand for OCTG and line pipe products in key markets and the implementation of large-scale long-distance pipeline projects in Russia. At the same time, we observed an improvement in demand from the Russian machine building and construction sectors. The growth witnessed during the second half of 2009, and particularly during the fourth quarter of 2009 enabled us to offset a substantial part of the first half decline in shipments volumes, therefore narrowing the level of decrease as compared to 2008.

### *OCTG and Line Pipe*

During the second half of 2009, OCTG and line pipe shipment volumes increased by 16% to 873,000 tonnes from 754,000 tonnes in the first half of 2009. This increase comprised an increase in shipments of OCTG and line pipe during the third quarter of 2009 to 377,000 tonnes followed by a further increase in the fourth quarter to 498,000 tonnes. We attribute this growth to a combination of increasing demand from key oil and gas customers, as oil production increased in the fourth quarter, and seasonal procurement factors.

In the second half of 2009, Russia proved a more stable source of demand than non-Russian markets due to a combination of our strategic customer relationships, improved drilling environment, and the limited impact of Chinese pipe producers on the Russian market. Overall, we expect an improvement in OCTG demand in Russia in 2010, due to announced plans for higher capital expenditure spending by major Russian oil and gas companies and increasing drilling activity at new and existing fields. We believe that announced increases in capital expenditure spending by such companies as Gazprom, Lukoil, Rosneft and TNK-BP will translate into an increase in shipments of pipe products to these companies given our importance as supplier to these Russian major oil and gas companies.



Following a significant decline in shipments in the first half of the year, pipe shipments from TMK IPSCO increased by approximately 35% to 129,000 tonnes in the fourth quarter of the year, as compared to the third quarter of 2009, driven by increased oil and gas pipe demand, especially for OCTG products. According to data from oilfield services company Baker Hughes, the U.S. rig count rebounded from its June 2009 low of 876 rigs to reach 1,248 rigs as of 15 January 2010. According to our estimates, current U.S. OCTG inventory levels represent approximately 9 months of U.S. pipe consumption, down from more than 15 months in May 2009.

Throughout the downturn, demand for our premium products remained robust due to continued demand from shale gas producers, which have unconventional drilling requirements and are significant customers of our ULTRA products in North America. As at 31 December 2009, we estimate that we had a 30% share of the U.S. onshore gas shale premium connections market. U.S. natural gas prices recovered during the fourth quarter from the low levels witnessed in early September 2009, which positively impacted demand for TMK IPSCO products. Strong demand for premium products in Russia, in particular for the TMK FMC and TMK GF premium connection series, was supported by shipments for Western and Eastern Siberia fields, including Vankor, one of Rosneft's most important projects.

### ***Large-diameter Pipes***

Demand for large-diameter pipe has increased steadily since May 2009, driven by the construction of major Gazprom gas pipelines such as the Sakhalin-Khabarovsk-Vladivostok and Pochinki-Gryazovets projects and Transneft's ESPO Pipeline and BPS-2 projects. Our shipment volumes have also benefited since the second quarter from the full ramp-up of Volzhsky's large-diameter longitudinal welded mill. We also continued to experience increased demand in the second half of 2009, from 19,000 tonnes in the first quarter of 2009 to approximately 70,000 tonnes in the second and third quarters of 2009 and to over 150,000 tonnes in the fourth quarter of 2009. The current large-diameter order backlog extends through the second half of 2010. In late December 2009, Volzhsky's longitudinal welded mill received the Det Norske Veritas (DNV) submarine pipeline systems certification, which enhances our ability to participate in offshore pipeline projects. As a result of these developments, we expect 2010 large-diameter pipe shipments to be higher than 2009 full year shipment volumes.

### ***Price and Cost Dynamics***

Current average pricing for our products has been generally stable in the second half of 2009 following a significant decline in the first half of 2009. However, this dynamic has not been uniform across geographic regions. According to PipeLogix, in the United States, prices have only recently started stabilising and showing signs of recovery from their 12-month lows. We currently expect a gradual price recovery in Russia and in the United States in 2010 on the back of the continued upturn in demand and increasing capacity utilisation rates in the industry, subject to market and economic developments. We also expect a modest price increase in Europe driven by similar market dynamics, subject also to market and economic developments.

Our cost of goods sold per tonne of shipments remained generally stable in the second half of 2009 as compared to the first half of 2009. On average, we have observed modest increases in various raw materials prices, apart from steel billets which have remained relatively stable since the beginning of 2009. Based on current raw material price dynamics and planned changes in principal expense items, we expect the spread between anticipated prices for our products and costs of goods sold to improve in 2010, subject also to market and economic developments.

### ***Debt Refinancing***

As at 31 December 2009, the nominal value of our total interest-bearing loans and borrowings amounted to U.S.\$3,763.3 million, of which 64% was long-term debt and 36% short-term debt. At the same time, our cash reserves amounted to U.S.\$243 million. Our short-term debt included VTB Bank loan facilities in an aggregate amount of U.S.\$750 million, which include an option to extend the relevant maturity dates by up to 5 years.

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

- Obtaining loans from Gazprombank in an aggregate amount of U.S.\$1,107 million in January 2009 with a subsequent extension of the final maturity from 2.5 to 5 years and a reduction in the interest rate;
- Obtaining loans from VTB Bank in an aggregate amount of U.S.\$750 million, which we used to redeem our 2006 Eurobonds and partially buy back our 2011 Eurobonds;
- Obtaining loans from Sberbank in an aggregate amount equivalent to U.S.\$465 million, including a U.S.\$188 million loan with a final maturity of 7 years;



- Entering into credit facility agreements with Gazprombank and VTB Bank in an aggregate amount of RUB 5 billion and RUB 10 billion, respectively, with maturities of 3 and 5 years, respectively, and with respect to each of which up to 50% of the principal is guaranteed by the Russian Federation. As at 31 December 2009, we had drawn down an aggregate amount equivalent to U.S.\$341 million under these loan facilities.

As a result of these activities, our loan portfolio repayment schedule is now evenly distributed over the next 5 years. We plan to continue to proactively improve our debt portfolio structure and financing conditions.

## **Strategy**

Our strategy is to enhance our position as one of the world's leading producers of steel pipes. Though, given the current global financial and economic environment, we have had to readjust our recent strategic emphasis on expanding and developing our pipe business through acquisitions and capital expenditure, we believe that our acquisition of TMK IPSCO in 2008 and our completion of most of the key projects under our strategic capital investment programme provides us with a strong platform from which to enhance our position as a global leader in OCTG and oil and gas pipe products generally as markets recover.

We intend to pursue our strategy by enhancing our product mix to improve our margin profile, working more closely with our customers on a global basis to deliver higher value added products and services, increasing the efficiency of our seamless pipe production, leveraging our global presence and strong brands and exercising greater discipline over our operating costs. We also intend to enhance our research and development capabilities and implement new technologies with an aim to increase our advanced technology footprint, manufacturing efficiency and decrease production costs. In addition, we aim to accelerate the transfer of best practices across our network, with a particular focus on transferring the practices and know how of TMK IPSCO to our Russian and European operations.

In Russia, the CIS and in other regions outside of the United States, we intend to continue to focus principally on higher growth seamless pipe products, especially on seamless OCTG. In the United States, where welded pipes have a strong market following among oil and gas producers, we intended to focus principally on welded and seamless OCTG and line pipe. As part of this strategy, we plan on further developing our TMK-Premium Service business, which concentrates on developing and marketing all of our existing and new premium connection products, and has been enhanced through our acquisition of TMK IPSCO and its ULTRA premium connections products. With respect to our Russian welded pipes business, we intend to increase our focus on large diameter transmission welded pipes for the oil and gas industry. In this regard, we believe that our commissioning of a new 650,000 tonne longitudinal welded pipe mill at our Volzhsky plant in 2008 will help us to enhance our leading role in this important product segment.

In spite of the current global financial and economic environment, we are still pursuing growth through the effective integration of our recent acquisitions and leveraging the capacity enhancements and modernisation of our production processes already achieved to date by our capital investment programme. Depending upon market conditions and the availability of financing to us, we plan to implement the remainder of our capital investment programme, including the addition of an EAF at Tagmet and a continuous FQM rolling mill at Seversky, to further enhance our seamless pipe production and efficiency in Russia in the near future.

## ***Seamless Business***

We seek to consolidate our position as a leading supplier of OCTG and line pipes to the oil and gas industry in Russia and the CIS and become a leading supplier of OCTG in the United States and globally. We further aim to become a leading supplier of OCTG and line pipes to the global oil and gas industry by enhancing our product mix and combining our low cost production in Russia with a global network of strategically located distribution, service, processing and finishing facilities. We seek to offer a complete range of seamless pipes enhanced by innovative solutions and supply chain management for oil and gas customers. We intend to accomplish these objectives by:

- Enhancing our product mix of pipes for the oil and gas industry to match global leaders;
- Strengthening our position as a global leader within the OCTG and line pipe markets;
- Completing our strategic capital expenditure programme and leveraging on the benefits achieved to date; and
- Focusing on high margin products within the industrial seamless pipe sector.

## ***Welded Business***

In the United States, we plan to focus our efforts on the high margin welded OCTG market, where TMK IPSCO is already a strong market participant. In Russia, our focus in this segment is increasingly on sales of large diameter

pipes to oil and gas companies and oil and gas pipeline projects in Russia, the CIS and the Caspian region. We plan to expand our large diameter welded pipe business by capitalising on the recent improvements at our Volzhsky plant, which have included the completion of a new facility for the production of large diameter longitudinal welded pipes in the fourth quarter of 2008.

### ***Improving Liquidity Profile***

One of our key priorities is to continue to refinance our short-term debt and improve our debt maturity profile, as we are more highly leveraged and have a shorter duration debt maturity profile than we believe is optimal under the current difficult economic environment. To this end, we are, among other things, negotiating extensions of credit terms and lower interest rates with our creditors, refinancing existing short-term debt to improve our debt maturity profile and obtaining waivers from our creditors with respect to certain financial covenants and other terms contained within our debt instruments. See “*Management’s Discussion and Analysis of Financial Position and Results of Operations — Current Debt Profile*” and “*Business — Strategy — Improving Liquidity Profile*”.

### ***Cost Optimisation***

To address the current challenging operating environment, we aim to continue to pursue our cost-optimisation efforts in connection with which we have to date successfully reduced operating costs through a variety of cost cutting measures, optimised working capital and temporarily suspended our capital investment programme. We plan to continue to implement cost cutting initiatives at our facilities globally, including through a continuation of our hiring freeze, reducing head count and providing flexible working arrangements. We also plan to closely monitor our capital expenditures programmes and only expect to resume our full strategic capital investment programme once we believe the activity in the oil and gas and pipe industries, on which our business relies heavily, show real signs of strengthening. We are also seeking ways to enhance our ability to internally process and prepare the majority of our steel scrap raw material requirements.

### ***Risk Factors***

An investment in the Bonds is subject to, among other things, risks relating to our business and the pipe industry as well as economic, political, social and legal risks associated with the Russian Federation and risks arising from the nature of the Bonds and the markets upon which they are expected to be traded, including risks associated with the following matters:

- Our significant leverage, the risk of accelerations of our existing indebtedness triggering a cross-default under the Bonds and obligation to meet certain financial and other restrictive covenants, which restrict our financial flexibility and require us to take steps to improve our working capital position in part through the renegotiation of the terms of our existing indebtedness and obtainment of waivers from our creditors.
- The ongoing turmoil in the global financial and credit markets;
- The dependence of our business on the oil and gas industry;
- The costs of the raw materials that we require, and the general effect of high inflation on our business;
- The dependence of our businesses on a small number of customers including, in particular, Gazprom, with respect to our welded pipes business;
- Our ability to successfully integrate and manage our recent acquisitions, including TMK IPSCO;
- The possibility that we may be required to record significant impairment charges to goodwill and other intangible assets;
- The high levels of imports of OCTG and line pipe products into North America that may adversely affect demand for TMK IPSCO’s products;
- High industry-wide OCTG inventory levels;
- The highly competitive nature of the pipe industry;
- The imposition of antidumping and other protective tariffs on our pipe products;
- Our reliance on high trade barriers or duties imposed on imports from our competitors;
- Equipment failures, production curtailments or shutdowns;
- Increasing tariffs and the continuing liberalisation of the Russian energy sector;

- Volatility in currency exchange rates;
- Potential economic or political instability in Russia;
- Weaknesses in the Russian legal system;
- The uncertain scope and application of Russian tax laws and regulations; and
- Our controlling shareholder's ability to exert significant influence over us.

*Prior to making a decision to invest in the Bonds, investors should carefully consider the information set forth under the heading "Risk Factors".*

## OVERVIEW OF THE OFFERING

The following is a summary of the principal features of the Bonds and the offering. Terms defined under “*Terms and Conditions of the Bonds*” (the “**Conditions**”) or elsewhere in this Offering Circular shall have the same respective meanings in this summary. The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular, including the Consolidated Financial Statements included elsewhere in the Offering Circular.

|  |  |
|--|--|
| <b>Issuer</b> . . . . .                | TMK Bonds SA, a public limited liability company ( <i>société anonyme</i> ), having its registered office at 2, boulevard Konrad Adenauer, L-1115 Luxembourg and registered with the Luxembourg trade and companies register under number B.149.705. The Issuer is not a subsidiary, direct or indirect, of TMK.   |
| <b>Initial Guarantors</b> . . . . .    | OAo TMK, OAo Volzhsky Pipe Plant and ZAO TMK Trade House.  |
| <b>Additional Guarantors</b> . . . . . | OAo Seversky Pipe Plant, OAo Sinarsky Pipe Plant, OAo Taganrog Metallurgical Works and IPSCO Tubulars Inc. The Issuer and TMK have agreed in the Conditions to procure that each of the Additional Guarantors shall provide an unconditional and irrevocable guarantee of the Bonds not later than 90 days after the Closing Date. Failure to procure such Additional Guarantees by the Additional Guarantors by such date shall be deemed an “ <b>Additional Guarantee Event</b> ” under the Bonds and, in such case, the Issuer shall be obliged to repurchase the Bonds at the Additional Guarantee Event Redemption Amount and interest accrued thereon See “ <i>Terms and Conditions — Condition 7(e)(iii)</i> ” and “ <i>Risk Factors — Risks Relating to the Bonds, the GDRs and the Trading Market — Our Russian subsidiaries may not approve the issuance of the Additional Guarantees</i> ”. |
| <b>The Bonds</b> . . . . .             | U.S.\$412,500,000 5.25 per cent. Guaranteed Convertible Bonds due 2015 convertible into GDRs each representing, at the date hereof, four ordinary shares in TMK.   |
| <b>The Offering</b> . . . . .          | The Bonds are being offered and sold by the Managers outside the United States and the Russian Federation in reliance on Regulation S under the Securities Act.  |
| <b>Issue Price</b> . . . . .           | 100 per cent. of the principal amount  |
| <b>Denomination</b> . . . . .          | U.S.\$100,000 and integral multiples in excess thereof   |
| <b>Closing Date</b> . . . . .          | Expected to be on or about 11 February 2010 (the “ <b>Closing Date</b> ”)  |
| <b>Interest Rate</b> . . . . .         | The rate of interest payable on the Bonds will be 5.25 per cent. per annum calculated by reference to the nominal amount thereof. Interest will be payable on the Bonds quarterly in arrear in equal instalments on 11 February, 11 May, 11 August and 11 November in each year commencing on 11 May 2010. Interest will, upon conversion of the Bonds, accrue up to the relevant Conversion Date and be payable on the relevant settlement date of such conversion. Bonds submitted for conversion in the last 20 calendar days prior to Final Maturity Date will be eligible for interest paid up to the last date of the applicable Conversion Period and similarly Bonds submitted for conversion following receipt of an Optional Redemption Notice will be eligible for interest paid to the last date of the applicable Conversion Period.  |
| <b>Status of the Bonds</b> . . . . .   | The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 2) unsecured obligations of the Issuer, as provided in the Conditions, ranking <i>pari passu</i> without any preference among themselves and equally with all other existing and future unsecured and unsubordinated obligations of the Issuer save for such   |

obligations that may be preferred by provisions of law that are mandatory and of general application.

**Guarantees** . . . . . The Bonds will be initially unconditionally, irrevocably, jointly and severally guaranteed by the Initial Guarantors, and is intended to be further unconditionally and irrevocably, jointly and severally guaranteed by the Additional Guarantors.

**Status of the Guarantees** . . . . . The Guarantee of the Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 2) unsecured obligations of each Guarantor, as provided in the Conditions, ranking *pari passu* without any preference among themselves and equally with all other existing and future unsecured and unsubordinated obligations of such Guarantor but, in the event of insolvency, save for such obligations that may be preferred by provisions of law that are mandatory and of general application.

**Conversion Rights** . . . . . Unless previously purchased and cancelled, redeemed or converted, Bondholders will have the right to convert Bonds for GDRs at the then applicable Conversion Price at any time, subject to the applicable fiscal or other laws or regulations and as provided in the Conditions, on or after 24 March 2010 to the close of business (at the place where the relevant Bond is delivered for conversion) on the date falling seven business days prior to the Final Maturity Date (both days inclusive) or if such Bond is to be redeemed pursuant to Condition 7(b) or 7(c) prior to the Final Maturity Date, then up to the close of business (at the place where the relevant Bond is delivered for conversion) on the seventh business day before the date fixed for redemption thereof.

**Conversion Price** . . . . . The initial Conversion Price will be U.S.\$23.075 per GDR. The Conversion Price will be subject to adjustment in certain circumstances described in Condition 6(b) (*Conversion of Bonds — Adjustment of Conversion Price*), including upon the occurrence of a Relevant Event.

GDRs delivered on conversion of the Bonds will be fully paid GDRs and will rank *pari passu* in all respects with all such existing fully paid GDRs, representing ordinary shares of TMK, in issue at the relevant time(s), save as provided in Condition 6(i) (*Conversion of Bonds — Ranking and Entitlement*).

**Source of GDRs** . . . . . The Issuer will borrow from Rockarrow, a subsidiary of TMK, such number of GDRs as will be necessary to procure the delivery of GDRs in connection with the conversion of the Bonds into GDRs. The Issuer will have an option to purchase such GDRs from Rockarrow as and when the Bonds will convert or in relation to the planned Capital Increase (as defined below) of TMK. If the option to purchase GDRs is exercised by the Issuer, the Issuer's obligation to redeliver GDRs under the stock borrow to Rockarrow will be set off against Rockarrow's obligation to deliver GDRs to the Issuer under the call option. The Issuer's obligation to redeliver GDRs under the stock borrow to Rockarrow will be subordinated to the rights of the Bondholders to, among other things, convert their Bonds. Accordingly, Rockarrow cannot recall GDRs if such would result in the Issuer incurring a deficit of GDRs upon a conversion of the Bonds.

Rockarrow has borrowed 16,119,608 GDRs from TMK Steel through a securities borrowing arrangement with TMK Steel, an indirect shareholder of TMK, and expects to purchase such GDRs from TMK Steel. In order to effect Rockarrow's purchase of such GDRs, TMK plans to transfer to Rockarrow the proceeds of an issue of new

shares through an open subscription at the reference price of the offering (the “**Capital Increase**”), pursuant to which TMK Steel intends to exercise its pre-emptive rights to subscribe for its *pro rata* portion of the Capital Increase. Such Capital Increase is expected to take place in the second quarter of 2010.

Shareholders who are on the shareholders’ register of TMK on the date when TMK’s board of directors approves the Capital Increase will have pre-emptive rights to purchase new shares issued in the Capital Increase. A TMK board of directors meeting to approve the Capital Increase is expected to take place shortly after the date of this Offering Circular and before the earliest date that the Shares underlying the GDRs will move to the Depositary.

**Inability to Deliver GDRs . . . . .** If the Issuer is unable to deliver any or all GDRs due for delivery pursuant to a conversion (including without limitation due to lack of headroom in the GDR facility), the Issuer shall pay to the converting Bondholder the Cash Settlement Amount for GDRs which cannot be physically delivered.

The “Cash Settlement Amount” will be the product of (A) the number of GDRs into which the aggregate principal amount of Bonds presented for conversion is convertible, less the number of GDRs to be physically delivered by the Issuer; (B) the average of the daily volume weighted average price of a GDR on the London Stock Exchange on each of the 20 consecutive dealing days starting on the third dealing day following the date on which the Issuer notifies the converting Bondholder of such inability to deliver any or all GDRs, which notice shall be given within 13 dealing days of the converting Bondholder’s exercise of his Conversion Right.

**Final Maturity . . . . .** Unless previously purchased and cancelled, redeemed or converted, the Bonds will be redeemed at their principal amount on 11 February 2015 (the “**Final Maturity Date**”).

**Optional Redemption by the Issuer . . . . .** The Issuer will be entitled to redeem the outstanding Bonds, in whole but not in part, at their principal amount plus accrued interest to the date fixed for redemption (i) at any time on or after 4 March 2013, if Parity Value of the GDRs on each of at least 20 dealing days (as defined in the Conditions) during any period of 30 consecutive dealing days ending not earlier than 5 days prior to the giving of the relevant Optional Redemption Notice, exceeds U.S.\$130,000; or (ii) if at any time prior to the date on which the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in nominal amount of the Bonds originally issued (which shall for this purpose include any further bonds issued pursuant to Condition 19 and consolidated and forming a single series with the Bonds). See Condition 7(b) of the Bonds (*Redemption and Purchase — Redemption at the Option of the Issuer*).

**Optional Redemption by the Bondholders . . . . .** (A) on the third anniversary of the Closing Date Bondholders may require the Issuer to redeem any of their Bonds at par plus accrued interest; or

(B) at any time upon the occurrence of a Relevant Event Bondholders may require the Issuer to redeem any of their Bonds at par plus accrued interest; or



(C) at any time after the occurrence of a De-listing Event Bondholders may require the Issuer to redeem any of their Bonds at par plus accrued interest; or

(D) at any time upon the occurrence of an Additional Guarantor Event Bondholders may require the Issuer to redeem any of their Bonds at the higher of

(i) 102.5% of their principal amount plus accrued interest; and

(ii) the Bond Price plus accrued interest.

**Withholding Taxes** . . . . . All payments in respect of the Bonds shall be made without deduction of or withholding for or on account of any present or future taxes imposed or levied by or on behalf of Luxembourg, the United States or the Russian Federation unless such deduction or withholding is required by law. In the event that any such deduction or withholding is required, the Issuer or TMK, as the case may be, shall pay additional amounts in respect thereof, subject to certain exceptions as described in Condition 9 of the Bonds (*Taxation*). See “*Taxation of the Bonds and the GDRs*”.

**Tax Redemption** . . . . . In the event of certain changes affecting taxes of Luxembourg, Russia or the United States, the Issuer may, subject to certain conditions being satisfied, give notice to redeem the Bonds in whole but not in part at any time at their Tax Redemption Amount together with accrued but unpaid interest to such date as provided in “Withholding Taxes”.

Upon such notice being given, a Bondholder may elect not to have his Bond redeemed, in which case such holder will not be entitled to receive payment of such additional amounts as are referred to in “Withholding Taxes” above in respect of payments of interest on the Bonds.

**Negative Pledge** . . . . . The Bonds will contain a negative pledge provision given by the Issuer and TMK in respect of Relevant Indebtedness (as defined in the Conditions). See Condition 2 (*Negative Pledge*).

**Events of Default** . . . . . The Bonds will contain certain events of default provisions, subject to thresholds and grace periods. Upon acceleration for any such event, the Bonds will become immediately due and repayable at their principal amount, together with accrued but unpaid interest.

**Governing Law** . . . . . The Bonds, the Trust Deed and the Deeds of Guarantee and any non-contractual obligations arising out of or in connection thereof will be governed by, and construed in accordance with, English law.

**Trustee** . . . . . Deutsche Trustee Company Limited

**Principal Paying, Transfer and Conversion Agent** . . . . . Deutsche Bank AG, London Branch

**Registrar** . . . . . Deutsche Bank Luxembourg S.A.

**Form of the Bonds and Delivery** . . . . . The Bonds will initially be represented by a Temporary Global Bond in registered form, without interest coupons, which will be deposited on the Closing Date with a common depositary for, and registered in the name of a nominee for a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The Temporary Global Bond will be exchangeable for interests in a Permanent Global Bond, without interest coupons, on or after a date which is expected to be 24 March 2010 (the “**Exchange Date**”), upon certification as to non-U.S. beneficial ownership.

**Sales Restrictions** . . . . . There are restrictions on offers and sales of the Bonds, *inter alia*, in the United States, the United Kingdom, the Russian Federation and Luxembourg. See “*Subscription and Sale*”.

|                                      |   |
|--------------------------------------|---|
| <b>Listing and Trading</b> . . . . . | Application has been made for the Bonds to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Regulated Market. The GDRs have been admitted to the Official List of the UKLA and for trading through the international order book of the LSE.   |
| <b>Lock up</b> . . . . .             | Each of TMK, the Guarantors, TMK Steel Limited, Bravecorp Limited and Tirelli Limited and their respective subsidiaries, has agreed to certain restrictions on its ability to issue or dispose of GDRs, Ordinary Shares or related securities during the period commencing on the date of the Subscription Agreement (as defined herein) and ending 90 days after the Closing Date (both days inclusive). See " <i>Subscription and Sale</i> ". |
| <b>Yield</b> . . . . .               | 5.25%   |
| <b>ISIN Code</b> . . . . .           | XS0484654040  |
| <b>Common Code</b> . . . . .         | 048465404   |
| <b>GDR ISIN</b> . . . . .            | US87260R2013  |
| <b>GDR Common Code</b> . . . . .     | 027164862   |
| <b>GDR Depositary</b> . . . . .      | The Bank of New York Mellon   |
| <b>Use of Proceeds</b> . . . . .     | The gross proceeds of the issue of the Bonds will be on-lent from the Issuer to TMK. TMK will subsequently use such proceeds in their entirety to refinance existing short-term indebtedness.   |

## SUMMARY CONSOLIDATED HISTORICAL FINANCIAL DATA

The summary consolidated financial information set forth below shows our historical consolidated financial information and other operating information as at and for the six months ended 30 June 2009 and 30 June 2008, and as at and for the years ended 31 December 2008, 2007 and 2006. The summary consolidated financial information set forth below as at and for the six months ended 30 June 2009 and 30 June 2008, and as at and for the years ended 31 December 2008, 2007 and 2006 has been extracted without material adjustment from, and should be read in conjunction with, the Consolidated Financial Statements included elsewhere in this Offering Circular. The summary consolidated financial information should also be read in conjunction with “*Management’s Discussion and Analysis of Financial Position and Results of Operations*”. See also “*Presentation of Financial and Other Information — Presentation of Financial Information*” for important information about the financial information presented herein.

|   | Six months ended 30 June |                      | Year ended 31 December |                       |                       |
|---|--------------------------|----------------------|------------------------|-----------------------|-----------------------|
|   | 2009                     | 2008                 | 2008                   | 2007                  | 2006                  |
| (millions of U.S. dollars, except per share data)   |                          |                      |                        |                       |                       |
| <b>CONSOLIDATED INCOME STATEMENT DATA</b>   |                          |                      |                        |                       |                       |
| Revenue . . . . .   | 1,478.6                  | 2,368.4              | 5,690.0                | 4,178.6               | 3,402.3               |
| Cost of sales . . . . .   | (1,254.7)                | (1,750.6)            | (4,252.5)              | (2,890.6)             | (2,353.6)             |
| <b>Gross profit . . . . .</b>   | <b><u>223.9</u></b>      | <b><u>617.8</u></b>  | <b><u>1,437.5</u></b>  | <b><u>1,288.0</u></b> | <b><u>1,048.7</u></b> |
| Selling and distribution expenses . . . . .   | (146.4)                  | (144.1)              | (295.2)                | (238.2)               | (180.4)               |
| Advertising and promotion expenses . . . . .  | (2.3)                    | (4.8)                | (10.1)                 | (5.3)                 | (5.1)                 |
| General and administrative expenses . . . . .   | (98.5)                   | (124.4)              | (316.7)                | (218.3)               | (166.6)               |
| Research and development expenses . . . . .   | (4.8)                    | (6.4)                | (15.2)                 | (10.1)                | (6.7)                 |
| Other operating expenses . . . . .  | (13.8)                   | (24.5)               | (52.0)                 | (56.2)                | (29.1)                |
| Other operating income . . . . .  | 4.1                      | 4.1                  | 7.1                    | 5.0                   | 4.6                   |
| Impairment of goodwill . . . . .  | (9.6)                    | —                    | (3.5)                  | —                     | —                     |
| Impairment of property, plant and equipment . . . . .   | (28.1)                   | —                    | (59.8)                 | —                     | —                     |
| Impairment of financial assets . . . . .  | —                        | (13.0)               | (23.7)                 | —                     | —                     |
| Foreign exchange (loss)/gain, net . . . . .   | (11.7)                   | 14.1                 | (99.8)                 | 20.5                  | 13.0                  |
| Finance costs . . . . .   | (211.7)                  | (85.2)               | (272.2)                | (102.4)               | (73.6)                |
| Finance income . . . . .  | 32.0                     | 6.6                  | 8.7                    | 12.6                  | 15.8                  |
| Share of profit in associate . . . . .  | 0.8                      | 0.2                  | 3.0                    | 1.0                   | 1.3                   |
| Excess of acquirer’s interest in the net fair value of<br>acquiree’s identifiable assets, liabilities and<br>contingent liabilities over the cost of<br>acquisition . . . . . | —                        | —                    | —                      | 2.2                   | —                     |
| <b>(Loss)/Profit before tax . . . . .</b>   | <b><u>(266.1)</u></b>    | <b><u>240.4</u></b>  | <b><u>308.1</u></b>    | <b><u>698.8</u></b>   | <b><u>621.9</u></b>   |
| Income tax benefit/(expense) . . . . .  | <b><u>62.3</u></b>       | <b><u>(82.2)</u></b> | <b><u>(109.6)</u></b>  | <b><u>(192.5)</u></b> | <b><u>(159.7)</u></b> |
| <b>Net (loss)/profit . . . . .</b>  | <b><u>(203.8)</u></b>    | <b><u>158.2</u></b>  | <b><u>198.5</u></b>    | <b><u>506.3</u></b>   | <b><u>462.2</u></b>   |
| Attributable to:  |                          |                      |                        |                       |                       |
| Equity holders of the parent entity . . . . .   | (198.8)                  | 150.9                | 199.4                  | 487.1                 | 442.1                 |
| Minority interests . . . . .  | (5.0)                    | 7.3                  | (0.9)                  | 19.2                  | 20.1                  |
| (Loss)/Earnings per share attributable to equity<br>holders of the parent entity, basic and diluted (in<br>U.S. dollars) . . . . .  | (0.23)                   | 0.17                 | 0.23                   | 0.56                  | 0.51                  |

|   | As at 30<br>June<br>2009 | As at 31 December     |                       |                       |
|---|--------------------------|-----------------------|-----------------------|-----------------------|
|   |                          | 2008                  | 2007                  | 2006                  |
| (millions of U.S. dollars)                            |                          |                       |                       |                       |
| <b>CONSOLIDATED BALANCE SHEET DATA</b>                |                          |                       |                       |                       |
| Cash and cash equivalents . . . . .                   | 86.2                     | 143.4                 | 89.0                  | 144.0                 |
| Total assets . . . . .                                | 6,469.0                  | 7,071.1               | 4,676.3               | 3,550.7               |
| Total interest bearing loans and borrowings . . . . . | 3,650.3                  | 3,210.7               | 1,539.3               | 1,034.7               |
| <b>Total equity . . . . .</b>                         | <b><u>1,596.8</u></b>    | <b><u>1,910.4</u></b> | <b><u>2,106.6</u></b> | <b><u>1,753.2</u></b> |

|  | Six months ended 30 June   |      | Year ended 31 December |      |      |
|--|----------------------------|------|------------------------|------|------|
|  | 2009                       | 2008 | 2008                   | 2007 | 2006 |
|  | (millions of U.S. dollars) |      |                        |      |      |

#### CONSOLIDATED CASH FLOW DATA

|   |         |           |           |         |         |
|---|---------|-----------|-----------|---------|---------|
| Net cash flows from operating activities . . . . .    | 286.0   | 403.6     | 739.5     | 321.5   | 429.2   |
| Net cash flows used in investing activities . . . . . | (675.9) | (1,753.8) | (2,024.3) | (568.6) | (522.2) |
| Net cash flows from financing activities . . . . .    | 332.2   | 1,325.5   | 1,336.9   | 178.4   | 181.7   |

|  | As at and for the six months ended 30 June     |      | As at and for the year ended 31 December |      |      |
|--|--|------|--|------|------|
|  | 2009   | 2008 | 2008                                     | 2007 | 2006 |
|  | (millions of U.S. dollars, except percentages) |      |  |      |      |

#### Non-IFRS Measures

|   |         |       |         |         |       |
|---|---------|-------|---------|---------|-------|
| Adjusted EBITDA <sup>(1)</sup> . . . . .        | 145.8   | 417.8 | 1,047.4 | 921.8   | 789.6 |
| Adjusted EBITDA margin <sup>(2)</sup> . . . . . | 9.9%    | 17.6% | 18.4%   | 22.1%   | 23.2% |
| Gross profit margin <sup>(2)</sup> . . . . .    | 15.1%   | 26.1% | 25.3%   | 30.8%   | 30.8% |
| Net profit margin <sup>(2)</sup> . . . . .      | (13.8)% | 6.7%  | 3.5%    | 12.1%   | 13.6% |
| Net Debt <sup>(3)</sup> . . . . .               | 3,559.9 | n/a   | 3,063.4 | 1,346.6 | 748.7 |

(1) Adjusted EBITDA represents profit before tax, plus depreciation and amortisation, and is adjusted to exclude finance cost and finance income, and other non cash items which comprise share of profit in associate, foreign exchange loss (gain), impairment of assets, loss (gain) on disposal of property, plant and equipment, share based payments, inventory and doubtful debts allowances, and movement in other provisions. We present Adjusted EBITDA because we consider Adjusted EBITDA to be an important supplemental measure of our operating performance and believe Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Adjusted EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Adjusted EBITDA is not a measurement of our operating performance under IFRS and should not be considered as an alternative to gross profit, net profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, Adjusted EBITDA should not be considered to be a measure of discretionary cash available to us to invest in the growth of our business.

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

- Adjusted EBITDA does not reflect the impact of financing or financing costs on our operating performance, which can be significant and could further increase if we were to incur more debt;
- Adjusted EBITDA does not reflect the impact of income taxes on our operating performance;
- Adjusted EBITDA does not reflect the impact of depreciation and amortisation on our operating performance. The assets of our businesses which are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, it does not reflect our future cash requirements for these replacements;
- Adjusted EBITDA does not reflect the impact of other non cash items on our operating performance, such as share of profit in associate, foreign exchange loss (gain), impairment of assets, loss (gain) on disposal of property, plant and equipment, share based payments, inventory and doubtful debts allowances, and movement in other provisions; and
- Other companies in our industry may calculate Adjusted EBITDA differently or may use it for purposes different from ours, limiting its usefulness as comparative measure.

We compensate for these limitations by relying primarily on our IFRS operating results and using Adjusted EBITDA only supplementally. See our Consolidated Financial Statements included elsewhere in this Offering Circular.

(2) Margins are calculated as a percentage of revenue.

(3) Net Debt represents non current interest bearing loans and borrowings plus current interest bearing loans and borrowings less cash and cash equivalents and short term investments. Net Debt is not a balance sheet measure under IFRS, and it should not be considered to be an alternative to other measures of financial position. Our calculation of Net Debt may be different from the calculation used by other companies and therefore comparability may be limited. Net Debt is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Although Net Debt is a non IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. We believe Net Debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from our available cash. Net Debt allows us to show investors the trend in our net financial position over the periods presented. However, the use of Net Debt effectively assumes that gross debt can be reduced by our cash. In fact, it is unlikely that we would use all of our cash to reduce our gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and its ratio to equity, or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business and financial targets. We monitor the net debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Debt and leverage in order to optimise the use of internally generated funds versus funds from third parties.

Reconciliation of Adjusted EBITDA to profit before tax for the periods indicated is as follows:

|  | Six months ended 30 June   |              | Year ended 31 December |              |              |
|--|----------------------------|--------------|------------------------|--------------|--------------|
|  | 2009                       | 2008         | 2008                   | 2007         | 2006         |
|  | (millions of U.S. dollars) |              |                        |              |              |
| <b>Profit before tax</b> . . . . .                           | <b>(266.1)</b>             | <b>240.4</b> | <b>308.1</b>           | <b>698.8</b> | <b>621.9</b> |
| Depreciation and Amortisation . . . . .                      | 150.7                      | 90.5         | 247.8                  | 140.3        | 116.8        |
| Impairment of financial assets . . . . .                     |                            | 13.0         | 23.7                   | —            | —            |
| Impairment of goodwill . . . . .                             | 9.6                        | —            | 3.5                    | —            | —            |
| Impairment of property, plant and equipment . . . . .        | 28.1                       | —            | 59.8                   | —            | —            |
| Finance costs . . . . .                                      | 211.7                      | 85.2         | 272.2                  | 102.4        | 73.6         |
| Finance income . . . . .                                     | (32.0)                     | (6.6)        | (8.7)                  | (12.6)       | (15.8)       |
| Share of profit in associate . . . . .                       | (0.8)                      | (0.2)        | (3.0)                  | (1.0)        | (1.3)        |
| Foreign exchange loss/(gain), net . . . . .                  | 11.7                       | (14.1)       | 99.8                   | (20.5)       | (13.0)       |
| <b>Adjusted EBITDA, including certain non cash items</b> . . | <b>112.9</b>               | <b>408.2</b> | <b>1,003.2</b>         | <b>907.4</b> | <b>782.2</b> |
| Loss on disposal of property, plant and equipment . . . . .  | 1.7                        | 0.6          | 1.6                    | 7.4          | 5.2          |
| Share based payments . . . . .                               | —                          | 3.0          | 6.0                    | 6.7          | —            |
| Allowance for net realisable value of inventory . . . . .    | 23.2                       | 0.9          | 24.7                   | 1.2          | 1.7          |
| Allowance for doubtful debts . . . . .                       | 2.6                        | (0.4)        | 6.9                    | (0.8)        | 1.6          |
| Movement in other provisions . . . . .                       | 5.4                        | 5.5          | 5.0                    | (0.1)        | (1.1)        |
| <b>Adjusted EBITDA, excluding non cash items</b> . . . . .   | <b>145.8</b>               | <b>417.8</b> | <b>1,047.4</b>         | <b>921.8</b> | <b>789.6</b> |

Net Debt has been calculated at the dates indicated as follows:

|   | As at 30 June<br>2009      | As at 31 December |                        |              |
|---|----------------------------|-------------------|------------------------|--------------|
|   |                            | 2008              | 2007                   | 2006         |
|   | (millions of U.S. dollars) |                   |                        |              |
| <b>Net Debt calculation</b>                                 |                            |                   |                        |              |
| Add: . . . . .  |                            |                   |                        |              |
| Current interest-bearing loans and borrowings . . . . .     | 1,968.5                    | 2,216.5           | 1,033.3                | 371.7        |
| Non-current interest-bearing loans and borrowings . . . . . | 1,681.8                    | 994.2             | 506.0                  | 663.0        |
| Less: . . . . .   |                            |                   |                        |              |
| Cash and cash equivalents . . . . .                         | (86.2)                     | (143.4)           | (89.0)                 | (144.0)      |
| Short term investments . . . . .                            | (4.2)                      | (3.9)             | (103.7) <sup>(1)</sup> | (142.0)      |
| <b>Net Debt</b> . . . . .                                   | <b>3,559.9</b>             | <b>3,063.4</b>    | <b>1,346.6</b>         | <b>748.7</b> |

(1) Includes promissory note, receivables as of 31 December 2007 in the amount of U.S.\$103.6 million, included in the line item "Trade and other receivables" of the Annual Consolidated Financial Statements.

## RISK FACTORS

*An investment in the Bonds involves a high degree of risk. Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this document prior to making any investment decision with respect to the Bonds. The risks highlighted below could have a material adverse effect on our business, financial position, results of operations and prospects which, in turn, could have a material adverse effect on the ability of the Issuer and the Guarantors to service payment obligations under the Trust Deed and the Deed of Guarantee and, as a result, the debt service on the Bonds. In addition, the value of the Bonds could decline if any of these risks materialise, and the Bondholders may lose some or all of their investment.*

*Prospective investors should note that the risks described below are not the only risks we face. We have described only the risks we consider to be material. However, there may be additional risks that we currently consider immaterial or of which we are currently unaware, and any of these risks could have the effect set forth above.*

### **Risks Relating to Our Business and the Pipe Industry**

***We are significantly leveraged and are required to meet certain financial and other restrictive covenants under the terms of our indebtedness.***

As at 30 June 2009, we had current liabilities of U.S.\$2,794.3 million, which exceeded our current assets by U.S.\$951.7 million. Our significant leverage and deficit in working capital has arisen primarily as a result of our incurrence of new debt financing in connection with our acquisition of TMK IPSCO and our continued capital investment programme. Furthermore, we recorded a net loss of U.S.\$203.8 million in the six month period ended 30 June 2009. A large portion of our total interest-bearing loans and borrowings comprise short-term debt. As at 30 June 2009, our total interest-bearing loans and borrowings amounted to U.S.\$3,650.3 million, including U.S.\$1,968.5 million of short-term interest bearing borrowings. As at 31 December 2009, the nominal value of our total interest-bearing loans and borrowings amounted to U.S.\$3,763.3 million, including U.S.\$1,356.8 million of the principal amount of short-term interest bearing borrowings. Additionally, as at 31 December 2009, approximately 38% of our total interest-bearing loans and borrowings were secured by pledges over assets of subsidiaries of OAO TMK, of which approximately 42% was secured by pledges of shares in subsidiaries of OAO TMK and approximately 58% was secured by pledges over property, plant and equipment, inventories, deposits, cash and accounts receivable of subsidiaries of OAO TMK. See “*Management’s Discussion and Analysis of Financial Position and Results of Operations — Current Debt Profile*”.

Many of our material loan agreements and debt securities currently include certain financial covenants. For example, some covenants are set in relation to leverage, interest cover/expense, total indebtedness and net worth, in respect of TMK and/or its subsidiaries and impose financial ratios that must be maintained. Other covenants impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness. The set of covenants is not uniform across the various debt instruments, the various debt instruments do not use uniform definitions of the accounting measures to be tested and the levels at which the ratios are set vary widely. As at the date hereof, our debt-to-EBITDA ratio contained in our outstanding loan participation notes due 2011 exceeded a threshold as a result of which we are only allowed to incur further indebtedness if it is “Permitted Indebtedness” as defined in the notes. As a result, we are currently unable to increase our financial indebtedness except in certain limited circumstances, and, subject to our ability to obtain waivers and/or amendments with respect to such financial covenants, are subject to significant restrictions on our ability to borrow and our overall financial flexibility. Because TMK will use the proceeds of the Bonds described herein to refinance existing short-term indebtedness, the Bonds will constitute “Permitted Indebtedness” for the purpose of our outstanding loan participation notes due 2011. See “*Use of Proceeds*”. The Bonds described herein do not themselves include financial covenants.

Based on the current economic environment and our outlook, when our consolidated financial statements for the year ending 31 December 2009 are published, we may not be in compliance with financial covenants (e.g., leverage (debt to EBITDA and net worth), and interest cover (EBITDA to interest expense) covenants) in certain of our debt instruments, including certain financial maintenance covenants that we are required to be in compliance with on an ongoing basis. A breach of a financial or other covenant in our debt facilities, if not resolved by means such as obtaining a waiver or standstill letter from the relevant lender, could also trigger a cross-default under all of our other debt agreements, including the Bonds described herein. See “— *An acceleration of any of our existing debt instruments could trigger a cross-default under the Bonds*”. In addition, we have recently been forced by market conditions to grant security to our lenders to obtain debt financing, which has resulted in an overall increase in our levels of debt secured by our tangible assets. To the extent that our secured debt increases as a percentage of our total debt, this could lead to a downgrade of our unsecured debt. We have been proactively approaching the relevant lenders to address our inability to comply with certain financial covenants in relation to our full year results for



2009, including seeking waivers or standstill letters from our lenders as necessary. As of the date hereof, we have received written assurances from each of the relevant lenders, in some cases effective for a limited period of time, to the effect that, despite our expectation that we will be in breach of certain financial covenants as at 31 December 2009 when our consolidated financial statements for the year ending 31 December 2009 are published, it will not call an event of default or accelerate the relevant loan facility if such breaches are confirmed as having taken place. We are also actively negotiating amendments to the relevant loan agreements so as to ensure compliance with the relevant financial covenants during future reporting periods. In addition, we may incur additional costs related to our efforts to address these issues.

In our 30 June 2009 financial statements we included a “going concern” section which noted that a combination of factors related to the global crisis mentioned in the paragraphs above, including that we recorded a net loss in the six months ended 30 June 2009, that as of 30 June 2009 our current liabilities exceeded our assets and that we were at risk of being in breach of certain of our financial covenants as of 31 December 2009, represented a material uncertainty related to events and conditions that might cast significant doubt upon our ability to continue as a going concern. We also noted in our 30 June 2009 financial statements that, after considering the uncertainties described above, we had a reasonable expectation that we would have adequate resources to continue in operational existence for the foreseeable future (a period of at least twelve months). Our auditor’s review report for the six months ended 30 June 2009 includes an “emphasis of matter” paragraph which reflects this concern. See “Report on Review of Interim Condensed Consolidated Financial Statements” on page F-4 of this Offering Circular. In view of the proactive measures we have taken to refinance our existing indebtedness and to negotiate waivers, standstill letters and amendments with the relevant lenders, as described above, the improvement in our production results in the second half of 2009 and the overall improvement in the economic environment of our business since 30 June 2009, each as described under the heading “*Overview of the Group — Trading Update*”, at the date hereof, we believe that the circumstances relating to such significant doubt about our ability to continue as a going concern have been mitigated. However, there can be no assurance that our financial circumstances will not deteriorate in the future and that such doubts about our ability to continue as a going concern will not resurface.

In light of circumstances noted above, we have been required to take a number of steps to improve our working capital position and reduce our leverage. These include, among other things, negotiating extensions of credit terms and lower interest rates, refinancing of existing short-term debt to improve our debt maturity profile, obtaining waivers from our creditors with respect to certain financial covenants and other terms included within our debt instruments, reducing operating costs through a variety of cost cutting measures, optimising working capital and reducing our capital investment programme in the short-term. For example, in August 2009, we renegotiated the terms of our aggregate U.S.\$1,107.5 million loan facilities with Gazprombank, originally entered into in January 2009, as part of the financing of our purchase of TMK IPSCO, extending the term of the loans from two-and-a-half to five years and reducing the interest rate on the loans. Between June and September 2009, we also entered into several seven-year loan agreements with Sberbank under which we borrowed an aggregate of RUB 5.7 billion, the proceeds of which we used to repay short-term debt. Additionally, in August 2009, as part of a consent solicitation in connection with our outstanding loan participation notes due 2011, we amended the terms of the notes to permit us to incur higher levels of secured debt. In February 2010, as part of a second consent solicitation with respect to our outstanding loan participation notes due 2011 (the “**2010 Consent Solicitation**”), we modified the terms of the notes principally in order to further enhance our flexibility to implement our refinancing plan in respect of our existing indebtedness. Additionally, in September and October 2009, in order to repay certain of our short-term indebtedness, we entered into credit facility agreements with Gazprombank and VTB Bank in an aggregate amount of RUB 5 billion and RUB 10 billion, respectively, with maturities of 3 and 5 years, respectively, and with respect to each of which up to 50% of the principal is guaranteed by the Russian Federation. As at the date hereof, we are in the process of negotiating with Sberbank and VTB about the possibility of reducing interest rates on certain existing loans as well as attracting new loans for refinancing purposes. As at the date hereof, we continue to look for ways to amend the terms of our debt instruments so as to improve the structure of our loan portfolio principally by lengthening the overall maturity profile of our debt. There can be no assurance that such efforts to improve our working capital position and reduce our leverage will prove successful. See “*Management’s Discussion and Analysis of Financial Position and Results of Operations — Current Debt Profile*”.

Notwithstanding covenant limitations, we may not be able to arrange new financings or borrow in the bank or capital markets at an attractive cost or at all. In periods since July 2007 and, particularly, since the second half of 2008, the global debt capital markets have experienced a severe reaction concurrent with declines in house prices and in the payment performance of sub-prime residential mortgages in the United States and elsewhere. This reaction has been characterised by severe reductions in liquidity, by the inability of numerous non-investment-grade borrowers to obtain financing in the public capital markets and by a general increase in the cost of borrowing for private-sector borrowers notwithstanding reductions in central bank lending rates around the world. This market

reaction has had and in the future is expected to have an adverse impact on the ability of companies such as the TMK Group to borrow in the bank or capital markets and has increased and in the future may continue to increase the cost of such borrowing.

***An acceleration of any of our existing debt instruments could trigger a cross-default under the Bonds***

A breach of a financial or other covenant in our existing debt facilities, if not resolved by means such as obtaining a waiver from the relevant lender, could trigger a cross-default under the Bonds described herein. Though the Bonds themselves do not include financial covenants, many of our existing debt instruments contain provisions under which a breach of a financial or other covenant in such debt instruments would permit our lenders to demand immediate payment of the outstanding borrowings under such debt instruments. All of our existing indebtedness, including the Bonds described herein, contain cross-default provisions whereby an acceleration with respect to any of our debt instruments could result in an event of default under our other debt securities. Specifically, a default which leads to an acceleration of our other TMK Group debt instruments with a principal amount in excess of U.S.\$30 million will constitute an event of default under the Bonds. We cannot predict under which facilities our lenders might elect to accelerate indebtedness following an event of default arising from non-compliance with covenants. If our indebtedness were to be declared immediately due and payable, we would not have sufficient cash resources to repay all of our outstanding indebtedness. Though, as at the date hereof, we have successfully secured from the relevant lenders all necessary waivers or standstill letters to address possible breaches of our financial covenants in relation to our full year results for 2009, we cannot be certain that we will continue to be able to secure such waivers or standstill letters during future reporting periods. An inability to do so could result in a default under the Bonds described herein. See “— *We are significantly leveraged and are required to meet certain financial and other restrictive covenants under the terms of our indebtedness*”.

***The ongoing turmoil in the global financial and credit markets and worldwide economic downturn and deterioration of economic and financial conditions in Russia could have a material adverse effect on our revenue, profitability and financial position.***

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

The disruptions in the global markets have had a particularly severe impact on the Russian economy generally and, specifically, on the availability of credit and the terms and cost of funding in Russia. Russia is expected to have negative GDP growth in 2009, which will be the first year of negative GDP growth in Russia since 1998. According to Rosstat, Russia recorded a 9.9% contraction in GDP in January through October 2009 in year-on-year terms. Russia is also faced with a relatively high level of inflation. From mid-2008 to mid-2009, industrial production and exports decreased and the number of officially registered unemployed increased. Russia’s official foreign currency reserves fell from a peak of approximately U.S.\$598 billion in August 2008 to approximately U.S.\$440 billion in January 2010. Furthermore, there have been periodic suspensions of Russian stock market trading, extreme volatility in the Russian securities markets and sharp declines in the share prices of Russian financial institutions. There was a significant decrease in the price of oil following its peak in the summer of 2008, resulting in sharp decreases in government revenues, which in turn have had a significant negative impact on the economy of the Russian Federation. Oil prices recovered somewhat in 2009, but still remain well below the highs reached in 2008. Natural gas prices also fell sharply in 2008 and have recovered only modestly. Such decline in the price of oil and gas has reduced demand for our products. See “— *Our business is substantially dependent on the oil and gas industry, and the current downturn in the price of oil and natural gas and other factors affecting the oil and gas industry in Russia and globally may continue to adversely affect our business, financial position and results of operations*”.

***Our business is substantially dependent on the oil and gas industry, and the current downturn in the price of oil and natural gas and other factors affecting the oil and gas industry in Russia and globally may continue to adversely affect our business, financial position and results of operations.***

The oil and gas industry, which has been significantly adversely affected by the current global economic downturn, is the principal consumer of steel pipe products worldwide and accounts for most of our sales, in particular sales of

OCTG, line pipes and large diameter welded pipes. In the first half of 2009 and in the years ended 31 December 2008 and 2007, approximately 67%, 68% and 60%, respectively, of our sales volumes of pipes were sold to the oil and gas industry, including approximately 5%, 9% and 10%, respectively, of our sales volumes of pipes from sales to one of our largest customers, Gazprom, the world's largest natural gas producer. The oil and gas industry has historically been volatile and downturns in the oil and gas markets adversely affect demand for our products which depends, among other factors, on the number of oil and gas wells being drilled, completed and reworked and the depth and drilling conditions of these wells, as well as on the construction of pipelines to service these wells. The level of such activities in turn depends on the level of capital spending by major oil and gas companies. A decline in Russian, U.S. and worldwide oil and gas exploration, drilling and production activities adversely affects our results of operations. Capital spending on OCTG and other kinds of pipes used for oil and natural gas exploration, drilling and production activities is driven in part by the prevailing prices for oil and natural gas and the perceived stability and sustainability of those prices. The current global credit and economic crisis has reduced worldwide demand for energy and resulted in significantly lower crude oil and natural gas prices. In particular, there was a significant decrease in the price of oil and natural gas following their peak prices in the summer of 2008. Though oil and natural gas prices recovered somewhat in 2009, they remain well below the highs reached in 2008. As a consequence, we faced lower demand and pricing pressure on our products and our inventories have increased. Based on our estimates, in the first half of 2009, demand for OCTG pipes in Russia fell by approximately 18%, while demand in the U.S. OCTG market declined by 33% during the same period. In the first half of 2009, we estimate that pipe prices in Russia declined by around 20% to 40%, while prices outside Russia declined by approximately 35% to 50% as compared to the peaks reached in the fourth quarter of 2008. Due to falling natural gas prices and OCTG inventory build up, TMK IPSCO, our U.S. division, saw a sharp decline in sales and its capacity utilisation rate dropped below 30% during the first six months of 2009.

A substantial or extended decline in oil and natural gas prices can reduce our customers' activities and their spending on our products. If the current global economic conditions and the availability of credit worsen or continue for an extended period, this could reduce our customers' levels of expenditures and have a significant adverse effect on our revenue and operating results. In addition, oil and natural gas prices are subject to significant volatility due to other factors beyond our control, including, but not limited to, market uncertainty, world events, regulatory control (including by the Russian government), political developments in petroleum-producing regions and the price and availability of alternative energy sources. We cannot assure you that oil and natural gas prices will not decline further or that such prices will remain at sufficiently high levels to support levels of investment in exploration, drilling and production activities that will sustain demand for our products.

In the first six months of 2009 and 2008, sales in Russia accounted for 68% and 71%, respectively, of our consolidated sales by volume. The Russian oil and gas industry is subject to significant political, economic and other factors which could affect our business. In addition, the Russian oil industry is subject to substantial taxes, including significant resources production taxes and significant export customs duties, and changes to the tax regime and customs duties rates may adversely affect the level of oil and gas exploration and development in Russia.

Reduced investment activity by the oil and gas industry, either in Russia, the United States or globally due to a continuation of the economic downturn or otherwise, may result in declining demand for our products which could adversely affect our business, financial position and results of operations.

***Increases in the cost of raw materials may have a material adverse effect on our financial position and results of operations.***

We require substantial quantities of raw materials to produce steel pipes. Our principal raw material requirements include scrap metal, pig iron, ferroalloys and refractories for use in our in-house steel-making operations, steel billets for producing seamless pipes, and steel coils and plates for producing 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. 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 steel-making processes. During the first half of 2008, the cost of raw materials used in our business increased significantly due to increased global demand for steel products in general, and then fell sharply in the last quarter of 2008 as the global recession became more pronounced. In 2007 and 2008, the costs of raw materials and consumables, including costs relating to supplies of raw materials and consumables, accounted for approximately 72.9% and 69.2%, respectively, of our cost of production. Prices remained relatively high until the beginning of 2009, before declining considerably owing to decreased industry demand.

The availability and price of a significant portion of the raw materials we require are subject to market conditions and governmental regulations, such as customs duties on scrap exports from Russia and customs duties on steel

products imported into Russia, which affect supply and demand for such raw materials and can affect their availability and purchase costs. Before the onset of the current global economic crisis, the cost of raw materials, including scrap metal and semi-finished steel products (primarily billets), used in our business had, in recent years, increased due to the increased demand for steel products in general.

We purchase significant amounts of steel coil and plate from a limited number of third party suppliers for use in our welded pipe production. Prior to the onset of the current global economic crisis, the prices of steel coil and plate, which we use to manufacture welded pipes, had increased significantly in 2008 as compared with 2007. As a result of the effects of the global economic crisis, during the second half of 2008 and throughout 2009, prices for steel coil and plate fell sharply from the high price levels reached in the first half of 2008.

Although increases in our internal steel-making capacity in recent years have reduced our consumption of steel billets purchased from third parties and thus our exposure to fluctuations in the price of steel products, we remain subject to increases in the prices of scrap, which is the principal raw material in our steel-making operations. Moreover, as Russian steel makers modernise their production facilities, including through the installation of EAFs (which use scrap metal as their principal input), we expect demand for scrap in Russia to increase, which may result in increased scrap prices and tighter supply. While we plan to take steps to increase our internal steel scrap-sourcing capabilities, and may acquire a scrap collection business, we nevertheless may experience higher scrap prices or limitations in scrap supplies in the future. We also consume significant quantities of energy, particularly electricity and gas. See “— *Increasing tariffs and the continuing liberalisation of the Russian energy sector could adversely affect our business*”.

The price of raw materials has had, and despite the recent decline in prices resulting from the current economic downturn, will continue to have, a significant impact on our cost of production. Because we have long-term supply agreements with many of our large customers that have pricing terms which may reset only on a semi-annual or longer basis, we may not be able to pass on an increase in the costs of raw materials to our customers or may be able to do so only after a delay. To the extent that we are unable to pass on cost increases of our raw materials to our customers, particularly in view of current economic conditions, this could adversely affect our profit margins and, accordingly, our results of operations.

***Our large diameter welded pipe business is largely dependent on one of our largest customers, Gazprom, and is subject to increasing competitive pressures.***

Gazprom, the world's largest gas producer, is one of our largest customer, accounting, together with its subsidiaries, for approximately 10%, 9% and 5%, respectively, of our sales volumes in the years ended 2007 and 2008 and the first six months of 2009, respectively, including approximately 60%, 67% and 39%, respectively, of our consolidated sales volumes of large diameter welded pipes during such periods.

Gazprom is one of our largest customers for our 1,420 mm diameter welded pipes used for construction of gas trunk pipelines. Until the beginning of 2005, our Volzhsky plant was the only manufacturer in Russia of 1,420 mm welded pipes. However, in May 2005, ZAO United Metallurgical Company (“UMC”), currently the second largest pipe producer in Russia, started production of 1,420 mm diameter welded pipe and since July 2006, OAO Severstal, Russia's third largest steelmaker, has been engaged in the production of large diameter welded pipes. We also face ongoing competition in the supply of large diameter welded pipe in the CIS from OAO Khartsyzsk Pipe Plant (Ukraine). As a result of these or other factors, Gazprom may review its pipe products procurement procedures and may reduce its purchases of spiral welded pipes from us. Increased competition in the large diameter welded pipe sector or a change in our relationship with Gazprom could negatively affect our competitive position in the 1,420 mm diameter pipe market, resulting in decreased revenues from sales of these products and adversely affecting our business, financial position and results of operations.

Our large diameter welded pipe business also depends significantly upon the level of construction of new oil and gas pipelines in Russia and the CIS, the largest of which are usually exposed to significant political risks, among other things. We currently supply pipes to a number of significant pipeline projects, including the extension of BPS-2 and the construction of the Sakhalin-Khabarovsk-Vladivostok gas pipeline. The delay, cancellation or other changes in the scale or scope of these projects, or the selection by the sponsors of such projects of other suppliers, or any decision to limit our participation in such projects could have a material adverse effect on our sales of large diameter welded pipes, and thus on our business, financial position and results of operations.



***We have grown rapidly in a relatively short period, particularly in markets outside of Russia with which we are less familiar, and, accordingly, we may be unable to successfully integrate our acquisitions into our group.***

We have grown rapidly during the past several recent years primarily through acquisitions including, in particular, our acquisition of TMK IPSCO in 2008. Our strategy has been based on our ability to successfully integrate these acquisitions in order to enhance our position as one of the world's largest steel pipe producers. As part of our acquisition strategy, we regularly evaluate potential acquisition opportunities and from time to time engage in preliminary discussions with a variety of potential counterparties.

The integration of newly acquired businesses may be difficult for a variety of reasons, including differing culture or management styles, poor records or internal controls and difficulty in establishing immediate control over cash flows. The need to integrate recently acquired assets poses significant risks to our existing operations, including:

- additional demands placed on our senior management, who are also responsible for managing our existing operations;
- increased overall operating complexity of our business, requiring greater personnel and other resources; and
- incurrence of debt to finance acquisitions and higher debt service costs related thereto, including, if necessary, upgrade costs of such assets.

We have acquired and established businesses in countries that represent new operating environments for us and that are located at a great distance from our headquarters in Russia, including the United States and Romania. We thus expect to have less control over their activities and these businesses may face more uncertainties with respect to their operational needs. These factors may adversely affect the profitability of our current and future operations in these countries. Additionally, our businesses outside of Russia conduct operations in accordance with local customs and laws. For example, in connection with our acquisition of TMK IPSCO, we now have significant operations, assets and employees in the United States, which are subject to U.S. federal and state laws and regulations. Moreover, as a result our acquisitions in Romania in 2006, including the TMK-Artrom and TMK-Resita plants, we now have significant operations, assets and employees in Romania which are subject to EU laws and regulations. Thus, it may take some time to implement our operating standards, we may encounter unforeseen problems and it is possible that for a certain period of time we may face some uncertainties with respect to the operational and financial needs of these businesses, which may hinder our integration efforts. Our international businesses have experienced operational difficulties recently. Our U.S. and European operations recorded operating losses of U.S.\$94.3 million and U.S.\$38.6 million in the first six months of 2009, respectively. In addition, we recorded an impairment charge with respect to our Romanian plants in each of 2008 and the first six months of 2009.

Moreover, when making acquisitions, it has not always been, and will not always be, possible for us to conduct a detailed investigation of the nature of the assets and the profitability of the business being acquired due to, for example, time constraints in making the decision, inadequate financial information about the target and other factors. For these and other reasons, we may become responsible for additional liabilities or obligations not foreseen at the time of an acquisition and may acquire businesses that are less profitable than originally expected. As a result, the impact of our previous and future acquisitions on our results of operations and financial position is difficult to predict and may differ from expectations.

Any failure to conclude acquisitions in the future or to integrate successfully past or future acquisitions could adversely affect our business, financial position and results of operations, as well as our prospects and ability to execute our strategy. In addition, integrating new acquisitions may require significant initial cash investments. Moreover, even if we were successful in integrating newly acquired assets and acquiring additional assets, expected synergies and cost savings may not materialise, resulting in lower-than-expected profit margins. The geographic spread, revenue mix as between regions and operations, regulatory profile and other important aspects of our business profile may differ depending on the nature and extent of our future acquisitions.

***We may be required to record a significant charge to earnings if we must reassess our goodwill or other intangible assets as a result of changes in assumptions underlying the carrying value of certain assets, particularly as a consequence of deteriorating market conditions.***

As at 30 June 2009, we had U.S.\$761.5 million in goodwill and intangible assets with indefinite useful lives, principally related to the acquisition of IPSCO Tubulars and NS Group. Goodwill and other intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill may be impaired. We performed impairment tests on the carrying value of our goodwill on both 31 December 2008 and 30 June 2009, and recorded impairment charges of U.S.\$3.5 million in

2008 related to our oilfield service unit and U.S.\$9.6 million in the first six months of 2009 related to our oilfield service unit and TMK-Kaztrubprom unit. In performing goodwill impairment tests, we are required to estimate the value in use of the related cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows of the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Accordingly, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounted cash flow techniques. Although we believe our estimates and projections are appropriate based on currently available information, the actual operating performance of an asset or group of assets which has been tested for impairment may differ significantly from current expectations. Moreover, we may make changes in the assumptions we use in estimating value in use of our cash generating units. In such an event, the carrying value of goodwill may be required to be reduced from amounts currently recorded. Any such reductions may materially affect asset values and results of operations and financial position. No assurance can be given as to the absence of significant impairment charges in future periods, particularly if market conditions deteriorate further.

***A small number of our customers account for a large proportion of our sales, and the loss of any of these customers may adversely affect our business, financial position and results of operations.***

In 2008 and the first six months of 2009, our five largest customers by sales volumes were Surgutneftegas, TNK BP, Gazprom, Rosneft and LUKOIL, which together accounted for 31% and 32%, respectively, of our total pipe shipments. Surgutneftegas and TNK BP accounted for approximately 24% (both approximately 12%) of our sales volumes of seamless pipes and Gazprom accounted for approximately 11% of our sales volumes of welded pipes in the first six months of 2009. In 2008 and the first six months of 2009, our ten largest customers accounted for approximately 37% and 38%, respectively, of our total pipe sales by volume. In the event that our relationships with any of these customers deteriorated, our business, financial position and results of operations may be materially adversely affected.

***High levels of imports of OCTG and line pipe products into North America could reduce the demand for TMK IPSCO's products and could cause us to lower prices for our products, which would decrease our earnings.***

High levels of imports of OCTG and line pipe products, in particular by Chinese producers, could reduce the volume sold by domestic producers, including TMK IPSCO, in the United States and tend to suppress selling prices, which would result in decreased earnings for our U.S. operations. According to Preston Pipe & Tube Report, in 2008, U.S. domestic production of OCTG accounted for only 41% of shipments, while imports into the United States, principally from Chinese producers, which typically produce lower-cost (though also lower quality) pipe products, accounted for the remainder of OCTG shipments. We believe that import levels are affected by, among other things:

- currency exchange rates;
- overall world demand for OCTG and line pipe products;
- freight costs and availability;
- the trade practices of foreign governments and producers; and
- the presence or absence of anti-dumping, countervailing duty or other U.S. government orders that raise the cost or impose limits on imports.

Anti-dumping and countervailing duty orders could be modified or revoked. These orders, which impose special duties designed to offset unfair pricing and foreign government subsidisation, are subject to annual administrative reviews that may be requested by various foreign and domestic parties and may be revoked as a result of periodic "sunset reviews". An individual exporter may also obtain revocation applicable only to itself under certain circumstances. In the second half of 2009, the U.S. Department of Commerce and the ITC took action against certain Chinese importers through the imposition of significant anti-dumping tariffs. However, there remains the possibility that the decision could be reversed, or that assigned tariff margins may not serve as a deterrent to Chinese imports. Furthermore, there is a risk that Chinese imports successfully removed from the U.S. market by such measures could be replaced by low priced imports from other countries. We cannot predict the U.S. government's future actions regarding duties, tariffs or any other trade restrictions on imports of OCTG and line pipe products.



***If industry-wide OCTG inventory levels are high, customers may draw from inventory rather than purchase new products, which would reduce our sales and earnings.***

Above-normal industry inventory levels in the United States have had in prior periods, and are currently having, in light of the current global economic crisis, the effect of reducing demand for our products and an adverse impact on our earnings. High industry-wide inventory levels of OCTG products reduce the demand for production of OCTG products because customers can draw from inventory rather than purchase new products. This reduction in demand could result in a corresponding reduction in prices and sales, both of which could contribute to a decrease in earnings. Industry-wide inventory levels of OCTG products can change significantly from period to period.

***We operate in competitive markets, and an inability to compete successfully may adversely affect our financial position and results of operations.***

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 recent years, in addition to the competition we face with respect to our traditional competitors, we have begun to face increasing competition from Chinese pipe producers in the Russian, U.S. and international markets, and we expect that this trend will increase significantly in the future. Chinese producers, including Shanghai Baosteel Group Corporation (“**Baosteel**”) and Tianjin Pipe International Economic and Trading Corporation (“**TPCO**”), typically produce lower-end pipe products that are sold at competitive prices, although competition from Chinese producers is also increasing in the higher-end products market, as they rapidly improve the range and quality of their pipes. We expect that Chinese producers, including state-owned TPCO and Baosteel, will increase their seamless pipe production capacity significantly over the next several years.

In the Russian and CIS markets, we face competition primarily from ChTPZ Group, which produces both welded and seamless pipe, UMC, which produces welded pipes, and Ukrainian pipe producers. Additionally, we face increasing competition in the market for large-diameter welded pipe and significant competition from a large number of domestic manufacturers in our industrial welded pipe business. See “— *Our large-diameter welded pipe business is largely dependent on our largest customer, Gazprom, and is subject to increasing competitive pressures*”. Outside Russia and the CIS, we compete against a limited number of producers of premium-quality principally seamless steel pipe products, including Tenaris S.A. (“**Tenaris**”), Vallourec S.A. (“**Vallourec**”), Sumitomo and, increasingly, Chinese producers, including Baosteel and TPCO. In the United States, our subsidiary TMK IPSCO faces competition principally from Tenaris, U.S. Steel Corporation (“**U.S. Steel**”), Evraz and V&M Star, a subsidiary of Vallourec, as well as from imported OCTG and line pipe products, principally from Chinese producers.

Global producers of premium quality pipe products offer a broader mix of value-added downstream pipe services, such as premium threading services and repair and field services, than we currently offer, while the lower-end Chinese producers typically offer lower prices than we do. Additionally, the largest global producers have greater financial resources and more extensive global operations than we do, while the Chinese producers are largely state-owned, and consequently benefit from government support, allowing them to weather more effectively the current global economic downturn. We may not be able to compete effectively against existing or potential producers and preserve our current share of geographical or product markets. A failure to compete effectively could adversely affect our business, financial position and results of operations.

***Anti-dumping proceedings and other import restrictions may limit sales of our products in important geographical markets, in particular Europe.***

We face protective tariffs which reduce our competitiveness in, and limit our access to, certain markets, in particular, the EU. Producers in the European Union have filed anti-dumping actions against us and other producers in their home jurisdictions in several instances in the past. In June 2006, the European Council issued a regulation imposing anti-dumping duties on sales into the European Union of certain types of the seamless pipes we produce in Russia. In 2008, the European commission also introduced anti-dumping measures relating to imports of small and medium diameter welded pipes from, among other countries, Russia. Anti-dumping duty proceedings or any resulting penalties or any other form of import restrictions may limit our access to export markets for our products, and in the future additional markets could be closed to us as a result of similar proceedings, thereby adversely impacting our sales or limiting our opportunities for growth. Currently, as a result of the high duty levels on our seamless and small and medium diameter welded pipe products, it is difficult for us to market these Russian-produced pipe products in the European Union market. The imposition of further measures by the European Union or in other jurisdictions may not be ruled out and could adversely affect our business, financial position and results of operations.

***We benefit from barriers to the import of steel pipe products into Russia and, to a degree, the United States, the removal of which could lead to increased competition and adversely affect our financial position and results of operations.***

Russia has in place import tariffs of up to 20% with respect to certain steel products imported from outside of Russia, excluding certain other CIS countries. Imports of certain types of pipes from Ukraine are currently subject to anti-dumping duties which vary from 8.9% to 55.3% (set to expire in January 2011). Following the expiration of an 8% duty on imports of large-diameter pipes in December 2009, Russian state authorities announced that the duty for imports of large-diameter pipes for 2010 will remain at 8% and, as at the date hereof, a governmental regulation formally establishing this rate is expected.

These measures limit the competitiveness of foreign pipe suppliers in Russia and generally result in increased prices for pipe products sold in Russia. These protective measures may be reduced or eliminated in the future, which could materially adversely affect our business, financial position and results of operations.

Russia is currently conducting negotiations to join the World Trade Organisation (the “WTO”). If Russia accedes to the WTO, Russia may be required to reduce or remove customs duties on pipe products, resulting in increased competition in the Russian pipe market from foreign producers. A reduction in the levels of customs duties or the removal of other limitations on imports of pipe products into Russia could materially adversely affect our business, financial position and results of operations.

Since September 2009, our U.S. subsidiary TMK IPSCO has benefited from the decision by the U.S. Department of Commerce and the ITC to take action against certain Chinese importers through the imposition of significant tariffs, which has rapidly served to reduce competition from Chinese steel pipe producers. In January 2010, the ITC announced that it was commencing an anti-dumping investigation in relation to drill pipes from China. Preliminary anti-dumping and countervailing duties were initially set at rates of 109% to 274% and then adjusted to 430% to 497% in late January 2010. The final decision on the investigation is expected to be announced by the ITC by 16 February 2010. However, there can be no assurance that such decision and accompanying measures will not be reversed, that expected duties will materialise, or that assigned tariff margins may not serve as a deterrent to Chinese imports. Furthermore, there is a risk that Chinese imports successfully removed from the U.S. market by such measures could be replaced by low priced imports from other countries, which could materially adversely affect our business, financial position and results of operations.

***Steel pipe production is capital intensive, and the remaining projects in our capital investment programme may not be implemented on schedule or within budget, which could have a material adverse effect on our business, financial position and results of operations.***

Steel pipe production is capital intensive. We had previously announced a strategic capital expenditure programme that was to run from 2004 to 2010 principally targeted at increasing our seamless pipe production capacity, increasing the efficiency of our pipe production processes, improving the quality and range of our products and increasing our ability to produce high value added products. While by the end of 2008 we had already achieved most of the goals of the programme to modernise our production, as a result of the global economic crisis and the general unavailability of funding for our capital projects, beginning in 2009, we have sharply curtailed capital expenditure on this programme. Our decision to suspend our capital expenditures may result in our being unable to achieve previously stated expansion goals and may negatively affect our ability to compete.

The continued improvement in the markets in which we operate and our own financial position permitting, we remain committed to completing our previously announced capital expenditure programme, including, in particular, entirely replacing our outdated open hearth steel-making facilities with electric arc technology at our Tagmet plant and upgrading our seamless rolling operations at our Seversky plant. We may, however, not be able to achieve our modernisation goals as anticipated, on schedule or within budget. The global capital markets crisis has adversely impacted the ability of companies such as ours to borrow in the bank or capital markets and has increased and may in the future increase the cost of such borrowing. If the current economic downturn continues, the various sources of financing that we have used and will continue to use with respect to our capital expenditures programme, including operating cash flows, existing cash balances and debt financing, may not be available to us in the future in the amounts we require or at an acceptable cost for various reasons, including the unavailability of external financing sources on satisfactory terms, changes in the terms of existing financing arrangements, the pursuit of new business opportunities or significant additional investment in existing businesses, fluctuations in the Russian or global steel pipe markets, cost overruns in connection with our projects and regulatory developments. If sufficient sources of financing are not available in the future for these or for other reasons, we may not be able to fully implement our strategic capital expenditure programme, which could have a material adverse effect on our business, financial position and results of operations.

In addition, due in part to the size and complexity of our planned capital improvements, we will be required to shut down certain of our facilities in order to install new equipment which will cause interruptions with our production and, accordingly, we may be unable to successfully recoup lost revenue and manage the cost and implementation of the programme. Any failure to successfully manage our strategic capital expenditure programme may result in costs that are greater than expected or result in significant delays. Any such cost overruns or delays may have a material adverse effect on our business, financial position and results of operations.

***Equipment failures or production curtailments or shutdowns could adversely affect our production.***

Our production capacities are subject to equipment failures and to the risk of catastrophic loss due to unanticipated events, such as fires, explosions and adverse weather conditions. Our manufacturing processes depend on critical pieces of steel-making and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of unanticipated failures, which could require us to close part or all of the relevant production facility or cause us to reduce production on one or more of our production lines. Any interruption in production capability may require us to make significant and unanticipated capital expenditures to affect repairs, which could have a negative effect on our profitability and cash flows. We do not currently maintain business interruption insurance, and any recoveries under insurance coverage that we may obtain in the future may not offset the lost revenues or increased costs resulting from a disruption of our operations. A sustained disruption to our business could also result in a loss of customers. Any or all of these occurrences could materially adversely affect our business, financial position and results of operations.

***We depend on the Russian railroad network for the transportation of our raw materials and pipe products in Russia.***

Railway transportation is our principal means of transporting raw materials and steel products to our facilities and pipe products to our Russian and CIS customers, as well as to ports for onward transportation to non CIS export customers. As a result, increases in transportation costs may adversely affect our ability to compete successfully in our principal markets. Currently, the Russian government sets rail tariffs with respect to infrastructure costs and carriage costs. According to current government policy, annual tariff increases should be in line with inflation and in 2007 the increase was generally in line with inflation, though in 2006 and 2008 the growth of tariffs was higher than inflation. These tariffs have significantly increased over the last few years and the Russian government may further increase these tariffs. In 2008, tariffs were indexed three times, which resulted in a 23% average tariff increase. Since January 2009, all tariffs have been increased by an additional 5%. Accordingly, our freight costs, which are comprised primarily of railway transportation costs, increased by over 28% in 2008 compared to 2007. However, despite a further increase in freight tariffs during the first six months of 2009, our freight costs decreased by 29% during the first six months of 2009 as compared to the same period in 2008, primarily as a result of fewer products having been transported in light of the economic downturn. Increased railway transportation costs could be materially adversely affect, our business, financial position and results of operations.

In addition, Russian rolling stock is generally in a poor state of repair. The failure of OAO Russian Railways (“**Russian Railways**”) to upgrade its rolling stock within the next few years could result in a shortage of available working rolling stock, lead to a disruption in transportation of our raw materials and products and cause rail tariffs to increase. Any such occurrences could adversely affect our business, financial position and results of operations.

***Increasing tariffs and the continuing liberalisation of the Russian energy sector could adversely affect our business.***

In 2008, energy costs comprised approximately 7% of our total cost of production. In 2007 and 2008, our Russian operations purchased approximately 2.200 billion and 2.180 billion kilowatt hours (kWh) of electricity, respectively, representing approximately 100% of our requirements in Russia, from certain local electricity providers. In the first six months of 2009, we purchased 1.05 billion kWh of electricity. Since 1998, the Russian electricity market, which was historically regulated by the Russian government, has been the subject of reforms, the primary purposes of which are to introduce competition, liberalise the wholesale electricity market and move from regulated pricing to a market-based system. Rules imposed by the Russian electricity industry stipulate that electricity generators must sell a proportion of their planned output at tariffs regulated by the government, while being free to sell their remaining output in the free market. The proportion of planned output that electricity generators must sell at regulated tariffs is being reduced semi-annually until 2011, when full liberalisation is expected to have taken place. As a result of such deregulation, electricity tariffs for industrial users are expected to rise. Our average cost of electricity in Russia was 3.7 U.S. cents per kWh in 2006, 4.4 U.S. cents per kWh in 2007 and 5.0 U.S. cents per kWh in 2008 and 4.8 U.S. cents per kWh in the first six months of 2009. The Russian government is also seeking to attract private investment capital into electricity generating companies through public offerings and other means. These efforts may also result in increases in electricity tariffs, particularly for industrial

customers. Further price increases for electricity may also occur in the future as the industry is controlled to a greater extent by the private sector, which will increase our costs and could have a material adverse effect on our business, financial position and results of operations.

Our Russian operations also purchase significant amounts of natural gas from Gazprom, primarily for steel production in open hearth furnaces, and the production of electricity and heat energy at our facilities. Gazprom is a state-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. Our gas consumption has been decreasing recently as we have replaced most of our open hearth furnaces with EAFs. Domestic natural gas prices are regulated by the government, and have been steadily rising over the last few years. In 2008, the average natural gas price for industrial consumers in Russia increased by approximately 25.0% as compared to 2007. Further, Russian domestic natural gas prices are significantly below Western European levels, which presently helps to provide us with a cost advantage over our competitors, an advantage which is expected to diminish to the extent that Russian domestic gas prices increase and approach Western European levels. If we are required to pay higher prices for gas in the future, our costs will rise and our business, financial position and prospects could be materially adversely affected.

***Our U.S. and Romanian operations may be subject to higher costs and greater regulation than our Russian operations.***

Many of the competitive advantages that we enjoy in Russia are not available to us in Romania, or, if available, are of less benefit to us. For example, Romania is not self-sufficient in energy resources. Energy prices in Romania, which are higher than the prices we pay in Russia, have increased significantly in recent years and may continue to increase in the future, which might hurt the profitability of our operations in Romania. For example, in 2009, the average price we paid for energy (natural gas and electricity) in Romania increased by approximately 7.6% for electricity and 3% for natural gas, as compared to 2008.

In addition, Romania's admission into the European Union may result in increased environmental liabilities, labour costs and other expenditures for our Romanian operations as Romania is required by the European Union to adopt and implement more stringent environmental and labour laws. Entrance into the European Union (which occurred in January 2007), has also brought an increase in labour costs due to the free circulation of the Romanian labour force within the European Union. In order to comply with EU environmental regulations, particularly with respect to CO<sub>2</sub> emissions, we have been required to make substantial investments toward our Romanian subsidiaries, TMK-Resita and TMK-Artrom. The costs of complying with more stringent environmental requirements may be substantial and could materially adversely affect our Romanian operations. Until the adoption of the euro by Romania, Romanian companies will be affected by fluctuations in the exchange rate of the Romanian lei as against the euro and U.S. dollar.

In the United States, a regulatory "cap and trade" bill has been proposed to reduce green house gas ("GHG") emissions that could impact industrial operations generating more than 25,000 tons of GHG emissions per year. At the present operating levels, this would include TMK IPSCO's Ambridge and Koppel facilities. The bill would put a cap on emissions of greenhouse gases and would require high-emitting industries to reduce the output to specific targets between now and 2050. The bill covers 85% of U.S. industries, including electricity producers, oil refineries, natural gas suppliers, and energy-intensive industries like iron, steel, cement and paper manufacturers. The potential impact on TMK IPSCO's operations will vary depending on ongoing changes to the proposed bill. Initial estimates indicate that the anticipated cost of a tonne of carbon emissions will be between U.S.\$12-15 per tonne of carbon emissions. There are provisions in place to protect U.S. operations in the event that the cost rises above U.S.\$28 per tonne. Our U.S. operations could also face indirect cost increases associated with electricity usage as a result of GHG emissions regulations, which could adversely affect TMK IPSCO's operations.

***Sustained periods of high inflation could adversely affect our business.***

A significant amount of our production activities are located in Russia, and a majority of our direct costs are incurred in Russia. Russia has experienced high levels of inflation since the early 1990s — for instance, inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% in that year. We tend to experience inflation-driven increases in certain of our costs, such as raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. We may not be able to increase the prices that we receive from the sale of our pipe products sufficiently in order to preserve existing operating margins, particularly in the case of our export sales, especially when such inflation is accompanied by appreciation of the rouble against the U.S. dollar. Accordingly, high rates of inflation in Russia could increase our costs, decrease our operating margins and materially adversely affect our business, financial position and results of operations.



***Volatility in currency exchange rates, particularly that of the Russian rouble against the U.S. dollar, may materially adversely affect our results of operations.***

Our products are typically priced in roubles for Russian sales and in U.S. dollars and euros for CIS, U.S. and international sales. Our direct costs, including raw materials, labour and transportation costs, are largely incurred in roubles, and, with the acquisition of TMK IPSCO, U.S. dollars. Other costs, such as interest expense, are currently incurred largely in U.S. dollars and euros, and capital expenditures are incurred principally in euros and roubles. In 2008, principally as a result of the onset of the global economic crisis in the second half of the year, the Russian rouble depreciated against the U.S. dollar by 19.7% (whereas in 2007 it appreciated 6.8%), and reached RUB 36.43 to U.S.\$1.00 in February 2009. Against the euro, the rouble depreciated by 15.3% in 2008, whereas in 2007 it depreciated by 3.6%. Though the rouble has recovered somewhat from its February 2009 lows, standing at RUB 30.18 to U.S.\$1.00 as at 3 February 2010, it remains considerably volatile and relatively weak vis-à-vis the U.S. dollar/euro basket. As a result of the depreciation of the rouble against the U.S. dollar and euro in the second half of 2008, we incurred losses from spot rate changes in 2008 in the amount of U.S.\$428.2 million, including U.S.\$99.8 million recognised in the income statement and U.S.\$328.4 million recognised directly in equity as other comprehensive loss relating to the effective portion of foreign exchange losses incurred on the hedged financial instruments, as compared to a gain from spot rate changes of U.S.\$20.5 million in 2007 recognised in the income statement. In the first six months of 2009, we reported losses from spot rate changes of U.S.\$176.6 million, including U.S.\$11.7 million recognised in the income statement and U.S.\$164.9 million recognised in the statement of comprehensive income, representing the effective portion of foreign exchange losses incurred on the hedged financial instruments, as compared to gains from exchange rate fluctuations of U.S.\$14.1 million in the first six months of 2008. These losses were due principally to the revaluation into roubles (OAO TMK's functional currency) of U.S. dollar and euro denominated loans and eurobonds. Because of our current high levels of U.S. dollar denominated debt, further real depreciation of the rouble against the U.S. dollar may adversely affect our financial position.

In addition, fluctuations in the value of the Romanian lei, or RON, against the euro and the U.S. dollar may adversely affect the results of our Romanian operations. Our exports from TMK-Artrom and TMK-Resita are priced largely in U.S. dollars and euro, while our direct costs are incurred largely in RON and U.S. dollars. The mix of our revenues and costs with respect to our Romanian operations is such that appreciation in real terms of the RON against the euro and the U.S. dollar tends to result in an increase in the costs of our Romanian operations relative to their revenues.

***The costs of complying with environmental regulations and potentially unforeseen environmental liabilities may adversely affect our financial position and results of operations.***

We are subject to a wide range of local, regional and federal laws, regulations, permits and decrees relating to the protection of human health and the environment and incur and will continue to incur expenditures to comply with those regulations. The expenditures necessary to remain in compliance with these laws and regulations, including site or other remediation costs, or unforeseen environmental liabilities, could have a material adverse effect on our business, financial position and results of operations.

Under current Russian environmental legislation, we must make payments for air and water discharges as well as waste which are within specified limits and make increased payments for discharges and waste in excess of these limits. Fees are assessed on a sliding scale and the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within individually approved limits and the highest fees are imposed for pollution exceeding such limits. It is within the discretion of the Russian authorities to permit pollution in excess of statutory limits, and any request may be denied. Moreover, the payment of fees for exceeding these limits does not relieve us from our responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Although it has been enhanced since the Soviet era, environmental legislation in Russia is generally weaker and less stringently enforced than in the European Union or the United States. Environmental legislation in Russia is currently undergoing significant change as the government attempts to make it similar to environmental legislation in the European Union. New laws or regulations, the imposition of more stringent requirements with respect to licences or stricter enforcement or new interpretations of existing environmental laws, regulations or licences may require further expenditures to modify operations, install pollution control equipment, perform site clean-ups and reclamation, curtail or cease operations, or pay fees, fines or other payments for discharges or other breaches of environmental standards. See also “— Our U.S. and Romanian operations may be subject to higher costs and greater regulation than our Russian operations”. Moreover, in the course of, or as a result of, an environmental investigation, regulatory authorities in Russia can issue an order reducing or halting production at a facility that has

violated environmental standards. In the event that production at one of our facilities was partially or wholly prevented due to this type of sanction, our business could suffer and our operating results would be adversely affected.

With the acquisition of TMK IPSCO, we are now responsible for compliance with stringent U.S. laws on the environment. The environmental protection regime in the United States is significantly more onerous than what we face with respect to our operations in Russia and other countries and compliance with these U.S. laws may expose us to additional costs. While we have received an environmental indemnity in respect of TMK IPSCO for any breach of environmental laws which occurred after 18 July 2007 and prior to our acquisition, we will not be indemnified for any breach of environmental laws that may have occurred prior to that date and shall have to bear environmental liabilities resulting from any such breach. The acquisition of TMK IPSCO was done with limited due diligence on our part and we therefore have limited information about the nature and scope of our environmental remediation obligations in the United States.

***Potential environmental, product liability and other claims may create significant liabilities for us that would have an adverse effect on our business, financial position and results of operations.***

Our OCTG and line pipe products are sold primarily for use in oil and gas drilling and transportation activities, which are subject to inherent risks, including well failures, line pipe leaks and fires, that could result in death, personal injury, property damage, environmental pollution or loss of production. Any of these hazards and risks can result in the release of hydrocarbons, environmental liabilities, personal injury claims and property damage. Similarly, defects in our other industrial seamless and welded pipe products could result in death, personal injury, property damage, environmental pollution or loss of production.

We normally warrant the OCTG and line pipe products we sell or distribute in accordance with customer specifications, but as we pursue our business strategy of providing customers with supply chain services, we may be required to warrant that the goods we sell and services we provide are fit for their intended purpose. Actual or claimed defects in our products may give rise to claims against us for losses and expose us to claims for damages. We have product liability insurance to protect us against such risks, but we may not be able to obtain such coverage in the future and the insurance we have may be inadequate to protect us in the event of a claim and it could be cancelled or otherwise terminated.

***We are exposed to credit risk.***

We pay considerable attention to credit risk attributable to indirect loans provided by us to a number of our customers and suppliers, such risk having increased significantly in light of the current economic downturn and the greater likelihood of customer loan defaults. These loans usually take the form of deferrals on payments for products. Credit is only offered to customers that are major Russian and foreign companies and that have been working with us for a protracted period of time and have strong credit histories. To manage the risk of payment arrears, we monitor the status of payables and receivables on a daily basis and have set up an Accounts Receivable and Accounts Payable Committee, which is responsible for this monitoring. In addition, we have developed procedures aimed at preventing payment arrears and ensuring effective collection. However, there can be no assurance that the implementation of these measures will be successful to substantially reduce our credit risk in these loan transactions. As at 31 December 2008, our current trade and other receivables that were over 90 days overdue amounted to U.S.\$25.0 million and we recorded an impairment charge of U.S.\$10.2 million with respect to such receivables. As a result of the global economic downturn, we have had to significantly increase our allowance for doubtful debts from previous levels.

***In the event that the title to any company acquired by us through privatisation or otherwise is successfully challenged, we may lose our ownership interest in that company or its assets.***

Almost all of our production assets in Russia consist of companies that had been privatised before we acquired them and we may seek to acquire additional companies that have been privatised or that have undergone bankruptcy proceedings. Privatisation legislation in Russia is vague, internally inconsistent and in conflict with other elements of Russian legislation. As a result, most, if not all, privatisations are arguably deficient and vulnerable to challenge, including through selective action by governmental authorities. Although the statute of limitations for challenging transactions entered into in the course of privatisations has recently been reduced from ten years to three years, the application of the three-year limitation period is still subject to controversial interpretation by the courts. In addition, we cannot assure you that the statute of limitations will not be further amended.

While we believe that we have complied with applicable legislation and regulations with respect to the acquisitions of our assets, if any of such acquisitions are challenged as having been improperly conducted and we are unable to



defend ourselves successfully, we may lose our ownership interests, which could materially adversely affect our business, financial position and results of operations.

***The interests of our controlling beneficial owner could conflict with those of the holders of the Bonds and GDRs.***

As at 18 January 2010, approximately 74.83% of our issued and outstanding shares are owned directly and indirectly by TMK Steel, a holding company incorporated in Cyprus, which is beneficially owned by Mr. Pumpyanskiy, the Chairman of our Board of Directors. Mr. Pumpyanskiy has the ability to exert significant influence over certain actions requiring shareholder approval, including increasing or decreasing our authorised share capital (in cases other than decisions on share capital increases that are adopted by our Board of Directors), the election of directors, declaration of dividends, the appointment of management and other policy decisions. The interests of Mr. Pumpyanskiy could at times conflict with the interests of holders of the Bonds, and any such conflict of interest could adversely affect our business, financial position and results of operations, and therefore the value of an investment in the Bonds could be adversely affected.

***We do not carry insurance against all potential risks and losses, and our insurance might be inadequate to cover all of our losses or liabilities or may not be available on commercially reasonable terms.***

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

***Our accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting, and any such shortcomings in these systems could have an adverse effect on our business, financial position and results of operations and thus the value of the Bonds.***

Our system of internal control over financial reporting is not yet fully adequate for the preparation of IFRS consolidated financial statements. Most of our subsidiaries started running integrated information systems in 2008. However, these systems do not cover IFRS accounting. Each of our subsidiaries has its own accounting platform and prepares stand-alone financial statements under national accounting standards. At present only a few of our subsidiaries are able to maintain daily accounting records under IFRS. In addition, we do not currently prepare monthly and quarterly consolidated IFRS accounts on a regular basis.

The preparation of IFRS consolidated financial statements is a manual process that involves, first, the transformation of the financial statements of our subsidiaries into IFRS financial statements through accounting adjustments and, second, a consolidation of all subsidiaries' financial statements. This process is complicated and time-consuming, requires significant attention from our senior accounting personnel at our corporate headquarters and may make it difficult for us to detect or prevent material misstatements in our IFRS financial statements.

We have taken, and plan to continue to take, steps to improve our accounting systems and internal controls, including the implementation of an Enterprise Resource Planning ("ERP") system that will integrate the financial reporting of our subsidiaries, development and documentation of internal control procedures over the financial statements preparation and books closure and hiring additional qualified personnel in the area of financial reporting. As a key step in this process, in January 2006, we put into operation an ERP system supplied by SAP at Volzhsky and in January 2008 all of our other major plants in Russia were provided with the ERP system supplied by SAP. In addition, in January 2009, we put into operation an ERP system supplied by SAP at TMK Trade House and implemented an ERP system (Axiom) at TMK IPSCO. We are currently implementing an ERP system (SAP) at our Moscow head office.

Notwithstanding the above, we believe that our financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

***We depend on key accounting staff for the preparation of our IFRS financial information, and the loss of these persons could disrupt our ability to report IFRS financial information accurately and could have an adverse effect on our business and the value of the Bonds.***

The preparation of our IFRS financial information is a difficult task requiring IFRS-experienced accounting personnel at each of our principal subsidiaries and at our Moscow Head Office. There are a limited number of

professionals with the requisite IFRS expertise in Russia and increasing demand for such personnel in Russia and abroad. This situation makes it difficult for us to hire and retain such personnel, and our key accounting staff may leave. Any inability to hire or to retain qualified accounting staff could adversely affect our business.

***Our subsidiaries are in many cases the largest employers in their respective cities, and as a result, we may be limited in our ability to make rapid and significant reductions in numbers of employees.***

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

***Our business may be affected by labour disruptions, shortages of skilled labour and labour cost inflation.***

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

***Our competitive position and future prospects depend to a large extent on the experience and expertise of our senior management.***

The involvement in our management of our controlling beneficial owner, Dmitriy Pumpyanskiy, who serves as the Chairman of our Board of Directors, has been, and we believe will continue to be, important in the pursuit and implementation of our strategy. However, there can be no assurance that Mr. Pumpyanskiy will continue to make his services available to us in the future. Our business could suffer if Mr. Pumpyanskiy ceased to participate actively in the management of our company.

In addition, our ability to maintain our competitive position and to implement our business strategy is dependent to a significant extent on the services of our senior managers, and in particular the members of our Management Board. We depend on our current senior management including, in particular, our General Director, Mr. Shiryaev, for the implementation of our strategy and the supervision of our day-to-day activities. Furthermore, personal connections and relationships of members of senior management are important to the conduct of our business. However, there can be no assurance that these individuals will continue to make their services available to us in the future.

The loss or diminution of the services of our controlling beneficial owner or senior managers or an inability to attract and retain additional senior management personnel could have a material adverse effect on our business, financial position and results of operations. Moreover, competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and this situation could seriously affect our ability to retain our existing senior management and attract additional suitably qualified senior management personnel. As a result, the departure of key managers could have a material adverse effect on our business, financial position and results of operations.

***Some transactions between our Russian subsidiaries and their interested parties, affiliates and other members of the TMK Group require the approval of disinterested directors or disinterested shareholders.***

We own less than 100% of the shares in some of our Russian subsidiaries, including Seversky, Sinarsky and Tagmet. These subsidiaries have in the past carried out, and continue to carry out, numerous transactions with other companies within our consolidated group and our affiliates that may be considered “interested party transactions” under Russian law, requiring prior approval for each transaction, to be obtained not later than the date of such transaction’s completion, by a majority vote of the “disinterested directors,” “independent disinterested directors” or “disinterested shareholders,” as the case may be. In particular, our production subsidiaries rely to a large extent on the supply of raw materials from related parties, including TMK Trade House, and sales to TMK Trade House and TMK Global.

The concept of “interested parties” is defined with reference to the concepts of “affiliated persons” and “group of persons,” which are subject to many different interpretations under Russian law. Moreover, the provisions of Russian law defining which transactions must be approved as “interested party” transactions are subject to different interpretations. We cannot be certain that our compliance with these provisions will not be subject to challenge. Any such challenge could result in our inability to enter into such transactions or the invalidation of transactions that are important to our business. Although we generally use our best efforts to obtain the required approvals for interested party transactions, in some cases, as a practical matter, we may not be able to obtain them. Failure to obtain the necessary approvals for transactions involving our Russian subsidiaries or any successful challenge to such transactions could result in the invalidation of such transactions and could have a material adverse effect on our business, financial position, results of operations and prospects.

***Incomplete, unreliable or inaccurate official data and statistics could create uncertainty.***

We rely on and refer to information and statistics from various third party sources and our own internal estimates. We believe that these sources and estimates are reliable, but have not independently verified them. There can be no assurance that statistics derived from third party sources are true and accurate in all material respects.

**Risks Relating to the Russian Federation**

***Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could have an adverse effect on the value of investments in Russia.***

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. It should also be noted that emerging markets such as Russia are subject to rapid change and that the information set out in this Offering Circular may become outdated within a relatively short period. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in stocks and prices for debt securities for all emerging markets as investors move their money to more stable, developed markets. Such financial turmoil can also impact financial markets on a global basis. For example, in November 2009, a major Dubai-owned investment company announced a restructuring of its outstanding debt, which prompted a significant sell-off in the global financial markets. The Russian markets have been highly volatile during the global financial crisis beginning in 2008. Such volatility has caused market regulators to temporarily suspend trading on the MICEX and RTS stock exchanges multiple times beginning in September 2008. The MICEX and RTS stock exchanges have experienced significant overall declines since the beginning of the financial crisis in 2008. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy.

Companies that operate in emerging or developing markets can face severe liquidity constraints as foreign funding sources are withdrawn as a result of this. Additionally, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets. Financial turmoil in any emerging or developing market country could adversely affect our business, as well as result in a decrease in the price of the Bonds.

***Political and Social Risks***

***Political and governmental instability could adversely affect the value of investments in Russia and the value of the Bonds.***

Since 1991, Russia has sought to transform itself from a state with a centrally planned economy to a market oriented economy. Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial authorities, which negatively impacted Russia’s business and investment climate. Former President Vladimir Putin generally increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment.

The most recent State Duma elections, held in December 2007, and Moscow city Duma elections, held in October 2009, resulted in a further increase in the share of the aggregate vote received by the pro presidential party, United Russia. In March 2008, presidential elections were held in the Russian Federation, which resulted in Dmitry Medvedev being elected the President of the Russian Federation. In May 2008, Dmitry Medvedev appointed Vladimir Putin to the position of Prime Minister of the Russian Federation. While the Russian political system and

the relationship between the President, the Russian Government and the Russian parliament currently appear to be stable, the potential for political instability resulting from the worsening economic situation in Russia and deteriorating standards of living should not be underestimated. Any such instability could negatively affect the economic and political environment, particularly in the short-term.

*Arbitrary, selective or unlawful state action could have a material adverse effect on our business.*

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes in a manner that is contrary to law. Moreover, the state also has the power in certain circumstances, by regulation or act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions.

In the past, Russian authorities have prosecuted some Russian companies, their senior managers and their shareholders on tax evasion and related charges, in some cases for allegedly political reasons. Federal and local government entities have also used common defects in matters surrounding the documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Standard & Poor's, a provider of independent credit ratings, has expressed concerns that "Russian companies and their investors can be subject to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". Such state action, unlawful or arbitrary, if directed at us, could have a material adverse effect on our business, financial position, results of operations or prospects.

*Conflict between federal and regional authorities and other conflicts could create an uncertain operating environment that would hinder our long-term planning ability and could adversely affect the value of investments in Russia, including the value of the Bonds.*

The Russian Federation is a federation of 83 subjects, which include 21 republics, nine provinces, 46 regions, one autonomous region, four autonomous districts and two cities of federal significance, Moscow and St. Petersburg, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with federal laws. In practice, the division of authority between federal and regional authorities remains uncertain and contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the Russian courts, and such challenges may occur in the future. This uncertainty could hinder our long term planning efforts and may create uncertainties in our operating environment, any of which may prevent it from effectively and efficiently carrying out our business strategy. However, the recent amendments to Russian legislation whereby heads of regions are nominated by the President of the Russian Federation and appointed by regional legislatures (instead of direct election by the population) are designed to minimise conflict between federal and regional authorities and secure stability across the Russian Federation.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tension and, in certain cases, military conflict and terrorist attacks in certain regions of Russia. Violence and attacks relating to regional conflicts have spread to other parts of Russia. Moreover, in August 2008, Russia and Georgia were involved in an armed conflict. The conflict ended with Russian recognition of the independence of South Ossetia and Abkhazia. Russian stock exchanges experienced heightened volatility, significant overall price declines and capital outflow following these events.

The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all regions of Russia and thus could adversely affect our business, financial position, results of operations and prospects.

Finally, the Russian and international media have reported high levels of corruption in Russia and elsewhere in the CIS. Moreover, there have been examples of certain members of the Russian media appearing to have published biased articles in exchange for payment. In addition, there is a risk that persons who are hostile to us and/or our management and/or our beneficial owners may allege, in the press or elsewhere, that we and/or our management and/or our beneficial owners have engaged in illegal activities. If demands of corrupt officials, claims that we or our management or our beneficial owners have been involved in corruption or illegal activities or biased articles and

negative publicity, were to emerge, however unfounded, these could adversely affect our ability to conduct our business in Russia and the value of the Bonds.

### ***Economic Risks***

*Economic instability in Russia could adversely affect our business.*

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- high levels of capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its rouble denominated securities, the CBR stopped its support of the Russian rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Russian rouble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of 17 August 1998 as evidenced by the revocation of the banking licences of a number of Russian banks, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies and resulted in the loss of bank deposits in some cases. In 2004, several Russian banks experienced a sharp reduction in liquidity, and the licenses of certain of them were withdrawn.

In addition, Russia's financial market suffered a severe decline due to the global financial crisis in 2008. As Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 and have since experienced significant decreases, particularly in the price of crude oil which decreased by approximately 70% in the second half of 2008. The Russian economy has recently been characterised by extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in gross domestic product. In light of these recent developments, international rating agencies have downgraded Russia's sovereign credit rating, which reflects an assessment by such agencies that there is an increased credit risk that the Russian government may default on its obligations. These assessments may lead to a further reduction in foreign investment and an increased cost of borrowing for the Russian government. Although lately, Russia's financial markets, the stock market and the rouble have shown signs of improvement, there can be no assurance that these or other measures will result in a short-term recovery of the Russian economy.

The positive trends in the Russian economy in recent years, such as increases in gross domestic product, a relatively stable currency and a reduced rate of inflation, have begun to reverse as a consequence of the current global financial and economic crisis. Moreover, due to the Russian economy's reliance on revenue from oil and other commodities, there have been reductions in state spending and a reduction in the state budget revenues and expenditures as a result of the decrease in oil prices and prices of other commodities, which, along with other factors, have contributed to a significant devaluation of the rouble against the U.S. dollar and euro in the second half of 2008 and the beginning of 2009. Such devaluation of the rouble against the major currencies could have an adverse effect on the Russian economy and/ or our business, financial position, results of operations and prospects.



*The Russian banking system remains underdeveloped, and there are a limited number of creditworthy Russian banks.*

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretation and inconsistent application. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind internationally accepted norms. Banking supervision is also often inadequate, as a result of which many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks.

Recently, there has been a rapid increase in lending by Russian banks, which may be accompanied by a deterioration in the credit quality of the loan portfolio of those banks. In addition, a robust domestic corporate debt market is leading Russian banks to hold increasingly large amounts of Russian corporate rouble bonds in their portfolios, which is further deteriorating the risk profile of the assets of Russian banks. In 2004, the CBR revoked the licences of some Russian banks, which resulted in market rumours about additional bank closures and many depositors withdrawing their savings. Several privately-owned Russian banks collapsed or ceased or severely limited their operations, although Russian banks owned or controlled by the government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil.

In addition, the Russian financial market suffered a severe decline due to the global financial crisis in 2008. As a result of the negative impact of the financial crisis on the Russian banking sector, Moody's changed its outlook on the Russian banking sector from "stable" to "negative" in the third quarter of 2008. The disruptions on the global markets have had a severe impact on liquidity of Russian banks and other financial institutions, as well as the availability of credit and the terms and cost of funding in Russia. Since the advent of the global financial crisis, the Russian government has made approximately U.S.\$75 billion available to the banking sector (by providing funds to financial institutions and directly to certain borrowers in the manufacturing and resource sectors) in an effort to stimulate new lending and keep financial institutions afloat. There can be no assurance that the measures taken by the Russian government will succeed in materially improving the liquidity position and financial position of Russian banks. If, despite the measures proposed and adopted by the Russian government, Russian banks' liquidity position deteriorates in the future, this could have a material adverse effect on our business, financial position, results of operation and prospects.

*Russia's physical infrastructure is in poor condition, which could disrupt our normal business activities.*

Russia's physical infrastructure largely dates back to Soviet times, and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for use and safety. The poor condition of Russia's infrastructure inhibits economic development, makes transportation of goods more difficult, increases the costs of conducting business in Russia and may cause financial and operational disruptions, thus adversely affecting our business.

To enhance the prospects of infrastructure improvement, the Russian government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisations may result in increased charges and tariffs and may not result in the anticipated capital expenditure that is needed to repair, maintain and improve these systems. Significant increases in charges and tariffs, or further deterioration of Russia's infrastructure may limit economic growth, disrupt the transportation of goods and supplies and interrupt our business operations, our customers and suppliers, any or all of which could have a material adverse effect on our business and the value of the Bonds.

### ***Legal and Legislative Risks***

*Weaknesses in the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on our business and the value of the Bonds.*

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies:

- inconsistencies among (i) federal laws; (ii) decrees, orders and regulations issued by the president, the government and federal ministries; and (iii) regional and local laws, rules and regulations;



- a lack of judicial and administrative guidance on interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation;
- a lack of judicial independence from political, social and commercial forces;
- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

Additionally, several fundamental laws in Russia have only recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the overall Russian legal system. The enforceability and underlying constitutionality of several recently enacted laws are in doubt, and many new laws remain untested. Moreover, courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our legal rights in Russia, including rights under our contracts, or to defend against claims by others in Russia.

The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is also less than complete. The court system is understaffed and underfunded, judicial precedents generally have no binding effect on subsequent decisions and most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims may be used in furtherance of political aims, and law enforcement agencies do not always enforce or follow court judgments. We may be subject to such claims and may not be able to have a fair trial.

These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of our entities in Russia, their assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on our business, financial position and results of operations.

*The lack of developed corporate and securities laws and regulations in Russia may limit our ability to attract future investment.*

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only relatively recently been adopted, whereas laws relating to anti-fraud safeguards and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the Federal Financial Markets Service of the Russian Federation;
- the Ministry of Finance;
- the Federal Antimonopoly Service (the "FAS");
- the CBR; and
- various professional self-regulatory organisations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct securities related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to our company. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance.

*Shareholder liability under Russian law could cause us to become liable for the obligations of our Russian subsidiaries.*

The Russian Civil Code and the Russian Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company or participants in a Russian limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an “**effective parent**”) is capable of determining decisions made by another (an “**effective subsidiary**”). The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies and the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case regardless of how the effective parent’s capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities, or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary’s losses from the effective parent that caused the effective subsidiary to act or failed to act, knowing that such action or inaction would result in losses. Accordingly, in our position as an effective parent, we could be liable in some cases for the debts of our effective subsidiaries in Russia. The total interest-bearing loans and borrowings of our consolidated Russian subsidiaries (excluding intercompany indebtedness) as at 31 December 2007, 31 December 2008 and 30 June 2009 were U.S.\$787.5 million, U.S.\$ 1,226.1 million and U.S.\$1,450.0 million, respectively.

*Shareholder rights provisions under Russian law may impose additional costs on us, which could materially adversely affect our financial position and results of operations.*

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganisation;
- the approval by shareholders of a “**major transaction**,” which, in general terms, is a transaction involving property worth more than 50% of the gross book value of our assets calculated according to Russian accounting standards (“**RAS**”), regardless of whether the transaction is actually consummated; and
- the amendment of a company’s charter in a manner that limits shareholder rights.

Our obligation to purchase shares in these circumstances, which is limited to 10% of our net assets calculated in accordance with RAS at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial position and results of operations.

*Russian corporate governance and disclosure requirements differ significantly from those applicable in other jurisdictions.*

Our corporate affairs and our corporate governance system are regulated by the laws governing companies incorporated in the Russian Federation, our charter and the UK Listing Authority. The rights of shareholders and the responsibilities of members of our Board of Directors and our Management Board under Russian law are different from, and we may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom and other jurisdictions.

A principal objective of the securities laws of the United States and the United Kingdom and other countries is to promote the full and fair disclosure of all material corporate information to the public. We are subject to Russian law requirements, which oblige Russian companies to publish, among other things, financial statements under RAS and IFRS and information on material events relating to Russian companies (such as major acquisitions and increases in charter capital). Although we comply with the applicable UK Listing Authority requirements, there is less information publicly available about us than fully listed companies in the United States, the United Kingdom or certain other jurisdictions.

*Weaknesses and changes in the Russian tax system could materially adversely affect our business and the value of the Bonds or GDRs.*

We pay taxes to the federal, regional and local treasuries in Russia. Generally, taxes payable by Russian companies can be substantial. These taxes include, among others, profit tax (corporate income tax), value added tax (“VAT”), excise duties, payroll-related taxes and contributions and property tax.

The discussion below provides general information regarding Russian taxes and is not intended to be exhaustive, and prospective investors should seek advice from their own tax advisors before investing in the Bonds or GDRs.

Laws related to these taxes, such as the Russian Tax Code, have been in force for a short period relative to tax laws in more developed market economies, and the Russian government’s implementation of these tax laws is often unclear or inconsistent. Accordingly, few precedents with respect to the interpretation of these laws have been established. Often, differing opinions regarding legal interpretation exist both between companies subject to such taxes and the Government and within Government ministries and organisations, such as the Federal Tax Service and the Ministry of Finance and various tax inspectorates, creating uncertainties and areas of conflict.

Historically, the system of tax collection has been relatively ineffective, with the tax authorities making varying interpretations of the existing laws in an attempt to increase revenues. Although the quality of tax legislation has improved with the introduction of the first and second parts of the Tax Code, the possibility exists that Russia may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect our business in Russia. A large number of changes have been introduced to various chapters of the Tax Code since their adoption.

The Russian tax system mechanism relies heavily on the judgment of local tax officials for enforcement and fails to address clearly and fairly many significant tax issues, and local tax officials have recently made a number of material tax claims against major Russian companies.

Since Russian federal, regional and local tax laws and regulations are subject to frequent change and some of the sections and laws of the Tax Code are relatively new, interpretation of these regulations is often difficult. Taxpayers and the Russian tax authorities often interpret tax laws differently. In some instances, Russian tax authorities have applied new interpretations of tax laws retroactively. Also, differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and leading to inconsistent enforcement. There is no established precedent or consistent court practice in respect of these issues and taxpayers often have to resort to court proceedings to defend their position against the tax authorities. Recent practice suggests that the tax authorities may be taking a more assertive position in their interpretation of the legislation and in making assessments.

On 12 October 2006 the Plenum of the Supreme Arbitration Court of the Russian Federation issued ruling No. 53 (the “**Ruling**”) that introduced a concept of “unjustified tax benefit” which is defined mainly by reference to specific examples of such tax benefits (for example, absence of business purpose) which may lead to their disallowance. Based on the available court practice relating to the Ruling, it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this ruling was to combat the abuse of tax law, based on the available judicial interpretations relating to the Ruling, the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been intended by the Supreme Arbitration Court. To date, in the majority of cases where this concept has been applied, the courts have ruled in favour of taxpayers, but the interpretations of the “unjustified tax benefit” concept have been too few to anticipate how it may be interpreted in the future.

Tax declarations, together with related documentation, including customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, tax returns remain subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is adopted. The fact that a year has been reviewed by the tax authorities does not close that year, or any tax returns applicable to that year, from further review during the three-year period. In particular, a repeated tax audit may be conducted by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or in connection with the reorganisation/liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable.

As previous audits do not exclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that effectively allowed the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the Tax Code if a court determines that the taxpayer has obstructed or hindered the course of a tax audit. Moreover, amendments to Part One of the Tax Code effective as of 1 January 2007 provide for the possibility of extension of the three-year term in cases where actions of the audited tax payer created insurmountable obstructions to the tax

authorities' audit. Since the terms "obstructed", "hindered" or "insurmountable obstacles" are not specifically defined in Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer and using that as a basis to seek tax adjustments and penalties beyond the three-year term. In some instances, changes in tax regulations have been given retroactive effect. In its decision of 26 July 2001, the Constitutional Court also introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for it. Similarly, this concept is not defined in Russian tax law. Nonetheless, this concept has been used by the tax authorities to deny, for instance, the taxpayer's right to rely on the letter of the tax law. The tax authorities often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

In addition, payments of dividends between two Russian companies are subject to a withholding tax of 9% at the time they are paid out of profits. This tax is measured by multiplying the tax rate (9%) by the difference between (i) the dividends to be distributed by the Russian company to its shareholders (other than to non-resident companies and individuals) and (ii) dividends collected by such Russian company (if any) in the current and preceding tax periods (where the latter amounts were not previously accounted for calculation of taxable amount of dividends). A Russian company could be subject to a 0% tax on received dividends *provided that* the relevant dividends are received on at least a 50% stake, the acquisition costs of such stake exceeded RUB 500 million, the stake has been held for at least 365 calendar days, and the dividend paying entity is not a resident of a jurisdiction black-listed by the Russian Ministry of Finance. However, there remains a risk of additional tax liabilities and inefficiencies in multi-level Russian groups such as the TMK Group.

Even if further reforms to tax laws are enacted, they may not result in a reduction of the tax burden on Russian companies and the establishment of a more efficient tax system. Conversely, the reforms may also introduce additional tax collection measures. There can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. Historically, the main Russian entities of the TMK Group have paid significant amounts of taxes due to the scale of their operations. Consequently, the introduction of new taxes or introduction of amendments to current taxation rules may have a substantial impact on the overall amount of tax liabilities of the respective entities. Although each of the entities concerned undertakes internal procedures aimed at minimising tax risk and the approach to management of tax liabilities and tax risks within the TMK Group has been conservative, there is no assurance that the Russian entities of the Group would not be required to make substantially larger tax payments in the future, which may adversely affect the financial results of the TMK Group.

The Tax Code contains the concept of a permanent establishment in Russia as a means of taxing foreign legal entities which carry on regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. While Russian companies are taxed on their worldwide income, foreign entities are taxed in Russia on income attributable to a permanent establishment and on Russian source income. However, the practical application of the concept of a permanent establishment under Russian law is not well developed and so foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may run a risk of being treated as having a permanent establishment in Russia and hence being taxable there. Although the Issuer believes that it conducts its affairs so that it is not treated as having a permanent establishment in Russia, no assurance can be given that the Issuer or other foreign companies of the TMK Group will not be treated as having such a permanent establishment. The effect of having a permanent establishment would be to subject the Issuer to Russian profit tax on its income attributable to the permanent establishment. However, the Tax Code does not contain any detailed attribution rules and there is a risk that the tax authorities might seek to assess Russian tax on the entire income of the Issuer. There is also a risk of severe penalties which could be imposed by the tax authorities for failure to register a permanent establishment with the Russian tax authorities. Furthermore, Russian tax legislation in effect does not contain a concept of corporate tax residency. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2009-2011 has proposed the introduction to the domestic tax law of a concept of tax residency for legal entities. According to the proposals, a company would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be currently given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities and the possible impact on the Issuer or other foreign companies of the TMK Group. It cannot be ruled out that, as a result of the introduction of these changes to the Russian tax legislation, the Issuer or other foreign companies of the TMK Group might be deemed to be Russian tax residents, subject to all applicable Russian taxes and the possible impact on the TMK Group.

In May 2009 the Russian President included in his budget message regarding the Budget Policy for 2010 to 2012 the proposal for legislative change on anti-avoidance mechanism with respect to double tax treaty benefits in cases where ultimate beneficiaries of income do not reside in the relevant double tax treaty country.

A draft law has become publicly available envisaging the introduction of the concept of an “actual recipient of income” to the Russian Tax Code. Although the draft law neither uses the term “beneficial owner” nor defines the term “actual recipient of income” (which is used in the Russian versions of all double taxation treaties), it is likely that the intent of the proposed amendments is to introduce a concept of beneficial ownership in the domestic tax legislation and to combat the abuse of double taxation treaties where the beneficiary of income resides in a jurisdiction which does not have double taxation treaty with Russia. The draft law, if enacted as currently drafted, would add to the existing uncertainty and instability in tax treaty in the application of tax treaties in Russia. It may result in the inability for foreign entities to claim benefits under a double taxation treaty benefits in structures which historically were subject to double taxation treaty protection in Russia. It is currently uncertain if and when the discussed draft law may be introduced.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. There can be no assurance that current taxes will not be increased or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. For a further discussion of the risks and uncertainties associated with the enforcement and application of the tax regime in Russia, see “— *Political and Social Risks — Arbitrary, selective or unlawful state action could have a material adverse effect on our business*”. In addition to our substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could adversely affect our business and results of operations and the value of the Bonds or GDRs.

*Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may affect our results of operations*

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions, provided that the transaction price differs from the market price by more than 20% “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and any transactions with unrelated parties and significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20% within a short period of time). Special transfer pricing adjustments are also applicable to transactions with securities or derivatives. There has been no formal guidance (although some court decisions are available) as to how these rules will be applied. The Russian transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by the Russian tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by the Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction.

Furthermore, a draft law is under discussion in the Russian Government that may tighten Russian transfer pricing rules. This draft law, introduced by Ministry of Finance of the Russian Federation, provides substantial changes to the Russian transfer pricing rules. It is expected that most of provisions of this draft law should be enacted starting 1 January 2011. Such amendments, if adopted, may result in stricter transfer pricing rules. At this point it cannot be predicted if this law will be enacted and what the provisions or effect on taxpayers, including the members of the TMK Group, may be.

While members of the TMK Group engage in numerous transactions between related parties, we seek to conduct such transactions based on prices at which we believe similar sales could be made to unrelated parties, which we believe is the market price. However, it is not always possible to determine a relevant market price, and the Russian tax authorities may take a view as to what constitutes an appropriate market price that differs from our view. As a result, the Russian tax authorities may challenge our prices in such transactions and propose adjustments. If any such price adjustments are implemented, we could face losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have an adverse effect on our financial condition and results of operations. See also “— *Legal and Legislative Risks — Weaknesses and changes in the Russian tax system could materially adversely affect our business and the value of the Bonds or GDRs*”.

These changing conditions create tax risks in Russia that may be more significant than those typically found in jurisdictions with more developed tax systems and complicate the tax planning and related business decisions for tax payers.



## **Risks relating to the Bonds, the GDRs and the Trading Market**

### ***There is no active trading market for the Bonds***

The Bonds are new securities which may not be widely distributed and for which there is currently no active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the financial position of the Issuer and TMK and the market price of the Ordinary Shares and the GDRs. Although applications have been made for the Bonds to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Regulated Market, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Bonds.

### ***The Bonds may be redeemed prior to maturity***

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Bonds due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Bonds in accordance with the Conditions, unless the Bondholders' tax option under Condition 7(c) is exercised.

In addition the Conditions provide that the Bonds are redeemable at the Issuer's option in certain other limited circumstances and accordingly the Issuer may choose to redeem the outstanding Bonds at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

### ***Bondholders will bear the risk of fluctuation in the price of the GDRs and the Ordinary Shares***

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Ordinary Shares and the GDRs and it is impossible to predict whether the price of the Ordinary Shares or GDRs will rise or fall. Trading prices of the Ordinary Shares and GDRs will be influenced by, among other things, the financial position of TMK, the results of operations and political, economic, financial and other factors. Any decline in the price of the Ordinary Shares and GDRs may have an adverse effect on the market price of the Bonds.

Future issues or sales of the GDRs or the Ordinary Shares may significantly affect the trading price of the Bonds, the GDRs or the Ordinary Shares. The future issue of GDRs or the Ordinary Shares by TMK or the disposal of GDRs or Ordinary Shares by any of the major shareholders of TMK or the perception that such issues or sales may occur may significantly affect the trading price of the Bonds, the GDRs and the Ordinary Shares. TMK has agreed to certain restrictions on its ability to issue or dispose of GDRs or Ordinary Shares or related securities between the date of the Subscription Agreement and the date which is 90 days after the issue of the Bonds. TMK Steel Limited, Bravecorp Limited and Tirelli Holding Limited have agreed to matching restrictions. Except for such restrictions and the undertakings of TMK described in Condition 12 below (see "*Terms and Conditions of the Bonds — Undertakings*"), there is no restriction on TMK's ability to issue GDRs or Ordinary Shares, and there can be no assurance that TMK will not issue GDRs or Ordinary Shares or that any of its major shareholders will not dispose of, encumber, or pledge their GDRs, Ordinary Shares or related securities.

### ***Because the Global Bonds are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantors***

The Bonds are represented by the Global Bonds. The Global Bonds have been deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Bonds, investors will not be entitled to receive Bonds in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Bonds. While the Bonds are represented by the Global Bonds, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantors will discharge their payment obligations under the Bonds by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer and the Guarantors have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bonds.



***The Bonds have a minimum denomination, and a Bondholder holding less than this minimum denomination will not receive Definitive Registered Bonds***

The Bonds are issued in principal amounts of U.S.\$100,000 and integral multiples in excess thereof. Definitive Bonds in registered form (the “**Definitive Registered Bonds**”) will only be issued if (a) the Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg (or other relevant clearing system) and any such clearing system is closed for business for a continuous period of 14 days or more (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (b) the Trustee gives written notice to the Issuer and TMK pursuant to Condition 11 that the Bonds are due and repayable. If Definitive Registered Bonds are issued, such Bonds will be issued only in respect of principal amounts equal to or greater than U.S.\$100,000. However, Bondholders should be aware the Definitive Registered Bonds in a principal amount that is not U.S.\$100,000 may be illiquid and difficult to trade. Definitive Registered Bonds will in no circumstances be issued to any person holding Bonds in an amount lower than the minimum denomination and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Bonds.

***Modification, waivers and substitution***

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds also provide that the Trustee may, without the consent of Bondholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Bonds or (ii) determine without the consent of the Bondholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Bonds in place of the Issuer, in the circumstances described in Condition 15 of the Terms and Conditions of the Bonds.

***Russian law does not have a concept of beneficial ownership and may consider the Depositary the ultimate owner of the Ordinary Shares underlying the GDRs, and a Russian court could order the seizure of such Ordinary Shares in legal proceedings against the Depositary***

Most jurisdictions would recognise GDR holders as the beneficial owners of the Ordinary Shares underlying their GDRs. For example, in the United States, although shares may be held in a depositary’s name, making the depositary the legal owner of the shares, GDR holders are the beneficial, or real, owners. Therefore, in U.S. or U.K. courts, any action against the Depositary, as the legal owner of the underlying Ordinary Shares, would not result in the GDR holders, as the beneficial owners of the underlying Ordinary Shares, losing their rights in such underlying Ordinary Shares.

Russian law, however, does not have a concept of beneficial ownership and may not recognise GDR holders as beneficial owners of the Ordinary Shares underlying the GDRs and may instead consider the Depositary the only and ultimate owner of such Ordinary Shares. Thus, in proceedings against the Depositary, Russian courts might treat the underlying Ordinary Shares as assets of the Depositary open to seizure or attachment.

In one past lawsuit against a depositary bank, a claimant sought the attachment of various Russian companies’ shares evidenced by depositary receipts issued by that depositary. If, in a similar lawsuit, a Russian court ordered the seizure or attachment of the Depositary’s assets in Russia, GDR holders could lose all of their rights to the Ordinary Shares underlying their GDRs.

***The market price of the Bonds may be highly volatile***

The market price of the Bonds could be subject to wide fluctuations in response to numerous factors, many of which are beyond the control of the Issuer and TMK. These factors include, among other things:

- Actual or anticipated variations in operating results;
- The rating of the Bonds or TMK given by the rating agencies;
- General economic conditions in emerging markets generally, in the CIS, Europe or in the Issuer’s business sector;
- Fluctuations in the prices of crude oil and petroleum products;
- Fluctuations in stock prices on Russian or other stock exchanges;

- Fluctuations in currency and exchange rates;
- Changes in laws or regulations; and
- Negative economic and political news.

#### ***There are restrictions on Conversion Rights***

The Terms and Conditions provide in Condition 6(h) that converting Bondholders must give certain certifications as to Regulation S under the Securities Act in order to receive GDRs. Bondholders who are in the United States or who are U.S. persons (within the meaning of Regulation S) may not be able to give such confirmations and may not be eligible to receive GDRs on the exercise of their Conversion Rights.

#### ***The number of Ordinary Shares that can be deposited into the GDR facility is limited***

According to the Law on the Securities Market and the FSFM Regulations, the organising of and trading in shares of a Russian company outside Russia in the form of GDRs (including deposits of shares into a GDR facility) requires the FSFM's permission. The FSFM has granted permission for the placement and/or circulation outside Russia, in total, of up to 30% of our ordinary shares including in the form of GDRs, which is the maximum permitted percentage of shares in a Russian company that may be placed and/or circulated outside Russia. As a result, there may be a risk of unavailability of GDRs to the Issuer for delivery upon conversion of the Bonds.

Also, the aforementioned restrictions have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, such as FSFM. Thus, under a new FSFM regulation which entered in force on 1 January 2010, the maximum permitted percentage of shares in a Russian company which may be placed and/or circulated outside Russia, including in the form of GDRs, has decreased to 25% (this upper threshold will apply only if the shares of such company are included in the "A1" or "A2" quotation list of a Russian stock exchange). This new regulation should not directly apply to any deposits of Ordinary Shares into TMK's Regulation S GDR facility made before 1 January 2010 in accordance with the FSFM permissions granted to us. However, it is not fully clear to what extent it may apply to any such deposits made after 1 January 2010. There can be no assurance that Russian authorities will not further reduce the maximum permitted percentage of shares in a Russian company which may be placed and/or circulated outside Russia, including in the form of GDRs, or impose other restrictions on trading in GDRs. Such new or extended regulations could make any further deposits of Ordinary Shares into TMK's Regulation S GDR facility impossible and/or have a material adverse effect on the price of the Ordinary Shares and GDRs.

#### ***TMK must calculate amounts available for distribution as dividends in accordance with RAS, and such amounts may differ from those calculated in accordance with IFRS***

TMK may pay dividends on its Ordinary Shares, subject to applicable limitations on payment of dividends by Russian joint stock companies, out of net profits calculated in accordance with RAS, which differ in significant respects from IFRS. Any amounts available for distribution as dividends on the Ordinary Shares as determined under RAS may differ from the amounts that would have been determined under IFRS.

#### ***Our Russian subsidiaries may not approve the issuance of Additional Guarantees***

We have agreed in the Conditions to procure, not more than 90 days after the Closing Date, that Seversky, Sinarsky, Tagmet and IPSCO Tubulars as the Additional Guarantors, will issue the Additional Guarantee in favour of the Trustee, on behalf of the Bondholders, pursuant to which they will jointly and severally guarantee the payment of all the amounts due by the Issuer under the Bonds and all payment and delivery obligations of the Issuer in connection with Conversion Rights. As the issuances of any such guarantees constitute interested party transactions for our Russian subsidiaries under the Russian Joint Stock Companies Law, the provision of such guarantees requires the approval of the majority of the "disinterested shareholders" of any such subsidiaries. We do not have control over disinterested shareholders in any of our subsidiaries, and there can be no assurance that the disinterested shareholders will approve the issuance of any such Additional Guarantees. If any Additional Guarantor fails to provide the required Additional Guarantee by the above deadline, the Issuer will make an offer to purchase the Bonds at the Additional Guarantee Event Redemption Amount. See "*Terms and Conditions of the Bonds*". There can be no assurance that, if required to prepay the Bonds in whole or in part, the Issuer, TMK or the Guarantors will have, or be able to obtain, the funds required to make such payments.

***The Deposit Agreement for the GDRs and relevant provisions of Russian law limit GDR holders' voting rights with respect to the shares evidenced by the GDRs***

GDR holders will have no direct voting rights with respect to the Ordinary Shares evidenced by the GDRs. GDR holders will be able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the Deposit Agreement relating to the GDRs and relevant requirements of Russian law. However, there are practical limitations upon GDR holders' ability to exercise their voting rights due to the additional procedural steps involved in communicating with GDR holders. For example, TMK's charter requires it to notify shareholders at least 30 days before any meeting and at least 70 days before an extraordinary meeting to elect TMK's Board of Directors. Holders of TMK's Ordinary Shares will receive notice directly from TMK and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by contrast, will not receive notice directly from TMK. Rather, in accordance with the Deposit Agreement, TMK will provide the notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by TMK in writing in a timely manner and at TMK's expense, and provided there are no U.S., English or Russian legal prohibitions, including, without limitation, the rules of London Stock Exchange or the rules of any Russian stock exchange on which the Ordinary Shares are listed or admitted to trading, to mail to GDR holders notice of such meeting, copies of voting materials, if and as received by the Depositary from TMK, and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Ordinary Shares evidenced by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Ordinary Shares. GDR holders may not receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner, and GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Ordinary Shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested, and the Depositary may choose to refrain from voting altogether unless it receives instructions from all GDR holders to vote the Ordinary Shares in the same manner. GDR holders may thus have significant difficulty in exercising voting rights with respect to the shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will:

- Receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary;
- Receive notice to enable the timely cancellation of GDRs in respect of shareholder actions, which would primarily take place for reasons set forth below; or
- Be given the benefit of dissenting or abstaining shareholders' rights in respect of any event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

See "*Terms and Conditions of the GDRs*" for a description of the voting rights of GDR holders.

GDR holders will not be able to introduce proposals for the agenda of shareholders' meetings, request the calling of a shareholder meeting, nominate candidates for TMK's Board of Directors or Audit Committee or take other actions which minority shareholders otherwise can take under the Joint Stock Companies Law. GDR holders who wish to take such actions must timely request the cancellation of their GDRs and take delivery of Ordinary Shares, thus becoming the owners of Ordinary Shares registered directly on TMK's share register or depositary accounts.

***GDR holders may be unable to repatriate distributions made on the Ordinary Shares***

TMK intends to pay dividends on Ordinary Shares in roubles, and Russian law currently permits such rouble funds to be converted into U.S. dollars by the Depositary without restriction. The ability to convert roubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of roubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency future markets, the further development of this market is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside of Russia and the CIS and no viable market in which to hedge rouble and rouble-denominated investments.

***GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid to the Depositary***

Under Russian tax law, dividends paid to a non-resident holder of the Ordinary Shares generally will be subject to Russian withholding tax at a rate of 15% for legal entities and organisations and individuals. Russian tax rules applicable to the holders of the GDRs are characterised by significant uncertainties and, until recently, by an

absence of interpretive guidance. In 2005-2007, the Ministry of Finance of the Russian Federation expressed an opinion that holders of global depositary receipts should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares subject to compliance with the treaty clearance procedures. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat the GDR holders in this regard.

Until Russian tax law enacts clear legislation with respect to this matter, TMK intends to withhold Russian withholding tax at the domestic rate (currently 15%) applicable to dividends it pays to the Depositary, regardless of whether the Depositary (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the shares for purposes of that treaty. Although non-resident GDR holders may apply for a refund of a portion of the amount so withheld by TMK under the relevant income tax treaty, TMK cannot make any assurances that the Russian tax authorities will grant any refunds. See *“Taxation of the Bonds and the GDRS”*.

***Non-resident investors may be subject to Russian tax withheld at source on sales, exchange or other disposal of GDRs and Bonds through or to certain Russian payers***

Under Russian tax law, gains arising from a sale, exchange or other disposal by non-resident holders that are legal entities or organisations of Russian securities, such as the ordinary shares, as well as financial instruments derived from such securities, such as the GDRs and possibly the Bonds, may be subject to Russian profits tax to be withheld at source by the Russian payer of the income.

However, no procedural mechanism currently exists to withhold and remit this tax with respect to a sale made to persons other than Russian companies and foreign companies with a registered presence in Russia. Gains arising from a sale, exchange or other disposal of the foregoing types of securities on foreign stock exchanges by non-resident holders that are legal entities are not subject to taxation in Russia. Therefore, so long as the GDRs and Bonds remain listed on the London Stock Exchange, gains arising from a sale, exchange or other disposal on the London Stock Exchange of the GDRs and Bonds by non-resident legal entities or organisations should not be subject to taxation in Russia.

Capital gains derived by individual non-resident holders from their disposal of GDRs, will be considered Russian-source income, and generally will be subject to Russian tax withheld at source if the disposal is made through or to a professional dealer or broker that is a Russian legal entity or a foreign company with a permanent establishment in Russia.

***Tax might be withheld on disposals of the Bonds in Russia, reducing their value***

If a non-resident legal entity or organisation sells any Bonds and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to 20% tax. There is also a risk that withholding tax at a rate of 20% might apply to capital gains realised by non-resident legal entities on sale, exchange or other disposals of the Bonds and on the entire amount of proceeds where the payer (which is a Russian legal entity or a foreign legal entity carrying out activity in Russia through a permanent establishment) would not have sufficient documentary evidence of the cost basis of the Bonds to calculate the capital gain realised by non-resident holder-legal entity.

Russian withholding tax may be reduced or eliminated under an applicable double tax treaty subject to compliance with the treaty clearance formalities. However, no assurance can be given that such relief will be available in practice.

Where proceeds from sale, exchange or disposal of the Bonds are received from a source within Russia by non-resident individual, a withholding tax would be charged at a rate of 30% on gross proceeds from such disposal of the Bonds less any available documented cost deductions. Although such tax may be reduced or eliminated under an applicable tax treaty subject to compliance with the treaty clearance formalities, in practice individuals would not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, whilst obtaining a refund of the taxes withheld can be extremely difficult, if not impossible. There is also a risk that, in respect of GDRs acquired by non-resident holders-individuals as a result of conversion, the tax authorities might disallow or significantly complicate the deduction of the acquisition value of Bonds from the taxable base at sale. Furthermore, even though the Tax Code requires only a Russian professional asset manager or broker, or another person (including a foreign company with a permanent establishment or, arguably, any registered presence, in Russia or an individual entrepreneur located in Russia) acting in a similar capacity to withhold the tax from payment to an



individual associated with disposal of securities, there is no guarantee that other Russian companies or foreign companies with a registered permanent establishment or, arguably, a mere registration, in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax.

No Russian tax implications should arise for non-resident holders of the Bonds upon exercise of the conversion rights vested in the Bonds and receipt of the GDRs. However, under certain conditions a taxable deemed gain may arise for individuals if the market value of the GDRs at the time of exercise of the conversion rights is higher than the value tendered in exchange for GDRs.

***Payments performed by the Guarantors with respect to the Bonds may be subject to Russian withholding tax, which would reduce the amounts paid under the Bonds***

It is possible that payments made by the Guarantors (both in a monetary form and in kind) to non-resident legal entities in part representing interest on the Bonds may be characterised as Russian source income subject to withholding tax at a rate of 20%. There is also a risk that withholding tax at a rate of 20% might apply to capital gains realised by non-resident legal entities on conversion of the Bonds or on the entire amount of proceeds where the Guarantors would not have sufficient documentary evidence of the cost basis of the Bonds to calculate the capital gain realised by a non-resident holder which is a legal entity.

It is also possible that the payments made by the Guarantors to non-resident individuals (both in a monetary form and in kind) may be subject to withholding tax at a rate of 30% on the full amount of payments, or on the part of such payments covering capital gains and interest on the Bonds. Under certain conditions a taxable deemed gain may arise for individuals if the market value of the GDRs at the time of exercise of the conversion rights is higher than the value tendered in exchange for GDRs.

In such cases, non-resident legal entities and individuals may seek reduction of withholding tax under double tax treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable. However, no assurance can be given that such relief or refund will be available in practice.

***Guarantors' payments under the Trust Deed or the Deed of Guarantee may be subject to withholding tax***

In case payments under the Guarantees will be made to the Trustee, Russian income tax withholding at 20% should apply to such payments to the extent that they represent interest (coupon) payable on the Bonds, subject to reduction under any appropriate double tax treaty. It is unlikely that the treaty between Russia and the country where the Trustee is tax resident may be applied in relation to such income (e.g. the Trustee may not qualify as beneficial owner of such income for the purpose of the relevant tax treaty). In that case, income tax withholding could be reduced or eliminated based on consideration of the positions of individual Bondholder-legal entity with respect to such Bondholder's residence, the applicable double taxation treaty, if any, and the provisions of such treaty subject to compliance with treaty clearance formalities. However, there is no assurance that the provisions of a double tax treaty will be applied.

***Credit ratings of the Bonds may not reflect all risks***

One or more independent credit rating agencies may assign credit ratings to the Bonds. Credit ratings assigned to the Bonds do not necessarily mean that they are a suitable investment. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Bonds will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Bonds. The ratings do not address the marketability of the Bonds or any market price. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

***Risks Related to Taxation of the Bonds***

As a result of the implementation of the Savings Directive, interest on Bonds paid to individual beneficial owners resident in European Union Member States or certain associated territories or certain third countries or to certain residual entities may be subject to withholding tax. For further information on this legislation and the applicability of withholding tax to interest payments, see "*Taxation of the Bonds and the GDRs — Luxembourg Taxation*". If any payments in respect of the Bonds become subject to deduction or withholding for or on account of Luxembourg, Russia or United States taxes (other than pursuant to the Savings Directive or as a result of the Bondholder being a resident of Luxembourg, Russia or United States), we would be required under the Bonds, the Trust Deed or the Deed of Guarantee to gross up payments to the Bondholders. For further information regarding the circumstances in



which the payment of such additional amounts will be required, see “*Terms and Conditions of the Bonds — Taxation*”.

***The Issuer is recently formed***

The Issuer is a recently incorporated or organised entity and has no prior operating history or track record. Accordingly, the Issuer has no performance history for a prospective investor to consider in making its decision to invest in the Bonds.

### **USE OF PROCEEDS**

The gross proceeds of the issue of the Bonds will be on-lent from the Issuer to TMK. TMK will subsequently use such proceeds in their entirety to refinance existing short-term indebtedness. Total commissions and expenses payable by TMK in connection with the Bonds are expected to be up to U.S.\$15,000,000.

## CAPITALISATION

The following table sets forth the TMK Group's historic (i) cash and cash equivalents (ii) current interest-bearing loans and borrowings and (iii) total capitalisation as at 30 June 2009 as derived from the 2009 Interim Condensed Consolidated Financial Statements. This table should be read in conjunction with the sections entitled “*Summary Consolidated Historical Financial Data*” and “*Management's Discussion and Analysis of Financial Position and Results of Operations*” and the Consolidated Financial Statements and the related notes thereto included elsewhere in this Offering Circular. See also “*Management's Discussion and Analysis of Financial Position and Results of Operations — Current Debt Profile*”.

|  | <u>As at 30 June 2009</u><br>(millions of U.S. dollars) |
|--|---|
| <b>Cash and cash equivalents</b> . . . . .                     | <u>86.2</u>   |
| <b>Current interest-bearing loans and borrowings</b> . . . . . | <u>1,968.5</u>  |
| Non-current interest-bearing loans and borrowings . . . . .    | 1,681.8   |
| Shareholder's equity: . . . . .                                |   |
| Issued Capital . . . . .                                       | 305.4   |
| Treasury Shares . . . . .                                      | (37.9)  |
| Additional paid-in capital . . . . .                           | 98.3  |
| Reserve capital . . . . .                                      | 15.4  |
| Retained earnings . . . . .                                    | 1,142.3   |
| Foreign currency translation reserve . . . . .                 | (5.2)   |
| Net unrealised gains . . . . .                                 | <u>0.2</u>  |
| Total shareholders' equity . . . . .                           | <u>1,518.5</u>  |
| Minority interests . . . . .                                   | <u>78.4</u>   |
| Total equity . . . . .   | <u>1,596.9</u>  |
| <b>Total capitalisation<sup>(1)</sup></b> . . . . .            | <u><b>3,278.7</b></u>                                   |

(1) Capitalisation is calculated as the sum of total equity and total non-current interest-bearing loans and borrowings.

Since 30 June 2009, a number of transactions have taken place which affect our capitalisation. See “*Management's Discussion and Analysis of Financial Position and Results of Operations — Recent Developments*” and “*Management's Discussion and Analysis of Financial Position and Results of Operations — Current Debt Profile*”.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial position and results of operations are based on, and should be read in conjunction with, our Consolidated Financial Statements included elsewhere in this Offering Circular. This section presents our financial position and results of operations on a consolidated basis.*

*Certain information contained in this section and presented elsewhere in this Offering Circular, including information with respect to our plans and strategy, includes forward looking statements that involve risks and uncertainties. See "Forward Looking Statements". In evaluating this discussion and analysis, you should specifically consider the various risk factors described under "Risk Factors" that could cause our results to differ materially from those expressed in such forward looking statements.*

### Overview

We believe that we are among the world's largest steel pipe producers, with approximately a 6% worldwide market share for seamless pipes and a 12% worldwide market share for OCTG by sales volume in the first half of 2009, according to our estimates. We are also Russia's largest manufacturer and supplier of steel pipes.

We produce both seamless and welded pipes, and, though we have historically focused on developing our seamless pipe business, which we believe generally offers higher margins and better growth opportunities, we have recently also been concentrating on developing our welded pipe business and, particularly, welded OCTG and large diameter pipe sales. Since our acquisition of IPSCO Tubulars and NS Group in 2008, we are also focusing on our welded OCTG and our higher value-added products operations in the United States, where welded pipes represent a significant portion of the OCTG market and where welded OCTG pipes can be used interchangeably with seamless products in many applications. We have recently significantly enhanced our production capacity for large diameter welded pipes used for oil and gas transportation as a result of the recent completion of a state of the art longitudinal large diameter welded pipe mill at our Volzhsky plant, which we believe provides us with a strong platform to expand our share of the important Russian large diameter pipe market.

Beginning in 2009, as a consequence of our international expansion and certain changes mandated by IFRS, we now present our operations in three operating segments — Russia, Americas and Europe — whereas previously our operations were presented by business (seamless pipes, welded pipes and other operations) and geographical segments.

We operate primarily through our seven principal production subsidiaries, four of which — Volzhsky, Seversky, Tagmet and Sinarsky — are located in Russia, one of which — TMK IPSCO (comprised of IPSCO Tubulars and NS Group) — is located in the United States, and two of which — TMK-Artrom and TMK-Resita — are located in Romania.

In June 2008, we acquired IPSCO Tubulars and NS Group, which now comprise our U.S. TMK IPSCO operations. This acquisition has allowed us to diversify geographically by establishing a strong foothold in the U.S. market, the world's largest oil and gas pipe market, and broaden our product mix with a position in value-added products. IPSCO Tubulars produces a wide range of welded pipe products primarily for energy applications, including casing and tubing for oil and gas wells, line pipe, standard pipe and HSS. NS Group is a manufacturer of a diverse range of carbon and alloyed seamless and welded pipe products for the oil and gas sector, and its product offering includes seamless tubing and casing, drill pipe, line pipe, coupling stock, premium connections and oilfield accessories. See "*— Certain Factors Affecting our Results of Operations — Acquisition of TMK IPSCO*".

We further broadened our product and service offerings through our acquisition in late 2007 of certain service assets of TNK-BP, which provide transportation services and specialise in the repair of tubing pipes, piston rods and pipe coatings, and our acquisition in 2008 of TMK-Kaztrubprom, which specialises in high-technology pipe threading and is based in Kazakhstan. In 2008, we established the service businesses TMK Oilfield Services and TMK-Premium Service, which provide comprehensive solutions for the construction, repair and efficient operation of wells, including, among other things, the manufacture and delivery of premium threaded pipes and connections for the oil and gas industry, logistics, repair and process consulting services

In 2004, we launched a strategic capital expenditure programme which focused principally on increasing our seamless pipe production and increasing the efficiency of our production processes. We have now completed most of the principal projects of the programme, which has served to modernise significantly our Russian seamless pipe operations. In light of the current uncertain global financial and economic situation, we have decided to postpone certain additional planned capital investment projects under the programme until we see improvement in global pipe demand and better credit market conditions. The remaining key projects that we intend to implement in the

next several years, markets and our financial condition permitting, include the construction of a one million tonne EAF at our Tagmet plant and a 600,000 tonne FQM at our Seversky plant. See “*Business — Capital Expenditures — Strategic Capital Expenditure Programme*”.

In the first half of 2009, we had total consolidated revenue of U.S.\$1,478.6 million and incurred a loss before tax of U.S.\$266.1 million, compared to total consolidated revenue of U.S.\$2,368.4 million and profit before tax of U.S.\$240.4 million in the first half of 2008. In 2008, we had total consolidated revenue of U.S.\$5,690.0 million and profit before tax of U.S.\$308.1 million, compared to total consolidated revenue of U.S.\$4,178.6 million and profit before tax of U.S.\$698.8 million in 2007.

## **Recent Developments**

In August 2009, we successfully implemented a consent solicitation and tender offer with respect to our outstanding loan participation notes due 2011 and originally issued in July 2008. Under the consent solicitation, we amended the terms of the notes principally in order to increase the level of secured debt that we could incur in respect of the notes. In particular, we amended the definition of “Permitted Liens” in the Conditions of the notes to increase the amount of outstanding secured indebtedness we could incur from 15% of total assets to 40% of total assets and increased the level of permitted debt we could incur under the notes from U.S.\$30 million to U.S.\$100 million. Under the tender offer, we repurchased notes with a par value of U.S.\$413,300,000, which we subsequently cancelled. As at 31 December, the aggregate principal amount of notes outstanding was U.S.\$186.7 million. In August 2009, we entered into the U.S.\$450 million August 2009 VTB Facility (defined below) to finance the tender offer. See “— *Current Debt Profile*”.

As part of our efforts to improve our working capital position, in August 2009, we amended the terms of the aggregate U.S.\$1,107 GPB Facilities (defined below), originally entered into in January 2009 as part of the financing of our purchase of TMK IPSCO, extending the term of the loan from two-and-a-half to five years and reducing the interest rate on the loans. See “— *Certain Factors Affecting Our Results of Operations — Increased Leverage and Ongoing Efforts to Improve Our Liquidity Profile*” and “— *Current Debt Profile*”.

In September 2009, we used the proceeds of the September 2009 VTB Facility (defined below) to fully redeem our U.S.\$300 million 8.5% loan participation notes due September 2009. See “— *Current Debt Profile*”.

In September and October 2009, in order to repay certain of our short-term indebtedness, we entered into credit facility agreements with Gazprombank and VTB Bank in an aggregate amount of RUB 5 billion and RUB 10 billion, respectively, with maturities of 3 and 5 years, respectively, and with respect to each of which up to 50% of the principal is guaranteed by the Russian government.

In July through October 2009 we refinanced a large portion of our Russian subsidiaries’ short-term debt. See “— *Current Debt Profile*”.

In December 2009, we established a Russian bond programme in the total amount of RUB 30,000 million that MICEX registered on 30 December 2009. Under the programme, we 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. The establishment of the programme was approved by our Board of Directors on 16 December 2009. As of the date hereof, we have made no decision with respect to the timing of any issue under the programme.

In February 2010, we successfully implemented the 2010 Consent Solicitation, a second consent solicitation with respect to our outstanding loan participation notes due 2011 and originally issued in July 2008. Through the 2010 Consent Solicitation, we modified the terms of the notes principally in order to further enhance our flexibility to implement our refinancing plan in respect of our existing indebtedness. In particular, we amended the definition of “Refinancing Indebtedness” in the conditions of the notes (a) so as to remove the requirement that any refinancing of existing indebtedness by TMK must rank *pari passu* or be subordinated to the same level of the original indebtedness being refinanced and (b) such that TMK may now refinance existing indebtedness from anywhere within the TMK Group.

TMK’s Board of Directors is expected to announce in February 2010 a share capital increase (the “**Capital Increase**”) of a maximum of 86,166,871 ordinary shares of TMK by means of an open subscription at a price corresponding approximately to the market price of TMK’s shares on the date of the announcement. The share capital increase is expected to be completed in the second quarter of 2010. TMK Steel has informed us that it intends to exercise its preemptive rights and subscribe pro rata according to its shareholding for new shares issued pursuant to TMK’s planned capital increase. We expect to use the proceeds of the share capital increase to, among other



things, procure the purchase of GDRs supporting the Bonds that had previously been lent by TMK Steel to Rockarrow and subsequently to the Issuer.

## Trading Update

### *Production results*

During the second half of 2009, our shipment volumes increased by approximately 32% to 1,590,000 tonnes as compared to 1,203,000 tonnes in the first half of 2009. This increase comprised an approximately 15% increase in shipment volumes in the third quarter of 2009, as compared to the second quarter of 2009, followed by a 22% increase in shipment volumes in the fourth quarter of 2009 as compared to the third quarter of 2009. For an explanation of the difference between “shipment volumes” and “sales volumes” see “*Presentation of Financial and Other Information — Market and other Statistical Data*”.

The following table shows shipment volumes of our principal pipe products for the periods indicated.

| <b>Product</b>                    | <b>Six months<br/>ended 31 December<br/>2009</b> | <b>Six Months<br/>ended 30 June<br/>2009</b> | <b>%<br/>change</b> | <b>Year ended<br/>31 December<br/>2009</b> | <b>Year ended<br/>31 December<br/>2008</b> | <b>%<br/>change</b> |
|-----------------------------------|--|--|---------------------|--|--|---------------------|
|                                   | <b>(thousands of tonnes, except percentages)</b> |  |                     |  |  |                     |
| <b>Seamless Pipes</b> . . . . .   | 905  | 765  | 18%                 | 1,670                                      | 1,985                                      | (16)%               |
| <b>Welded Pipes</b> . . . . .     | 684  | 437  | 57%                 | 1,122                                      | 1,242                                      | (10)%               |
| <b>Total Pipes</b> . . . . .      | <u>1,589</u>                                     | <u>1,203</u>                                 | <u>32%</u>          | <u>2,792</u>                               | <u>3,227</u>                               | <u>(13)%</u>        |
| <b>Total OCTG Pipes</b> . . . . . | 549  | 498  | 10%                 | 1,046                                      | 1,261                                      | (17)%               |

We attribute the increase in shipment volumes during the second half of 2009 (and, particularly, during the fourth quarter of 2009) to an increase in demand for OCTG and line pipe products in key markets and the implementation of large-scale long-distance pipeline projects in Russia. At the same time, we observed an improvement in demand from the Russian machine building and construction sectors. The growth witnessed during the second half of 2009, and particularly during the fourth quarter of 2009 enabled us to offset a substantial part of the first half decline in shipments volumes, therefore narrowing the level of decrease as compared to 2008.

### *OCTG and Line Pipe*

During the second half of 2009, OCTG and line pipe shipment volumes increased by 16% to 873,000 tonnes from 754,000 tonnes in the first half of 2009. This increase comprised an increase in shipments of OCTG and line pipe during the third quarter of 2009 to 377,000 tonnes followed by a further increase in the fourth quarter to 498,000 tonnes. We attribute this growth to a combination of increasing demand from key oil and gas customers, as oil production increased in the fourth quarter, and seasonal procurement factors.

In the second half of 2009, Russia proved a more stable source of demand than non-Russian markets due to a combination of our strategic customer relationships, improved drilling environment, and the limited impact of Chinese pipe producers on the Russian market. Overall, we expect an improvement in OCTG demand in Russia in 2010, due to announced plans for higher capital expenditure spending by major Russian oil and gas companies and increasing drilling activity at new and existing fields. We believe that announced increases in capital expenditure spending by such companies as Gazprom, Lukoil, Rosneft and TNK-BP will translate into an increase in shipments of pipe products to these companies given our importance as supplier to these Russian major oil and gas companies.

Following a significant decline in shipments in the first half of the year, pipe shipments from TMK IPSCO increased by approximately 35% to 129,000 tonnes in the fourth quarter of the year, as compared to the third quarter of 2009, driven by increased oil and gas pipe demand, especially for OCTG products. According to data from oilfield services company Baker Hughes, the U.S. rig count rebounded from its June 2009 low of 876 rigs to reach 1,248 rigs as of 15 January 2010. According to our estimates, current U.S. OCTG inventory levels represent approximately 9 months of U.S. pipe consumption, down from more than 15 months in May 2009.

Throughout the downturn, demand for our premium products remained robust due to continued demand from shale gas producers, which have unconventional drilling requirements and are significant customers of our ULTRA products in North America. As at 31 December 2009, we estimate that we had a 30% share of the U.S. onshore gas shale premium connections market. U.S. natural gas prices recovered during the fourth quarter from the low levels witnessed in early September 2009, which positively impacted demand for TMK IPSCO products. Strong demand for premium products in Russia, in particular for the TMK FMC and TMK GF premium connection series, was supported by shipments for Western and Eastern Siberia fields, including Vankor, one of Rosneft’s most important projects.

### ***Large-diameter Pipes***

Demand for large-diameter pipe has increased steadily since May 2009, driven by the construction of major Gazprom gas pipelines such as the Sakhalin-Khabarovsk-Vladivostok and Pochinki-Gryazovets projects and Transneft's ESPO Pipeline and BPS-2 projects. Our shipment volumes have also benefited since the second quarter from the full ramp-up of Volzhsky's large-diameter longitudinal welded mill. We also continued to experience increased demand in the second half of 2009, from 19,000 tonnes in the first quarter of 2009 to approximately 70,000 tonnes in the second and third quarters of 2009 and to over 150,000 tonnes in the fourth quarter of 2009. The current large-diameter order backlog extends through the second half of 2010. In late December 2009, Volzhsky's longitudinal welded mill received the Det Norske Veritas (DNV) submarine pipeline systems certification, which enhances our ability to participate in offshore pipeline projects. As a result of these developments, we expect 2010 large-diameter pipe shipments to be higher than 2009 full year shipment volumes.

### ***Price and Cost Dynamics***

Current average pricing for our products has been generally stable in the second half of 2009 following a significant decline in the first half of 2009. However, this dynamic has not been uniform across geographic regions. According to PipeLogix, in the United States, prices have only recently started stabilising and showing signs of recovery from their 12-month lows. We currently expect a gradual price recovery in Russia and in the United States in 2010 on the back of the continued upturn in demand and increasing capacity utilisation rates in the industry, subject to market and economic developments. We also expect a modest price increase in Europe driven by similar market dynamics, subject also to market and economic developments.

Our cost of goods sold per tonne of shipments remained generally stable in the second half of 2009 as compared to the first half of 2009. On average, we have observed modest increases in various raw materials prices, apart from steel billets which have remained relatively stable since the beginning of 2009. Based on current raw material price dynamics and planned changes in principal expense items, we expect the spread between anticipated prices for our products and costs of goods sold to improve in 2010, subject also to market and economic developments.

### ***Debt Refinancing***

As at 31 December 2009, the nominal value of our total interest bearing loans and borrowings amounted to U.S.\$3,763.3 million, of which 64% was long term debt and 36% short term debt. At the same time, our cash reserves amounted to U.S.\$243 million. Our short-term debt included VTB Bank loan facilities in an aggregate amount of U.S.\$750 million, which include an option to extend the relevant maturity dates by up to 5 years.

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

- Obtaining loans from Gazprombank in an aggregate amount of U.S.\$1,107 million in January 2009 with a subsequent extension of the final maturity from 2.5 to 5 years and a reduction in the interest rate;
- Obtaining loans from VTB Bank in an aggregate amount of U.S.\$750 million, which we used to redeem our 2006 Eurobonds and partially buy back our 2011 Eurobonds;
- Obtaining loans from Sberbank in an aggregate amount equivalent to U.S.\$465 million, including a U.S.\$188 million loan with a final maturity of 7 years;
- Entering into credit facility agreements with Gazprombank and VTB Bank in an aggregate amount of RUB 5 billion and RUB 10 billion, respectively, with maturities of 3 and 5 years, respectively, and with respect to each of which up to 50% of the principal is guaranteed by the Russian Federation. As at 31 December 2009, we had drawn down an aggregate amount equivalent to U.S.\$341 million under these loan facilities.

As a result of these activities, our loan portfolio repayment schedule is now evenly distributed over the next 5 years. We plan to continue to proactively improve our debt portfolio structure and financing conditions.

## Current Debt Profile

The following table summarises the key terms of our outstanding debt as at 31 December 2009:

| Lender   | Currency | Scheduled repayment date      |              |              |                | Total<br>outstanding <sup>(4)</sup> | Security provided<br>by TMK Group<br>entity <sup>(3)</sup>   |
|--|----------|-------------------------------|--------------|--------------|----------------|-------------------------------------|--|
|  |          | 2010                          | 2011         | 2012         | 2013+          |                                     |  |
|  |          | (in millions of U.S. dollars) |              |              |                |                                     |  |
| <b>Variable rate debt:</b>                             |          |                               |              |              |                |                                     |  |
| Banca Comerciala<br>Romana <sup>(1)</sup> . . . . .    | EUR      | 38.0                          | —            | —            | —              | 38.0                                | Guarantee/Pledge<br>(equipment, accounts<br>mortgage)  |
| Credit Suisse . . . . .                                | USD      | 1.1                           | —            | —            | —              | 1.1                                 | Pledge (goods)   |
| Deutsche Bank . . . . .                                | EUR      | 0.1                           | —            | —            | —              | 0.1                                 | Pledge (accounts)  |
| HypoVereinsbank <sup>(1)</sup> . . . .                 | EUR      | 24.7                          | 24.7         | 24.7         | 24.7           | 98.8                                | Guarantee/Pledge<br>(equipment)  |
| Société Générale <sup>(1)</sup> . . . . .              | EUR      | 0.9                           | 0.9          | 0.9          | 0.5            | 3.2                                 | Guarantee/none   |
| UGF . . . . .  | EUR      | 0.5                           | —            | —            | —              | —                                   | Pledge (accounts)  |
| Unicredit . . . . .                                    | EUR      | 22.5                          | 22.5         | 11.3         | —              | 56.3                                | Guarantee/Pledge<br>(equipment)  |
| VTB . . . . .  | EUR      | 33.9                          | —            | —            | —              | 33.9                                | Guarantee/none   |
| VTB Bank Europe . . . . .                              | USD      | 3.0                           | —            | —            | —              | 3.0                                 | Guarantee/Pledge<br>(accounts)   |
| <b>Total variable rate<br/>debt . . . . .</b>          |          | <b>124.7</b>                  | <b>48.1</b>  | <b>36.9</b>  | <b>25.2</b>    | <b>234.9</b>                        |  |
| <b>Fixed rate debt:</b>                                |          |                               |              |              |                |                                     |  |
| LPNs (TMK Capital) . . .                               | USD      | —                             | 186.7        | —            | —              | 186.7                               | Guarantee  |
| Bondholders . . . . .                                  | RUB      | —                             | 165.3        | —            | —              | 165.3                               | Guarantee  |
| Gazprombank <sup>(1)(2)</sup> . . . . .                | RUB      | 6.6                           | 221.5        | 300.0        | 664.5          | 1,192.6                             | Guarantee/Guarantee of<br>Russian Federation <sup>(5)</sup> /<br>Pledge (shares of<br>TMK)/none            |
| Khanty-Mansiisk Bank . .                               | USD      | 55.0                          | —            | —            | —              | 55.0                                | none   |
| Regional Financial<br>Company <sup>(1)</sup> . . . . . | RUB      | 65.8                          | —            | —            | —              | 65.8                                | none   |
| Sberbank <sup>(1)</sup> . . . . .                      | RUB      | 54.9                          | 258.1        | 31.4         | 125.7          | 470.1                               | Guarantee/Pledge<br>(equipment,<br>mortgage)/none  |
| Société Générale . . . . .                             | EUR      | 9.0                           | 18.0         | 18.0         | 44.9           | 89.9                                | Guarantee  |
| UniCredit <sup>(1) (2)</sup> . . . . .                 | RUB/USD  | 104.5                         | —            | —            | —              | 104.5                               | Guarantee/Pledge<br>(goods)/none   |
| Uralsib <sup>(1) (2)</sup> . . . . .                   | RUB/USD  | 46.5                          | —            | —            | —              | 46.5                                | Guarantee  |
| VTB <sup>(1) (2) (6)</sup> . . . . .                   | RUB/USD  | 889.8                         | —            | —            | 262.2          | 1,152.0                             | Guarantee/Guarantee<br>of Russian Federation <sup>(5)</sup> /<br>Pledge (shares of TMK,<br>equipment)/none |
| <b>Total fixed rate debt . . .</b>                     |          | <b>1,232.1</b>                | <b>849.6</b> | <b>349.4</b> | <b>1,097.3</b> | <b>3,528.4</b>                      |  |
| <b>Total debt . . . . .</b>                            |          | <b>1,356.8</b>                | <b>897.7</b> | <b>386.3</b> | <b>1,122.5</b> | <b>3,763.3</b>                      |  |

(1) Amounts indicated represent aggregate of multiple loans by single lender.

(2) Individual loans are denominated in the various currencies indicated.

(3) Where there are multiple loans from a single lender, the various types of security (if any) under the loans are indicated.

(4) Represents amounts currently outstanding under existing facilities/credit line agreements of TMK Group companies.

(5) Guarantee of the Russian Federation with respect to up to 50% of the principal amount of the loan.

(6) On 2 February 2010, VTB agreed to prolong the August 2009 VTB Facility (defined below) to provide for a maturity of three years from the date on which the facility was originally entered into, with an option to extend the maturity by up to five years.

As at 31 December 2009, we had loans in the principal amount of U.S.\$1,428.9 million that were secured by pledges over assets of members of the TMK Group, including loans in the principal amount of U.S.\$600 million that were secured by pledges over the shares of subsidiaries of OAO TMK and loans in the principal amount of U.S.\$828.9 million that were secured by pledges over property, plant and equipment, inventories, deposits, cash and accounts receivable of members of the TMK Group.

Our high proportion of short-term debt relative to total indebtedness is due in part to the tendency of Russian banks to provide loans for one-year terms in order to satisfy regulatory requirements when such loans are, we believe, in fact, effectively long-term loans with extendable maturities.

***Our most significant borrowings as at 31 December 2009:***

***Loan Facilities***

*Loans from AB Gazprombank (ZAO) (“GPB”).* In September 2009, Volzhsky entered into a credit line agreement with GPB in the amount of RUB 5,000 million, bearing interest at a rate of 14% per annum and with a maturity of three years. The obligations under the credit line are guaranteed by the Russian Federation with respect to up to 50% of the principal. The facilities were secured by a pledge of Volzhsky’s equipment and real estate. As at 31 December 2009, RUB 2,374.23 million was outstanding under the credit line.

On 27 January 2009, OAO TMK entered into two facilities and Volzhsky entered into one facility with GPB in the aggregate amount of U.S.\$1,107 million (the “**GPB Facilities**”), bearing an interest rate of 14.50% and with 2.5-year maturities. The facilities were amended in August 2009 to extend the term of the loans to 5 years and reduce the interest rate to 12.95% thereafter. In December 2009, the interest rate was reduced to 9.5%. The facilities are scheduled to be repaid in 13 tranches beginning in 2011. The facilities were secured by a pledge of shares (25% plus 1 share of OAO TMK and 50% plus 1 share of Volzhsky) and guaranteed by TMK Trade House. As at 31 December 2009, the GPB Facilities were fully drawn. The proceeds of the loans were used to repay the remaining outstanding portion of the IPSCO Bridge Facility (defined below) and to finance the acquisition of the remaining 49% interest in NS Group from Evraz in accordance with a U.S.\$507.5 million call/put option concluded in connection with the acquisition of TMK IPSCO in June 2008.

*Loans from VTB Bank (“VTB”).* In October 2009, Seversky entered into a credit line agreement with VTB in the amount of RUB 3,000 million, bearing interest at a rate of 14% per annum and with a maturity of five years. The obligations under the credit line are guaranteed by Volzhsky and the Russian Federation with respect to up to 50% of the principal. Since 25 January 2010, the facility has been secured by a pledge of Seversky’s equipment. As at 31 December 2009, RUB 2,528.55 million was outstanding under the credit line.

In October 2009, Sinarsky entered into a credit line agreement with VTB in the amount of RUB 4,000 million, bearing interest at a rate of 14% per annum and with a maturity of five years. The obligations under the credit line are guaranteed by Volzhsky and the Russian Federation with respect to up to 50% of the principal. Since 21 January 2010, the facility has been secured by a pledge of Sinarsky’s real estate. As at 31 December 2009, RUB 3,100.00 million was outstanding under the credit line.

In October 2009, Tagmet entered into a credit line agreement with VTB in the amount of RUB 3,000 million, bearing interest at a rate of 14% per annum and with a maturity of five years. The obligations under the credit line are guaranteed by Volzhsky and the Russian Federation with respect to up to 50% of the principal. Since 19 January 2010, the facility has been secured by a pledge of Tagmet’s real estate. As at 31 December 2009, RUB 2,300.00 million was outstanding under the credit line.

On 25 September 2009, OAO TMK entered into a loan with VTB in the amount of U.S.\$300 million, bearing interest at a rate of 10.2% per annum and with an initial maturity of one year, with an option to extend the maturity by up to five years (the “**September 2009 VTB Facility**”). The loan is guaranteed by Bravecorp Limited, Volzhsky, Sinarsky, Seversky and secured by a pledge of shares (25% plus 1 share of OAO TMK and 50% plus 1 share of Tagmet). The facility contains a covenant requiring us to maintain a ratio of debt-to-EBITDA that does not exceed a certain level. As at 31 December 2009, this loan was fully drawn. We used the proceeds of the loan to fully redeem our U.S.\$300 million eurobonds, originally issued in September 2006, due in September 2009. See “— *Loan Participation Notes*”.

On 18 August 2009, OAO TMK entered into a loan with VTB in the amount of U.S.\$450 million, bearing interest at a rate of 12.1% per annum and with an initial maturity of one year, with an option to extend the maturity by up to five years (the “**August 2009 VTB Facility**”). On 2 February 2010, VTB agreed to prolong the facility to provide for a maturity of three years from the date on which the facility was originally entered into, with an option to extend the maturity by up to five years. The loan is guaranteed by Bravecorp Limited, Volzhsky, Sinarsky, Seversky and secured by a pledge of shares (25% plus 1 share of OAO TMK). The 25% plus 1 share of OAO TMK pledged in relation to both this facility and the September 2009 VTB Facility represent pledges over the same shares, subject to arrangements with respect to order of priority, and are not cumulative. The facility contains a covenant requiring us to maintain a ratio of debt-to-EBITDA that does not exceed a certain level. As at 31 December 2009, this loan was fully drawn. We used the proceeds of the loan to redeem a portion of our U.S.\$600 million loan participation notes due 2011.

On 23 March 2009, OAO TMK entered into a loan with VTB in the amount of U.S.\$90.185 million, bearing interest at a rate of 11.5% per annum and maturing in March 2010 (the “**March 2009 VTB Facility**”). The facility contains a covenant requiring us to maintain a ratio of debt-to-EBITDA that does not exceed a certain level. The loan is guaranteed by Volzhsky, Sinarsky, Seversky, TMK Trade House and Tagmet. Since 25 January 2010 the facility has been secured by a pledge of 25% of the shares of Tagmet. As at 31 December 2009, this loan was fully drawn. We used the proceeds of the loan to redeem our RUB 3,000 million bearer coupon debt securities, originally issued in March 2005, due in March 2009.

On 21 November 2008, OAO TMK entered into a credit line agreement with VTB in the amount of RUB 1,500 million, bearing interest at a rate of 15.49% per annum and maturing in August 2010 (the “**November 2008 VTB Facility**”). The facility is guaranteed by Volzhsky. The facility contains a covenant requiring us to maintain a ratio of debt-to-EBITDA that does not exceed a certain level. Since 25 January 2010, the facility has been secured by a pledge of 25% of the shares of Tagmet. The 25% of shares of Tagmet pledged in relation to both this facility and the March 2009 VTB Facility represent pledges over the same shares, subject to arrangements with respect to order of priority and are not cumulative. As at 31 December 2009, this loan was fully drawn. The proceeds of the loan were used for the purposes of financing current activities.

The 25% plus 1 share of OAO TMK pledged in relation to the September 2009 VTB Facility and the August 2009 VTB Facility and the 25% of Tagmet’s shares pledged in relation to the March 2009 VTB Facility and the November 2008 VTB Facility in each case represent pledges over the same shares, subject to arrangements with respect to order of priority, and are not cumulative. The 25% plus 1 share of OAO TMK pledged in relation to the September 2009 VTB Facility and the August 2009 VTB Facility represents different shares from the 25% plus 1 share of OAO TMK pledged in relation to the GPB Facilities. The aggregate amount of shares pledged in connection with these facilities is 50% of OAO TMK’s outstanding shares plus 2 additional shares of OAO TMK, which represents the total number of OAO TMK shares pledged in connection with our credit facilities as at the date hereof.

*Loan from Savings Bank of the Russian Federation (“Sberbank”).* In December of 2009, Seversky entered into a credit line agreement with Sberbank in the amount of RUB 600 million, bearing interest at a rate of 13% per annum and with an 18-month term. The proceeds of the loan were used for the purpose of repaying short-term indebtedness. The obligations under the credit line agreement were secured by a pledge of Seversky’s equipment. As at 31 December 2009, RUB 600 million was outstanding under the credit line.

In December of 2009, Sinarsky entered into a credit line agreement with Sberbank in the amount of RUB 320 million, bearing interest at a rate of 13% per annum and with an 18-month term. The proceeds of the loan were used for the purpose of repaying short-term indebtedness. The obligations under the credit line agreement were secured by a pledge of Sinarsky’s equipment. As at 31 December 2009, RUB 320 million was outstanding under the credit line.

In October 2009, Seversky entered into 18-month credit line agreement with Sberbank in the amount of RUB 525 million, bearing interest at a rate of 13% per annum. The proceeds of the loan were used for the purpose of repaying short-term indebtedness. The line was secured by a pledge of Seversky’s assets (equipment). As at 31 December 2009, the loan was fully drawn.

In September and October 2009, Sinarsky entered into two credit line agreements with Sberbank, one in the amount of RUB 880 million and the second in the amount of RUB 610 million, bearing interest at rates of 13% per annum, respectively, and with 18-month terms. The proceeds of the loans were used for the purpose of repaying short-term indebtedness. The obligations under the credit line agreements were secured by a pledge of Sinarsky’s equipment. As at 31 December 2009, the loans were fully drawn.

In September 2009, Volzhsky entered into two 18 month credit line agreements with Sberbank in an aggregate principal amount of RUB 2,800 million, bearing interest at a rate of 13% per annum. The proceeds of the loans were used for the purposes of financing working capital. The obligations under the lines were secured by a pledge of Volzhsky’s equipment and real estate. As at 31 December 2009, RUB 2,800 million was outstanding under the credit lines.

In June through October 2009, Tagmet entered into three credit line agreements with Sberbank, one in the amount of RUB 660 million, with a 12-month term, one in the amount of RUB 320 million, with an 18-month term, and one in the amount of RUB 800 million, with 18-month term, and each bearing interest at a rate of 13.0% per annum. The proceeds of the loans were used for the purpose of financing working capital and repaying short-term indebtedness. The obligations under the credit line agreements were guaranteed by OAO TMK and secured by pledges of Tagmet’s and Volzhsky’s equipment. As at 31 December 2009, the loans were fully drawn.



In July and September 2009 Seversky and Sinarsky entered into three long term loans with Sberbank in the aggregate principle amount of RUB 5,700 million, consisting of a RUB 4,700 million and a RUB 300 million credit facility for Seversky and a RUB 700 million credit facility for Sinarsky. The facilities mature in 2016 and bear interest at rates of 15% per annum or 17% per annum. Seversky and Sinarsky are required to repay the loans in twelve semi-annual instalments commencing in January 2011 and March 2011, respectively. The loans are secured by pledge of Seversky movable and immovable assets and cross guarantees of Seversky and Sinarsky. As at 31 December 2009, the loans were fully drawn.

In June 2009, Volzhsky entered into a 12-month credit line with Sberbank in the amount of RUB 1,000 million, bearing interest at a rate of 13% per annum. The obligations under the line were secured by a pledge of Volzhsky's equipment and real estate. As at 31 December 2009, the loan was fully drawn.

*Loans from OAO AKB Uralsib ("Uralsib").* In May 2009, TMK Trade House entered into a revolving credit line agreement with Uralsib in the principal amount of RUB 1,000 million, bearing interest at a rate of 5.0% per annum and maturing on 28 May 2010. The proceeds of the loan were used for the purposes of buying bills of exchange issued by Uralsib. The loan is guaranteed by OAO TMK, Volzhsky, Sinarsky, Seversky and Tagmet. As at 31 December 2009, RUB 500 million was outstanding under the credit line.

On 17 February 2009, TMK Trade House entered into a revolving credit line agreement with Uralsib in the principal amount of U.S.\$50 million, maturing on 12 May 2010. The loan is guaranteed by OAO TMK, Volzhsky, Sinarsky, Seversky and Tagmet. As at 31 December 2009, U.S.\$30 million, bearing interest at a rate of 10.0% per annum, was outstanding under the credit line.

*Loans from UniCredit Bank, Moscow ("UniCredit").* In September 2009, Tagmet entered into one-year loan agreement with UniCredit for RUB 450 million, bearing interest at a rate of 15.20% per annum. The proceeds of the loan were used for the purposes of financing working capital. The loan is secured by a pledge of Volzhsky's inventory and guaranteed by Volzhsky. As at 31 December 2009, RUB 450 million was outstanding under this loan.

In February and May 2009, Volzhsky entered into two one-year loan agreements with UniCredit, one for U.S.\$17.5 million and the second for U.S.\$7.0 million, bearing interest at rates of 11.0% and 10.17% per annum, respectively. The loans are secured by a pledge of Volzhsky's inventory. The proceeds of the loans were used for the purposes of financing working capital. As at 31 December 2009, the loans were fully drawn.

In January 2009, Tagmet entered into one-year loan agreement with UniCredit for U.S.\$28.87 million, bearing interest at a rate of 10.80% per annum. The proceeds of the loan were used for the purposes of financing working capital. The loan is secured by a pledge of Tagmet's and Volzhsky's inventory. As at 31 December 2009, the amount outstanding under this loan remained the same.

On 11 May 2007, Volzhsky entered into a EUR 58.4 million revolving credit line with UniCredit bearing interest at a rate of one month EURIBOR plus 1.6% per annum and maturing in May 2012. Funds under the credit line are used to finance the repayment of recourse obligations arising from Volzhsky's liabilities to UniCredit in connection with payments under certain letters of credit for long seam welded pipes production purchased under an import contract concluded between Volzhsky and Haeusler AG. Volzhsky is obliged to repay the loan in seven equal semi-annual instalments commencing in June 2009. The facility is guaranteed by TMK Trade House and secured by pledge of equipment delivered under the import contract. As at 31 December 2009, EUR 39.2 million was outstanding under this loan.

*Loan from OAO Khanty-Mansiyskiy Bank ("K-M Bank").* In December 2008, TMK Trade House entered into a loan with K-M Bank in the principal amount of U.S.\$55.0 million bearing interest at a rate of 11.25% and maturing in December 2010. As at 31 December 2009, the loan was fully drawn. The proceeds of the loan were used for the purpose of financing working capital.

*Loans from HypoVereinsbank ("HVB").* In September 2006, Seversky and Tagmet entered into export credit agency ("ECA") covered loan agreements with HVB in the principal amounts of EUR 22.7 million and EUR 69.1 million, respectively. Funds provided under these loans are designated to finance the acquisition of an EAF from SMS Siemag AG and a PQF rolling mill from SMS Meer GmbH. The loans bear interest at a rate of 6 month EURIBOR plus 0.26% per annum and the outstanding principal amounts under the loans are to be repaid in ten semi-annual instalments commencing in March 2009 for Seversky and in February 2009 for Tagmet. The loans are secured by OAO TMK Guarantee and pledge of equipment delivered by SMS Siemag AG and SMS Meer GmbH. As at 31 December 2009, EUR 68.7 million was outstanding under these loans

*Loan from Société Générale ("SG").* On 19 March 2008, Seversky entered into an ECA-covered credit facility with SG in the principal amount of EUR 88.7 million. The facility bears interest at a rate of 5.11% per annum and matures in March 2015. Seversky is obligated to repay the facility in ten semi-annual instalments commencing in

September 2010. Amounts due under the facility are guaranteed by OAO TMK. The proceeds of the loan are being used to finance the acquisition by Seversky of a pipe rolling mill from Danieli & C. Officine Meccaniche S.p.A. The facility contains covenants requiring us to maintain ratios of debt-to-tangible net worth and debt-to-EBITDA that do not exceed certain levels. As at 31 December 2009, EUR 62.6 million remained outstanding under the loan.

*Loans assigned to Regional Financial Company (“RFC”).* In January 2009, Volzhsky’s obligations under loan agreements with a Russian financial institution in an aggregate amount of RUB 3,790 million were assigned to RFC. The loans are bearing interest at rates from 16% to 17% per annum and with final maturity in March 2010. As at 31 December 2009, RUB 1,990 million was outstanding under the RFC assignment contracts.

### ***Russian Bond Issuances***

*Series 03 RUB 5 billion bond issue.* On 29 November 2005, the FSFM registered and on 21 February 2006 we issued documentary non-convertible bonds in the aggregate principal amount of RUB 5,000 million due on 15 February 2011. The bonds have ten semi-annual interest coupons. The annual interest rate for the first four semi-annual coupons was set at 7.95%. The fifth, sixth, seventh and eighth coupon rates is 9.6%. The interest rate for the ninth and tenth semi-annual coupon periods is to be established and announced on any date before the last 10 days of the eighth coupon period. Our obligations under the bonds are guaranteed by TMK Trade House. As at 31 December 2009, an aggregate of RUB 5,000 million remained outstanding under these bond series.

In December 2009, we established a Russian bond programme in the total amount of RUB 30,000 million that MICEX registered on 30 December 2009. Under the programme, we 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. The establishment of the programme was approved by our Board of Directors on 16 December 2009. As of the date hereof, we have made no decision with respect to the timing of any issue under the programme.

### ***Loan Participation Notes***

On 25 July 2008, we completed an offering of U.S.\$600 million 10% loan participation notes with a nominal value of U.S.\$100,000 each, due July 2011 (the “**2008 LPNs**”). The notes were issued by TMK Capital S.A., a Luxembourg special purpose vehicle, for the sole purpose of funding a loan to OAO TMK. OAO TMK’s obligations under the loan are unconditionally and irrevocably guaranteed by TMK Trade House, Volzhsky, Seversky, Sinarsky, Tagmet and IPSCO Tubulars. These notes have been admitted to trading on the London Stock Exchange. The terms of these notes restrict us, among other things, from incurring additional indebtedness other than “Permitted Indebtedness”, as defined in the Notes, once our ratio of consolidated indebtedness to 12-month consolidated EBITDA exceeds 3.5 to 1. The terms of these notes also contain certain restrictions on our ability to incur liens, to engage in assets sales, to engage in transactions with affiliates and to engage in mergers and similar transactions. We used the proceeds of these loan participation notes to partially repay the IPSCO Bridge Facility.

In August 2009, we successfully implemented a tender offer and consent solicitation whereby we modified certain restrictive covenants in order to increase our financial flexibility, principally by raising the level of secured debt that we can incur in respect of the notes. In particular, we amended the definition of “Permitted Liens” in the conditions of the notes to increase the amount of outstanding secured indebtedness we could incur from 15% of total assets to 40% of total assets and increased the level of permitted debt we could incur under the notes from U.S.\$30 million to U.S.\$100 million. As part of the tender offer and consent solicitation, we repurchased and cancelled notes with a par value of U.S.\$413,300,000 using the proceeds from the August 2009 VTB Facility. See “— *Loan Facilities — Loans from VTB Bank (“VTB”)*”. As at 31 December 2009, the aggregate principal amount of notes outstanding was U.S.\$186.7 million.

In February 2010, we successfully implemented the 2010 Consent Solicitation, a second consent solicitation with respect to our U.S.\$600 million loan participation notes due 2011 and originally issued in July 2008. Through the 2010 Consent Solicitation, we modified the terms of the notes principally in order to further enhance our flexibility to implement our refinancing plan in respect of our existing indebtedness. In particular, we amended the definition of “Refinancing Indebtedness” in the conditions of the notes (a) so as to remove the requirement that any refinancing of existing indebtedness by TMK must rank *pari passu* or be subordinated to the same level of the original indebtedness being refinanced and (b) such that TMK may now refinance existing indebtedness from anywhere within the TMK Group.

### ***Financial Covenants***

Most of TMK’s material loan agreements include certain financial covenants. For example, some covenants are set in relation to leverage ratio of debt-to-EBITDA (ranging from 3.5:1 to 5.5:1), cash flow available-to-debt service

(no less than 1:1), limitations on total debt (up to a maximum of U.S.\$4,000 million) and debt-to-net worth (no greater than 5.5:1) in respect of TMK and/or its subsidiaries. Other covenants impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness.

Based on the current economic environment and our outlook, when our consolidated financial statements for the year ending 31 December 2009 are published, we may not be in compliance with financial covenants in certain of our debt instruments. Consequently, we have undertaken measures to proactively address this situation, including seeking amendments to the relevant financial covenants contained within our debt instruments and/or obtaining the appropriate waivers from our creditors. In 2009, we implemented a comprehensive TMK Group-wide covenant compliance monitoring system which we continue to seek to improve. We are also undertaking measures to improve our working capital position, reduce our leverage and lengthen the maturity profile of our debt. For example, in August 2009, we renegotiated the terms of our aggregate U.S.\$1,107.5 million loan facilities with Gazprombank, originally entered into in January 2009 as part of the financing of our purchase of TMK IPSCO, extending the terms of the loans from two-and-a-half to five years and reducing the interest rate on the loans. Between June and September 2009, we also entered into several seven year loan agreements with Sberbank under which we borrowed an aggregate of RUB 5.7 billion, the proceeds of which we used to repay short-term debt. In August 2009, as part of a consent solicitation in connection with our outstanding loan participation notes due 2011, we amended the terms of the notes to permit us to incur higher levels of secured debt. In February 2010, we successfully implemented the 2010 Consent Solicitation through which we modified the terms of the notes principally in order to further enhance our flexibility to implement our refinancing plan in respect of our existing indebtedness. See “— *Recent Developments*”. Additionally, in September and October 2009, in order to repay certain of our short-term indebtedness, we entered into credit facility agreements with Gazprombank and VTB Bank in an aggregate amount of RUB 5 billion and RUB 10 billion, respectively, with maturities of 3 and 5 years, respectively, and with respect to each of which up to 50% of the principal is guaranteed by the Russian Federation. As at the date hereof, we are in the process of negotiating with Sberbank and VTB about the possibility of reducing interest rates on certain existing loans as well as attracting new loans for refinancing purposes. Additionally, we plan to use the proceeds of the Bonds described herein to refinance certain debt as part of our ongoing efforts to improve our debt profile. See “*Use of Proceeds*”. In 2010, we plan to continue to actively engage with our creditors, including VTB and Sberbank, to seek ways to improve our financial flexibility, including through obtaining state guaranteed debt financing, and, subject to the condition in the debt markets, may also consider pursuing other sources of debt financing, including at the TMK IPSCO level. See “— *Certain Factors Affecting Our Results of Operations — Increased Leverage and Ongoing Efforts to Improve Our Liquidity Profile*” and “*Risk Factors — Risk Factors Relating to Our Business and the Pipe Industry — We are significantly leveraged and are required to meet certain financial and other restrictive covenants under the terms of our indebtedness*”.

### **Certain Factors Affecting Our Results of Operations**

Our results of operations are affected by a number of factors, including major acquisitions, our levels of leverage, the demand for seamless and welded pipes from the oil and gas industry, global and Russian macroeconomic trends, production costs (in particular, raw material costs) and currency exchange fluctuations. See “— *Results of Operations*” for a description of the extent to which these factors have affected our results of operations.

### ***Acquisition of TMK IPSCO***

In June 2008, we acquired TMK IPSCO, which comprises IPSCO Tubulars and NS Group, for a total consideration of approximately U.S.\$1,645.0 million, including cash consideration of approximately U.S.\$1,114.2 million, a liability with respect to an option granted to Evraz, which enabled Evraz to put its remaining 49% interest in NS Group to us in the amount of U.S.\$510.6 million, and transaction costs of U.S.\$20.2 million. Through the acquisition we gained a leading position in the U.S. pipe market, particularly the energy rich south-east gulf region. The acquisition has also expanded our global presence and enhanced our position as a global leader in OCTG. IPSCO Tubulars produces a wide range of welded pipe products primarily for energy applications, including casing and tubing for oil and gas wells, line pipe, standard pipe and HSS. NS Group manufactures a diverse range of carbon and alloyed seamless and welded pipe products for the oil and gas sector and its product offering includes seamless tubing and casing, drill pipe, line pipe, coupling stock, premium connections and oilfield accessories. NS Group also has steel-making facilities that produce steel billets for the manufacturing of seamless pipes. See “*Business — Production Facilities — TMK IPSCO*”.

The acquisition was finalised on 12 June 2008 pursuant to agreements with Evraz, dated 14 March 2008 and 11 June 2008, pursuant to which we agreed to acquire TMK IPSCO from SSAB, a Swedish steel company, for U.S.\$1,114.2 million. We recorded goodwill arising as a result of the acquisition of U.S.\$473.0 million. We financed the acquisition through the U.S.\$1.2 billion syndicated IPSCO Bridge Facility, which has been since

refinanced. As a part of the transaction, we entered into a call/put option agreement with Evraz, under which we had the right to purchase from Evraz, and Evraz had the right to sell to us, 49% of the outstanding shares in NS Group. On 30 January 2009, we exercised our option to purchase the remaining 49% ownership interest in NS Group for U.S.\$507.5 million, as a result of which we now own a 100% interest in both IPSCO Tubulars and NS Group. We used a portion of the proceeds of loans of an aggregate principal amount of U.S.\$1,107 million that we obtained from Gazprombank in January 2009 to finance our acquisition of the remaining 49% interest in NS Group.

The financial position and results of operations of IPSCO Tubulars and NS Group, were consolidated in our Annual Consolidated Financial Statements commencing on 12 June 2008. The net profit of TMK IPSCO for the period from 12 June 2008 to 31 December 2008 amounted to U.S.\$166.6 million. TMK IPSCO's sales volumes for the period from 12 June 2008 to 31 December 2008 amounted to 488,000 tonnes (including 348,000 tonnes of seamless and welded OCTG), or 15% of our total sales in 2008. TMK IPSCO's sales volumes in the six months ended 30 June 2009 amounted to 133,000 tonnes (including 75,000 tonnes of seamless and welded OCTG), or 11% of our total sales during the period.

### ***Increased Leverage and Ongoing Efforts to Improve Our Liquidity Profile***

As at 30 June 2009, our total interest-bearing loans and borrowings amounted to U.S.\$3,650.3 million, including U.S.\$1,968.5 million of short-term borrowings, as compared to total interest-bearing loans and borrowings of U.S.\$1,539.3 million, including U.S.\$1,033.3 million of short-term borrowings, as at 31 December 2007. As at 31 December 2009, the nominal value of our total interest-bearing loans and borrowings amounted to U.S.\$3,763.3 million, including U.S.\$1,356.8 million of the principal amount of short-term interest bearing borrowings. As at 30 June 2009, we had total current liabilities of U.S.\$2,794.3 million, which exceeded our total current assets by U.S.\$951.7 million. Additionally, as at 31 December 2009, approximately 38% of our total interest-bearing loans and borrowings were secured by pledges over assets of subsidiaries of OAO TMK, of which approximately 42% was secured by pledges of shares in subsidiaries of OAO TMK and approximately 58% was secured by pledges over property, plant and equipment, inventories, deposits, cash and accounts receivable of subsidiaries of OAO TMK. Our increased leverage and our working capital deficit are attributable primarily to our incurrence of new debt financing in connection with our acquisition of TMK IPSCO and our continued capital investment programme, which has been put on hold. See "*Risk Factors — Risk Factors Relating to Our Business and the Pipe Industry — We are significantly leveraged and are required to meet certain financial and other restrictive covenants under the terms of our indebtedness*".

Since the second half of 2008, in light of the adverse effect that the current global economic crisis has had on our cash flows, we have embarked upon a programme designed to improve our working capital position, reduce our leverage and lengthen the maturity profile of our debt. In particular, we have actively been decreasing our short-term debt relative to our long-term debt by negotiating extensions of credit terms and refinancing our existing short-term debt to improve our debt maturity profile. For example, in August 2009, we renegotiated the terms of our aggregate U.S.\$1,107.5 million loan facilities with Gazprombank, originally entered into in January 2009 as part of the financing of our purchase of TMK IPSCO, extending the terms of the loans from two-and-a-half to five years and reducing the interest rate on the loans. Between June and September 2009, we also entered into several seven-year loan agreements with Sberbank under which we borrowed an aggregate of RUB 5.7 billion, the proceeds of which we used to repay short-term debt. In September and October 2009, in order to repay certain of our short-term indebtedness, we entered into credit facility agreements with Gazprombank and VTB Bank in an aggregate amount of RUB 5 billion and RUB 10 billion, respectively, with maturities of 3 and 5 years, respectively, and with respect to each of which up to 50% of the principal is guaranteed by the Russian Federation. As at the date hereof, we are in the process of negotiating with Sberbank and VTB about the possibility of reducing interest rates on certain existing loans as well as attracting new loans for refinancing purposes. Additionally, we have taken steps to obtain waivers with respect to and/or amend restrictive covenants contained within our debt instruments in order to provide us with greater financial flexibility. In August 2009, as part of a consent solicitation in connection with our outstanding loan participation notes due 2011, we amended the terms of the notes to permit us to incur higher levels of secured debt. In February 2010, we successfully implemented the 2010 Consent Solicitation through which we modified the terms of the notes principally in order to further enhance our flexibility to implement our refinancing plan in respect of our existing indebtedness.

In addition, in 2009, we implemented a comprehensive TMK Group-wide covenant compliance monitoring system which we seek to continue to improve. However, as at the date hereof, we nevertheless remain significantly leveraged and must continue to look for ways to amend the terms of our debt instruments so as to improve the structure of our loan portfolio principally by lengthening the overall maturity profile of our debt. Our increased leverage has, among other things, resulted in us incurring significantly higher finance costs. Additionally, there is a



risk that, in negotiating extensions to our short-term debt obligations, we may incur higher interest rates on such debt, which may offset some of the advantages gained as a result of our efforts to restructure our existing debt.

### ***Cost-optimising Efforts***

In light of the global economic crisis, we have also undertaken measures to reduce operating costs through a variety of cost cutting measures, optimise working capital, and reduce our capital investment programme in the short-term. In the first six months of 2009, we were able, primarily through a variety of cost control measures, to reduce selling, general and administrative expenses in Russia by 38% as compared to the first six months of 2008 and we aim to continue to reduce our selling, general and administrative expenses. To address the current challenging operating environment, we plan to continue to implement cost-cutting initiatives at our facilities globally, including the use of flexible working arrangements and reduced working hours, as well as introduce tighter control over other operating costs. We also plan to closely monitor our capital expenditures programmes and only expect to resume our full strategic capital investment programme once we believe the activity in the oil and gas and pipe industries exhibits real signs of strengthening.

### ***The Current Economic Environment***

The global financial crisis and sharp economic slowdown which started in the second half of 2008 have resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and weakened global demand for and decline in prices of crude oil and other commodities. The uncertainties in the global financial markets have also contributed to bank failures globally and put downward pressure on emerging market currencies, including the rouble. According to Rosstat, Russia recorded a 9.9% contraction in GDP in January through October 2009 in year-on-year terms. This slow-down in economic growth and severe constraints in capital spending, both globally and in Russia, had a particularly adverse effect on the oil and gas sector, leading to significantly lower demand for our products and a substantial decrease in the prices for our products in the fourth quarter of 2008. The first half of 2009 saw further deterioration in our markets, though they appeared to recover somewhat in the second half of 2009.

While we are unable to estimate reliably the effects on our consolidated financial position and results of operations of any further deterioration in the financial markets or of any increased volatility in the currency, commodities and equity markets subsequent to 31 December 2008, our business activities may continue to be negatively impacted by the economic conditions resulting from the general economic downturn and the decline in prices of and demand for pipe products. Such market conditions could have an impact on, among other things, our production and volumes of pipe products, the cost of our funding and the U.S. dollar/rouble exchange rate and, accordingly, have a material adverse affect on our business, prospects, financial position, cash flows and results of operations. We intend to continue to evaluate the potential impact of these conditions, which could result in future reductions in its consolidated cash flows and results of operations. We currently expect that our revenue, operating profit and net profit for 2009 will be below 2008 levels.

### ***The Global and Russian Oil and Gas Industry***

Sales to oil and gas companies worldwide represent a high percentage of our total sales and demand for seamless and welded steel pipes from the global oil and gas industry is a significant factor affecting the general level of volumes and prices for our products.

The international price of oil depends on a number of factors. On the supply side, major oil- and gas-producing nations collaborate to control the supply (and thus the price) of oil in international markets, such as through OPEC. Several of our major customers are state-owned companies in member countries of OPEC or may, from time to time, cooperate with OPEC in controlling the supply and price of oil. The political and socioeconomic conditions of oil-producing countries and the armed conflicts affecting the Middle East region, where a substantial proportion of the world's known oil reserves are located, also affect the international price of oil. On the demand side, economic conditions and the level of oil inventories in the leading industrial nations of the world and, more recently, China and India, which constitute the largest oil consuming nations, also play a significant role in causing oil prices to rise.

Global prices for crude oil were very volatile in 2008, reaching a peak in July 2008 before falling in the second half of 2008 in conjunction with the onset of the global economic crisis. According to the IMF, the average monthly price for Brent crude oil as at December 2008 was approximately U.S.\$40/bbl, a decrease of about 70% from approximately U.S.\$147/bbl as at July 2008. In the beginning of 2009, prices continued to remain low and began to rise gradually in March reaching approximately U.S.\$76/bbl in January 2009. The global financial crisis, coupled with lower oil and gas prices, have contributed to a significant decrease in drilling activity in the second half of 2008 and the first half of 2009, which resulted in lower demand for seamless pipes from the global oil and gas industry.



Henry Hub prices for natural gas, which are generally linked to oil prices, have also fallen sharply since their peak price of U.S.\$13.31 per million British thermal units (“mmBtu”) in July 2008 and have rebounded less than oil prices in 2009. In January 2010, natural gas prices were approximately U.S.\$5-6 mmBtu.

While oil and gas prices are well below their historic peaks in mid-2008, our management believes that increased drilling activity and strong demand for pipes from the oil and gas industry will return in the near term due to the long lead times and significant capital expenditures required for the development of major new oil and gas reserves and the modernisation and repair of existing pipelines and construction of planned pipelines.

The majority of our steel pipe sales are carried out in Russia. Thus, the general level of volumes and prices for our products is significantly influenced by the Russian pipe market trends. The oil and gas industry is the primary consumer of Russian pipe production. In 2008 and the first half of 2009, the demand for seamless and welded steel pipes from Russian oil and gas producers was considerably weaker than in 2007 and the first half of 2008. At the same time, we expect that exploration and production (“E&P”) expenditures will again increase in Russia in the coming years, driven by the need of Russian oil and gas companies to deliver on their long-term production targets and the government’s increasingly tough stance toward reserves replacement. While capital investment related to the construction of oil and gas transmission pipelines was relatively low in 2008 as compared to previous years, largely as a result of the global financial crisis, we have seen a resurgence in capital investment activity in the second quarter of 2009 as work on several large pipeline construction projects in Russia, including the ESPO Pipeline, BPS-2, the Sakhalin-Khabarovsk-Vladivostok gas pipeline and the Nord Stream gas pipeline, has commenced and/or continued apace.

### ***Russian Macroeconomic Trends***

With most of our operations based in Russia, we generated 61.1%, 59.5%, 71.6% and 68.3% of our total revenue in Russia in the first half of 2009 and in the years 2008, 2007 and 2006, respectively. As a result, Russian macroeconomic trends, including the overall growth in the economy and in the markets in which we operate, significantly influence our results of operations, particularly sales of industrial seamless and welded pipes. The table below summarises certain key macroeconomic indicators relating to the Russian economy for the periods indicated.

|   | <b>Year ended 31 December</b> |             |             |
|---|-------------------------------|-------------|-------------|
|   | <b>2008</b>                   | <b>2007</b> | <b>2006</b> |
|   | <b>(%)</b>                    |             |             |
| GDP growth . . . . .                        | 5.6                           | 8.1         | 7.7         |
| Industrial producer’s price index . . . . . | (7.0)                         | 25.1        | 12.4        |
| Consumer price index . . . . .              | 14.1                          | 9.0         | 9.7         |
| Unemployment rate . . . . .                 | 7.8                           | 6.1         | 6.9         |

Source: CBR

Between 2002 and mid-2008, the Russian economy benefited from exports of oil and oil products, natural gas, other natural resources and commodity products and high oil, gas and commodity prices on international markets. Domestic economic growth during this period also contributed to growth in Russia’s federal budget surplus, which has been a significant factor behind federal government spending and the development of Russia’s infrastructure. These factors resulted in a 13% increase in the consumption of pipes in Russia in 2007 as compared to 2006 and by 25% in 2006 as compared to 2005, according to our estimates. However, these factors also resulted, in general, in upward pressure on our costs of raw materials as well as on other costs of production, such as labour and energy. With the onset of the global financial crisis in mid-2008, these trends have reversed, resulting in lower demand in Russia and globally for pipe products, particularly in the oil and gas sector. The current global credit and economic crisis has reduced worldwide demand for energy, resulting in significantly lower crude oil and natural gas prices and prompting oil and gas companies to curtail spending on E&P and drilling. This resulted, for example, in a 17% decrease in the consumption of pipes in Russia in 2008 as compared to 2007, according to our estimates. Following their peak prices in the summer of 2008, prices of oil and natural gas fell sharply. Though oil and natural gas prices recovered somewhat in 2009, they remain well below the highs reached in 2008. At the same time, demand within the industrial pipe segment decreased significantly beginning in the fourth quarter of 2008 as a result of the adverse effect that the global financial crisis has had on the manufacturing industry. See “— *The Global and Russian Oil and Gas Industry*”.

### ***Raw Material Costs***

We require substantial amounts of raw materials in the pipe and steel production process. We purchase large volumes of scrap metal, pig iron and ferroalloys for use in our in-house steel making operations, smaller amounts of

steel billets, for use in our seamless pipe operations, and steel plates and coils, for use in our welded pipe operations. See “*Business — Raw Materials*”. The prices of most of our raw materials and consumables increased significantly in 2007 and the first half of 2008, reflecting an increased demand domestically and globally. However, prices of raw materials and consumables decreased in the second half of 2008 and, in particular, the first half of 2009, in tandem with the onset of the global economic downturn. See “*Risk Factors — Risks Relating to Our Business and the Pipe Industry — Increases in the cost of raw materials may have a material adverse effect on our financial position and results of operations*”.

### ***Implementation of our Strategic Capital Expenditure Programme***

Since 2004, we have engaged in a significant capital expenditure programme which, though currently put on hold in light of the current global economic crisis, is largely complete and has significantly increased our Russian seamless pipe production and pipe-making capacity and enhanced the efficiency of our production processes. Pursuant to our strategic capital expenditure programme, we made expenditures of U.S.\$1,390 million between 2005 and 30 June 2009 and believe we are in a good position to leverage on the capacity enhancements and modernisation of our production processes already achieved to date as the global pipe market recovers. As a consequence of the successful implementation of our capital expenditure programme to date, we have effectively increased the carrying value of our property, plant and equipment as they appear on our balance sheet, and, as a result, have incurred, and will continue to incur, higher depreciation charges than in recent years. Additionally, any failure to successfully manage our strategic capital expenditure programme may result in costs that are greater than expected or result in significant delays. See “*Business — Capital Expenditure — Strategic Capital Expenditure Programme*” and “*Risk Factors — Risks Relating to Our Business and the Pipe Industry — Steel pipe production is capital intensive, and the remaining projects in our significant capital investment programme may not be implemented on schedule or within budget, which could have a material adverse effect on our business, financial position and results of operations*”.

### ***Currency Exchange Fluctuations***

The functional currency of OAO TMK and its subsidiaries located in the Russian Federation, Kazakhstan and Switzerland is the Russian rouble. The Romanian lei is the functional currency of our Romanian subsidiaries and the euro is the functional currency of TMK Europe and TMK Italia. The functional currency of TMK IPSCO, TMK North America and TMK Middle East is the U.S. dollar. Foreign currency transactions are initially recorded in the functional currency at the exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the relevant balance sheet date. All resulting differences are reflected in our income statement, with the exception of differences on foreign currency borrowings accounted for as hedges of a net investment in a foreign operation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Our products are typically priced in roubles for sales on the Russian market and in U.S. dollars for CIS, U.S. and international sales except for the European Union (in euros) and Romania (in Romanian lei). Our direct costs, including raw materials and consumables, labour and transportation costs, are largely incurred in roubles in Russia and U.S. dollars in the United States, our capital expenditures are incurred principally in euro in Russia and U.S. dollars in the United States, and other costs, such as interest expense, are incurred in roubles, U.S. dollars and euro. As a consequence we are exposed to currency rate fluctuations between the rouble and both the U.S. dollar and the euro.

The table below shows the nominal exchange rate and real rouble appreciation/depreciation against the U.S. dollar and the euro during the periods indicated.

|  | Six months<br>ended 30 June<br>2009 | Year ended 31 December |       |       |
|--|-------------------------------------|------------------------|-------|-------|
|  |                                     | 2008                   | 2007  | 2006  |
| Nominal exchange rate (roubles per U.S. dollar) <sup>(1)</sup> . . . . . | 33.05                               | 24.81                  | 25.57 | 27.18 |
| Real rouble appreciation against U.S. dollar <sup>(2)</sup> . . . . .    | (17.5)%                             | 13.3%                  | 12.8% | 10.7% |
| Nominal exchange rate (roubles per euro) <sup>(1)</sup> . . . . .        | 44.11                               | 36.41                  | 35.01 | 34.11 |
| Real rouble appreciation against euro <sup>(2)</sup> . . . . .           | (7.0)%                              | 6.4%                   | 4.2%  | 11.5% |

Source: CBR

(1) The weighted average of the exchange rates on each day during the relevant period.

- (2) Real rouble appreciation against the U.S. dollar or the euro, as the case may be, represents changes in the consumer price index adjusted for changes in the nominal exchange rate over the same period.

In 2008, principally as a result of the onset of the global economic crisis in the second half of the year, the Russian rouble depreciated against the U.S. dollar by 19.7%, and reached RUB 36.43 to U.S.\$1.00 in February 2009. Against the euro, the rouble depreciated by 15.3% in 2008, whereas in 2007 it depreciated by 3.6%. Though the rouble has recovered somewhat from its February 2009 lows, standing at RUB 30.18 to U.S.\$1.00 as at 3 February 2010, it remains considerably volatile and relatively weak vis-à-vis the U.S. dollar/euro basket. As a result of the depreciation of the rouble against the U.S. dollar and euro in the second half of 2008, we incurred losses from spot rate changes in 2008 in the amount of U.S.\$428.2 million, including U.S.\$99.8 million recognised in the income statement and U.S.\$328.4 million recognised directly in equity as other comprehensive loss relating to the effective portion of foreign exchange losses incurred on the hedged financial instruments, as compared to a gain from spot rate changes of U.S.\$20.5 million in 2007 recognised in the income statement. In the first six months of 2009, we reported losses from spot rate changes of U.S.\$176.6 million, including U.S.\$11.7 million recognised in the income statement and U.S.\$164.9 million recognised in the statement of comprehensive income, representing the effective portion of foreign exchange losses incurred on the hedged financial instruments, as compared to gains from exchange rate fluctuations of U.S.\$14.1 million in the first six months of 2008. These losses were due principally to the revaluation into roubles (TMK's functional currency) of U.S. dollar and euro denominated loans and eurobonds. See *"Risk Factors — Risks Relating to Our Business and the Pipe Industry — Volatility in currency exchange rates, particularly that of the Russian rouble against the U.S. dollar, may materially adversely affect our results of operations"*.

## Segments

For periods commencing on or after 1 January 2009, pursuant to IFRS changes and in light of our international expansion and associated changes to our management reporting methods and approach to segments, our operations were regrouped into three reportable segments:

- *Russia:* represents the results of operations and financial position of plants located in the Russian Federation, a finishing facility in Kazakhstan, and oilfield service companies and traders located in Russia, Kazakhstan, the United Arab Emirates and Switzerland that are engaged in the sale of their pipe production;
- *Americas:* represents the results of operations and financial position of plants located in the United States and a trader located in the United States; and
- *Europe:* represents the results of operations and financial position of plants located in Europe and traders located in Europe that are engaged in the sale of their pipe production and steel billets.

In our Consolidated Financial Statements, we disclose our revenue based on the location in which the products were produced and the services originated.

Prior to 2009, our consolidated financial statements were presented in two segment reporting formats: business and geographical. See Note 1 to our Annual Consolidated Financial Statements. There are no sales or other transactions between the business segments.

- *Business segments:* This was our primary segment reporting format. A business segment comprised a distinguishable component of TMK that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. We presented our revenue, gross profit, assets, liabilities and depreciation costs based on the main groups of products segregated into seamless pipes, welded pipes, other operations and an unallocated segment. Other operations consisted primarily of our sales of steel billets to third parties. Unallocated segment assets and liabilities included those assets and liabilities which cannot be allocated by segments, such as cash, short-term investments, goodwill, borrowings and deferred tax assets and liabilities. They also include assets of maintenance workshops servicing production processes of both seamless and welded pipes.
- *Geographical segments:* Our secondary segment reporting format for disclosure of our operating activities in the financial statements was geographical segments. A geographical segment is a distinguishable component of TMK that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those components operating in other economic environments. In our financial statements, we disclosed our revenue based on the location of the purchasing entity, and not on the location of the end-user. See *"Business — Sales and Marketing"*. We present segment assets and long-term investments based on the location of our assets. For the periods discussed herein, the substantial majority of our production assets were located in Russia

## Results of Operations

### Comparison of six-month periods ended 30 June 2009 and 30 June 2008

The following table sets forth our consolidated operating results as a percentage of consolidated revenue for the periods indicated. The financial position and results of operations generated by TMK IPSCO were consolidated into our consolidated financial statements starting from 12 June 2008.

|   | Six months ended 30 June    |                 |                             |                 |
|---|-----------------------------|-----------------|-----------------------------|-----------------|
|   | 2009                        |                 | 2008                        |                 |
|   | millions of<br>U.S. dollars | % of<br>revenue | millions of<br>U.S. dollars | % of<br>revenue |
| Revenue . . . . .                                     | 1,478.6                     | 100             | 2,368.4                     | 100             |
| <b>Cost of sales . . . . .</b>                        | <b>(1,254.7)</b>            | <b>(84.9)</b>   | <b>(1,750.6)</b>            | <b>(73.9)</b>   |
| <b>Gross profit . . . . .</b>                         | <b>223.9</b>                | <b>15.1</b>     | <b>617.8</b>                | <b>26.1</b>     |
| Selling and distribution expenses . . . . .           | (146.4)                     | (9.9)           | (144.1)                     | (6.1)           |
| Advertising and promotion expenses . . . . .          | (2.3)                       | (0.2)           | (4.8)                       | (0.2)           |
| General and administrative expenses . . . . .         | (98.5)                      | (6.7)           | (124.4)                     | (5.3)           |
| Research and development expenses . . . . .           | (4.8)                       | (0.3)           | (6.4)                       | (0.3)           |
| Other operating expenses . . . . .                    | (13.8)                      | (0.9)           | (24.5)                      | (1.0)           |
| Other operating income . . . . .                      | 4.1                         | 0.3             | 4.1                         | 0.2             |
| Impairment of goodwill . . . . .                      | (9.6)                       | (0.6)           |                             |                 |
| Impairment of property, plant and equipment . . . . . | (28.1)                      | (1.9)           |                             |                 |
| Impairment of financial assets . . . . .              |                             |                 | (13.0)                      | (0.5)           |
| Foreign exchange (loss)/gain, net . . . . .           | (11.7)                      | (0.8)           | 14.1                        | 0.6             |
| Finance costs . . . . .                               | (211.7)                     | (14.3)          | (85.2)                      | (3.6)           |
| Finance income . . . . .                              | 32.0                        | 2.2             | 6.6                         | 0.3             |
| Share of profit in associate . . . . .                | 0.8                         | 0.1             | 0.2                         | —               |
| <b>(Loss)/Profit before tax . . . . .</b>             | <b>(266.1)</b>              | <b>(18.0)</b>   | <b>240.4</b>                | <b>10.2</b>     |
| Income tax benefit/(expense) . . . . .                | 62.3                        | 4.2             | (82.2)                      | (3.5)           |
| <b>Net (loss)/profit . . . . .</b>                    | <b>(203.8)</b>              | <b>(13.8)</b>   | <b>158.2</b>                | <b>6.7</b>      |
| Attributable to: . . . . .                            |                             |                 |                             |                 |
| Equity holders of the parent entity . . . . .         | (198.8)                     | (13.5)          | 150.9                       | 6.4             |
| Minority interests . . . . .                          | (5.0)                       | (0.3)           | 7.3                         | 0.3             |
|   | <b>(203.8)</b>              | <b>(13.8)</b>   | <b>158.2</b>                | <b>6.7</b>      |

### Revenue

Revenue represents our total sales to customers net of value added tax and product returns. Our consolidated revenue decreased during the period presented due to a combination of lower average selling prices and lower sales volumes for our pipe products.

### Sales volumes

The following table shows our pipe sales volumes for the periods indicated.

|                              | Six months<br>ended<br>30 June 2009      | Six months<br>ended<br>30 June 2008 | % change<br>between periods<br>ended<br>30 June<br>2009 and 2008 |
|------------------------------|--|-------------------------------------|--|
|                              | (thousands of tonnes except percentages) |                                     |  |
| Russia . . . . .             | 1,007.4                                  | 1,370.9                             | (26.5)%  |
| Americas . . . . .           | 133.0                                    | 47.8 <sup>(1)</sup>                 | 178.2%   |
| Europe . . . . .             | 55.4                                     | 83.8                                | (33.9)%  |
| <b>Total Pipes . . . . .</b> | <b>1,195.8</b>                           | <b>1,502.5</b>                      | <b>(20.4)%</b>   |

(1) Represent sales volumes since acquisition of TMK IPSCO on 12 June 2008.

Globally, our overall pipe sales volumes decreased by 20.4% in the first six months of 2009 to 1,195.8 thousand tonnes from 1,502.5 thousand tonnes in first six months of 2008 due to the effects of weak market demand during

the first six months of 2009 stemming from the ongoing global economic crisis. Our overall seamless pipe and welded pipe sales volumes decreased by 23.2% and 15.1%, respectively in the first six months of 2009 as compared to the first six months of 2008. These decreases in sales volumes occurred despite the fact that we recorded sales volumes generated by TMK IPSCO, which we acquired effective 12 June 2008, for the entire first six months of 2009, but only recorded the sales volumes generated by TMK IPSCO from 12 June 2008 to 30 June 2008 in the first six months of 2008. The acquisition of TMK IPSCO, which was primarily responsible for a 20% increase in sales volumes of welded pipes outside Russia in the first half of 2009 compared to the first half of 2008, served to offset considerably a significant drop in Russian welded pipe sales volumes over the period.

In the first six months of 2009, the Russian and U.S. and global pipe markets were severely affected by a sharp decrease in demand for oil and gas pipe products as a result of a pronounced decline in global energy demand and oil and gas prices in light of the ongoing global economic downturn. Our sales volumes of line pipes, OCTG and large diameter pipes were particularly adversely affected as a result of our heavy exposure to oil and gas companies, which sharply curtailed their budgets for capital expenditures and exploration and production, beginning in the fourth quarter of 2008. Additionally, global demand for industrial pipes declined as the global financial crisis continued to affect the construction, utilities and engineering industries.

*Russia.* Our pipe sales volumes in Russia decreased by 26.5% in the first six months of 2009 as compared to the first six months of 2008 principally as a result of a fall in demand attributable to the global economic crisis. Our seamless pipe sales volumes in Russia decreased by 25.2% in the first six months of 2009 as compared to the first six months of 2008. This decrease was primarily attributable to a 51.5% decrease in sales volumes of seamless line pipes and a 35.1% decrease in sales volumes of industrial pipes during the first six months of 2009 as compared to the first six months of 2008. Our seamless OCTG sales volumes in Russia decreased by only 2.1% in the first six months of 2009 as compared to the first six months of 2008 largely due to continued strong demand for tubing pipes. While most forms of OCTG pipes are used in oil and gas exploration only, tubing is used in the general oil production process and is often replaced during the life of production wells. Thus, while oil and gas producers cut back on their exploration and drilling activities, including the purchases of drilling and casing pipes, in the latter part of 2008 and the first half of 2009, Russian producers continued to produce significant amounts of oil and gas and continued to purchase large amounts of tubing. In addition, the Russian government imposed new import duties on tubing pipes, which reduced competition from imported tubing pipes in Russia.

In the first six months of 2009, our welded pipe sales volumes in Russia decreased by 29.0% as compared to the first six months of 2008 principally as a result of a fall in demand attributable to the global economic crisis. This decrease was primarily attributable to a 36.3% decrease in sales volumes of welded line pipes, a 27.1% decrease in sales volumes of welded industrial pipes and a 26.5% decrease in sales volumes of large diameter pipes in the first six months of 2009 as compared to the first six months of 2008. The decrease in large diameter pipes, which was principally attributable to the rescheduling of certain major pipeline projects, including the Nord Stream gas pipeline and the East Siberia-Pacific Ocean oil pipeline, was partially offset by a significant increase in large diameter pipe sales volumes in the second quarter of 2009 as compared to the first quarter of 2009 as a result of our securing supply agreements for a series of Gazprom, Transneft and Turkmenistan projects. Although demand for pipe products in Russia started to revive in the second quarter of 2009, it was not enough to offset the severe first quarter decrease in demand for pipes used in the machine building, automotive, construction and power generation industries.

*Americas.* Our sales volumes in the Americas increased in the first six months of 2009 as compared to the first six months of 2008 as a result of our acquisition of TMK IPSCO in June 2008. Overall, however, market conditions in North America deteriorated substantially in the first half of 2009 as a result of the economic crisis, as demand for both seamless and welded pipes decreased significantly. Sales volumes attributable to TMK IPSCO decreased dramatically by 69.8% in the first half of 2009 to 133,000 tonnes, as compared to 440,000 tonnes in the second half of 2008.

*Europe.* Our sales volumes in Europe decreased by 33.9% in the first six months of 2009 as compared to the first six months of 2008 principally as a result of a decrease in demand within the automotive and engineering industry.



### *Revenue by operating segment*

The following table shows our revenue by operating segment as a percentage of total revenue for the periods indicated.

|                                | Six months ended 30 June    |                       |                             |                       |
|--------------------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|
|                                | 2009                        |                       | 2008                        |                       |
|                                | millions of<br>U.S. dollars | % of total<br>revenue | millions of<br>U.S. dollars | % of total<br>revenue |
| Russia . . . . .               | 1,110.8                     | 75.1                  | 2,133.1                     | 90.1                  |
| Americas . . . . .             | 286.5                       | 19.4                  | 90.6                        | 3.8                   |
| Europe . . . . .               | 81.3                        | 5.5                   | 144.7                       | 6.1                   |
| <b>Total revenue . . . . .</b> | <b><u>1,478.6</u></b>       | <b><u>100.0</u></b>   | <b><u>2,368.4</u></b>       | <b><u>100.0</u></b>   |

In the first six months of 2009 as compared to the first six months of 2008 our total revenues decreased by 37.6% due to a combination of lower average selling prices and lower sales volumes. In the first half of 2009, pipe prices in Russia declined by approximately 20-40%, while prices outside of Russia decreased by approximately 35-50% as compared to the record high prices reached in the fourth quarter of 2008.

#### *Russia*

In the first six months of 2009, challenging market conditions led to both lower sales prices and lower sales volumes for seamless pipes produced at our Russian plants. Our sales prices for seamless pipes in Russia decreased by 29% compared to the first six months of 2008, while prices for welded pipes decreased by 30%. This drop in prices combined with the decrease in sales volumes resulted in a 48% decrease in revenues in the Russian segment in the first six months of 2009 as compared to the first six months of 2008. Our Russian segment accounted for 75.1% of our total revenues for the first six months of 2009 as compared to 90.1% for the first six months of 2008. This decrease was largely attributable to our acquisition of TMK IPSCO in June 2008, which proportionately increased our revenues generated in the Americas in the first six months of 2009.

#### *Americas*

Revenues generated by our Americas segment increased by 216.2% in the first six months of 2009 compared to the first six months of 2008 due to the inclusion of the revenues generated by TMK IPSCO, which we acquired effective 12 June 2008, in our results for the entire first six months of 2009. Market conditions, however, deteriorated substantially in the Americas in the first half of 2009 as compared to the second half of 2008 as a result of the economic crisis. Both welded and seamless pipe sale prices decreased considerably over the period and sales volumes suffered heavily from the weak market environment. Average selling prices in the Americas segment decreased by approximately 20% in the first half of 2009 as compared to the second half of 2008. Our American segment accounted for 19.4% of our total revenues for the first six months of 2009 as compared to 3.8% for the first six months of 2008.

#### *Europe*

In the first six months of 2009, revenues from our European operations decreased by 44% compared to the first six months of 2008 primarily as a result of decreases in sales prices and lower sales volumes for industrial seamless pipes at our European plants. Our average sales prices for industrial seamless pipes decreased by 11% in the first six months of 2009 as compared to the first six months of 2008. Our European segment accounted for 5.5% of our total revenues for the first six months of 2009 as compared to 6.1% for the first six months of 2008.

The following table shows our revenue by geographical area as a percentage of total revenue for the periods indicated.

|   | Six months ended 30 June    |                       |                             |                       |
|---|-----------------------------|-----------------------|-----------------------------|-----------------------|
|   | 2009                        |                       | 2008                        |                       |
|   | millions of<br>U.S. dollars | % of total<br>revenue | millions of<br>U.S. dollars | % of total<br>revenue |
| Russia . . . . .                          | 902.9                       | 61.1                  | 1,704.8                     | 72.0                  |
| Americas . . . . .                        | 327.6                       | 22.2                  | 126.8                       | 5.4                   |
| Europe . . . . .                          | 117.0                       | 7.9                   | 274.2                       | 11.6                  |
| Central Asia and Caspian Region . . . . . | 57.9                        | 3.9                   | 98.1                        | 4.1                   |
| Middle East and Gulf Region . . . . .     | 24.4                        | 1.6                   | 125.5                       | 5.3                   |
| Africa . . . . .                          | 11.5                        | 0.8                   | 13.5                        | 0.5                   |
| Asia and Far East . . . . .               | 37.3                        | 2.5                   | 25.5                        | 1.1                   |
| <b>Total revenue . . . . .</b>            | <b><u>1,478.6</u></b>       | <b><u>100.0</u></b>   | <b><u>2,368.4</u></b>       | <b><u>100.0</u></b>   |
| <i>of which</i>                           |                             |                       |                             |                       |
| Pipe products . . . . .                   | 1,447.0                     | 97.9                  | 2,321.3                     | 98.0                  |
| Other operations . . . . .                | 31.6                        | 2.1                   | 47.1                        | 2.0                   |

The following table provides an analysis of our decline in revenue attributable to changes in prices and volumes of pipe products for the six months ended 30 June 2009 as compared to six months ended 30 June 2008.

|   | <u>Total<br/>change</u> | <u>Change in<br/>price<sup>(1)</sup></u>       | <u>Change in<br/>volumes</u> | <u>Change in<br/>price<sup>(1)</sup></u> | <u>Change in<br/>volumes</u> |
|---|-------------------------|--|------------------------------|--|------------------------------|
|   |                         | (millions of U.S. dollars, except percentages) |                              |  |                              |
| <b>Six months ended 30 June 2009 as compared to<br/>six months ended 30 June 2008</b> |                         |  |                              |  |                              |
| Pipe products:  |                         |  |                              |  |                              |
| Russia . . . . .  | (793.7)                 | (526.3)  | (267.4)                      | (31.6)%                                  | (16.1)%                      |
| Outside Russia. . . . .   | <u>(80.6)</u>           | <u>5.2</u>                                     | <u>(85.7)</u>                | <u>0.8%</u>                              | <u>(13.1)%</u>               |
| <b>Total pipe products change . . . . .</b>   | <b><u>(874.3)</u></b>   | <b><u>(521.1)</u></b>                          | <b><u>(353.1)</u></b>        | <b><u>(22.4)%</u></b>                    | <b><u>(15.2)%</u></b>        |
| Other operations . . . . .  | <u>(15.6)</u>           |  |                              |  |                              |
| <b>Total change (including other operations) . . . . .</b>                            | <b>(889.8)</b>          |  |                              |  |                              |

(1) Includes effects of translation from functional to presentation currency.

In the first six months of 2009, revenue from pipe product sales decreased by 37.7% as compared to the first six months of 2008, amounting to U.S.\$1,447.0 million. The decrease in the first six months of 2009 was principally attributable to decreases in market prices for pipe products, sales volumes and industry demand as a result of the global economic crisis and a change to our product sales structure. The portion of our decrease in revenue attributable to price changes was U.S.\$521.1 million or 22.4%; the portion of our decrease in revenue attributable to changes in sales volumes and products sales structure changes was U.S.\$353.1 million or 15.2%. The increase in revenue with respect to changes in prices for sales outside Russia in the first six months of 2009 as compared to the first six months of 2008 is primarily due to our acquisition of TMK IPSCO in June 2008, as prices for pipe products are generally higher in the United States than in the other regions in which we sell our products. Excluding sales in the U.S. market, revenues outside Russia decreased by 24.5% in the first six months of 2009 as compared to the first six months of 2008 as a result of prices changes and decreased by 28.7% as result of changes in sales volumes.

### *Revenue by product*

The following table presents the revenues generated by product for the periods indicated.

|                                | Six months ended 30 June    |                       |                             |                       |
|--------------------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|
|                                | 2009                        |                       | 2008                        |                       |
|                                | millions of<br>U.S. dollars | % of total<br>revenue | millions of<br>U.S. dollars | % of total<br>revenue |
| Seamless pipes . . . . .       | 990.9                       | 67.0                  | 1,620.5                     | 68.5                  |
| Welded pipes . . . . .         | 396.7                       | 26.8                  | 583.6                       | 24.6                  |
| Other operations . . . . .     | 91.0                        | 6.2                   | 164.3                       | 6.9                   |
| <b>Total revenue . . . . .</b> | <b><u>1,478.6</u></b>       | <b><u>100.0</u></b>   | <b><u>2,368.4</u></b>       | <b><u>100.0</u></b>   |

### *Seamless pipes*

In the first six months of 2009, revenues from sales of seamless pipes decreased by 38.9% compared to the first six months of 2008. Excluding revenue generated from TMK IPSCO, revenue from the sale of seamless pipes decreased by 44.9% to U.S.\$877.4 million in the first six months of 2009 from U.S.\$1,592.1 million in the first six months of 2008. The decrease in revenues in the first six months of 2009 as compared to the first six months of 2008 was attributable to decreases in average sales prices and sales volumes for seamless pipes as a result of significantly lower demand, particularly for industrial-type products, in light of the ongoing global economic crisis. In the first six months of 2009, the average price per tonne in the seamless pipe segment decreased by 20.4% to U.S.\$1,303 from U.S.\$1,638 in the first six months of 2008.

### *Welded pipes*

In the first six months of 2009, revenues from sales of welded pipes decreased by 32.0% compared to the first six months of 2008. Excluding revenue generated from TMK IPSCO, revenues from sales of welded pipes decreased by 51.1% to U.S.\$257.4 million in the first six months of 2009 from U.S.\$526.6 million in the first six months of 2008. The decrease in revenues in the first six months of 2009 as compared to the first six months of 2008 was attributable to decreases in average sales prices and sales volumes for welded pipes as a result of lower demand. In the first six months of 2009, the average price per tonne in the welded pipe segment decreased by 19.9% to U.S.\$911 from U.S.\$1,138 in the first six months of 2008.

### *Other operations*

Other operations principally include sales of steel (predominantly billets), various oilfield and repair services and supplementary services, such as energy distribution, to third parties. In the first six months of 2009, revenues from other operations decreased by 44.6% compared to the first six months of 2008. Excluding TMK IPSCO, our revenues from other operations in the first six months of 2009 declined approximately by 64.0% as a result of lower sales volumes of steel billets.

## **Gross Profit and Cost of Sales**

### *Gross profit*

Our gross profit, which represents our revenues less our cost of sales, decreased by 64% in the first six months of 2009 as compared to the first six months of 2008. The significant decrease in gross profit in the first half of 2009 was attributable to a sharp decline in sales volumes and a decline in sale prices that outpaced concurrent decreases in our costs of sales, particularly in prices for raw materials. In addition, we recorded somewhat higher depreciation in the first six months of 2009 as compared to the first six months of 2008 principally as a result of the acquisition of TMK IPSCO in June 2008 and the commissioning of additional equipment in 2008. Under IFRS, we determine the cost of our inventories on a weighted average basis. Accordingly, our gross margins were negatively affected in the first half of 2009 as the declining prices for raw materials in the first half of 2009 were not fully reflected in our cost of goods sold, as a significant portion of our sales in the first half of 2009 represented the reduction of inventories of products finished when the prices for raw materials and other inputs used in the manufacture of our inventories were higher. See “— *Certain Factors Affecting our Results of Operations — Raw Material Costs*”. In addition, we recorded higher allowances for write downs of inventories, which had the effect of increasing costs of goods sold.

The table below illustrates our gross profit and gross margin percentages by business segment for the periods indicated.

|                        | Six months ended 30 June                          |                     |                     |                             |
|------------------------|---|---------------------|---------------------|-----------------------------|
|                        | 2009  |                     | 2008                |                             |
|                        | Gross Profit                                      | Gross Margin        | Gross Profit        | Gross Margin <sup>(1)</sup> |
|                        | (in millions of U.S. dollars, except percentages) |                     |                     |                             |
| Russia . . . . .       | 217.8   | 19.6%               | 569.2               | 26.7%                       |
| Americas . . . . .     | (12.6)  | (4.4)%              | 16.0                | 17.7%                       |
| Europe . . . . .       | 18.7  | 23.0%               | 32.6                | 22.5%                       |
| <b>Total . . . . .</b> | <b><u>223.9</u></b>                               | <b><u>15.1%</u></b> | <b><u>617.8</u></b> | <b><u>26.1%</u></b>         |

(1) Represent sales volumes since acquisition of TMK IPSCO on 12 June 2008.

#### *Russia*

Gross profit generated by our Russia segment decreased by 61.7% to U.S.\$217.8 million in the first six months of 2009 as compared to U.S.\$569.2 million the first six months of 2008. Gross margins for our Russian operations decreased to 19.6% in the first six months of 2009 from 26.7% in the first six months of 2008, primarily as a result of declines in sales volumes and sale prices, despite lower production costs attributable primarily to lower prices for raw materials. In the first six months of 2009, revenues per tonne in the Russian segment decreased by 29.1%, while costs of goods sold per tonne decreased by only 22.3%, as compared to the first six months of 2008.

#### *Americas*

Our Americas segment recorded a gross loss of U.S.\$12.6 million for the first six months of 2009 due to sharply lower volumes and selling prices and allowances for net realisable value of inventory in light of lower sale prices in a challenging economic environment.

#### *Europe*

Gross profit generated by our Europe segment decreased by 42.6% to U.S.\$18.7 million in the first six months of 2009 as compared to U.S.\$32.6 million the first six months of 2008. Gross margins for our European operations increased to 23.0% in the first six months of 2009 from 22.5% in the first six months of 2008. The decrease in gross profit during the period was attributable to declines in sales volumes and selling prices, while the slight increase in gross margin was attributable to the fact that costs per tonne during the period remained in line with revenues per tonne in the Europe segment. In the first six months of 2009, revenues per tonne in the Europe segment decreased by 15.0%, while costs per tonne decreased by 15.5%, as compared to the first six months of 2008.

## Cost of Sales

The table below sets out our cost of sales for the periods indicated.

|  | Six months ended 30 June    |                                     |                             |                                     |
|--|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
|  | 2009                        |                                     | 2008                        |                                     |
|  | millions of<br>U.S. dollars | % of total<br>cost of<br>production | millions of<br>U.S. dollars | % of total<br>cost of<br>production |
| Raw materials and consumables . . . . .                    | 720.8                       | 60.6                                | 1,186.1                     | 68.5                                |
| Contracted manufacture . . . . .                           | 10.7                        | 0.9                                 | 22.8                        | 1.3                                 |
| Energy and utilities . . . . .                             | 102.5                       | 8.6                                 | 137.8                       | 8.0                                 |
| Depreciation and amortisation . . . . .                    | 92.7                        | 7.8                                 | 81.5                        | 4.7                                 |
| Repairs and maintenance . . . . .                          | 39.5                        | 3.3                                 | 43.8                        | 2.5                                 |
| Freight . . . . .  | 12.6                        | 1.1                                 | 9.5                         | 0.5                                 |
| Rent . . . . .   | 3.8                         | 0.3                                 | 1.2                         | 0.1                                 |
| Insurance . . . . .  | 0.4                         | —                                   | 0.4                         | —                                   |
| Staff costs including social security . . . . .            | 182.6                       | 15.4                                | 231.6                       | 13.4                                |
| Professional fees and services . . . . .                   | 7.3                         | 0.6                                 | 6.3                         | 0.4                                 |
| Travel . . . . .   | 0.6                         | 0.1                                 | 0.9                         | 0.1                                 |
| Communications . . . . .                                   | 0.6                         | 0.1                                 | 0.6                         | —                                   |
| Taxes . . . . .  | 14.8                        | 1.2                                 | 12.5                        | 0.7                                 |
| Other . . . . .  | 3.1                         | 0.3                                 | 3.3                         | 0.2                                 |
| Less capitalised costs . . . . .                           | (3.4)                       | (0.3)                               | (7.9)                       | (0.4)                               |
| <b>Total production cost . . . . .</b>                     | <b><u>1,188.6</u></b>       | <b><u>100</u></b>                   | <b><u>1,730.4</u></b>       | <b><u>100</u></b>                   |
| Change in own finished goods and work in process . . . . . | 19.9                        | 1.7                                 | (23.3)                      | (1.3)                               |
| Cost of externally purchased goods . . . . .               | 15.4                        | 1.3                                 | 43.3                        | 2.5                                 |
| Obsolete stock and write offs . . . . .                    | 30.8                        | 2.6                                 | 0.2                         | —                                   |
| <b>Cost of sales . . . . .</b>                             | <b><u>1,254.7</u></b>       | <b><u>105.6</u></b>                 | <b><u>1,750.6</u></b>       | <b><u>101.2</u></b>                 |

Raw materials and consumables, labour and energy costs are the major components of our cost of production.

### Raw materials and consumables

Raw materials and consumables costs consist principally of our purchases of steel plates and coil, steel billets, scrap metal and pig iron, ferroalloys and certain other materials used in our production processes. In the first six months of 2009, our costs of raw materials and consumables decreased by 39.2% as compared to the first six months of 2008 and amounted to 60.6% of our total cost of production in the first six months of 2009 as compared to 68.5% in the first six months of 2008. Excluding TMK IPSCO, our cost of raw materials and consumables decreased by 50.6% in the first six months of 2009 as compared to the first six months of 2008. The decrease was due principally to a sharp decrease in prices for raw materials in the first half of 2009 as compared to the first half of 2008, during which prices had reached unprecedentedly high levels. In the first half of 2009, as compared to the first half of 2008, the average purchase cost of metal scrap decreased by approximately 15-20%. On average, prices for strips decreased by 12-35% in the first half of 2009 as compared to the first half of 2008 and prices for pig iron decreased by 35-43% over the same period, depending on the region in Russia. TMK IPSCO's average purchase prices for both coil and scrap decreased by approximately 50% in the first six months of 2009 as compared to the first six months of 2008.

Raw materials and consumables costs also include costs incurred by us in relation to our purchases of supplies for the repair and maintenance of machinery and equipment, fuels and lubricants, fire proof materials and certain other materials used in our production processes. Supplies costs decreased by 44.2% in the first six months of 2009 as compared to the first six months of 2008, due primarily to a reduction of repair and maintenance activities at our plants as we adjusted our planned repair programme in the face of the global financial and economic slowdown. This decrease arose despite the inclusion of supplies costs associated with TMK IPSCO for the full first six months of 2009. Supplies costs excluding TMK IPSCO decreased by 56.7% in the first six months of 2009 as compared to the first six months of 2008.

### Staff costs including social security

Staff costs including social security payments constitute the second largest component of cost of sales. Staff costs relate to our production personnel and include wages and social and pension contributions attributable to their salaries. We make these social and pension contributions to Russian governmental funds at the statutory unified



social tax rates in force (a rate ranging in the first six-months of 2009 from 26% to 2% of gross payroll cost per employee applied on a regressive basis). We also make these contributions to Romanian governmental funds at the statutory unified social tax rates in force. Staff costs including social security payments also include post employment benefit expenses we recognise in our Consolidated Financial Statements. With respect to our U.S. subsidiaries, we make legally-required pension-related contributions toward the federal social security system (for 2009 and 2010, this contribution will amount to 6.2% of the first U.S.\$106,800 of an employee's earnings, which the employee matches). We also make a matching contribution toward employees' personal 401K accounts (the contribution amounts to one U.S. dollar for each U.S. dollar the employee contributes, up to a maximum of 5% of the employee's earnings). Our U.S. subsidiaries have no post-employment benefit obligations.

In the first six months of 2009, staff costs decreased by 21.2% as compared to the first six months of 2008, and amounted to 15.4% of our total production costs in the first six months of 2009 as compared to 13.4% in the first six months of 2008. The decrease in labour costs was principally attributable to a reduction in our workforce and salaries as part of our programme of cost-cutting measures instituted in 2009 as well as the use of flexible work arrangements and reduced working hours for employees, which decrease was partially offset by increases in labour costs as a result of our acquisition of TMK IPSCO in June 2008. The decrease in costs, excluding TMK IPSCO, was 34.2%.

#### *Energy and utilities costs*

Energy and utilities costs mainly comprise costs for electricity, gas and water. Our energy and utilities costs decreased in the first six months of 2009 by 25.6% as compared to the first six months of 2008 and amounted to 8.6% of our total production costs in the first six months of 2009 as compared to 8.0% in the first six months of 2008. The decrease in costs was due to lower production levels and lower capacity utilisation, despite the inclusion of energy and other utility costs associated with TMK IPSCO, which we acquired in June 2008. Energy and utilities costs, excluding TMK IPSCO, decreased by 30.6% in the first six months of 2009 as compared to the first six months of 2008. Electricity and natural gas prices differ depending on the region. In the first six months of 2009, our effective average electricity prices increased in roubles by approximately 30% in Russia, depending on the region, while natural gas prices remained at the same level as compared to the first six months in 2008. In the first six months of 2009, our effective average electricity prices increased by approximately 15% and natural gas prices increased by approximately 20% in Romania as compared to the first six months of 2008. In the first six months of 2009, average electricity prices paid by TMK IPSCO decreased by approximately 11% and natural gas prices decreased by approximately 28% as compared to the average purchase prices paid in the same period in 2008.

#### *Depreciation and amortisation*

Depreciation and amortisation costs increased by 13.7% in the first six months of 2009 as compared to the first six months of 2008 principally as a result of the overall growth in our assets, due both to the acquisition of TMK IPSCO in June 2008 and new equipment put into operation during the course of 2008, including the completion of a new large-diameter welded pipe mill at Volzhsky, a PQF rolling mill at Tagmet and the completion of an EAF at Seversky.

#### *Repairs and maintenance*

Repairs and maintenance costs decreased by 9.8% in the first six months of 2009 as compared to the first six months of 2008. This decrease was due to lower capacity utilisation which was partially offset by the acquisition of TMK IPSCO in June 2008. TMK IPSCO expenses accounted for 35.8% of our total repairs and maintenance costs for the first six months of 2009. Repairs and maintenance costs, excluding TMK IPSCO, decreased by 41.8% in the first six months of 2009 as compared to the first six months of 2008.

### *Selling and Distribution Expenses*

The following table shows a breakdown of our selling and distribution expenses for the periods indicated.

|  | Six months ended 30 June    |                   |                             |                   |
|--|-----------------------------|-------------------|-----------------------------|-------------------|
|  | 2009                        |                   | 2008                        |                   |
|  | millions of<br>U.S. dollars | % of<br>revenue   | millions of<br>U.S. dollars | % of<br>revenue   |
| Freight . . . . .  | 48.5                        | 3.3               | 76.4                        | 3.2               |
| Rent . . . . .   | 3.1                         | 0.2               | 3.7                         | 0.2               |
| Insurance . . . . .                                      | 0.7                         | —                 | 0.6                         | —                 |
| Depreciation and amortisation . . . . .                  | 50.0                        | 3.4               | 2.8                         | 0.1               |
| Staff costs including social security . . . . .          | 22.2                        | 1.5               | 32.4                        | 1.4               |
| Professional fees and services . . . . .                 | 8.4                         | 0.6               | 10.2                        | 0.4               |
| Travel . . . . .   | 1.2                         | 0.1               | 2.8                         | 0.1               |
| Communications . . . . .                                 | 0.6                         | —                 | 1.3                         | 0.1               |
| Utilities and maintenance . . . . .                      | 1.1                         | 0.1               | 1.5                         | 0.1               |
| Taxes . . . . .  | 1.8                         | 0.1               | 1.6                         | 0.1               |
| Consumables . . . . .                                    | 5.2                         | 0.4               | 10.4                        | 0.4               |
| Bad debt expense/(reversal of expense) . . . . .         | 2.6                         | 0.2               | (0.4)                       | —                 |
| Other . . . . .  | 0.9                         | —                 | 0.8                         | —                 |
| <b>Total selling and distribution expenses . . . . .</b> | <b><u>146.4</u></b>         | <b><u>9.9</u></b> | <b><u>144.1</u></b>         | <b><u>6.1</u></b> |

Depreciation and amortisation, freight costs and staff costs including social security payments account for most of our selling expenses.

#### *Depreciation and amortisation*

Depreciation and amortisation increased significantly to U.S.\$50.0 million in the first six months of 2009 from U.S.\$2.8 million in the first six months of 2008. This increase was attributable to the amortisation of TMK IPSCO's intangible assets, in particular its customer relationship intangible assets. TMK IPSCO's depreciation and amortisation charges amounted to approximately 98% of our total depreciation and amortisation charges over the period.

#### *Freight costs*

Railway transportation is our principal means of transporting pipe products to our Russian and CIS customers, as well as to ports for onward transportation overseas. Rail tariffs in Russia are currently regulated by the Russian government. The decrease in freight costs was attributable to decreased sales volumes as a result of the implications of the global downturn. Transportation costs with respect to raw materials and consumables are reflected in raw material costs.

#### *Staff costs including social security*

The decrease in staff costs including social security payments during each of the periods under review was due principally to steps taken as part of our programme of cost-cutting measures instituted in response to the global economic crisis.

### ***General and Administrative Expenses***

The following table shows a breakdown of our general and administrative expenses for the periods indicated.

|  | Six months ended 30 June    |                   |                             |                   |
|--|-----------------------------|-------------------|-----------------------------|-------------------|
|  | 2009                        |                   | 2008                        |                   |
|  | millions of<br>U.S. dollars | % of<br>revenue   | millions of<br>U.S. dollars | % of<br>revenue   |
| Staff costs including social security . . . . .            | 50.1                        | 3.5               | 64.6                        | 2.7               |
| Professional fees and services . . . . .                   | 20.1                        | 1.4               | 22.7                        | 1.0               |
| Depreciation and amortisation . . . . .                    | 7.2                         | 0.5               | 6.4                         | 0.3               |
| Travel . . . . .   | 3.2                         | 0.2               | 6.6                         | 0.3               |
| Transportation . . . . .                                   | 2.1                         | 0.1               | 3.3                         | 0.1               |
| Rent . . . . .   | 3.0                         | 0.2               | 3.4                         | 0.1               |
| Communications . . . . .                                   | 2.6                         | 0.2               | 0.8                         | —                 |
| Insurance . . . . .  | 2.1                         | 0.1               | 0.6                         | —                 |
| Utilities and maintenance . . . . .                        | 3.3                         | 0.2               | 4.8                         | 0.2               |
| Taxes . . . . .  | 2.2                         | 0.1               | 2.5                         | 0.1               |
| Consumables . . . . .                                      | 1.3                         | 0.1               | 3.8                         | 0.2               |
| Other . . . . .  | 1.3                         | 0.1               | 4.9                         | 0.3               |
| <b>Total general and administrative expenses . . . . .</b> | <b><u>98.5</u></b>          | <b><u>6.7</u></b> | <b><u>124.4</u></b>         | <b><u>5.3</u></b> |

General and administrative expenses consist principally of staff costs including social security payments in respect of our administrative personnel, professional fees and services costs, which include costs of our financial and legal advisers and audit costs, and costs involved in business travel and transport expenses. General and administrative expenses decreased by 20.8% in the first six months of 2009 as compared to the first six months of 2008. The decrease was primarily attributable to cost-cutting measures implemented in late 2008 in response to the global economic crisis. General and administrative expenses of TMK IPSCO amounted to 25.6% of our total general and administrative expenses in the first six months of 2009.

### ***Loss from impairment of goodwill and property, plant and equipment***

At 30 June 2009, we conducted an impairment test of our property, plant and equipment and our goodwill which indicated that the carrying value of the property, plant and equipment of our Romanian subsidiaries and Orsky Machine Building Plant exceeded their recoverable amount and the carrying value of the goodwill related to our Oilfield Services cash generating unit and our TMK-Kaztrubprom cash generating unit exceed their recoverable amount. As a result, in the first six months of 2009, we recognised impairment of property, plant and equipment in the amount of U.S.\$28.1 million and impairment of goodwill in the amount of U.S.\$9.6 million.

### ***Foreign exchange (loss)/gain***

In the first six months of 2009, we reported losses from exchange rate fluctuations amounting to U.S.\$11.7 million as compared to gains from exchange rate fluctuations of U.S.\$14.1 million in the first six months of 2008. In the first quarter of 2009, due to the global economic crisis, the Russian rouble continued to depreciate significantly against the U.S. dollar and euro, before recovering somewhat in the second quarter. The exchange rate loss was mainly due to the revaluation into roubles of U.S. dollar and euro-denominated loans and eurobonds as a result of the significantly lower exchange rate of the rouble against the U.S. dollar and euro in the first six months of 2009 as compared to the first six months of 2008.

### ***Finance costs***

Finance costs include interest expense and the costs of our advisers, including management consultants, investment banking, accounting and legal advisers, retained in connection with planned financing activities. In the first six months of 2009, we recorded finance costs of U.S.\$211.7 million, which represented a 148.5% increase as compared to the first six months of 2008. The increase was principally due to an increase in our overall debt levels, in particular the incurrence of additional debt related to our acquisition of TMK IPSCO in June 2008 and higher interest rates due largely to the global economic crisis. Weighted average interest rates were 12.32% and 6.98% as at 30 June 2009 and 2008, respectively. Additionally, amortisation of arrangement fees paid in connection with borrowings increased significantly in the first six months of 2009 due principally to costs incurred in connection with the financing arrangements we made in connection with the acquisition of TMK IPSCO in June 2008, including the U.S.\$600 million Eurobonds we issued in July 2008. On the other hand, we recorded higher finance income,

principally due to the reduction in the exercise price and the removal of the interest provision from the option provided by Evraz to purchase the remaining 49% interest in NS Group, which was exercised by us in January 2009.

### *Income tax benefit/expense*

We recorded income tax benefit of U.S.\$62.3 million in the first six months of 2009 as compared to an expense of U.S.\$82.2 million in the first six months of 2008, primarily as a result of recording a loss before taxes of U.S.\$266.1 million in the first six months of 2009 as compared to a profit before taxes of U.S.\$240.4 million in the first six months of 2008. Our effective income tax rate in the first half of 2009 amounted to 23.4% as compared to 34.2% in the same period of the prior year. The primary factors affecting the decrease in our effective tax rate were (i) the reduction of Russian corporate income tax rate from 24% to 20% starting from 1 January 2009; (ii) our acquisition of TMK IPSCO; and (iii) the decrease in other expenses not deductible for tax purposes. A portion of this income tax benefit in the first six months of 2009 was recorded as a current income tax benefit and relates to losses recorded at TMK IPSCO that are refundable from the U.S. tax authorities. TMK IPSCO's losses before taxes accounted for 34.2% of our total losses before taxes and its tax benefit accounted for 84.5% of our total income tax benefit in the first six months of 2009.

### *Net loss/profit*

For the reasons set forth in the discussion above, we recorded a net loss of U.S.\$203.8 million in the first six months of 2009 as compared to a net profit of U.S.\$158.2 million in the first six months of 2008.

### *Comparison of years ended 31 December 2008, 31 December 2007 and 31 December 2006*

The following table sets forth our consolidated operating results as a percentage of consolidated revenue for the periods indicated.

|  | Year ended 31 December      |                 |                             |                 |                             |                 |
|--|-----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-----------------|
|  | 2008                        |                 | 2007                        |                 | 2006                        |                 |
|  | millions of<br>U.S. dollars | % of<br>revenue | millions of<br>U.S. dollars | % of<br>revenue | millions of<br>U.S. dollars | % of<br>revenue |
| Revenue . . . . .  | 5,690.0                     | 100.0           | 4,178.6                     | 100             | 3,402.3                     | 100             |
| <b>Cost of sales . . . . .</b>   | <b>(4,252.5)</b>            | <b>(74.7)</b>   | <b>(2,890.6)</b>            | <b>(69.2)</b>   | <b>(2,353.6)</b>            | <b>(69.2)</b>   |
| <b>Gross profit . . . . .</b>  | <b>1,437.5</b>              | <b>25.3</b>     | <b>1,288.0</b>              | <b>30.8</b>     | <b>1,048.7</b>              | <b>30.8</b>     |
| Selling and distribution expenses . . . . .  | (295.2)                     | (5.2)           | (238.2)                     | (5.7)           | (180.4)                     | (5.3)           |
| Advertising and promotion expenses . . . .   | (10.1)                      | (0.2)           | (5.3)                       | (0.1)           | (5.1)                       | (0.1)           |
| General and administrative expenses . . . .  | (316.7)                     | (5.6)           | (218.3)                     | (5.2)           | (166.6)                     | (4.9)           |
| Research and development expenses . . . .  | (15.2)                      | (0.3)           | (10.1)                      | (0.2)           | (6.7)                       | (0.2)           |
| Other operating expenses . . . . .   | (52.0)                      | (0.9)           | (56.2)                      | (1.4)           | (29.1)                      | (0.9)           |
| Other operating income . . . . .   | 7.1                         | 0.1             | 5.0                         | 0.1             | 4.6                         | 0.2             |
| Impairment of goodwill . . . . .   | (3.5)                       | (0.1)           | —                           | —               | —                           | —               |
| Impairment of property, plant and<br>equipment . . . . .   | (59.8)                      | (1.1)           | —                           | —               | —                           | —               |
| Impairment of financial assets . . . . .   | (23.7)                      | (0.4)           | —                           | —               | —                           | —               |
| Foreign exchange (loss)/gain, net . . . . .  | (99.8)                      | (1.7)           | 20.5                        | 0.5             | 13.0                        | 0.4             |
| Finance costs . . . . .  | (272.2)                     | (4.8)           | (102.4)                     | (2.5)           | (73.6)                      | (2.2)           |
| Finance income . . . . .   | 8.7                         | 0.2             | 12.6                        | 0.3             | 15.8                        | 0.5             |
| Share of profit in associate . . . . .   | 3.0                         | 0.1             | 1.0                         | —               | 1.3                         | —               |
| Excess of acquirer's interest in the net<br>fair value of acquiree's identifiable<br>assets, liabilities and contingent<br>liabilities over cost . . . . . | —                           | —               | 2.2                         | 0.1             | —                           | —               |
| <b>Profit before tax . . . . .</b>   | <b>308.1</b>                | <b>5.4</b>      | <b>698.8</b>                | <b>16.7</b>     | <b>621.9</b>                | <b>18.3</b>     |
| Income tax expense . . . . .   | (109.6)                     | (1.9)           | (192.5)                     | (4.6)           | (159.7)                     | (4.7)           |
| <b>Net profit . . . . .</b>  | <b>198.5</b>                | <b>3.5</b>      | <b>506.3</b>                | <b>12.1</b>     | <b>462.2</b>                | <b>13.6</b>     |
| <i>Attributable to:</i>  |                             |                 |                             |                 |                             |                 |
| Equity holders of the parent entity . . . . .  | 199.4                       | 3.5             | 487.1                       | 11.6            | 442.1                       | 13.0            |
| Minority interests . . . . .   | (0.9)                       | —               | 19.2                        | 0.5             | 20.1                        | 0.6             |
|  | <b>198.5</b>                | <b>3.5</b>      | <b>506.3</b>                | <b>12.1</b>     | <b>462.2</b>                | <b>13.6</b>     |

## Revenue

Our consolidated revenue increased in each of the periods presented due to a combination of higher average selling prices and higher sales volumes for our pipe products.

## Sales volumes

The following table shows our pipe sales volumes for the periods indicated.

|                                 | Year ended<br>31 December<br>2008        | Year ended<br>31 December<br>2007 | Year ended<br>31 December<br>2006 | % change between<br>years ended<br>31 December<br>2008 and 2007 | % change between<br>years ended<br>31 December<br>2007 and 2006 |
|---------------------------------|--|-----------------------------------|-----------------------------------|---|---|
|                                 | (thousands of tonnes except percentages) |                                   |                                   |   |   |
| <b>Seamless pipes</b> . . . . . | <b>1,980</b>                             | <b>2,039</b>                      | <b>1,928</b>                      | <b>(2.9)%</b>   | <b>5.8%</b>   |
| Russia . . . . .                | 1,313                                    | 1,367                             | 1,266                             | (4.0)%  | 8.0%  |
| Outside Russia . . . . .        | 667                                      | 672                               | 662                               | (0.7)%  | 1.5%  |
| <b>Welded pipes</b> . . . . .   | <b>1,247</b>                             | <b>1,049</b>                      | <b>1,069</b>                      | <b>18.9%</b>  | <b>(1.9)%</b>   |
| Russia . . . . .                | 713                                      | 824                               | 839                               | (13.5)%   | (1.8)%  |
| Outside Russia . . . . .        | 534                                      | 225                               | 230                               | 137.3%  | (2.2)%  |
| <b>Total pipes</b> . . . . .    | <b>3,227</b>                             | <b>3,088</b>                      | <b>2,997</b>                      | <b>4.5%</b>   | <b>3.0%</b>   |
| <i>of which</i>                 |  |                                   |                                   |   |   |
| Russia . . . . .                | 2,026                                    | 2,191                             | 2,105                             | (7.5)%  | 4.1%  |
| Outside Russia . . . . .        | 1,201                                    | 897                               | 892                               | 33.9%   | 0.6%  |

We recorded an overall increase in pipe sales volumes in 2008 as compared to 2007 as a result of our acquisition of TMK IPSCO in June 2008, which had a positive impact on our sales volumes in the second half of 2008. Excluding the acquisition of TMK IPSCO, our sales volumes decreased by 11.3% in 2008 compared to 2007. We recorded a decrease in our sales volumes in Russia of 7.5% in 2008 as compared to 2007, principally as a result of decreases in pipe sales in the fourth quarter of 2008, as customers scaled back their capital expenditure budgets, an overall decrease in economic activity in the fourth quarter of 2008, a decrease in pipe sales as a consequence of record high pipe prices (largely reflecting high prices for raw materials in the first half of 2008), and a fall in demand in large-diameter welded pipes due to a postponement in the construction of certain large Russian pipeline projects. Our overall pipe sales volumes increased 3% in 2007 as compared to 2006, which increase was driven by strong demand from oil and gas companies as a result of increased drilling activity in the oil and gas sector which has been largely attributable to higher oil and gas prices.

The percentage of our overall pipe product sales outside the Russian Federation increased to 37.2% in 2008 from 29.0% in 2007 and 29.8% in 2006, while the percentage of our overall pipe product sales within the Russian Federation fell to 62.8% in 2008 from 71.0% in 2007 and 70.2% in 2006.

*Seamless pipes.* In 2008, sales volumes of seamless pipes decreased by 2.9% to 1,980,000 tonnes from 2,039,000 tonnes in 2007. This decrease was primarily attributable to a decrease in production volumes at our Tagmet plant due to the refurbishment and modernisation of its manufacturing facilities, and a fall in demand for industrial seamless pipes in the fourth quarter of 2008 as a result of the global recession. Sales volumes of seamless pipes increased by 5.8% in 2007 as compared to 2006 largely as a result of strong demand within the oil and gas sector.

Our overall seamless OCTG sales volumes increased by 5.6% in 2008 to 970,000 tonnes from 919,000 tonnes in 2007. OCTG sales volumes in Russia increased by 1.1% in 2008 to 728,000 tonnes from 720,000 tonnes in 2007, while OCTG sales volumes outside Russia increased by 22.2% to 242,000 tonnes in 2008 from 198,000 tonnes in 2007, principally due to our acquisition of TMK IPSCO, which accounted for 41.1% of our seamless OCTG sales outside of Russia in 2008. The slower growth in 2008 of our OCTG sales volume in Russia was largely attributable to a cut in production of seamless pipes as a result of the decommissioning of certain outdated facilities for seamless pipe production at Tagmet in late 2007. In October 2008, we commenced operational testing at our newly installed PQF seamless rolling mill at Tagmet, designed to strengthen our position in the OCTG segment. OCTG sales volumes decreased by 2.9% to approximately 919,000 tonnes in 2007 as compared to 2006 principally due to capacity constraints, a drop in the global demand for OCTG and our inability to manufacture additional volumes of OCTG at Tagmet due to the refurbishment of its manufacturing facilities.

In 2008, our seamless line pipe sales volumes decreased by 3.9% primarily as a result of a 9.4% decline in sales volumes in the Russian market, partially offset by a 9.8% increase in sales volumes of seamless line pipe outside of Russia, principally due to our acquisition of TMK IPSCO.



Our sales volumes of industrial seamless pipes in 2008 decreased by 14.2% to 556,000 tonnes from 648,000 tonnes in 2007, which comprised an 18.2% decline outside Russia and a 10.0% decline within Russia as compared to 2007. This decrease was principally attributable to weaker demand from the construction and machine-building industries in the fourth quarter of 2008 as a result of the global economic recession. Our sales volumes of industrial seamless pipe rose by 9.1% in 2007 as compared to 2006, primarily due to the commissioning of a CPE mill at TMK-Artrom, which led to a 69.3% increase in the sale of pipe products from our Romanian pipe mill.

*Welded pipes.* Welded pipes sales volumes increased by 18.9% in 2008 to 1,247,000 tonnes from 1,048,000 tonnes in 2007. This growth was primarily driven by an increase in our sales of welded OCTG, which increased to 257,000 tonnes in 2008 from 10,000 tonnes in 2007 as a result of our acquisition of TMK IPSCO. Increased competition in the Russian market for welded pipes affected our pipe sales volumes in this segment, which decreased by 1.9% in 2007 as compared to 2006.

The slowdown in the execution of large pipeline projects, including the Nord Stream gas pipeline and ESPO Pipeline projects, caused a significant reduction in demand for large diameter pipes on the Russian market in 2008. Our large diameter pipes sales volume decreased by 38.0% in 2008 to 259,000 tonnes from 418,000 tonnes in 2007. This decrease comprised a 34.1% reduction in large diameter pipe sales in the Russian market and a 47.6% decrease in such sales outside Russia. Sales of large-diameter pipes as a percentage of our total sales volume fell to 8.0% in 2008 as compared to 13.5% in 2007. In 2007, our sales volumes of large diameter welded pipes decreased by 3.2% as compared to 2006 largely as a result of decreased demand and a change in specifications by Gazprom, one of our largest customers, pursuant to which we decreased our production of heavier 1,420 mm welded pipes and increased our production of lighter, smaller diameter welded pipes.

Welded line pipes sales volumes increased by 19.2% to 244,000 tonnes in 2008 from 204,000 tonnes in 2007. Welded line pipe sales in Russia increased by 10.7% in 2008, while welded line pipe sales outside of Russia increased by 62.0%. This growth was attributable to TMK IPSCO sales, which accounted for approximately 40.0% of the sales volume outside Russia. Our sales volumes of welded line pipes decreased by 2.9% in 2007 as compared to 2006 principally as a result of increased competition in the Russian market.

In 2008, we sold 487,000 tonnes of industrial welded pipes, which represented a 16.6% increase from 417,000 tonnes in 2007. This increase was attributable to a doubling of sales volumes outside Russia, with TMK IPSCO contributing approximately 50% of such sales outside Russia. Sales in Russia decreased by 7.5% principally due to a significant reduction in demand from customers in the construction and machine-building industries. Our sales volumes of welded industrial-purpose pipes decreased by 8.4% in 2007 as compared to 2006 primarily due to a fall in demand in the second half of 2007 related to a reduction in the financing of public utilities in Russia.

#### *Revenue by product*

The following table shows our revenue by business segment as a percentage of total revenue for the periods indicated.

|                                | <u>Year ended 31 December</u> |                     |                     |
|--------------------------------|-------------------------------|---------------------|---------------------|
|                                | <u>2008</u>                   | <u>2007</u>         | <u>2006</u>         |
|                                | (%)                           |                     |                     |
| Seamless pipes . . . . .       | 62.3                          | 68.2                | 65.1                |
| Welded pipes . . . . .         | 33.0                          | 26.8                | 27.9                |
| Other operations . . . . .     | 4.7                           | 5.0                 | 7.0                 |
| <b>Total revenue . . . . .</b> | <b><u>100.0</u></b>           | <b><u>100.0</u></b> | <b><u>100.0</u></b> |

#### *Seamless Pipes*

In 2008, revenue from sales of seamless pipes increased by 24.4% to U.S.\$3,546.0 million from U.S.\$2,849.4 million in 2007. Excluding revenue generated from TMK IPSCO, revenue from the sale of seamless pipes increased by 11.8% to U.S.\$3,186.7 million in 2008. In 2008, revenue from the sale of seamless pipes contributed 62.3% of our total revenue as compared to 68.2% of our total revenue in 2007. The increase in revenue in 2008 as compared to 2007 was attributable to an increase in average sales prices for seamless pipes, which offset the concurrent decrease in sales volumes in this segment. In 2008, the average price per tonne in the seamless pipe segment increased by 28.2% to U.S.\$1,791.

In 2007, revenue from sales of seamless pipes increased by 28.7% to U.S.\$2,849.4 million from U.S.\$2,213.4 million in 2006. In 2007, revenue from the sale of seamless pipes contributed 68.2% of our total revenue as compared to 65.1% of our total revenue in 2006. The increase in our seamless pipe revenue in 2007 as

compared to 2006 was primarily attributable to increases in the prices for our seamless pipes during that period. Average selling prices for seamless pipes increased by 21.7% to U.S.\$1,397 per tonne in 2007 from U.S.\$1,148 per tonne in 2006.

### *Welded Pipes*

Historically, our welded pipes business has been largely dependent on sales to Gazprom, our principal customer, particularly with respect to sales of large diameter welded pipes. See “*Risk Factors — Risks Relating to Our Business and the Pipe Industry — Our large diameter welded pipe business is largely dependent on one of our largest customers, Gazprom, and is subject to increasing competitive pressures*”.

In 2008, revenue from sales of welded pipes increased by 67.7% to U.S.\$1,876.1 million from U.S.\$1,118.5 million in 2007. Excluding revenue generated by TMK IPSCO, revenue from the sale of welded pipes decreased by 2.4% to U.S.\$1,092.0 million in 2008. In 2008, revenue from the sale of welded pipes increased to 33.0% of our total revenue from 26.8% of our total revenue in 2007. The increase in revenue in 2008 as compared to 2007 was attributable to an increase in sales volume, primarily as a result of the acquisition of TMK IPSCO, and an increase in average sales prices. In 2008, the average price per tonne in the welded pipe segment increased by 41.1% to U.S.\$1,504.

The increase in our welded pipes revenue in 2007 as compared to 2006 was primarily attributable to an increase in the pipe prices which was offset in part by a decrease in sales volumes of large-diameter pipes due to a drop off in orders of 1,420 mm welded pipes by Gazprom. Our average selling prices for welded pipes increased by 20% to U.S.\$1,066 per tonne in 2007 from U.S.\$888 per tonne in 2006.

The following table provides an analysis of our revenue growth attributable to changes in prices and volumes of pipes for the periods indicated.

|   | <u>Welded<br/>pipes</u>                        | <u>Seamless<br/>pipes</u> | <u>Total</u>          | <u>Welded<br/>pipes</u> | <u>Seamless<br/>pipes</u> | <u>Total</u>        |
|---|--|---------------------------|-----------------------|-------------------------|---------------------------|---------------------|
|   | (millions of U.S. dollars, except percentages) |                           |                       |                         |                           |                     |
| <b>Year ended 31 December 2008 as compared to<br/>year ended 31 December 2007</b>           |  |                           |                       |                         |                           |                     |
| Changes in price . . . . .  | 459.3  | 802.3                     | 1,261.6               | 41.1%                   | 28.2%                     | 31.8%               |
| Changes in volumes . . . . .  | 298.3  | (105.6)                   | 192.7                 | 26.6%                   | (3.7)%                    | 4.9%                |
| <b>Total change . . . . .</b>   | <b><u>757.6</u></b>                            | <b><u>696.7</u></b>       | <b><u>1,454.3</u></b> | <b><u>67.7%</u></b>     | <b><u>24.5%</u></b>       | <b><u>36.7%</u></b> |
| <b>Year ended 31 December 2007 as compared to<br/>year ended 31 December 2006 . . . . .</b> |  |                           |                       |                         |                           |                     |
| Changes in price . . . . .  | 190.8  | 480.9                     | 671.7                 | 20.1%                   | 21.7%                     | 21.3%               |
| Changes in volumes . . . . .  | (21.3)   | 155.1                     | 133.8                 | (2.2)%                  | 7.0%                      | 4.2%                |
| <b>Total change . . . . .</b>   | <b><u>169.5</u></b>                            | <b><u>636.0</u></b>       | <b><u>805.5</u></b>   | <b><u>17.9%</u></b>     | <b><u>28.7%</u></b>       | <b><u>25.5%</u></b> |

### *Other Operations*

Other operations principally include sales of steel (predominantly billets) and various supplementary services, such as energy distribution, to third parties. In 2008, revenue from other operations increased by 27.1% to U.S.\$267.9 million from U.S.\$210.7 million in 2007. In 2008, revenue from sales of steel billets increased by approximately 8.8% as compared to 2007, following the acquisition of TMK IPSCO. In 2008, revenue from sales of steel billets by TMK IPSCO amounted to U.S.\$46.5 million, and its share in total revenues from sales of steel pipe billets was 47.3%. Excluding TMK IPSCO, our revenue from sales of billets in 2008 declined approximately by 42.7% as a result of lower sales volumes in light of the global economic downturn.

Revenue from other operations decreased by 12.2% in 2007 as compared to 2006 principally due to a decrease in the sale of steel billets which were used in-house by our pipe mills for the production of seamless pipes. In 2006 and 2007, continuous casting machines were put into operation at Seversky, Tagmet and TMK-Resita enabling us to produce steel billets of the necessary quality and specifications for use in the production of seamless pipes at Sinarsky, Seversky, Tagmet and TMK-Artrom, which reduced our purchases of steel billets from external sources.

### Revenue by geographical area

The following table shows our revenue by geographical area based on the location of the customer for the periods indicated.

|   | Year ended 31 December                        |                       |                       | % change between years ended 31 December |                     |
|---|---|-----------------------|-----------------------|--|---------------------|
|   | 2008  | 2007                  | 2006                  | 2008 and 2007                            | 2007 and 2006       |
|   | (millions of U.S. dollar, except percentages) |                       |                       |  |                     |
| Russia . . . . .                          | 3,387.7                                       | 2,993.7               | 2,323.8               | 13.2%                                    | 28.8%               |
| Americas . . . . .                        | 1,340.2                                       | 87.6                  | 102.4                 | n/m                                      | (14.5)%             |
| Europe . . . . .                          | 506.9   | 451.2                 | 587.5                 | 12.3%                                    | (23.2)%             |
| Middle East and Gulf Region . . . . .     | 181.4   | 296.9                 | 183.2                 | (38.9)%                                  | 62.1%               |
| Asia and Far East . . . . .               | 71.5  | 189.9                 | 13.8                  | (62.3)%                                  | n/m                 |
| Central Asia and Caspian Region . . . . . | 183.8   | 142.3                 | 178.7                 | 29.2%                                    | (20.4)%             |
| Africa . . . . .                          | 18.5  | 17.0                  | 12.9                  | 8.8%                                     | 31.8%               |
| <b>Total revenue . . . . .</b>            | <b><u>5,690.0</u></b>                         | <b><u>4,178.6</u></b> | <b><u>3,402.3</u></b> | <b><u>36.2%</u></b>                      | <b><u>22.8%</u></b> |

The following table sets forth our consolidated revenue by geographical area based on the location of the customer as a percentage of revenue for the periods indicated.

|   | Year ended 31 December |                     |                     |
|---|------------------------|---------------------|---------------------|
|   | 2008                   | 2007                | 2006                |
|   | (%)                    |                     |                     |
| Russia . . . . .                          | 59.5                   | 71.6                | 68.3                |
| Americas . . . . .                        | 23.6                   | 2.1                 | 3.0                 |
| Europe . . . . .                          | 8.9                    | 10.8                | 17.3                |
| Middle East and Gulf Region . . . . .     | 3.2                    | 7.1                 | 5.4                 |
| Asia and Far East . . . . .               | 1.3                    | 4.6                 | 0.4                 |
| Central Asia and Caspian Region . . . . . | 3.2                    | 3.4                 | 5.2                 |
| Africa . . . . .                          | 0.3                    | 0.4                 | 0.4                 |
| <b>Total revenue . . . . .</b>            | <b><u>100.0</u></b>    | <b><u>100.0</u></b> | <b><u>100.0</u></b> |

Revenue from sales of pipes in Russia increased in 2008 as compared to 2007 primarily due to an increase in average sale prices for our products in the first half of 2008 which offset a decrease in sales volumes in 2008 as a result of the economic crisis. Growth in our revenue, which has historically been driven by increasing demand in Russia, slowed significantly in the wake of the global financial crisis and the consequent decrease in demand from our customers. Revenue from the Americas increased 15-fold as a result of our acquisition of TMK IPSCO in June 2008.

Revenue from sales of pipes in Russia increased in 2007 as compared to 2006 primarily due to an increase in average selling prices in the Russian market as a result of the strong growth in the Russian oil and gas industry. Growth in our revenue has principally been driven by increased demand in Russia, however during the same period we have increased our marketing efforts in export markets. The rate of increase in our net sales of pipes in Russia slowed in 2006 as compared to the rate of increase in previous years principally due to lower sales of 1,420 mm welded pipe to Gazprom and the fact that our plants were operating at capacity limits for certain seamless pipe product lines in 2006, which limited the growth of our seamless pipe deliveries in Russia for the period. A relative decrease in revenue from sales to Europe was mainly attributable to anti-dumping penalties introduced by the European Union in June 2006.

As a globally operating organisation, we also conduct business with customers in Iran and Syria. The U.S. Department of State designates these countries as state sponsors of terrorism and subjects them to export controls. Our activities with customers in these states are insignificant relative to our overall revenue, amounting to less than 1% of our total revenue in the year ended 31 December 2008.

### Gross Profit and Cost of Sales

#### Gross profit

Our gross profit, which represents our revenue less our cost of sales, increased by 11.6% in 2008 as compared to 2007 and by 22.8% in 2007 as compared to 2006. The increase in gross profit in 2008 was largely attributable to the

acquisition of TMK IPSCO, which accounted for 23.2% of our gross profit for the year and had a gross margin of 28.0%. Our overall gross margin decreased to 25.3% in 2008 from 30.8% in 2007 primarily as a result of an unprecedented increase in prices for raw materials purchased in the first half of 2008, which was only partially offset by increases in sales prices and a more favourable price environment for raw materials in the fourth quarter of 2008 in the wake of the onset of the financial crisis. The increase in 2007 was principally as a result of volume growth, overall sales price increases, which rose at approximately the same rate as raw material input price increases, and improved operating efficiency.

The table below illustrates our gross profit and gross margin percentages by business segment for the periods indicated.

|                            | Year ended 31 December                            |                        |                       |                        |                       |                        |
|----------------------------|---|------------------------|-----------------------|------------------------|-----------------------|------------------------|
|                            | 2008  |                        | 2007                  |                        | 2006                  |                        |
|                            | <u>Gross Profit</u>                               | <u>Gross Margin(1)</u> | <u>Gross Profit</u>   | <u>Gross Margin(1)</u> | <u>Gross Profit</u>   | <u>Gross Margin(1)</u> |
|                            | (in millions of U.S. dollars, except percentages) |                        |                       |                        |                       |                        |
| Seamless pipes . . . . .   | 1,088.7   | 30.7%                  | 1,094.0               | 38.4%                  | 885.8                 | 40.0%                  |
| Welded pipes . . . . .     | 328.1   | 17.5%                  | 188.0                 | 16.8%                  | 143.6                 | 15.1%                  |
| Other operations . . . . . | 20.8  | 7.8%                   | 6.0                   | 2.8%                   | 19.3                  | 8.0%                   |
| <b>Total . . . . .</b>     | <b><u>1,437.6</u></b>                             | <b><u>25.3%</u></b>    | <b><u>1,288.0</u></b> | <b><u>30.8%</u></b>    | <b><u>1,048.7</u></b> | <b><u>30.8%</u></b>    |

#### *Seamless pipes*

Gross margins for our seamless pipes decreased to 30.7% in 2008 from 38.4% in 2007, primarily as a result of the increase in prices for raw materials purchased in the first half of 2008. Gross margins for our seamless pipes decreased slightly in 2007 as compared to 2006, as a result of an increased proportion in the product mix of seamless line pipes, which generated lower margins than OCTG.

#### *Welded pipes*

Gross margins for our welded pipes increased to 17.5% in 2008 from 16.8% in 2007 primarily as a result of significant increases in sales of welded OCTG pipes in the second half of 2008 attributable to the acquisition of TMK IPSCO, which offset the impact of a significant decrease in large-diameter pipes and a corresponding increase in lower-profitability industrial welded pipes sold as a percentage of total welded pipes revenues for the period.

Gross margins for our welded pipes increased in 2007 as compared to 2006 as a result of improvements in the welded pipe market. The gross margin in the welded pipe segment in the first half of 2007 was 18.1%, whereas in the second half of the year, gross profit per tonne in the welded pipe segment dropped to 15.6%. This was associated with the deferral of a number of major Gazprom projects which use large diameter welded pipes and a deterioration in the pricing environment in the industrial welded pipe segment.

#### *Other operations*

Gross margins generated by other operations increased to 7.8% in 2008 from 2.8% in 2007 principally as a result of contributions of our U.S.-based service companies, which provide services to the oil and gas sector.

Gross margins generated by other operations decreased in 2007 as compared to 2006 principally due to relatively lower growth in prices for steel billets, which is the main product sold in other operations, together with significant increases in prices for metal scrap, the main raw material utilised in our other operations. Moreover, the share of sales of higher-margin billets produced by our Russian plants decreased, whereas the share of lower-margin billets sales by TMK-Resita in Romania increased.

## Cost of Sales

The table below sets out our cost of sales for the periods indicated.

|   | Year ended 31 December      |                                     |                             |                                     |                             |                                     |
|---|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
|   | 2008                        |                                     | 2007                        |                                     | 2006                        |                                     |
|   | millions of<br>U.S. dollars | % of total<br>cost of<br>production | millions of<br>U.S. dollars | % of total<br>cost of<br>production | millions of<br>U.S. dollars | % of total<br>cost of<br>production |
| Raw materials and consumables . . . . .                     | 2,946.7                     | 69.2                                | 2,138.4                     | 72.9                                | 1,762.0                     | 73.6                                |
| Contracted manufacture . . . . .                            | 176.5                       | 4.1                                 | 6.9                         | 0.2                                 | 11.7                        | 0.5                                 |
| Energy and utilities . . . . .                              | 284.4                       | 6.7                                 | 235.4                       | 8.0                                 | 179.0                       | 7.5                                 |
| Depreciation and amortisation . . . . .                     | 178.2                       | 4.2                                 | 129.9                       | 4.5                                 | 107.6                       | 4.5                                 |
| Repairs and maintenance . . . . .                           | 93.2                        | 2.2                                 | 53.3                        | 1.8                                 | 25.0                        | 1.1                                 |
| Freight . . . . .   | 22.9                        | 0.5                                 | 8.1                         | 0.3                                 | 5.8                         | 0.2                                 |
| Rent . . . . .  | 2.8                         | 0.1                                 | 0.7                         | —                                   | 0.3                         | —                                   |
| Insurance . . . . .   | 1.1                         | —                                   | 0.4                         | —                                   | 0.3                         | —                                   |
| Staff costs including social security . . . . .             | 511.2                       | 12.0                                | 362.3                       | 12.3                                | 291.1                       | 12.2                                |
| Professional fees and services . . . . .                    | 21.6                        | 0.5                                 | 14.7                        | 0.5                                 | 7.6                         | 0.3                                 |
| Travel . . . . .  | 1.7                         | —                                   | 1.9                         | 0.1                                 | 1.4                         | 0.1                                 |
| Communications . . . . .                                    | 1.9                         | —                                   | 0.6                         | —                                   | 0.7                         | —                                   |
| Taxes . . . . .   | 26.6                        | 0.6                                 | 18.9                        | 0.6                                 | 14.7                        | 0.6                                 |
| Other . . . . .   | 3.9                         | 0.1                                 | 0.3                         | —                                   | 0.7                         | —                                   |
| Less capitalised costs . . . . .                            | (13.3)                      | (0.2)                               | (37.7)                      | (1.2)                               | (14.6)                      | (0.6)                               |
| <b>Total production cost . . . . .</b>                      | <b><u>4,259.4</u></b>       | <b><u>100</u></b>                   | <b><u>2,934.1</u></b>       | <b><u>100</u></b>                   | <b><u>2,393.3</u></b>       | <b><u>100</u></b>                   |
| Change in own finished goods and work in progress . . . . . | (73.4)                      | (1.8)                               | (75.6)                      | (2.6)                               | (62.1)                      | (2.6)                               |
| Cost of externally purchased goods . . . . .                | 33.8                        | 0.8                                 | 32.0                        | 1.1                                 | 20.7                        | 0.8                                 |
| Obsolete stock and write offs . . . . .                     | 32.7                        | 0.8                                 | 0.1                         | —                                   | 1.7                         | 0.1                                 |
| <b>Cost of sales . . . . .</b>                              | <b><u>4,252.5</u></b>       | <b><u>99.8</u></b>                  | <b><u>2,890.6</u></b>       | <b><u>98.5</u></b>                  | <b><u>2,353.6</u></b>       | <b><u>98.3</u></b>                  |

Raw materials and consumables, labour and energy costs are the major components of our cost of production.

### Raw materials and consumables

In 2008, our costs of raw materials and consumables increased by 37.8% as compared to 2007 and amounted to 69.2% of our total cost of production as compared to 72.9% in 2007. Excluding TMK IPSCO, our cost of raw materials and consumables increased by 12.7% in 2008 as compared to 2007. The increase was due principally to an unprecedented increase in prices for the production of raw materials in the first half of 2008. In 2008, as compared to 2007, the average purchase cost of metal scrap increased by approximately 39 — 42%, while in the first half of 2008, as compared to the first half of 2007, it increased by 41 — 50%. In the second half of 2008, prices for metal scrap decreased considerably in line with the general price for steel. On average, prices for strips increased by 37 — 44% in 2008 as compared to 2007 and prices for pig iron increased by 50 — 67% over the same period. The increase in 2007 as compared to 2006 was largely a result of increase in the prices for our purchases of scrap, steel coil and pig iron.

Raw materials and consumables costs also include costs incurred by us in relation to our purchases of supplies for the repair and maintenance of machinery and equipment, fuels and lubricants, fire proof materials and certain other materials used in our production processes. Supplies costs increased in 2008 as compared to 2007, and in 2007 as compared to 2006, due primarily to the increase in volumes of materials consumed resulting from the growth in assets, principally equipment, put into operation during the year.

### Staff costs including social security

In 2008 staff costs increased by 41.1% as compared to 2007, and amounted to 12.0% of our total production costs, as compared to 12.3% in 2007. The increase in labour costs was principally attributable to the inclusion of labour costs of acquired companies, including TMK IPSCO, as well as the indexation of wages of our personnel. The increase in costs, excluding business acquired in the United States, was 20.1%.



The increase in staff costs including social security payments in 2007 as compared to 2006 was driven principally by salary and wage increases in line with inflation, an increase in the proportion of highly qualified personnel contracted for the installation of new equipment. In addition, due to the shortage of qualified employees in the Russian regional labour markets, wages at our Russian plants were raised in order to remain competitive and reduce the turnover of highly qualified personnel.

Our total number of employees as at 31 December 2007 and 2008 was 48,475 and 48,941, respectively.

#### *Energy and utilities costs*

Energy and utilities costs mainly comprise costs for electricity, gas and water. Our energy and utilities costs increased in 2008 by 20.8% as compared to 2007 and amounted to 6.7% of our total production costs, as compared to 8.0% in 2007. The increase in costs was due to increases in tariffs for energy resources, as well as the inclusion of energy and other utility costs associated with TMK IPSCO. Energy and utilities costs, excluding TMK IPSCO, increased by 11.0% as compared to 2007. Electricity and natural gas prices differ depending on the region. In 2008, average electricity prices increased by approximately 18.4% while natural gas prices increased by approximately 25.1%.

Our average prices for electrical energy increased by approximately 7-15% in 2007 as compared to 2006 (depending on the region in Russia), while our average prices for natural gas increased by approximately 19-22% in 2007 as compared to 2006 (depending on the region in Russia).

#### *Depreciation and amortisation*

Depreciation and amortisation costs increased in 2008 as compared to 2007 primarily as a result of the growth in assets as a result of the TMK IPSCO acquisition and a general growth in assets, principally equipment, put into operation during the period. Depreciation and amortisation costs increased in 2007 as compared to 2006 primarily as a result of the growth in assets, principally equipment, put into operation during the period.

#### *Repairs and maintenance*

Repairs and maintenance costs increased by 74.9% in 2008 over 2007 to U.S.\$93.2 million from U.S.\$53.3 million, which in turn represented a 113.2% increase over repairs and maintenance costs of U.S.\$25.0 million in 2006. Repair and maintenance costs have been increasing due to the growth of repair and maintenance activities at our plants in accordance with our planned repair programme.

#### *Contracted Manufacture*

Contracted manufacture principally comprises various services provided to TMK IPSCO from Evraz and SSAB, from which we acquired our interests in IPSCO Tubulars and NS Group, under the terms of various interim services agreements entered into with our acquisition of TMK IPSCO. These services included various production and other services provided to TMK IPSCO. As of 1 January 2009, TMK IPSCO no longer required such support services from Evraz and SSAB.

### *Selling and Distribution Expenses*

The following table shows a breakdown of our selling and distribution expenses for the periods indicated.

|  | Year ended 31 December      |                   |                             |                   |                             |                   |
|--|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|  | 2008                        |                   | 2007                        |                   | 2006                        |                   |
|  | millions of<br>U.S. dollars | % of<br>revenue   | millions of<br>U.S. dollars | % of<br>revenue   | millions of<br>U.S. dollars | % of<br>revenue   |
| Freight . . . . .  | 164.3                       | 2.9               | 138.2                       | 3.3               | 104.6                       | 3.2               |
| Rent . . . . .   | 7.2                         | 0.1               | 5.6                         | 0.1               | 4.6                         | 0.1               |
| Insurance . . . . .  | 1.4                         | —                 | 0.9                         | —                 | 0.7                         | —                 |
| Depreciation and amortisation . . . . .                      | 1.7                         | —                 | 1.5                         | —                 | 1.5                         | —                 |
| Staff costs including social security . . . .                | 60.0                        | 1.1               | 44.2                        | 1.1               | 33.5                        | 1.0               |
| Professional fees and services . . . . .                     | 20.0                        | 0.4               | 19.1                        | 0.5               | 13.5                        | 0.4               |
| Travel . . . . .   | 4.9                         | 0.1               | 3.6                         | 0.1               | 3.4                         | 0.1               |
| Communications . . . . .                                     | 1.6                         | —                 | 1.6                         | —                 | 1.4                         | —                 |
| Utilities and maintenance . . . . .                          | 2.8                         | 0.1               | 0.9                         | —                 | 0.5                         | —                 |
| Taxes . . . . .  | 2.6                         | —                 | 3.2                         | 0.1               | 0.2                         | —                 |
| Consumables . . . . .  | 19.9                        | 0.4               | 18.2                        | 0.4               | 13.0                        | 0.4               |
| Bad debt expense/(reversal of expense) . .                   | 7.2                         | 0.1               | (1.1)                       | —                 | 1.6                         | —                 |
| Other . . . . .  | 1.6                         | —                 | 2.3                         | 0.1               | 1.9                         | 0.1               |
| <b>Total selling and distribution<br/>expenses . . . . .</b> | <b><u>295.2</u></b>         | <b><u>5.2</u></b> | <b><u>238.2</u></b>         | <b><u>5.7</u></b> | <b><u>180.4</u></b>         | <b><u>5.3</u></b> |

Freight costs and staff costs including social security payments attributable to our sales activities account for most of our selling expenses.

#### *Freight costs*

Railway transportation is our principal means of transporting pipe products to our Russian, CIS and U.S. customers, as well as to ports for onward transportation overseas. Rail tariffs in Russia are currently regulated by the Russian government. The increases in freight costs were attributable to increases in tariffs. Transportation costs with respect to raw materials and consumables are reflected in raw material costs.

#### *Staff costs including social security*

The increase in staff costs including social security payments was primarily attributable to the indexation of wages of our personnel and the acquisition of TMK IPSCO.

#### *Professional fees and services*

Professional fees and services relate principally to commissions relating to customs clearance and transportation processing.

## General and Administrative Expenses

The following table shows a breakdown of our general and administrative expenses for the periods indicated.

|   | Year ended 31 December      |                   |                             |                   |                             |                   |
|---|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|   | 2008                        |                   | 2007                        |                   | 2006                        |                   |
|   | millions of<br>U.S. dollars | % of<br>revenue   | millions of<br>U.S. dollars | % of<br>revenue   | millions of<br>U.S. dollars | % of<br>revenue   |
| Staff costs including social security . . . .                 | 138.9                       | 2.4               | 131.7                       | 3.2               | 95.8                        | 2.8               |
| Professional fees and services . . . . .                      | 54.1                        | 1.0               | 35.2                        | 0.8               | 32.4                        | 1.0               |
| Depreciation and amortisation . . . . .                       | 66.8                        | 1.2               | 8.4                         | 0.2               | 7.3                         | 0.2               |
| Travel . . . . .  | 11.8                        | 0.2               | 10.7                        | 0.3               | 8.8                         | 0.3               |
| Transportation . . . . .                                      | 6.8                         | 0.1               | 4.2                         | 0.1               | 1.1                         | —                 |
| Rent . . . . .  | 6.9                         | 0.1               | 5.0                         | 0.1               | 3.0                         | 0.1               |
| Communications . . . . .                                      | 1.8                         | —                 | 1.2                         | —                 | 1.1                         | —                 |
| Insurance . . . . .   | 1.2                         | —                 | 0.8                         | —                 | 0.4                         | —                 |
| Utilities and maintenance . . . . .                           | 10.3                        | 0.2               | 8.1                         | 0.2               | 6.3                         | 0.2               |
| Taxes . . . . .   | 5.4                         | 0.1               | 3.4                         | 0.1               | 3.0                         | 0.1               |
| Consumables . . . . .   | 8.3                         | 0.2               | 8.1                         | 0.2               | 6.2                         | 0.2               |
| Other . . . . .   | 4.4                         | 0.1               | 1.5                         | —                 | 1.2                         | —                 |
| <b>Total general and administrative<br/>expenses. . . . .</b> | <b><u>316.7</u></b>         | <b><u>5.6</u></b> | <b><u>218.3</u></b>         | <b><u>5.2</u></b> | <b><u>166.6</u></b>         | <b><u>4.9</u></b> |

General and administrative expenses increased by 45.1% to U.S.\$316.7 million in 2008 as compared to U.S.\$218.3 million in 2007, which, in turn, had increased by 31.0% from U.S.\$166.6 million in 2006. The increase in 2008 was primarily attributable to the acquisition of TMK IPSCO in June 2008, which accounted for 24% of our total general and administrative expenses. The increase in general and administrative expenses was also attributable to an increase in expenses for professional services. In 2008, our general and administrative expenses, excluding TMK IPSCO, increased by 9.8% as compared to 2007.

The increase in staff costs including social security in 2007 as compared to 2006 was attributable to inflation-driven salary increases. Our costs involved in business travel and transport expenses also increased due to the globalisation of our operations.

## Loss from impairment of goodwill, property, plant and equipment and financial assets

We performed impairment tests on our non-current assets as at 31 December 2008, which indicated that carrying values of property plant and equipment of TMK-Artrom, TMK-Resita and Orsky Machine Building Plant exceeded their recoverable amount and recorded an impairment of property, plant and equipment in the aggregate amount of U.S.\$59.8 million. We also recorded an impairment of goodwill related to our Oilfield Services cash generating unit in the amount of U.S.\$3.5 million. These impairment losses were primarily attributable to the adverse impact of the global economic crisis that resulted in a decrease in forecasted sales volumes and an increase in discount rates.

In 2008, we also recorded an aggregate impairment loss on our financial assets of U.S.\$23.7 million in connection with the decrease in the market value of our shares in VTB Bank, a Russian state-controlled bank.

## Foreign exchange (loss)/gain

In 2008, we reported losses from exchange rate fluctuations amounting to U.S.\$99.8 million as compared to gains from exchange rate fluctuations of U.S.\$20.5 million in 2007 and U.S.\$13.0 million in 2006. In 2008, due to the global economic crisis, the Russian rouble depreciated against the U.S. dollar by 19.7% as compared to an appreciation of 6.8% in 2007. Against the euro, the rouble depreciated by 15.3% in 2008, whereas in 2007 the depreciation was 3.6%. The exchange rate loss was mainly due to the revaluation into roubles of U.S. dollar and euro-denominated loans and eurobonds as a result of the depreciation of the rouble against the U.S. dollar and euro in the second half of 2008.

## Finance costs

In 2008, we recorded finance costs of U.S.\$272.2 million, which represented a 165.8% increase as compared to 2007. The increase was principally due to an increase of our total interest-bearing loans and borrowings by 106.0% to U.S.\$3,169.9 million in 2008 from U.S.\$1,538.6 million in 2007. The depreciation of the rouble against the U.S. dollar coupled with our increase in U.S. dollar-denominated debt also contributed to our increased interest expense

in 2008 as compared to 2007. Weighted average interest rates were 9.1% and 7.94% as at 31 December 2008 and 2007, respectively. Additionally, amortisation of arrangement fees paid in connection with borrowings increased significantly in 2008 due principally to costs incurred in connection with the financing arrangements we made in connection with the acquisition of TMK IPSCO in June 2008, including the U.S.\$600 million loan participation notes due 2011 that we issued in July 2008.

### ***Income tax expense***

We recorded income tax expense of U.S.\$109.6 million in 2008 as compared to U.S.\$192.5 million in 2007 and U.S.\$159.7 million in 2006. Our income tax decreased in 2008 as a result of our 55.9% decrease in profit before tax and income tax benefit recognised in the income statement resulting from the changes in Russian tax legislation, which became effective as at 1 January 2009 and lowered the Russian corporate income tax rate from 24% to 20%. In 2008, the maximum rate of profit tax established in the Russian Federation was 24%. Our effective tax rate, which is defined as income tax expense as a percentage of profit before tax, increased to 35.6% in 2008 from 27.5% in 2007 and 25.7% in 2006. The increase in 2008 was principally due to the acquisition of TMK IPSCO, which has an effective income tax rate of 34.2%, and an increase in other expenses that were non-deductible for tax purposes, while the increase in 2007 resulted of a one-time write-off of a deferred tax asset related to employee benefits arising from collective agreements which are not deductible for tax purposes (on the basis of clarifications received from the tax authorities in 2007).

### ***Net profit***

For the reasons set forth in the discussion above, our net profit decreased by 60.8% in 2008 as compared to 2007, after having increased by 9.5% in 2007 as compared to 2006. We recorded a net profit of U.S.\$198.5 million in 2008 as compared to U.S.\$506.3 million in 2007 and U.S.\$462.2 million in 2006.

## **Liquidity and Capital Resources**

### ***Capital Requirements***

Our current planning, budgeting and strategy has been significantly affected by the current global economic crisis, forcing us to curtail our capital expenditure programme and acquisition strategy and focus principally on repayment and refinancing of our outstanding debt.

Historically, we have relied on cash provided by operations and short-term debt to finance our working capital and other capital requirements, and our management expects that these will continue to be important sources of cash in the future. However, in view of the current challenging economic environment, as a result of which we have incurred a significant working capital deficit, we have shifted our focus to increasing our utilisation of long-term debt relative to short-term debt principally through the refinancing of our current debt obligations, with a focus on refinancing short-term debt. See “*Risk Factors — Risk Factors Relating to Our Business and the Pipe Industry — We are significantly leveraged and are required to meet certain financial and other restrictive covenants under the terms of our indebtedness*”. In the future, depending upon the condition of the debt markets, we may also seek to obtain certain debt financing at the level of TMK IPSCO, which may be secured. We do not make use of off-balance sheet financing arrangements.

### ***Capital Expenditures***

As a result of the onset of the global economic crisis in the fourth quarter of 2008, we were forced to re-evaluate our strategic capital expenditure programme, which began in 2004 and was originally set for completion in 2010, and significantly curtailed spending on fixed and intangible assets in late 2008 and the first half of 2009. Though temporarily suspended, our strategic capital expenditure programme is nevertheless substantially complete as a result of the completion of three key investment projects in 2008. Our strategic capital expenditure programme is aimed at increasing our seamless pipe production, increasing the efficiency of our production facilities, improving the quality and range of our products and increasing our production of high value added products. See “— *Certain Factors Affecting Our Results of Operations — Implementation of Our Strategic Capital Expenditure Programme*” and “*Business — Capital Expenditures — Strategic Capital Expenditure Programme*”.

Our total capital expenditures by operating segment for the six months ended 30 June 2009 and 30 June 2008 are set forth below.

|   | Six months ended<br>30 June                    |              | % change between<br>six months ended<br>30 June 2009 and<br>2008 |
|---|--|--------------|--|
|   | 2009   | 2008         |  |
|   | (millions of U.S. dollars, except percentages) |              |  |
| Russia . . . . .  | 180.6  | 488.0        | (63.0)%  |
| Americas . . . . .  | 14.9   | 3.3          | 351.5%   |
| Europe . . . . .  | 4.3  | 14.8         | (70.9)%  |
| <b>Total capital expenditures<sup>(1)</sup></b> . . . . . | <b>199.8</b>                                   | <b>506.1</b> | <b>(60.5)%</b>   |

(1) Capital expenditures are defined as additions of property, plant and equipment.

Our total capital expenditures by product for the years ended 2008, 2007 and 2006 are set forth below.

|   | Year ended 31 December                         |              |              | % change between years<br>ended 31 December |               |
|---|--|--------------|--------------|---|---------------|
|   | 2008   | 2007         | 2006         | 2008 and 2007                               | 2007 and 2006 |
|   | (millions of U.S. dollars, except percentages) |              |              |   |               |
| Seamless pipes . . . . .                                  | 675.4  | 513.1        | 271.5        | 31.6%                                       | 89.0%         |
| Welded pipes . . . . .                                    | 182.0  | 35.0         | 5.9          | 420.0%                                      | 493.2%        |
| Other operations . . . . .                                | 11.1   | 2.3          | 1.9          | 382.6%                                      | 21.1%         |
| Unallocated . . . . .                                     | 113.4  | 83.2         | 95.3         | 36.3%                                       | (12.7)%       |
| <b>Total capital expenditures<sup>(1)</sup></b> . . . . . | <b>981.9</b>                                   | <b>633.6</b> | <b>374.6</b> | <b>55.0%</b>                                | <b>69.1%</b>  |

(1) Capital expenditures are defined as additions of property, plant and equipment.

In the first six months of 2009, our capital expenditures on fixed assets decreased by approximately 60.5% as compared to the first six months of 2008 to U.S.\$199.8 million primarily as a result of our decision to curtail our strategic capital expenditures programme in light of the current economic downturn. Nevertheless, during the first six months of 2009, we completed, among other things, the construction of pipe heat treatment lines at Volzhsky, Seversky, Sinarsky and Tagmet; and a new casing and threading line at Volzhsky.

Despite the adverse effects of the global economic crisis in the fourth quarter of 2008 and our corresponding move to reduce spending on capital projects, our capital expenditures on fixed assets in 2008 increased by 55.0% as compared to 2007 to U.S.\$981.9 million. This increase was primarily attributable to the realisation of several large investment projects at our production plants, which served to complete the major phase of our strategic capital expenditures programme. In 2008, we completed construction of a new PQF seamless continuous rolling mill at our Tagmet plant as part of our modernisation of Tagmet's seamless rolling capacity. In November 2008, we completed construction of an EAF at Seversky. The corresponding transfer to high-tech electric steel-melting and the closing of open hearth furnaces at Seversky was completed in January 2009. In October 2008, we completed the construction of a new large-diameter longitudinal welded pipe mill at our Volzhsky plant, one of the largest projects of our strategic capital investment programme.

In 2007, our capital expenditures on fixed assets increased by 69.1% over 2006 to U.S.\$633.6 million, mainly in connection with our strategic capital expenditure programme. Most of the capital expenditures in 2007 related to the construction of steelmaking workshops with a new EAF at Seversky, new pipe-rolling mills with continuous casting machines at Tagmet, the installation of a new cross piercing elongator pipe-rolling mill at TMK-Artrom, the installation of a new continuous casting machine at TMK-Resita and upgrades to the heat treatment and processing capacity and the reconstruction of the hot rolling mill at Volzhsky. Our aggregate capital expenditures exceed the amounts spent pursuant to our strategic capital expenditure programme because our aggregate capital expenditures include, among other things, capital repairs, investment properties and office buildings. See "*Business — Capital Expenditures — Strategic Capital Expenditure Programme*".



## Cash flows

The table below sets forth our summarised cash flows for the periods indicated.

|   | Six months ended<br>30 June |                  | Year ended 31 December |                |                |
|---|-----------------------------|------------------|------------------------|----------------|----------------|
|   | 2009                        | 2008             | 2008                   | 2007           | 2006           |
|   | (millions of U.S. dollars)  |                  |                        |                |                |
| <b>(Loss)/profit before tax</b> . . . . .                         | <b>(266.1)</b>              | <b>240.4</b>     | <b>308.1</b>           | <b>698.8</b>   | <b>621.9</b>   |
| Non cash and other adjustments . . . . .                          | 411.9                       | 176.3            | 739.2                  | 220.9          | 168.1          |
| Changes in operating assets and liabilities . . . . .             | 181.9                       | 47.8             | (81.2)                 | (385.7)        | (188.3)        |
| Income taxes paid . . . . .                                       | (41.7)                      | (60.9)           | (226.6)                | (212.5)        | (172.5)        |
| <b>Net cash flows from operating activities</b> . . . . .         | <b>286.0</b>                | <b>403.6</b>     | <b>739.5</b>           | <b>321.5</b>   | <b>429.2</b>   |
| <b>Net cash flows used in investing activities</b> . . . . .      | <b>(675.9)</b>              | <b>(1,753.8)</b> | <b>(2,024.3)</b>       | <b>(568.6)</b> | <b>(522.2)</b> |
| <b>Net cash flows from financing activities</b> . . . . .         | <b>332.2</b>                | <b>1,325.5</b>   | <b>1,336.9</b>         | <b>178.4</b>   | <b>181.7</b>   |
| <b>Net foreign exchange difference</b> . . . . .                  | <b>0.5</b>                  | <b>19.2</b>      | <b>2.2</b>             | <b>13.8</b>    | <b>7.5</b>     |
| <b>Net (decrease)/increase in cash and cash equivalents</b> . . . | <b>(57.7)</b>               | <b>(24.7)</b>    | <b>52.1</b>            | <b>(68.7)</b>  | <b>88.6</b>    |

*Operating activities.* Cash from operating activities primarily consists of net income adjusted for certain non-cash items including depreciation, amortisation and other items, and the effect of financing changes in working capital.

Net cash flows from operating activities were U.S.\$286.0 million and U.S.\$403.6 million in the six months ended 30 June 2009 and 2008, respectively. Operating cash flow before working capital changes decreased by 65.0% to U.S.\$145.8 million in the first six months of 2009 from U.S.\$416.7 million in the first six months of 2008. The decrease in net cash flows from operating activities was principally attributable to our having reported a loss before tax of U.S.\$266.1 million in the first six months of 2009 as compared to a profit before tax of U.S.\$240.4 million in the first six months of 2008 as a result of decreased overall revenues and gross profit. Increases in depreciation and amortisation expenses and finance costs, the recognition of an impairment loss on non-current assets and foreign exchange losses were significant contributing factors behind our loss before tax in the first six months of 2009. The loss was partially offset by an improvement in working capital, as we decreased our levels of trade and other receivables.

Net cash flows from operating activities were U.S.\$739.5 million, U.S.\$321.5 million and U.S.\$429.2 million in the years ended 31 December 2008, 2007 and 2006, respectively. Operating cash flow before working capital changes increased by 13.9% to U.S.\$1,047.3 million in 2008 from U.S.\$919.7 million in 2007 which, in turn had increased from U.S.\$790.0 million in 2006. Significant increases in depreciation and amortisation expenses, the recognition of an impairment loss on financial investments and non-current assets, foreign exchange losses and an increase in finance costs were all significant contributing factors to our profit before tax in 2008 as compared to 2007. In addition, we experienced an improvement in working capital in 2008, principally due to an increase in trade and other payables. The reduction in net cash from operating activities in 2007 as compared to 2006 arose as a result of the fact that our working capital requirements (particularly in trade receivables and inventories) increased faster than production, sales and profits. The significant increase in the current accounts receivable balance (by 89.2%) as at December 31, 2007 as compared to December 31, 2006 was mainly attributable to the growth of trade receivables due from Gazprom. Gazprom's outstanding debt of U.S.\$265 million as at 31 December 2007 was repaid in the period between 1 January 2008 and 31 December 2008. In addition, Gazprom's outstanding debt as at 31 December 2008, after all shipments and payments were made, had decreased by 23%. Gazprom's outstanding debt as at 30 September 2009 (including debt arising since the beginning of the year) had decreased by more than 40% as compared to its debt as at 31 December 2008. By 31 December 2009, Gazprom's outstanding debt had increased to December 2008 levels as a result of our supply of considerable volumes of pipes to Gazprom during the fourth quarter of 2009.

### *Investing activities.*

Net cash flows used in investing activities decreased by 61.5% in the first six months of 2009 to U.S.\$675.9 million from U.S.\$1,753.8 million in the six months ended 30 June 2008. The decrease in net cash flows used in investing activities was principally attributable to a decrease in expenses related to acquisitions of subsidiaries and a decrease in the purchase of property, plant and equipment in the wake of our curtailment of our capital expenditures programme. In January 2009, we exercised our option by paying cash in the amount of U.S.\$507.5 million for the remaining 49% of NS Group in accordance with a call/put option agreement concluded with Evraz in June 2008.

Net cash flows used in investing activities increased by 256.0% in 2008 to U.S.\$2,024.3 million from U.S.\$568.6 million in 2007, which in turn had increased by 8.9% from U.S.\$522.2 million in 2006. The significant increase in net cash used in investing activities in 2008 was predominantly attributable to the acquisition of fixed

assets, the purchase of minority shares in and the acquisition of subsidiaries. We spent a total of U.S.\$1,184.8 million for acquisitions of subsidiaries in 2008, including (i) IPSCO Tubulars and a 51% interest in NS Group in June 2008, (ii) TMK-Kaztrubprom in mid-2008 (iii) Pipe Maintenance Department in the first half of 2008. The increase in net cash used in investment activities in 2007 was attributable to purchases of production equipment made in accordance with our strategic capital expenditure programme which amounted to U.S.\$661.7 million in 2007 as compared to U.S.\$338.5 million in 2006. In 2007, we spent U.S.\$72.4 million in connection with the acquisition of RosNITI, Truboplast, Pipe Maintenance Department and Central Pipe Yard. In 2007, we recorded net cash inflow from loans issued and repaid and interest received in the amount of U.S.\$191.9 million.

#### *Financing activities.*

Net cash from financing activities decreased by 74.9% to U.S.\$332.2 million in the first six months of 2009 from U.S.\$1,325.5 million in the first six months of 2008. This significant decrease was principally attributable to a decrease in proceeds from borrowings in the first half of 2009 and an increase in repayment of borrowings, as part of our efforts to restructure and refinance our debt, and interest paid during the same period. Interest paid on loans in the first six months of 2009 amounted to U.S.\$196.9 million as compared to U.S.\$96.7 million in the first six months of 2008.

Net cash from financing activities increased by 649.4% in 2008 to U.S.\$1,336.9 million from U.S.\$178.4 million in 2007, which in turn had decreased by 1.8% from U.S.\$181.7 million in 2006. The dramatic increase in 2008 was primarily attributable to a significant increase in borrowings to finance (i) our acquisition of IPSCO Tubulars and a 51% interest in NS Group in June 2008 and (ii) our capital investment programme, which was partially offset by repayment of borrowings during the period. Net proceeds from borrowings increased by 303.7% to U.S.\$1,780.5 million in 2008 from U.S.\$441.0 million in 2007. In 2008, we paid U.S.\$182.6 million in interest on loans as compared to U.S.\$105.6 million in 2007. Net cash from financing activities in 2006 was due primarily to net proceeds from borrowings of U.S.\$330.8 million, offset mainly by interest paid in the amount of U.S.\$61.6 million, prepayment to an entity under common control for the transfer of ownership interest in Orsky Machine Building Plant in the amount of U.S.\$45.5 million and final payment to an entity under common control for the transfer of ownership interest in TMK Europe in the amount of U.S.\$20 million.

#### *Dividends.*

In the first six months of 2009, we made no dividend payments for 2008. In 2008, we made interim dividend payments for 2008 and full year dividend payments for 2007 in the amount of U.S.\$228.1 million including dividend payments of U.S.\$4.5 million to minority shareholders of our subsidiaries. In 2007, we paid a total of U.S.\$146.4 million as dividend for 2006 including U.S.\$1.4 million to minority shareholders of our subsidiaries. In 2006, we paid a total of U.S.\$20.7 million as dividend for 2005 including U.S.\$2.6 million to minority shareholders of our subsidiaries.

#### *Indebtedness*

See “— *Current Debt Profile*”.

#### *Background to Financing of Acquisition of TMK IPSCO*

In June 2008, we acquired TMK IPSCO, which comprises IPSCO Tubulars and NS Group, for a total consideration of approximately U.S.\$1,645.0 million, including cash consideration of approximately U.S.\$1,114.2 million, a liability with respect to an option granted to Evraz, which enabled Evraz to put its remaining 49% interest in NS Group to us in the amount of U.S.\$510.6 million, and transaction costs of U.S.\$20.2 million. In January 2009, we exercised the option to purchase the remaining 49% ownership interest in NS Group for U.S.\$507.5 million. To finance the 2008 stage of the acquisition, we used the proceeds of a U.S.\$1,200 million variable rate loan facility, entered into on 30 May 2008, and with respect to which ABN AMRO Bank N.V., Bank of Tokyo Mitsubishi UFJ, Ltd., Barclays Bank PLC, BNP Paribas (Suisse) S.A., ING Bank N.V., Natixis, Nomura International plc. and Sumitomo Mitsui Finance Dublin Limited served as arrangers (the “**IPSCO Bridge Facility**”). To finance the 2009 phase of the acquisition, we used a portion of the proceeds of the U.S.\$1,107.5 million GPB Facilities.

In July 2008, we partially repaid the IPSCO Bridge Facility using the proceeds from our issuance of the U.S.\$600,000 2008 LPNs. On 28 January 2009, we repaid the remaining portion of the IPSCO Bridge Facility using the residual portion of the proceeds from the GPB Facilities. In August 2009, we redeemed a portion of the 2008 LPNs as part of a tender offer and consent solicitation using the proceeds of the August 2009 VTB Facility. See “— *Current Debt Profile — Loan Participation Notes*”.

## **Contractual Commitments**

As at 30 June 2009, we had contractual commitments for the acquisition of property, plant and equipment from third parties for the total amount of U.S.\$320.3 million (net of VAT), the majority of which relates to the continuation of our capital expenditure plan. As at 30 June 2009, we had paid advances of U.S.\$43.3 million with respect to such commitments. Within the contractual commitments disclosed above, the TMK Group had opened unsecured letters of credit in the amount of U.S.\$91.3 million as at 30 June 2009.

## **Disclosures about Market Risk**

We are exposed in the ordinary course of business to risks related to changes in our liquidity, exchange rates, interest rates, commodity prices and energy and transportation tariffs. See Note 29 to our Annual Consolidated Financial Statements.

### ***Liquidity Risk***

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. Our approach to managing liquidity and monitoring liquidity risks is to ensure that sufficient financial resources are maintained and available to meet upcoming liabilities, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation.

We manage liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives. This enables the TMK 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. We have access to a wide range of funding at competitive rates through the capital markets and banks and coordinate relationships with banks centrally. At present, we believe we have access to sufficient funding and also have both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of our business and 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 our financial liabilities based on contractual undiscounted payments, including interest payments, as of 31 December 2008 and 2007:

| <u>As at 31 December 2008</u>   | <u>Less than<br/>3 months</u> | <u>3 to<br/>12 months</u> | <u>1 to<br/>2 years</u> | <u>2 to<br/>3 years</u> | <u>3 to<br/>4 years</u> | <u>&gt; 4 years</u> | <u>Total</u>   |
|---|-------------------------------|---------------------------|-------------------------|-------------------------|-------------------------|---------------------|----------------|
|   | (in millions of U.S. dollars) |                           |                         |                         |                         |                     |                |
| Trade and other payables . . . . .  | 536.0                         | 202.5                     | —                       | —                       | —                       | —                   | 738.5          |
| Accounts payable to related parties . . . . .                                       | 1.4                           | 3.5                       | —                       | —                       | —                       | —                   | 4.9            |
| Interest — bearing loans and<br>borrowings: . . . . .                               |                               |                           |                         |                         |                         |                     |                |
| Principal . . . . .   | 458.6                         | 1,714.4                   | 82.3                    | 820.8                   | 46.6                    | 54.8                | 3,177.5        |
| Interest . . . . .  | 101.0                         | 113.9                     | 85.6                    | 73.0                    | 2.8                     | 9.5                 | 385.8          |
| Dividends payable . . . . .   | 0.3                           | 0.1                       | —                       | —                       | —                       | —                   | 0.4            |
| Liabilities under put options of minority<br>shareholders in subsidiaries . . . . . | 553.0                         | —                         | —                       | —                       | —                       | —                   | 553.0          |
| Other non — current liabilities . . . . .   | —                             | —                         | 3.0                     | —                       | —                       | —                   | 3.0            |
| Income tax payable . . . . .  | 39.8                          | —                         | —                       | —                       | —                       | —                   | 39.8           |
|   | <u>1,690.1</u>                | <u>2,034.4</u>            | <u>170.9</u>            | <u>893.8</u>            | <u>49.4</u>             | <u>64.3</u>         | <u>4,902.9</u> |
| <b>As at 31 December 2007 . . . . .</b>   |                               |                           |                         |                         |                         |                     |                |
| Trade and other payables . . . . .  | 251.8                         | 43.4                      | —                       | —                       | —                       | —                   | 295.2          |
| Accounts payable to related parties . . . . .                                       | 14.9                          | —                         | —                       | —                       | —                       | —                   | 14.9           |
| Interest — bearing loans and<br>borrowings: . . . . .                               |                               |                           |                         |                         |                         |                     |                |
| Principal . . . . .   | 477.9                         | 539.2                     | 447.7                   | 39.5                    | 9.3                     | 14.9                | 1,528.5        |
| Interest . . . . .  | 39.9                          | 46.0                      | 55.9                    | 24.8                    | 12.3                    | 7.1                 | 186.0          |
| Dividends payable . . . . .   | 129.1                         | —                         | —                       | —                       | —                       | —                   | 129.1          |
| Liabilities under put options of minority<br>shareholders in subsidiaries . . . . . | 39.5                          | —                         | —                       | —                       | —                       | —                   | 39.5           |
| Other non — current liabilities . . . . .   | —                             | 1.5                       | 2.8                     | 2.9                     | 2.8                     | 46.7                | 56.7           |
| Income tax payable . . . . .  | 4.1                           | —                         | —                       | —                       | —                       | —                   | 4.1            |
|   | <u>957.2</u>                  | <u>630.1</u>              | <u>506.4</u>            | <u>67.2</u>             | <u>24.4</u>             | <u>68.7</u>         | <u>2,254.0</u> |

In 2008, we incurred a significant amount of short-term debt in connection with our acquisition of TMK IPSCO. We have been actively refinancing such debt to lengthen the maturities of such debt, and, as a result, the average term of our credit portfolio improved in the first half of 2009 to 798 days as compared to 438 days as at 31 December 2008. Despite our efforts, however, our ratio of short-term to long-term borrowings nevertheless remains suboptimal. As at 30 June 2009, short-term borrowing accounted for approximately 54% of our total amount of interest-bearing loans and borrowings.

Liquidity risks may be aggravated by the following factors:

- A decrease in our cash flow due to factors outside of our control, such as the global economic crisis.
- An increase of the cost of borrowing for refinancing purposes.
- A temporary reduction in the availability of existing credit lines.

We may experience difficulties in refinancing our debt if the negative trends associated with these risks continue to develop. In order to monitor and control liquidity risks exposure, we seek to maintain adequate financial resources and access to further liquidity through our continued and mutually profitable relationships with our key strategic stakeholders, primarily Russian state owned banks. However, there is no guarantee that we will be able to access bank finance at acceptable terms. See “*Risk Factors — Risks Relating to Our Business and the Pipe Industry — We are significantly leveraged and are required to meet certain financial and other restrictive covenants under the terms of our indebtedness*”.

### ***Foreign Currency Exchange Rate Risk***

While we generate most of our revenue in Russian roubles, with the expansion of our international operations, we also generate increasingly significant revenue in other currencies, primarily in U.S. dollars and euro. As we sell a significant portion of our production outside of Russia, we are exposed to foreign currency risk in connection with these sales. Our revenue from sales to customers located outside of Russia increased to 38.9% of our total sales in

the first six months of 2009 as compared to 28.0% in the first six months of 2008, largely as a result of our acquisition of TMK IPSCO in June 2008.

Our products are typically priced in roubles for Russian and CIS sales, in euros for European sales and in U.S. dollars for U.S. and other international sales, and our direct costs, including raw materials and consumables, labour and transportation costs, are largely incurred in roubles and, with the acquisition of TMK IPSCO, U.S. dollars, our capital expenditures are incurred principally in euro and roubles, while other costs, such as interest expense, are incurred in roubles, U.S. dollars and euro. The mix of our revenues and costs is such that appreciation in real terms of the rouble against the U.S. dollar tends to result in an increase in our costs relative to our revenues, while depreciation of the rouble against the U.S. dollar in real terms tends to result in a decrease in our production costs relative to our revenues. The overall depreciation of the rouble against the U.S. dollar and euro since October of 2008, though increasing revenues from our exports, has resulted in a significant increase in our finance costs. See *“Risk Factors — Risks Relating to Our Business and the Pipe Industry — Volatility in currency exchange rates, particularly that of the Russian rouble against the U.S. dollar, may materially adversely affect our results of operations”*.

We seek to manage our currency risk through the considered choice of currency when arranging financing, thereby engaging in a policy of “economic hedging”. Some of this hedging is treated under IFRS as hedging and is reflected as such in our financial statements. See Note 28 to our Annual Consolidated Financial Statements.

#### *Commodity Price Risk*

Our revenue is exposed to the market risk of price fluctuations related to the sale of our pipe products. Prices for the pipe products that we sell both inside and outside Russia are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of our raw material inputs) and global and Russian economic growth. Adverse changes in any of these factors may reduce the revenue that we receive from the sale of our pipe products. Our costs are also exposed to fluctuations in prices for the purchase, processing and production of metal scrap, steel billets and other raw material inputs.

#### *Credit Risk*

We are subject to credit risk, principally in the form of trade receivables. We have policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Our exposure to credit risk is represented principally by the carrying amount of our accounts receivable on our balance sheet net of provisions for impairment of receivables. Although collection of receivables may be influenced by economic factors, we believe that we are not subject to significant risk of loss in excess of the provision already recorded. See Note 29 to our Annual Consolidated Financial Statements.

#### *Interest Rate Risk*

We are exposed to variations in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate debt. As at 30 June 2009, approximately U.S.\$210.8 million, or 5.8%, of our total interest bearing loans and borrowings consisted of variable interest rate debt, while approximately U.S.\$3,400.3 million, or 94.2%, of our total interest bearing loans and borrowings consisted of fixed interest rate debt. As at 31 December 2008, approximately U.S.\$917.9 million, or 29%, of our total interest-bearing loans and borrowings consisted of variable interest rate debt, while approximately U.S.\$2,252.0 million, or 71%, of our total interest-bearing loans and borrowings consisted of fixed interest rate debt. As at 31 December 2007, approximately U.S.\$304.9 million, or 19.8%, of our total interest bearing loans and borrowings was variable interest rate debt, while approximately U.S.\$1,233.7 million, or 80.2%, of our total interest bearing loans and borrowings was fixed interest rate debt. We may in the future incur significant debt obligations and become more exposed to interest rate fluctuations, in particular in order to fund acquisitions or our capital expenditure requirements. See Note 29 to our Annual Consolidated Financial Statements.

#### **Critical Accounting Policies**

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the period under review, and the reported amount of revenues and expenses during the period. Our management regularly evaluates these estimates. Our management estimates are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Accordingly, actual results may differ materially from current expectations under different assumptions. Our management believes that the



following are the most significant judgments and estimates used in the preparation of our financial statements. See “*Significant Estimates and Assumptions*” Note in our Annual Consolidated Financial Statements.

### ***Accounting for Business Combinations***

Acquisitions of subsidiaries are accounted for under the purchase method of accounting. In accordance with IFRS 3, Business Combinations, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The accounting for business combinations under the purchase method is complicated and involves the use of significant judgment. The excess of purchase price over the fair value of our share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of our share of identifiable net assets of the subsidiary acquired, we would reassess the identification and measurement of the acquiree’s identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination and would recognise directly in the income statement any excess remaining after that reassessment.

Determining the fair values of the assets and liabilities involves the use of judgment, particularly in relation to the property, plant and equipment since the fair market value of the production complexes do not have fair values that are readily determinable. We may use different techniques to determine fair values, including, among others, market prices, where available, appraisals, comparisons to transactions for similar assets and liabilities and present value of estimated future cash flows. Since these estimates involve the use of significant judgment, they can change as new information becomes available. We use all available information to assess the fair value of the assets acquired through business combinations and, for major business acquisitions, typically engage an outside appraisal firm to assist in the fair value determination of the acquired long-lived assets.

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 at the historical cost of the predecessor. The differences between the total book value of net assets, including the predecessor’s goodwill, and the consideration paid is accounted for as an adjustment to equity.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. Subsequent changes in the carrying value reflect the post acquisition changes in our share of net assets of the associate. Our share of our associates’ profits or losses is recognised in the income statement and its share of movements in reserves is recognised in equity. When our share of losses in an associate equals or exceeds its interest in the associate we do not recognise further losses, unless we are obligated to make further payments to, or on behalf of, the associate.

### ***Impairment of Property, Plant and Equipment***

Impairment loss with respect to property, plant and equipment is recognised for the difference between the estimated recoverable amount and the carrying value of such assets. The carrying amounts of such assets are reduced to their estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period.

We assess at each reporting date whether there is any indication that an asset or a group of assets may be impaired. If any such indication exists, we estimate the recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating units to which the item is allocated. The determination of impairment 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 us 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 amount and ultimately the amount of any property, plant and equipment impairment. In the first six months of 2009, we recognised losses in respect of impairment of property, plant and equipment in the amount of U.S.\$28.1 million, while in the year ended 31 December 2008, we recognised impairment losses in respect of property, plant and equipment in the amount of U.S.\$59.8 million. These impairment losses were principally due to the fact that the

carrying value of the property, plant and equipment of our Romanian subsidiaries TMK-Artrom and TMK-Resita and Orsky Machine Building Plant exceeded their recoverable amount.

### ***Useful Lives of Items of Property, Plant and Equipment***

Items of property, plant and equipment, except for items acquired prior to 1 January 2003, are stated at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value.

Our management considers the following factors in determining the useful life of an asset:

- (a) the expected usage of the asset by the enterprise;
- (b) the expected physical wear and tear;
- (c) technical obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and
- (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

The estimation of the useful life of an item of property, plant or equipment is a matter of management judgment based on the experience of the enterprise with similar assets.

Our management calculates depreciation on a straight-line basis over the estimated useful lives of the assets 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      |

We assess the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, any changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “*Accounting Policies, Changes in Accounting Estimates and Errors*”. We did not recognise any changes in estimates of the remaining useful lives of items of property, plant and equipment in the first six months of 2009, and the years ended 2008, 2007 and 2006.

### ***Impairment of Goodwill***

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

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 expected to benefit from the synergies of the combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

We determine whether goodwill is 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 is allocated. Estimating the value in use requires us 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. We performed impairment tests on the carrying value of our goodwill on both 31 December 2008 and 30 June 2009, and recorded impairment losses of U.S.\$3.5 million in 2008 related to our oilfield service unit and U.S.\$9.6 million in the first six months of 2009 related to our oilfield service unit and TMK-Kaztrubprom unit.

### ***Post-Employment Benefits***

In addition to defined contributions to Russian Federation state pension, social insurance, medical insurance and unemployment funds at statutory rates in force, our subsidiaries provide 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 and the completion of a minimum service period and is determined based on the amount of the benefits stipulated in the collective bargaining agreements.

The liability we recognise in our balance sheet in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plant assets. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related obligations.

We use 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 (including mortality, both during and after employment, rates of employee turnover, disability and early retirement) as well as financial assumptions (including discount rate, future inflation rates and future salaries). Changes in one or all of these assumptions can result in higher or lower expense. In each of the years ended 31 December 2008, 2007 and 2006, we recognised net benefit expense of U.S.\$0.3 million, U.S.\$1.8 million, and U.S.\$2.0 million, respectively.

### ***Allowances***

We make allowances for doubtful accounts receivable. Our management uses significant judgment in estimating doubtful accounts. In estimating doubtful accounts, we consider such factors as current overall economic conditions, industry specific economic conditions and 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 our consolidated financial statements. As at 30 June 2009, 31 December 2008 and 31 December 2007, we recorded allowances for doubtful accounts of U.S.\$14.6 million, U.S.\$13.1 million and U.S.\$9.6 million, respectively.

We make allowances for obsolete and slow-moving raw materials and spare parts. We estimate allowances for write-downs to net realisable values based on inventory levels on hand, future purchase commitments, and current and forecasted product demand. Our allowance level, and as a result our overall profitability, is therefore subject to our ability to reasonably forecast future consumption levels versus quantities on hand and existing purchase commitments. Forecasting and resource planning are subject to extensive assumptions that we must make regarding, among other variables, expected market changes, overall supply and demand, pricing incentives and raw material availability. We make estimates of net realisable value of finished goods based on the most reliable evidence available at the time the estimates are made. In making these estimates, we take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period. As at 30 June 2009, 31 December 2008 and 31 December 2007, we recorded an allowance for write-downs to net realisable values of U.S.\$49.4 million, U.S.\$28.6 million, and U.S.\$9.5 million, respectively.

### ***Deferred Income Taxes***

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves a jurisdiction-by-jurisdiction estimation of actual current tax exposure and the assessment of the temporary differences resulting from differing treatment of items, such as accruals and amortisation, among others, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must assess in the course of our tax planning process our ability and the ability of our subsidiaries to obtain the benefit of deferred tax assets based on expected future taxable profit and available tax planning strategies. 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.

Significant management judgment is required in determining our provision for income taxes, deferred tax assets, deferred tax liabilities and valuation allowances to reflect the potential inability to fully recover deferred tax assets. In our financial statements the analysis is based on the estimates of taxable income in the jurisdictions in which we operate and the period over which the deferred tax assets and liabilities will be recoverable. If actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could adversely affect our financial position and results of operations.

## BUSINESS

### Overview

We believe that we are among the world's largest steel pipe producers, with approximately a 6% worldwide market share for seamless pipes and a 12% worldwide market share for OCTG by sales volume in the first half of 2009, according to our estimates. We are also Russia's largest manufacturer and supplier of steel pipes. We estimate that we had a 31% market share for steel pipes, a 57% market share for seamless pipes and an approximately 70% market share for seamless OCTG in Russia by sales volume in the first half of 2009. In June 2008, we acquired IPSCO Tubulars and NS Group, two significant manufacturers and suppliers of steel pipes and value-added products, including principally premium connections, in the United States, and we estimate that in 2008 (on an annualised basis) we had an approximate 10% market share for OCTG in the United States based on sales volumes. In the first six months of 2009 we sold approximately 1.2 million tonnes of steel pipes, including 0.8 million tonnes of seamless pipes, of which approximately 447,900 tonnes comprised seamless OCTG. In 2008, we sold approximately 3.2 million tonnes of steel pipes, including 2.0 million tonnes of seamless pipes, of which approximately 970,400 tonnes comprised seamless OCTG. Pipes for the oil and gas industry accounted for approximately 67% and 68% of our total sales volume in the first half of 2009 and the year ended 31 December 2008, respectively. We also believe that we are a leading exporter of pipes produced in Russia, with sales volumes of pipe products produced at our Russian plants accounting for 28% and 44% of the volume of all steel pipe exports from Russia in the first six months of 2009 and in the year ended 31 December 2008, respectively.

We produce both seamless and welded pipes, and, though we have historically focused on developing our seamless pipe business, which we believe generally offers higher margins and better growth opportunities, we have recently also been concentrating on developing our welded pipe business and, particularly, our welded OCTG and large diameter welded pipe business. Since our acquisition of IPSCO Tubulars and NS Group in 2008, we are also focusing on our welded OCTG and higher value-added products operations in the United States, where welded pipes represent a significant portion of the OCTG market and where welded OCTG pipes can be used interchangeably with seamless products in many applications. We have recently significantly enhanced our production capacity for large diameter welded pipes used for oil and gas transportation as a result of the recent completion of a state of the art longitudinal large diameter welded pipe mill at our Volzhsky plant, which we believe provides us with a strong platform to expand our share of the important Russian large diameter pipe market.

We currently have the following seven principal product lines:

- *seamless OCTG*, which are used in oil and gas production applications;
- *seamless line pipes*, which are used for oil and gas transportation;
- *seamless industrial pipes*, which are used in various industrial applications by the machine building, chemicals and petrochemicals, power generation, automotive and other industries;
- *welded OCTG*, which are used in oil and gas production applications, principally in the United States;
- *welded line pipes*, which are used for oil and gas transportation;
- *large diameter welded pipes*, which are used for the transportation of oil and gas, typically over long distances; and
- *industrial welded pipes*, which are used in a wide variety of infrastructure and industrial applications.

As at 30 June 2009 and 31 December 2008, our nominal annual production capacity for steel pipes was approximately 6.5 million tonnes, including 2.9 million tonnes of seamless pipes. As a vertically integrated steel pipe producer, we also operate our own steel making facilities and plan to further develop this part of our business. In the first six months of 2009 and in the year ended 31 December 2008, we produced 0.8 million tonnes and 2.3 million tonnes of steel, respectively, which satisfied approximately 82% and 92%, respectively, of our steel billet requirements for our seamless pipe production. We principally use EAFs in connection with our steelmaking operations, the principal input for which is metal scrap that we source from third parties. We purchase steel plate and coils for use in our welded pipe production.

We currently deliver our products to customers in more than 60 countries. Our principal customers include major Russian oil and gas companies, such as Rosneft, TNK BP, Surgutneftegas, Gazprom, LUKOIL and Transneft and, major multinational oil and gas companies, such as Royal Dutch Shell, Agip, Total and ExxonMobil and national oil companies, such as Saudi Aramco, ONGC and KOC. In the United States, our major customers include ExxonMobil, BP, Chevron and Marathon Oil. In addition, we are currently participating as a supplier of pipes in such major national and international projects as BPS-2, which connects oil fields in Western Siberia to a Russian

port on the Gulf of Finland, and the Sakhalin Khabarovsk Vladivostok gas pipeline. We are also supplying or have previously supplied pipes to many other significant international pipeline projects, including the onshore portion of the Nord Stream gas pipeline, which will connect Russia to Germany via the Baltic Sea and is expected to be completed in 2010; the construction of the CAC Pipeline, which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to China; and the Yamal Europe gas pipeline, which connects Western Siberian gas fields to Poland and Western Europe. We are also supplying pipes for phase two of the ESPO Pipeline, which will run from Eastern Siberia to the Amur region near the border with China.

We operate primarily through our seven principal production subsidiaries, four of which — Volzhsky, Seversky, Tagmet and Sinarsky — are located in Russia, one of which — TMK IPSCO (comprised of IPSCO Tubulars and NS Group) — is located in the United States, and two of which — TMK-Artrom and TMK-Resita — are located in Romania.

In June 2008 we acquired IPSCO Tubulars and NS Group, which now comprise our U.S. TMK IPSCO operations. This acquisition has allowed us to diversify geographically by establishing a strong foothold in the U.S. market, the world's largest oil and gas pipe market, and broaden our product mix with a position in value-added products. IPSCO Tubulars produces a wide range of welded pipe products primarily for energy applications, including casing and tubing for oil and gas wells, line pipe, standard pipe and HSS. NS Group is a manufacturer of a diverse range of carbon and alloyed seamless and welded pipe products for the oil and gas sector, and its product offering includes seamless tubing and casing, drill pipe, line pipe, coupling stock, premium connections and oilfield accessories. See “*Management’s Discussion and Analysis of Financial Position and Results of Operations — Certain Factors Affecting our Results of Operations — Acquisition of TMK IPSCO*”.

We further broadened our product and service offerings through our acquisition in late 2007 of certain service assets of TNK-BP, which provide transportation services and specialise in the repair of tubing pipes, piston rods and pipe coatings, and our acquisition in 2008 of TMK-Kaztrubprom, which specialises in high-technology pipe threading and is based in Kazakhstan. In 2008, we established the service businesses TMK Oilfield Services and TMK-Premium Service, which provide comprehensive solutions for the construction, repair and efficient operation of wells, including, among other things, the manufacture and delivery of premium threaded pipes and connections for the oil and gas industry, logistics, repair and process consulting services

In 2004, we launched a strategic capital expenditure programme which focused principally on increasing our seamless pipe production and increasing the efficiency of our production processes. We have now completed most of the principal projects of the programme, which has served to modernise significantly our Russian seamless pipe operations. In light of the current uncertain global financial and economic situation, we have decided to postpone certain additional planned capital investment projects under the programme until we see improvement in global pipe demand and better credit market conditions. The remaining key projects that we intend to implement in the next several years, markets and our financial condition permitting, include the construction of a one million tonne EAF at our Tagmet plant and a 600,000 tonne FQM at our Seversky plant. See “— *Strategic Capital Expenditure Programme*”.

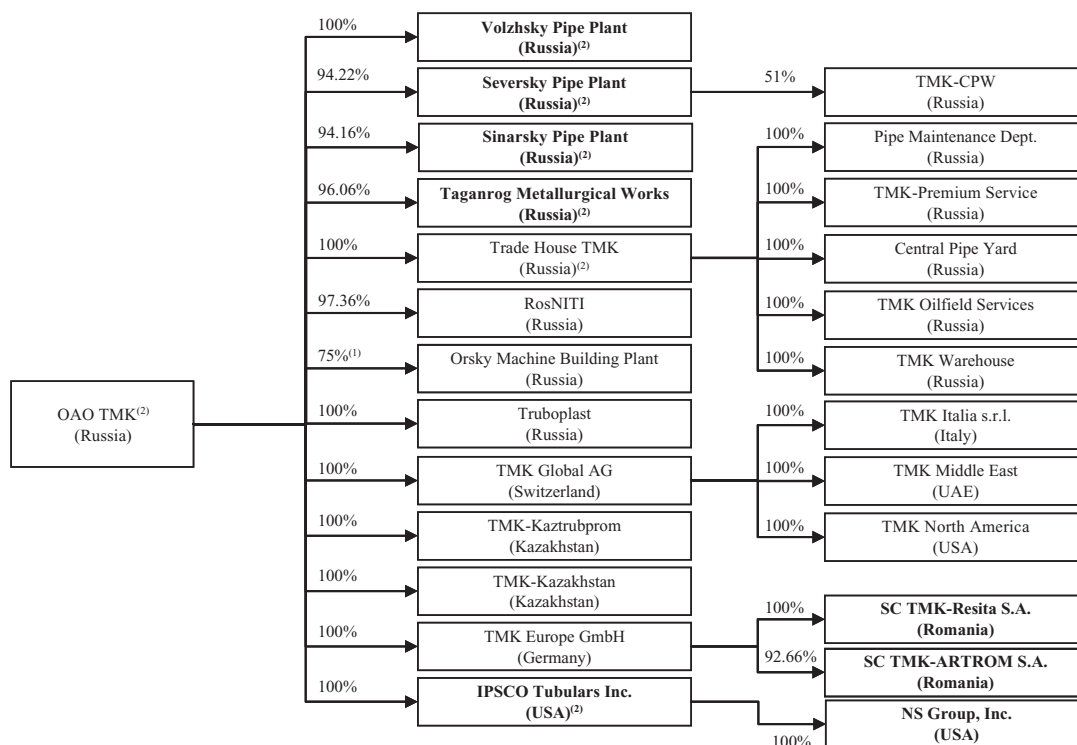
In the first half of 2009, we had total consolidated revenue of U.S.\$1,478.6 million and incurred a loss before tax of U.S.\$266.1 million, compared to total consolidated revenue of U.S.\$2,368.4 million and profit before tax of U.S.\$240.4 million in the first half of 2008. In 2008, we had total consolidated revenue of U.S.\$5,690.0 million and profit before tax of U.S.\$308.1 million, compared to total consolidated revenue of U.S.\$4,178.6 million and profit before tax of U.S.\$698.8 million in 2007.



## Corporate Organisation

We conduct all of our production, sales, marketing and other operations through our subsidiaries.

The following chart presents the main production, trading and services companies within our group, including our effective ownership interest in these companies as at 18 January 2010. Our principal production facilities are indicated in bold.



(1) OAO TMK owns 100% of the ordinary shares in Orsky Machine Building Plant to which voting rights are attached (the 25% of shares that OAO TMK does not own constitute non-voting preference shares).

(2) Guarantor under the Bonds.

## Production Operations

We conduct all of our production operations at our sixteen plants and one strategic venture located in Russia, the United States, Romania and Kazakhstan:

### Russia

- *Volzhsky*, which produces both steel and pipes, is located in the town of Volzhsky in the Volgograd region near the Volga River;
- *Seversky*, which produces both steel and pipes, is located in the town of Polevskoy in the Sverdlovsk region near the Ural Mountains;
- *Sinarsky*, which produces pipes, is located in the town of Kamensk-Uralsky in the Sverdlovsk region;
- *Tagmet*, which produces both steel and pipes, is located in the town of Taganrog in the Rostov region near the Azov Sea; and
- *TMK-CPW*, in which Seversky has a 51% interest, with Humbel Limited (a subsidiary of Corinth Pipeworks) holding the remaining 49% interest, which produces pipes and is located in Polevskoy, in the Sverdlovsk region;

### United States

- *Ambridge Facility*, which produces pipes, is located in Pennsylvania, United States;
- *Blytheville Facility*, which produces pipes, is located in Arkansas, United States;
- *Camanche Facility*, which produces pipes, is located in Iowa, United States;

- *Geneva Facility*, which produces pipes, is located in Nebraska, United States;
- *Wilder Facility*, which produces pipes, is located in Kentucky, United States;
- *Baytown Facility*, which carries out heat treatment and threading, is located in Texas, United States;
- *Koppel Facility*, which produces steel, is located Pennsylvania, United States; and
- *Tulsa Facility*, which carries out heat treatment and threading, is located in Oklahoma, United States;

#### *Europe*

- *TMK-Artrom*, which produces pipes, is located in Slatina, in southern Romania; and
- *TMK-Resita*, which produces steel, is located in Resita, in south-western Romania;

#### *Kazakhstan*

- *TMK-Kaztrubprom*, which produces threading and finishing of tubing and casing pipes used in the oil and gas industry, is located in the town of Uralsk in Kazakhstan.

### **Services**

#### *Oil and Gas Services Division*

Our oil and gas services division is comprised of:

- *TMK Oilfield Services*, which is our management company for our oil and gas services division;
- *Orsky Machine Building Plant*, which produces joints for drill pipes and couplings for tubing and casing pipes, is located in Orsk, in the Urals region;
- *Truboplast*, which produces protective coatings for steel pipes used in the oil and gas industry, is located in Yekaterinburg, in the Urals region;
- *Pipe Maintenance Department*, which provides anti-corrosion coating and pipe repair and field services and produces threading and finishing tubing pipes, is located in the Khanty-Mansi autonomous area in the Tyumen region; and
- *Central Pipe Yard*, which provides pipe repair services and produces threading and finishing tubing pipes, is located in Buzuluk in the Orenburg region.

Our trading houses serve purely to facilitate our sales functions and do not serve as profit centres.

#### *Premium Connections*

Our premium connections division is comprised of:

- *TMK-Premium Service*, which develops and sells premium threaded connections and high-technology oil and gas threaded pipes, and provides product support services in Russia, CIS and internationally, is located in Moscow; and
- *ULTRA Connections*, which manufactures premium connections and oilfield accessories and provide services at two facilities in Texas.

### **Sales and Marketing**

Our sales and marketing division is comprised of:

- *TMK Trade House*, incorporated in the Russian Federation, which is primarily responsible for sales of our products in Russia, other CIS markets and Asia. TMK Trade House has branches or representative offices in several countries including Azerbaijan, Turkmenistan, China and Singapore;
- *TMK Global*, incorporated in Switzerland, which is primarily responsible for the distribution of our pipe products to customers outside Europe (other than Italy), Russia and the CIS countries (other than Kazakhstan). TMK Global operates a network of trade representatives, agents and distributors and has subsidiaries in the United Arab Emirates, Italy and the United States;
- *TMK North America*, incorporated in the United States, which conducts sales of our products in North and South America;

- *TMK Middle East*, incorporated in United Arab Emirates, which is primarily responsible for distribution of our pipe products in the Middle East;
- *TMK Europe*, incorporated in Germany, which currently distributes our products in Europe (other than Italy);
- *TMK Italia*, incorporated in Italy, which distributes our products in Italy;
- *TMK-Kazakhstan*, incorporated in Kazakhstan, which currently distributes our products in Kazakhstan.

### ***Research and Development***

Our research and development division is comprised of RosNITI, which we believe is Russia's largest research institute devoted to the scientific and technological development of the Russian pipe industry and is located in Chelyabinsk. We also conduct research and development through our subsidiaries — TMK-Premium Service and ULTRA Premium Oilfield Services. TMK IPSCO is also in the process of developing a U.S. research and development centre that will be based at its Baytown facility.

### **Investment Highlights**

We believe that the following investment highlights should be considered by potential investors.

#### ***Important Participant in the Oil and Gas Services Market***

Our product portfolio is strongly oriented toward higher value-added technologically sophisticated products necessary for the production chain of the global oil and gas industry, including OCTG, seamless line pipe, large diameter welded pipe and premium connections. Although the industry has been affected by the global economic crisis, strong demand for hydrocarbons in recent years and the decline in production at existing oil and gas fields have been primary drivers behind increasing exploration and production expenditures by oil and gas companies pre-crisis. According to Spears & Associates and the Oil & Gas Journal, approximately 11% of exploration and production budgets of oil and gas companies are spent on OCTG and up to 40% of oil and gas pipeline construction costs are for line pipe. In addition, the operating environment for oil and gas companies is becoming increasingly complex, leading to increasingly capital intensive drilling activity, such as offshore drilling and exploration and production in challenging environments which require higher value-added pipes which can deliver more volume per well. As the leading manufacturer of steel pipes in Russia based on volumes of pipes produced according to our estimates, we have also benefitted, prior to the crisis, from Russia's recently strong economy and high levels of drilling and well-completion activity. We further believe that considering the relative underinvestment in the oil and gas infrastructure in Russia since the collapse of the Soviet Union, deteriorating production conditions at the traditional mature oil regions and the increasing number of large-scale greenfield projects, investment in oil and gas exploration, production and transportation in Russia and, consequently, demand for pipes for the oil and gas industry will experience strong growth in the coming years. Through our acquisition of TMK IPSCO in 2008, we have also become a leading supplier of OCTG pipes to customers within the United States oil and gas market, where we estimate that we have a 10% market share for OCTG by sales volume. We expect to benefit from rising gas prices and, consequently, rig count in the United States as the market recovers.

#### ***Leader in a Consolidated Industry with High Barriers to Entry***

Our strategic focus is on value-added pipes for the oil and gas, and energy industries. In the first six months of 2009, we estimate that, by sales volume, we had approximately 12% of the global OCTG pipe market, an approximately 70% of the Russian seamless OCTG pipe market and 10% of the United States OCTG market. The global oil and gas pipe industry is characterised by a high degree of concentration, with a small number of large international producers, high barriers to entry and high margins relative to other pipe products. The capital intensive nature of the production, the high technological sophistication of the production process and products and the need for certifications by industry bodies and approvals from major international oil and gas companies all serve as barriers to entry. In addition, the industry is characterised by significant trade barriers primarily in the form of import tariffs. As an incumbent producer, we benefit from these measures in Russia and the United States. In Russia, we are significantly larger than our principal competitors in the seamless pipe market and benefit from strong relationships with many of the principal oil and gas production and distribution companies in Russia, including Rosneft, TNK-BP, Surgutneftegas, Gazprom, LUKOIL, and Transneft, and major multinational oil and gas companies, such as Royal Dutch Shell, Agip, Total and ExxonMobil and national oil companies, such as Saudi Aramco, ONGC and KOC. In the United States, TMK IPSCO benefits from longstanding relationships with a diverse customer base, which includes Chevron, ExxonMobil, Marathon and BP.

### ***Strong International and Export Platform***

As a result of our acquisition of TMK IPSCO in 2008, we have a strong international presence, with significant production facilities in three key markets — Russia/CIS, Europe and North America. We have 21 production and service sites in Russia, Eastern Europe and the United States supported by an extensive wholly-owned sales and marketing network covering all key oil and gas markets. We were the leading exporter of pipes from Russia in 2008, with a 44% share of all Russian-produced steel pipe exports from Russia, an estimated 68% share of total seamless pipe exports, an estimated 84% share of OCTG exports and an estimated 68% share of total line pipe exports from Russia (according to our estimates). Two of our plants, Volzhsky and Tagmet, are strategically located in the south-western part of Russia near Black Sea and Volga river shipping routes to the Middle East and Southern Europe and transit routes to the Caspian region, which gives them a strong export orientation. Through our acquisition of TMK IPSCO in 2008, we have now obtained significant access to the United States market, which, despite the effects of the global economic crisis, remains the world's largest oil and gas pipe market. The acquisition also expands our global presence and helps to establish us as a global leader in OCTG. TMK IPSCO benefits from strong brand recognition with a track record across key customer classes. Our two Romanian plants, TMK-Artrom and TMK-Resita, provide us with a strong base from which to access European markets, particularly since Romania's entry into the European Union.

### ***Leading Cost Position***

Russia is a relatively low-cost region for pipe production, which we believe provides us with cost advantages as compared to our principal international competitors in the global pipe market. In particular, we believe that we have lower unit labour costs, gas and electricity costs and seamless pipe raw material costs than our principal international competitors. In Russia, we are able to source the main raw material for our seamless pipe production, steel scrap, at lower costs than on the international markets due to our strategic relationship with local scrap producers as well as due to the significant supply of scrap in Russia and constraints on the export of steel scrap from Russia. Our plants are also strategically located near important domestic customers and export routes. For example, Seversky and Sinarsky are located in the Urals region near transport routes linking the Russian industrial centres with the oil and gas regions in Western Siberia, which helps to reduce our transportation costs. In addition to these cost advantages, as the largest pipe producer in Russia by volume, we benefit from economies of scale in production and we believe that we possess significant negotiating power with our suppliers. Our long operating history as well as strategic acquisitions in Russia and elsewhere provides us with significant industrial know-how. We maintain high levels of integration of our facilities as a result of our in-house steel production and share benchmarking and best-practices from facility to facility. To maintain our cost competitiveness, we continue to increase the specialisation of each of our facilities in specific product ranges and to make significant capital expenditures to upgrade our facilities to increase productivity and quality. We have already achieved significant cost benefits from our capital expenditures at Volzhsky, which features technologically sophisticated steel-making, pipe-rolling and pipe finishing equipment and we believe is among the most efficient pipe-making plants in Russia. We expect to achieve further cost benefits once we resume completion of our capital expenditures programme, which will entail the construction of a one million tonne EAF at our Tagmet plant and a 600,000 tonne FQM at our Seversky plant.

### ***Vertically Integrated Producer***

Three of our four Russian pipe plants have internal steel manufacturing capabilities and supply their own billets for use in their seamless pipe-making operations. In addition, the majority of TMK-Artrom's steel billet requirements are supplied by TMK-Resita. Furthermore, our NS Group's operations in Koppel, Pennsylvania operate a scrap yard and steel melting and casting facility that supply the majority of the steel billet requirements for our seamless pipe production in the United States. As a result, we are able to achieve cost savings by reducing our need to purchase semi-finished steel products from third party manufacturers. Having internal steel making capabilities also enables us to have a greater degree of quality control over the steel used in our pipe-making operations. In 2008, as part of our strategic capital expenditure programme, we completed construction of an EAF at Seversky to replace its open hearth furnace, which will enhance the facility's steel production capacity. This new steelmaking capacity has allowed us to increase the amount of billets we supply to our Sinarsky plant, which lacks internal steel making capabilities, from our other plants, thus reducing Sinarsky's dependence on billets purchased from third party suppliers. We have similar plans to replace Tagmet's open hearth technology with EAF steelmaking in the next few years, the continued improvement in the markets and our own financial position permitting.

### ***Strong Organic Growth Potential and Well Placed to Benefit from Anticipated Market Recovery***

We have completed a large portion of our strategic capital investment programme, which has served to enhance significantly our Russian seamless pipe production capabilities and the efficiency of our production processes, and

we have already, to a large extent, integrated the operations of TMK IPSCO in the United States with those of the TMK Group. As a result, we believe that a large part of the necessary infrastructure is in place to enable us to grow our business on the basis of our existing manufacturing capacity and equipment, without the need to incur significant capital expenditures over the next few years.

## Strategy

Our strategy is to enhance our position as one of the world's leading producers of steel pipes. Though, given the current global financial and economic environment, we have had to readjust our recent strategic emphasis on expanding and developing our pipe business through acquisitions and capital expenditure, we believe that our acquisition of TMK IPSCO in 2008 and our completion of most of the key projects under our strategic capital investment programme provides us with a strong platform from which to enhance our position as a global leader in OCTG and oil and gas pipe products generally as markets recover.

We intend to pursue our strategy by enhancing our product mix to improve our margin profile, working more closely with our customers on a global basis to deliver higher value added products and services, increasing the efficiency of our seamless pipe production, leveraging our global presence and strong brands and exercising greater discipline over our operating costs. We also intend to enhance our research and development capabilities and implement new technologies with an aim to increase our advanced technology footprint, manufacturing efficiency and decrease production costs. In addition, we aim to accelerate the transfer of best practices across our network, with a particular focus on transferring the practices and know how of TMK IPSCO to our Russian and European operations.

In Russia, the CIS and in other regions outside of the United States, we intend to continue to focus principally on higher growth seamless pipe products, especially on seamless OCTG. In the United States, where welded pipes have a strong market following among oil and gas producers, we intended to focus principally on welded and seamless OCTG and line pipe. As part of this strategy, we plan on further developing our TMK-Premium Service business, which concentrates on developing and marketing all of our existing and new premium connection products, and has been enhanced through our acquisition of TMK IPSCO and its ULTRA premium connections products. With respect to our Russian welded pipes business, we intend to increase our focus on large diameter transmission welded pipes for the oil and gas industry. In this regard, we believe that our commissioning of a new 650,000 tonne longitudinal welded pipe mill at our Volzhsky plant in 2008 will help us to enhance our leading role in this important product segment.

In spite of the current global financial and economic environment, we are still pursuing growth through the effective integration of our recent acquisitions and leveraging the capacity enhancements and modernisation of our production processes already achieved to date by our capital investment programme. We plan to implement the remainder of our capital investment programme, including the addition of an EAF at Tagmet and a continuous FQM rolling mill at Seversky, to further enhance our seamless pipe production and efficiency in Russia in the near future, depending upon market conditions and the availability of financing to us.

Our 2008 acquisition of TMK IPSCO has:

- provided us with a strong foothold in North America and increased our exposure to the U.S. OCTG market;
- represented a strategic fit with our existing position in seamless energy pipes;
- helped to balance our emerging market exposure;
- enhanced our global profile;
- broadened our product mix and provided us with complimentary higher value-added products to offer to the oil and gas industry; and
- allowed us to leverage the expertise of TMK IPSCO.

The businesses of IPSCO Tubulars and NS Group have been operating with over 50 years of expertise in the pipe manufacturing market and we believe that they are strongly positioned in the U.S. manufacturing industry, supported by a widely recognised IPSCO brand, strong customer loyalty, and experienced management teams. We have realised and expect to further realise the following commercial and manufacturing synergies from the acquisition of TMK IPSCO:

- **Commercial Synergies.** This acquisition has enhanced our product offering in North America, providing us with a comprehensive and balanced range of seamless and welded energy pipe products. We aim to maximise our revenues by processing and finishing our products at our facilities in the United States and plan, depending on overall demand in the U.S. markets, to increase the supply of green pipes from our manufacturing facilities



located at Russia and Romania for such processing and finishing. In addition we plan on delivering greater quantities of finished Russian-produced pipes that are complementary to our TMK IPSCO pipes to the United States to enhance our U.S. product offering. We have also begun to see significant growth in our U.S. premium connections businesses. TMK IPSCO's ULTRA products have already strongly augmented our existing premium connection product offering. We expect that we will also be able to strengthen our position in the U.S. market once demand returns by further developing our existing relationships with large U.S. independent distributors.

- **Manufacturing Synergies.** We are seeking to improve the productivity and efficiency of our seamless hot rolling operations by focusing on specific size-range and combined production scheduling. We also aim to take advantage of certain de-bottlenecking opportunities in the operations of these businesses and aim to ramp-up NS Group's steel-making operations in Koppel, Pennsylvania.

We further broadened our product and service offerings through our acquisition in late 2007 of certain service assets of TNK-BP, which provide transportation services and specialise in the repair of tubing pipes, piston rods and pipe coatings, and our acquisition in 2008 of TMK-Kaztrubprom, which has 60,000 tonnes of OCTG finishing services capacity and which specialises in high-technology pipe threading.

### ***Seamless Business***

We seek to consolidate our position as a leading supplier of OCTG and line pipes to the oil and gas industry in Russia and the CIS and become a leading supplier of OCTG in the United States and globally. We further aim to become a leading supplier of OCTG and line pipes to the global oil and gas industry by enhancing our product mix and combining our low-cost production in Russia with a global network of strategically located distribution, service, processing and finishing facilities. We seek to offer a complete range of seamless pipes enhanced by innovative solutions and supply chain management for oil and gas customers. We intend to accomplish these objectives by:

- **Enhancing our product mix of pipes for the oil and gas industry to match global leaders.** One of our strategic priorities is enhancing the range of technologically sophisticated high margin OCTG and line pipe products we offer to the oil and gas industry. Although we have curtailed our capital expenditure programme for the time-being, we continue to introduce new high performance pipes that are specifically intended for use in difficult high pressure and high temperature drilling environments, such as deepwater offshore wells and arctic drilling, including alloyed steel OCTG and line pipes with stronger tolerances, high anti-corrosion characteristics and greater resistance to cold. To assist us in accomplishing this goal we founded TMK-Premium Service, which is helping us to develop and market all of our existing and new premium connection products, and TMK Oilfield Services, to hold and manage all our oilfield services assets. TMK-Premium Service is also helping us to create and acquire intellectual property in the premium connections segment, conduct product testing and arrange for certification in accordance with international standards. We believe that TMK-Premium Service is enabling us to improve the quality of our high value-added products and helping to make us a leading supplier of a full range of premium-class threaded connections and high-tech oilfield threaded pipes in conjunction with the provision of related services in Russia, the CIS and the United States. In particular, we aim to further leverage on the our highly regarded ULTRA premium connection business in the United States to strengthen our global premium connections operations. As an integral part of expanding our OCTG business, we intend to further develop our finishing capabilities and downstream services, such as threading repair and maintenance and sale of pipe accessories. We believe that by enhancing our product mix and the value-added features of our oil and gas product portfolio, we will be able to achieve higher prices for our products and strengthen our profit margins.
- **Strengthening our position as a global leader within the OCTG and line pipe markets.** In the Russian and CIS markets, we intend to strengthen our leading position in the seamless OCTG and line pipes segments by expanding our relationship with existing customers and by developing our downstream services and technological components business to complement our product offering. We have long-term agreements with Gazprom, Rosneft, Surgutneftegas and TNK-BP, our four largest customers in 2008. In major international markets, we plan to expand by developing a global network of commercial and distribution centres that will offer supply management, OCTG processing and finishing and downstream services in important oil and gas producing regions worldwide. In particular, we plan to build upon our position as a leading producer of oil and gas pipe products in the United States as a result of our 2008 acquisition of TMK IPSCO, which specialises in welded and seamless OCTG. In 2008, TMK IPSCO had an approximate 10% share of the U.S. OCTG market. We will also seek to obtain further qualifications from major global oil and gas companies as a means of increasing global market acceptance. We believe that these key initiatives will help us to develop an

international brand. In addition, we will also seek to enter into commercial alliances and partnerships, particularly for niche high-end products, as an efficient means of strengthening our global presence.

- *Completing our strategic capital expenditure programme and leveraging on the benefits achieved to date.* In 2004, we launched a strategic capital expenditure programme that was focused principally on increasing our seamless pipe production and increasing the efficiency of our production processes. We have now completed most of the principal projects of the programme, which has served to modernise significantly our Russian seamless pipe operations. For example, in 2008, we completed three pivotal components of our strategic capital expenditure programme, including the replacement of Seversky's open hearth furnace with a one million tonne capacity EAF, the replacement of Tagmet's pilger mill with a 600,000 tonne capacity PQF rolling mill and the installation of a 650,000 tonne capacity large-diameter longitudinal welded pipe mill with anti-corrosion and smooth internal coating lines at Volzhsky. The remaining key elements of our capital expenditure programme include construction of a 600,000 tonne three-roller FQM continuous rolling mill at Seversky and the replacement of Tagmet's open hearth furnace with a new one million tonne EAF. We believe that, to date, our strategic capital expenditures programme, which is targeted specifically at enhancing the capacity and product range of our seamless OCTG and line pipes, has significantly enhanced our production capabilities at each stage of the integrated seamless pipe production process.
- *Focusing on high margin products within the industrial seamless pipe sector.* To improve the utilisation of our existing production capacity, we intend to continue to focus on select high-margin segments within the industrial seamless pipe segment, such as boiler and heat exchanger pipes for the power generation industry. We also intend to expand our capabilities throughout the value chain, concentrating on pipe accessories and components, particularly for automotive applications. We use TMK-Artrom, which was established as a supplier of industrial seamless pipes for major automotive and machine building industry customers, as a platform to expand our presence in the European industrial seamless pipe market. We believe that our planned capital expenditure in our seamless pipe-making mills will enhance our ability to offer a wider product range and to produce higher margin industrial seamless pipes to European specifications and to expand our penetration of markets to which we currently have limited access.

### ***Welded Business***

With our acquisition of TMK IPSCO in 2008, we have significantly redefined the manner in which we treat our welded pipes business. TMK IPSCO is a major producer of welded OCTG pipes in the United States, where welded pipes represent a significant portion of the OCTG market and where OCTG pipes can be used interchangeably with seamless products in many applications. Accordingly, in the United States, we plan to focus our efforts on the high margin welded OCTG market, as well as on the seamless market. In Russia, our focus in this segment is increasingly on sales of large diameter pipes to oil and gas companies and oil and gas pipeline projects in Russia, the CIS and the Caspian region. In 2008, we considerably enhanced our production capacity of large diameter pipes as a result of the completion of a 650,000 tonne large diameter longitudinal welded pipe mill at Volzhsky, placing us in a position to capitalise on our improved production capabilities once market demand returns. We do not otherwise plan to make any significant capital expenditures in our industrial welded pipe business.

We also plan on solidifying our position as the only producer of spiral welded large diameter pipes in Russia. With our acquisition of TMK IPSCO, we significantly enhanced our capabilities in the welded pipe segment, diversified our product portfolio and extended our product coverage to markets in the United States, and we plan to transfer the best practices and know-know of our welded pipe operations in the United States to our Russian operations. We further aim to pursue additional long-term supply and cooperation arrangements with key customers, such as Gazprom and Transneft. We are closely monitoring developments with respect to ongoing and proposed large-scale oil and gas transportation projects in Russia and the CIS. We are also seeking to become actively involved with sponsors at all stages of such pipeline projects, from the initial planning stage to the development and implementation stages to enhance our opportunities to supply such projects with pipes.

### ***Improving Liquidity Profile***

One of our key priorities is to continue to refinance our short-term debt and improve our debt maturity profile. Primarily as a result of our incurrence of new debt financing in connection with our acquisition of TMK IPSCO, we are more highly leveraged and have a shorter duration debt maturity profile than we believe is optimal under the current difficult economic environment. We are therefore taking a number of steps to improve our working capital position and reduce our leverage. These include, among other things, negotiating extensions of credit terms and lower interest rates, refinancing of existing short-term debt to improve our debt maturity profile, obtaining waivers from our creditors with respect to certain financial covenants and other terms included within our debt instruments,

reducing operating costs through a variety of cost cutting measures, optimising working capital and reducing our capital investment programme in the short-term. For example, in August 2009, we renegotiated the terms of our aggregate U.S.\$1,107.5 million loan facilities with Gazprombank, originally entered into in January 2009 as part of the financing of our purchase of TMK IPSCO, extending the term of the loans from two-and-a-half to five years and reducing the interest rate on the loans. Between June and September 2009, we also entered into several seven-year loan agreements with Sberbank under which we borrowed an aggregate of RUB 5.7 billion, the proceeds of which we used to repay short-term debt. Additionally, in August 2009, as part of a consent solicitation in connection with our outstanding loan participation notes due 2011, we amended the terms of the notes to permit us to incur higher levels of secured debt. In February 2010, we successfully implemented the 2010 Consent Solicitation through which we modified the terms of the notes principally in order to further enhance our flexibility to implement our refinancing plan in respect of our existing indebtedness. Additionally, in September and October 2009, in order to repay certain of our short-term indebtedness, we entered into credit facility agreements with Gazprombank and VTB Bank in an aggregate amount of RUB 5 billion and RUB 10 billion, respectively, with maturities of 3 and 5 years, respectively, and with respect to each of which up to 50% of the principal is guaranteed by the Russian Federation. As at the date hereof, we are in the process of negotiating with Sberbank and VTB about the possibility of reducing interest rates on certain existing loans as well as attracting new loans for refinancing purposes. We continue to seek to improve the structure of our loan portfolio principally by lengthening the overall maturity profile of our debt and reducing our overall debt without sacrificing operational flexibility. In addition, in 2009, we implemented a comprehensive TMK Group-wide covenant compliance monitoring system, which we seek to continue to improve.

### ***Cost Optimisation***

We have also undertaken measures to reduce operating costs through a variety of cost cutting measures, optimised working capital, and reduced our capital investment programme in the short-term. In the first six months of 2009, we were able, primarily through a variety of cost control measures, to reduce selling, general and administrative expenses in Russia by 38% as compared to the first six months of 2008 and we aim to continue to reduce our selling, general and administrative expenses. To address the current challenging operating environment, we plan to continue to implement cost-cutting initiatives at our facilities globally, including the imposition of a hiring freeze, reduction of head count, the use of flexible working arrangements and reduced working hours, decreasing head-count, as well as tighter control over other operating costs. We also plan to closely monitor our capital expenditures programmes and only expect to resume our full strategic capital investment programme once we believe the activity in the oil and gas and pipe industries, on which our business relies heavily, shows real signs of strengthening. Additionally, in order to reduce our raw material costs associated with our steelmaking operations for the production of seamless pipes and to better control the availability and quality of our scrap, we are considering the acquisition of a major steel scrap collector. We hope to internally process and prepare the majority of our steel scrap raw material requirements for our Russian operations by 2011.

### **Corporate History**

OAo TMK was registered as an open joint stock company in June 2005. Our legal and commercial name is OAo “TMK”. OAo TMK was included in the Unified State Register of Legal Entities of the Russian Federation under registration No. 1027739217758. OAo TMK was originally incorporated as a closed joint stock company under the name ZAO TMK and under registration No. 002.041.016. ZAO TMK was originally controlled by the MDM Industrial Group. In September 2002, the MDM Industrial Group finalised the sale of a controlling interest in ZAO TMK together with controlling interests in Seversky, Volzhsky and TMK Trade House to entities controlled by Mr. Pumpyanskiy, the General Director of ZAO TMK at that time. In addition, entities controlled by Mr. Pumpyanskiy acquired a controlling interest in Sinarsky during 2001 and 2002. In February 2004, Mr. Pumpyanskiy entered into an agreement with Dalecone Limited, a Cypriot company affiliated with the MDM Industrial Group, according to which Dalecone Limited contributed a 94.59% interest in Tagmet, a pipe plant then owned by affiliates of the MDM Industrial Group, to ZAO TMK in exchange for the transfer to it from Mr. Pumpyanskiy of a 33% interest in TMK Steel, a holding company which at that time held a 100% interest in ZAO TMK. As part of the transaction, Mr. Pumpyanskiy transferred his interests in Seversky, Sinarsky, Volzhsky and TMK Trade House to ZAO TMK. As a result, TMK began consolidating Tagmet in its financial statements with effect from 26 February 2004. In June 2005, the shareholders of TMK Steel restructured their investments in OAo TMK, pursuant to which Dalecone Limited received a 33% direct interest in OAo TMK in exchange for its 33% interest in TMK Steel, which was transferred to entities controlled by Mr. Pumpyanskiy. As a result of this transaction Mr. Pumpyanskiy became the beneficial owner of a 100% interest in TMK Steel, which in turn held a 67% interest in OAo TMK. On 11 October 2006, TMK Steel purchased Dalecone Limited’s 33.0% interest in OAo TMK for U.S.\$1.3 billion, thus acquiring, directly and indirectly, 100% control of OAo TMK. Our current

shareholders are TMK Steel (which held, together with affiliated entities 74.83% of our shares as at 18 January 2010), subsidiaries of TMK (which held, together with affiliated entity 0.81% of our shares as at 18 January 2010) and a 24.36% free float as at 18 January 2010. In October 2006, TMK Steel conducted an initial public offering of 180 million ordinary shares in the form of ordinary shares and global depositary receipts for the purpose of repaying a loan that we had provided to it; we, in turn, used the proceeds of the loan repayment to fund our strategic capital expenditure programme, to repay certain indebtedness and for general corporate purposes.

In May 2005, we acquired a 100% interest in TMK Global from Sinara Group S.A., an affiliate of our group controlled by Mr. Pumpyanskiy for U.S.\$7.8 million. TMK Global is primarily responsible for our sales and marketing operations outside Europe, Russia and the CIS countries.

In March 2006, we acquired a 100% interest in TMK Europe for U.S.\$40.0 million from Sinara Group S.A. TMK Europe owns controlling interests in two plants in Romania, the pipe plant SC Artrom S.A. (subsequently renamed TMK-Artrom) and the steel plant SC C.S. Resita S.A. (subsequently renamed TMK-Resita).

In 2000, one of our consolidated subsidiaries acquired an initial 50% interest in TMK Italia, which acts as our distributor of pipe products in Southern Europe. On 16 May 2006, we acquired the remaining 50% interest in TMK Italia for EUR 1.0 million.

In January 2007, we completed our purchase of a 75% interest in Orsky Machine Building Plant for U.S.\$45.5 million from Sinara Group S.A., an entity under common control with us. The remaining 25% is owned by the Russian government. Orsky Machine Building Plant specialises in the production of tool joints, which are critical components for drill pipes, as well as pump barrels, and other equipment for the oil and gas and other industries. Orsky Machine Building Plant's principal customers include Surgutneftegas, TNK-BP and Gazprom.

In August 2007, we acquired a 100% stake in Truboplast for RUB 615.8 million. Truboplast is one of Russia's largest producers of protective coatings for steel pipes used in the oil and gas industry. Truboplast applies exterior and interior protective coatings on steel pipes and pipe fittings for oil and gas pipelines. With the increasing complexity of oil and gas drilling conditions, the application of high-quality anticorrosive coatings has become vital. We expect that our acquisition of Truboplast will give us the largest pipe coating capacity in Russia, further strengthening our position within the oil and gas pipe market and increasing our share of high value-added premium products.

In December 2007, we acquired certain service assets of TNK-BP including OOO "Central Pipe Base" and ZAO "Pipe Maintenance Department". The costs of acquisition of these service assets from TNK-BP was approximately U.S.\$81.8 million. Control over the legal entities holding the service assets passed to us at the end of December 2007.

In June 2008, we acquired 100% of the issued and outstanding shares of IPSCO Tubulars and 51% of the issued and outstanding shares of NS Group, together with an option to acquire the remaining 49% ownership interest, from Evraz, for approximately U.S.\$1.6 billion. The option agreement contained both a call option, pursuant to which we could acquire at any time on or after 12 June 2008 Evraz's remaining 49% interest in NS Group, and a put option, pursuant to which Evraz had the right to require us to purchase such interest at anytime on or after 22 October 2009 for U.S.\$511 million. We exercised the call option in January 2009 for U.S.\$507.5 million. In December 2009, we contributed our 51% interest in NS Group to IPSCO Tubulars and, as a result, currently hold a 100% direct interest in IPSCO Tubulars and a 100% indirect interest in NS Group.

Our registered office, which is also our principal office, is located at 40 Pokrovka Street, building 2A, 105062, Moscow, Russian Federation. Our main telephone at our principal office is +7 495 775 7600.

## **Products and Services**

We produce and distribute a wide range of pipe products for application in the oil and gas industry, machine-building, chemical and petrochemical industry, power generation, engineering, automotive, construction, aviation and aerospace industries. Our products include both seamless and welded pipes of various diameters, with exterior and interior coatings, and of different wall thickness. Our pipes are made of carbon, stainless and heat-resistant steel, titanium and nickel alloys and composite metals and covered with corrosion-resistant and heat-resistant coatings.

One of the key differentiating factors in the modern pipe products market is the satisfaction of a customer's requirements with respect to product specifications and quality. This is particularly true in respect of products for the oil and gas industry, which are often used in severe climate conditions, such as the northern regions of Russia and on ocean shelves. These pipes must meet both international quality standards as well as the specific requirements of each individual customer. Pipes for the oil and gas industry are subject to strict requirements



with respect to functional reliability and structural strength and need to be adjustable to particular petroleum chemical composition and temperature conditions. We believe that the extensive range of products we currently offer and our efforts to continually improve our existing products and develop new products enable us to satisfy the high demands of our customers in an efficient manner.

The table below shows the sales volumes of our principal pipe products for the periods indicated.

|                                       | Six months<br>ended 30 June |                     | Year ended 31 December |                     |                     |
|---------------------------------------|-----------------------------|---------------------|------------------------|---------------------|---------------------|
|                                       | 2009                        | 2008                | 2008                   | 2007                | 2006                |
|                                       | (thousands of tonnes)       |                     |                        |                     |                     |
| <i>Seamless pipes</i>                 |                             |                     |                        |                     |                     |
| OCTG . . . . .                        | 448                         | 460                 | 970                    | 919                 | 946                 |
| Line Pipes . . . . .                  | 129                         | 240                 | 454                    | 471                 | 388                 |
| Industrial . . . . .                  | 183                         | 290                 | 556                    | 648                 | 594                 |
| <b>Total seamless pipes . . . . .</b> | <b><u>760</u></b>           | <b><u>990</u></b>   | <b><u>1,980</u></b>    | <b><u>2,038</u></b> | <b><u>1,928</u></b> |
| <i>Welded pipes</i>                   |                             |                     |                        |                     |                     |
| OCTG . . . . .                        | 48                          | 24                  | 258                    | 10                  |                     |
| Line Pipes . . . . .                  | 89                          | 134                 | 244                    | 204                 | 210                 |
| Large diameter . . . . .              | 86                          | 118                 | 259                    | 418                 | 432                 |
| Industrial . . . . .                  | 213                         | 237                 | 486                    | 417                 | 427                 |
| <b>Total welded pipes . . . . .</b>   | <b><u>436</u></b>           | <b><u>513</u></b>   | <b><u>1,247</u></b>    | <b><u>1,049</u></b> | <b><u>1,069</u></b> |
| <b>Total pipes . . . . .</b>          | <b><u>1,196</u></b>         | <b><u>1,503</u></b> | <b><u>3,227</u></b>    | <b><u>3,087</u></b> | <b><u>2,997</u></b> |

Though overall sales volumes of seamless pipes decreased to 760,000 tonnes in the first six months of 2009 from 990,000 tonnes in the first six months of 2008, principally due to decreased demand from our customers as a result of the global economic crisis, our sales volumes of seamless OCTG decreased only marginally to 448,000 tonnes in the first six months of 2009 from 460,000 tonnes in the first six months of 2008. This relatively small decrease principally reflects additional sales volumes resulting from our acquisition of TMK IPSCO in June 2008. The growth in sales volumes of seamless OCTG in 2008 to 970,000 tonnes from 919,000 tonnes in 2007 is principally attributable to the consolidation of TMK IPSCO production volumes as from June 2008. Similarly, the decrease in sales volumes of seamless OCTG in 2007 from 946,000 tonnes in 2006 principally reflects the effects of the closure of our production facilities at Tagmet in order to make improvements pursuant to our strategic expansion programme.

The sales volumes of our large diameter welded pipes decreased to 86,000 tonnes in the first six months of 2009 as compared to 118,000 tonnes in the first six months of 2008 and decreased to 259,000 tonnes in 2008 from 418,000 tonnes in 2007. These decreases are primarily due to decreased demand owing to the slowdown in the execution of large pipeline projects as a result of the ongoing financial crisis. The sales volumes of our large diameter welded pipes decreased to 418,000 tonnes in 2007 from 432,000 tonnes in 2006 due to a change in order specifications from Gazprom, which resulted in the delivery of pipes of narrower diameter than what was initially contemplated leading to a decrease in the tonnage of pipes supplied.

Our shipment volumes of both seamless and welded pipes increased in the second half of 2009 as compared to the first half of 2009, with total shipment volumes amounting to 1,590,000 tonnes. See “*Management’s Discussion and Analysis of Financial Position and Results of Operations — Trading Update*”.

### *Seamless pipes*

Based on our internal estimates, we believe that we are the leading producer, by volume, of seamless pipes in Russia and one of the three largest seamless pipe producers in the world, with a worldwide market share of seamless pipe production of approximately 6% in 2008, according to our estimates. We produce seamless pipes with diameters from 1 mm to 426 mm and wall thickness from 0.1mm to 60 mm. We sell our seamless products principally to the oil and gas, machine-building, chemicals and petrochemicals, power generation, automotive and aviation and aerospace industries.

Our principal seamless pipe products consist of:

*Seamless OCTG* which encompasses drill pipe, surface casing, production casing and production tubing. Drill pipe is used to drill wells; surface casing is used to protect water bearing formations during the drilling of a well; production casing forms the structural liner in oil and natural gas wells to provide support and prevent collapse



during drilling operations; and production tubing is placed within the casing and is used to convey oil and natural gas to the surface, and may be replaced many times during the life of a producing well.

*Seamless line pipes* are used to construct main oil and gas pipelines and to transport crude oil, oil products and natural gas to refineries, storage tanks and loading and distribution centres.

*Industrial seamless pipes* are used for various industrial applications, including in machinery, chemicals and petrochemicals applications and in the power generation and automotive industries, and are used for the construction of pipelines that require high performance pipes for the transportation of steam, water, gas and air under high pressure.

### ***Welded pipes***

We produce welded pipes with diameters from 8 mm to 2,520 mm and wall thicknesses from 1 mm to 35 mm. We are one of the principal producers of 1,420 mm diameter pipes for Gazprom and of 530-1,220 mm diameter pipes commonly used by Transneft. We make both longitudinal and spiral welded pipe. Longitudinal welded pipes are made from steel plate with only one weld seam joining the two edges of the rolled plate. Spiral welded pipes are manufactured through the helical rolling of steel coils. In contrast to longitudinally welded pipe production, in which each pipe diameter requires an exact plate width, various diameters of spiral welded pipe can be manufactured from a single steel coil width. Spiral weld construction is more flexible as it allows large diameter pipe to be produced from narrower coils.

Our principal welded pipe products consist of:

*Large diameter welded pipes* are used to construct main oil and gas pipelines for long distance transmission and to transport crude oil and natural gas from wells to refineries, storage tanks and loading and distribution centres. We produce spiral welded pipes as well as longitudinal welded pipes of up to 1,420 mm diameter which are used by Gazprom for trunk gas pipelines. Transneft is another primary customer of our large diameter welded pipes business.

*Industrial welded pipes* are used by the general industry for various applications, including mechanical engineering and construction. Industrial welded pipes are largely commodity products.

*Welded OCTG* which encompasses surface casing and production tubing pipes. Casing pipes are used to protect water bearing formations during the drilling of a well; production casing forms the structural liner in oil and natural gas wells to provide support and prevent collapse during drilling operations; production tubing is placed within the casing and is used to convey oil and natural gas to the surface and may be replaced many times during the life of a producing well.

*Welded Line pipes* are used to construct main oil and gas pipelines and to transport crude oil, oil products and natural gas to refineries, storage tanks and loading and distribution centres.

### ***Premium Connections***

Premium connections consist of premium-class threaded pipe connections designed to withstand difficult operating conditions by ensuring high sealability in vertical, deviated and horizontal wells. Unlike standard pipe connections, premium connections feature high technology and innovation components and the sealability of such connections are certified by national and international testing laboratories. Our products include threaded and coupled connections based on standard designs; threaded and coupled premium connections designed for special applications; integral joint connections for thin-wall pipes and integral joint connections for heavy-wall pipes.

TMK-Premium Service, a division we established in 2007 to enhance our presence on the Russian and global premium connections market, offers a range of patented connections developed through our own research and development efforts. In addition, TMK IPSCO offers its own ranges of patented premium connections through its ULTRA division, which are widely recognised in the North American markets. Our TMK-Premium Service also offers comprehensive services for the construction, repair and efficient operation of wells, including delivery of premium threaded tubing, casing and drill piping, provision of equipment and accessories with premium connections for the construction of wells, logistical support and engineering and process consulting.

In Russia, we produce premium threaded pipes at our Tagmet, Volzhsky, Seversky and Sinarsky plants, while in the United States, we produce premium ULTRA connections at our TMK IPSCO facilities in Odessa and Houston, Texas. We also license our premium connections technology to both Russian and foreign partners. We plan to develop the production of ULTRA connections at our Russian facilities.

In 2008, we produced approximately 94,400 tonnes of premium threaded pipes in our Russian plants, which represented a 21% increase over 2007.

### ***Steel Billets***

Steel billets are square or round semi-finished steel products used in the production of seamless pipes as well as other finished steel products. Billets are delivered in bars of various diameters and cut into pieces of various lengths, corresponding to the length of the desired finished pipe.

We produced internally approximately 82%, 92% and 87% of the steel billets that we use for our seamless pipe production in the first six months of 2009 and in the years ended 31 December 2008 and 2007, respectively. We produced in aggregate 0.8 million tonnes and 1.1 million tonnes in the first six months of 2009 and 2008, respectively, while we produced in aggregate 2.3 million tonnes, 2.3 million tonnes and 2.2 million tonnes of steel billets in 2008, 2007 and 2006, respectively. We have commissioned continuous billet casting machines at our Volzhsky, Seversky and Tagmet plants as well as TMK-Resita and we now have continuous billet casting machines at all our steel making facilities. These projects were implemented in order to increase production volumes, enhance the quality of the products and reduce costs. See “— *Capital Expenditures — Strategic Capital Expenditure Programme*”. NS Group’s Koppel facility also produces steel billets.

### ***Oilfield Services***

Our oilfield services include the provision of comprehensive solutions for the construction, repair and efficient operation of wells, including, among other things, the manufacture and delivery of premium threaded pipes and connections for the oil and gas industry, logistics, repair and process-consulting services and are principally offered through our TMK Oilfield Services division, which we established in March 2008. TMK Oilfield Services is comprised of Orsky Machine Building Plant, which produces tool joints and couplings for drill pipes, Truboplast, which produces protective coatings for steel pipes used in the oil and gas industry, and Pipe Maintenance Department and Central Pipe Yard, which provide transportation services and specialise in the repair of tubing pipes, piston rods and pipe coatings.

## **Production Processes**

### ***Steel Making***

We make steel from raw materials for our seamless pipe production using two principal techniques.

#### ***Open hearth process***

Open hearth furnaces produce steel by melting scrap, pig iron and iron ore by means of a direct flame. The furnace is charged with scrap, flux, pig iron and iron ore prior to heating. Open hearth furnaces burn fuel, in the form of gas, coal or oil, to provide the heat necessary to melt the raw materials. During melting, carbon and other impurities (such as silicon and manganese) are oxidised. Open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, slow melting processes and relatively low productivity, and they also emit relatively high volumes of pollutants. Open hearth furnaces are also less well-suited for continuous casting than EAFs, as a result of which open hearth furnaces generally operate in conjunction with the less efficient ingot casting process. For a number of years, the general trend worldwide has been for open hearth furnaces to be replaced by more efficient and environmentally cleaner oxygen converters and EAFs. While we still utilise open hearth furnaces at our Tagmet plant, as part of our strategic capital expenditure programme, we aim to replace it with an EAF in the next several years. See “— *Capital Expenditures — Strategic Capital Expenditure Programme*”.

#### ***Electric arc furnaces***

EAFs produce steel by applying heat generated by electricity arcing between graphite electrodes and a metal bath. The steps in the EAF production process consist of charging, melting, oxidising or purifying and deoxidising or refining. The charge includes scrap, iron ore, fluxes (lime and fluorspar), a reducing agent (carbon) and ferroalloys. Temperatures in the EAF may reach as high as 3,500° C in order to melt alloying components that are otherwise difficult to melt. Lime, fluorspar and other materials are used to form slag, which absorbs impurities during the steel making process. We use EAFs to produce steel at Volzhsky, Seversky, TMK-Resita and Ambridge (TMK IPSCO). Additionally, once we resume our strategic capital expenditure programme, we plan to install an EAF at Tagmet. Among other advantages, EAFs melt steel significantly faster than open hearth furnaces, provide a greater degree of quality of and production cost control over the steel used in pipe-making operations and release fewer emissions than open hearth furnaces.

## ***Steel Casting***

The steel produced from an open hearth furnace or EAF is then cast in order to give it a basic shape that can be used for further processing. In ingot casting, molten steel is poured from a ladle into large stationary moulds to produce blocks of steel, or ingots. After the ingots solidify, the ingot moulds are removed and the ingots are placed in soaking pits to be heated and then hot-rolled in primary rolling mills to produce billets. The process of casting ingots in moulds produces large amounts of waste scrap steel, and the reheating of the ingot to soften it prior to hot-rolling requires large amounts of energy.

Ingot casting is increasingly being replaced by continuous casting, in which molten steel is cast directly into semi-finished products, such as the billets that we use for our pipe-rolling operations. Continuous casting equipment produces a strand of moulded metal that is continuously withdrawn from the furnace at a set casting speed. The metal strand cools and solidifies and is then cut into billets and discharged for intermediate storage or hot charged for finished rolling. Casting the steel directly into semi-finished products, such as billets, eliminates several steps involved in ingot casting, and results in less waste and requires less energy than ingot casting. See “— *Capital Expenditures — Strategic Capital Expenditure Programme*”.

## ***Seamless Pipes***

Seamless pipe production involves the piercing, elongation and reduction of steel billets to obtain the required length and diameter for the finished pipe. The billet is cut to the required length and heated to temperatures of up to 1300° C. The heated billet is then rolled under high pressure. The compressive stresses cause the billet to stretch and a hole to form in its centre. A bullet shaped piercer point is pushed through the middle of the billet as it is being rolled in the piercing mill to create a uniform hollow in the billet. The size of the piercing point and the position of the rolls determine the hollow billet’s outside diameter and the wall thickness.

The hollow billet then undergoes additional rolling processes that reduce the diameter and wall thickness of the billet. We use five principal types of pipe-rolling technologies in our plants: continuous rolling, Assel rolling, pilger rolling, pipe extrusion and plug rolling. In a continuous rolling mill, the mandrel, or metal rod, that pierced the billet is retained inside the billet and the billet is passed without reheating through a series of seven to nine rolling stands. In an Assel mill, the hollow billet is rolled using three tapered rolls arranged symmetrically around the billet. In a pilger mill, the hollow billet is rolled between two rolls which move back and forth as the mandrel rotates within the hollow billet. In an extrusion mill, the heated billet is pierced through the centre by a mandrel driven by a hydraulic ram, which extrudes the material under the pressure exerted by the ram to form the pipe. The material remaining in the extruder is subsequently cut from the pipe as recyclable waste. We utilise longitudinal rolling in our tandem mill at Sinarsky, in which a hollow billet passes through two rolling stand with short plugs to reduce the size of the billet.

We use continuous rolling mills, pilger mills and tandem mills primarily to manufacture OCTG products; Assel mills primarily to produce industrial seamless pipes for the machine building industry; and extrusion mills primarily to produce industrial seamless pipes using high-grade steel for the chemical and petrochemical, power generation and aerospace industries. While pilger mills are effective for rolling thick walled pipes from ingots, and can be reconfigured quickly to produce pipes of different measurements, continuous mills work more efficiently with continuous casting machines. In addition, continuous rolling mills are significantly faster and less wasteful than pilger mills and produce higher quality pipes. Accordingly, as part of our strategic capital expenditure programme, we have replaced our pilger mill with continuous rolling mills at Tagmet and, once we resume the programme, will also do so at Seversky. While the extrusion process is highly effective for making pipes from grades of special steel, it requires expensive machinery, consumes more raw materials and has lower productivity than continuous rolling mills. The longitudinal process used by our tandem mills is effective for lower volume production, but less efficient than continuous mills for higher volume production. See “— *Capital Expenditures — Strategic Capital Expenditure Programme*”.

## ***Welded Pipes***

The process of manufacturing welded pipes involves the bending of steel coil or plate and then welding the seam at the edges. After being unwound from the coil in which it is delivered, the steel is passed through a series of rollers which cause the edges of the coil to curl together to form a cylinder. These edges are then welded and sealed using welding electrodes, following which the pipe is cut to the desired length and sorted for further processing. We make both longitudinal and spiral welded pipe. Longitudinal welded pipes are made from steel plate with only one weld seam joining the two edges of the rolled plate. Spiral welded pipes are manufactured through the helical rolling of steel coils. In the United States, TMK IPSCO produces welded pipes using the Electric Resistant Welding (“ERW”) process from steel coil. In the ERW process, the edges of the steel strip are heated up by the welding current and the two sides of the strip are then forged together and welded before the heat has time to dissipate. The excess melted material is then removed from the outside and inside of the pipe.

## Pipe Finishing

Pipe finishing processes are important elements in ensuring that the finished pipe product meets customers' specifications. The pipe finishing stages for seamless and welded pipes are largely similar and may include heat treatment, upsetting, threading, hydrostatic and ultrasonic testing, inspection, coating and packing. Heat treatment involves the application of a combination of heating and cooling operations to the pipe to achieve desired physical and mechanical properties such as increased strength, hardness and ductility, to relieve internal stresses and reduce brittleness. Upsetting involves increasing the diameter and thickness of the ends of pipes, which allows smaller tubes to be threaded and connected. Larger sizes are threaded and connected with no upset needed. Hydrostatic testing involves filling the pipe with water and pressurising it to a high level to check for leaks. Pipes may also undergo anti-corrosion coating treatment, which includes lacquer, epoxy and polypropylene coating. The final stage of the pipe finishing process generally involves marking, packing and storage.

A portion of our seamless industrial pipes, including pipes produced at our Sinarsky and TMK-Artrom facilities, also undergo subsequent cold finishing. Cold rolling and cold drawing involve rolling a pipe at room temperature or drawing a pipe through a die at room temperature. These cold working processes reduce the outside diameter and wall thickness of the pipe and improve the surface finish and mechanical properties of the pipe. These processes are often used in the production of pipes for use in machine building and power generation applications, automobile production and other industrial applications. Our pipe finishing processes were enhanced with the acquisition of the service assets of TNK-BP and Truboplast in 2007.

## Production Facilities

We manufacture our pipes at four Russian operating plants — Volzhsky, Seversky, Sinarsky and Tagmet — seven pipe production and finishing facilities in the United States within our TMK IPSCO network — one Romanian operating plant — TMK-Artrom — and one Kazakh operating plant — TMK-Kaztrubprom. We also manufacture welded line pipe at our TMK-CPW strategic venture. We also produce steel at five of our plants: Volzhsky, Seversky, Tagmet, TMK-Resita and NS Group's Koppel facility. In addition, we produce tool joints at Orsky Machine Building Plant in Orsk, premium connections at our Odessa and Houston, Texas production facilities and protective pipe coatings for steel pipes used in the oil and gas industry at Truboplast in Yekaterinburg. In recent years, we have sought to modernise our production facilities, which has enabled us to improve the quality of our products and to adapt our product range to the requirements of the international market, take significant steps toward import substitution of products and enter a number of new export market segments. We have taken significant steps to modernise our production facilities and increase the efficiency of our production processes through the implementation of our capital expenditure programme, which began in 2004. See “— *Capital Expenditures — Strategic Capital Expenditure Programme*”.

The following table shows the annual production capacity of our principal manufacturing facilities as at 30 June 2009.

|                                  | Seamless pipe production |                     |                | Welded pipe production |                |              |              | Total Pipe Production | Steel Production |
|----------------------------------|--------------------------|---------------------|----------------|------------------------|----------------|--------------|--------------|-----------------------|------------------|
|                                  | OCTG                     | Line and Industrial | Total Seamless | OCTG                   | Large Diameter | Industrial   | Total Welded |                       |                  |
|                                  | (thousands of tonnes)    |                     |                |                        |                |              |              |                       |                  |
| Volzhsky . . . . .               | 270                      | 430                 | 700            | —                      | 1,200          | —            | 1,200        | 1,900                 | 900              |
| Seversky . . . . .               | 220                      | 120                 | 340            | —                      | —              | 520          | 520          | 860                   | 950              |
| Sinarsky . . . . .               | 378                      | 222                 | 600            | —                      | —              | —            | —            | 600                   | —                |
| Tagmet . . . . .                 | 430                      | 350                 | 780            | —                      | —              | 650          | 650          | 1,430                 | 600              |
| TMK CPW <sup>(1)</sup> . . . . . | —                        | —                   | —              | —                      | —              | 220          | 220          | 220                   | —                |
| TMK-Artrom. . . . .              | —                        | 200                 | 200            | —                      | —              | —            | —            | 200                   | —                |
| TMK-Resita . . . . .             | —                        | —                   | —              | —                      | —              | —            | —            | —                     | 450              |
| TMK IPSCO . . . . .              | 210                      | 90                  | 300            | 520                    | —              | 480          | 1000         | 1,300                 | 450              |
| <b>Total. . . . .</b>            | <b>1,508</b>             | <b>1,412</b>        | <b>2,920</b>   | <b>520</b>             | <b>1,200</b>   | <b>1,870</b> | <b>3,590</b> | <b>6,510</b>          | <b>3,350</b>     |

(1) We own a 51% interest in TMK-CPW

Our production capacity has been significantly increased as a result of the completion of key projects under our strategic capital expenditure programme. In 2008 we commissioned a PQF mill at Tagmet with a nominal production capacity of 600,000 tonnes of seamless pipes per year, a large-diameter longitudinal welded pipe mill at Volzhsky with a nominal production capacity of 650,000 pipes per year and a new EAF at Seversky with the nominal production capacity of 950,000 tonnes of steel billets.

In the first six months of 2009 capacity utilisation rates decreased sharply as the result of the global economic downturn. Utilisation rates in each of our Russia and Europe segments were approximately 50%, while the utilisation rate in our Americas segment was approximately 20% in the first six months of 2009.

### ***Volzhsky Pipe Plant***

Volzhsky Pipe Plant started its operations in 1970 and underwent significant upgrades in the late 1980s and 1990s, and we have further expanded its capacity in the last several years in line with our strategic capital expenditure programme. It is located in the Volgograd region, on the Volga river, near the city of Volzhsky. We own the facility and have a right of permanent use with respect to the land, comprising an area of approximately 4.76 million square metres, on which the facility is situated. We also lease approximately 1.3 million square metres of land near the facility.

Volzhsky is our most modern Russian plant, featuring modern steel making, pipe-rolling and pipe welding equipment, most of which was supplied by European manufacturers. The plant is located close to rail, road and river transport routes and is linked by the Volga River to ports on the Caspian, Black, Baltic and Azov seas.

Volzhsky manufactures pipes of more than 800 sizes for various applications, including seamless casing and line pipe, spiral welded and longitudinal welded large diameter pipes for oil pipelines, seamless pipes for steam boilers, seamless pipes for mechanical engineering and round and square steel billets. Volzhsky is currently the largest pipe manufacturer in Russia and one of few Russian plants that produces 1,420 mm pipes for high-pressure transmission gas pipelines in commercial volumes. Volzhsky supplies its entire output of welded 1,420 mm diameter pipes to Gazprom.

Volzhsky's principal production facilities consist of:

- a steel shop, including an EAF, a ladle furnace and three continuous casting units;
- a new 650,000 tonne mill that produces longitudinal welded pipes of up to X100 grade with diameters ranging from 530mm to 1420mm and wall thickness of up to 42mm, which entered service in 2008. The pipes primarily produced by the facility are designed to be used in long distance oil and gas pipelines including offshore pipelines and oil field pipelines.
- a continuous pipe-rolling mill, including three finishing lines (including one new line commenced in 2008 with an annual capacity of 200,000 tonnes) and threading and cutting equipment, primarily used for the production of threaded or bevelled OCTG and line pipe; two heat treatment lines including one new line with an annual capacity of 340,000 tonnes;
- an Assel pipe-rolling mill and a new conservation coating line commenced in 2008 with an annual capacity of 200,000 tonnes;
- two extrusion lines, principally used for the production of seamless line pipes, seamless stainless steel pipes and seamless pipes for the power engineering and chemical industries;
- four pipe-welding mills for automatic submerged arc-welding, together with a heat treatment facility and two pipe-finishing lines, primarily used for the production of large diameter spiral welded pipes for oil and gas pipelines and petroleum and industrial process pipelines;
- one 2520 SAW mill producing helical pipes; and
- three external anti-corrosion coating lines, including one new line commenced in 2008 with an annual capacity of 650,000 tonnes; and one new internal anti-corrosion coating line put into operation in 2008 with an annual capacity of 600,000 tonnes.

### ***Seversky Pipe Plant***

Seversky Pipe Plant commenced pipe-making operations in 1964. Seversky is located in the Sverdlovsk region, near the Ural mountains, in close proximity to major Russian oil and gas fields. We own the facility and the land, comprising approximately 4.42 million square metres, on which the facility is situated.

Seversky produces a variety of seamless and welded pipes principally for domestic oil and gas customers, including seamless casing and line pipes and electric welded line pipes, as well as industrial seamless pipes for general application and industrial welded pipes for the automotive and power industries.



Seversky's principal production facilities consist of:

- a steel shop, including an EAF that entered into commission in the fourth quarter of 2008, a ladle furnace and a continuous casting machine;
- a pilger pipe mill, including a finishing line, heat treatment line and threading equipment, principally used for the production of seamless casing and line pipes;
- five electric-welding pipe mills, including finishing lines and a hot galvanisation line, used to coat pipes with zinc to inhibit corrosion, which are used to produce a variety of longitudinal welded pipes; and
- lines producing welded longitudinal oil and gas supply pipes.

#### ***Taganrog Metallurgical Works (Tagmet)***

Tagmet was founded in 1896 and its facilities were significantly upgraded in the 1990s. It is located in the Rostov region, near the Azov Sea, and benefits from its close proximity to raw materials and sea export routes. We own the facility and have lease rights and a right of permanent use with respect to the land, comprising an area of approximately 1.6 million square metres, on which the facility is situated. We also lease approximately 0.2 million square metres of land near the facility.

Tagmet produces principally drill, casing and line pipes, industrial seamless pipes and electric welded pipes.

Tagmet's principal production facilities consist of:

- a steel shop, including three open hearth furnaces, a ladle furnace and continuous casting machine;
- a new 600,000 tonne capacity PQF seamless rolling mill, completed in 2008, which replaced Tagmet's pilger pipe mill; casing, tubing and drill pipe finishing lines, a new heat treatment line commenced in 2008 with a capacity of 200,000 tonnes;
- one pilger pipe mill, including finishing lines, and upsetting, threading and cutting equipment, one heat treatment line as well as tool joint welding equipment, primarily used for the production of seamless drill, casing, tubing and line pipes as well as industrial seamless pipes; and
- four electric-welding pipe mills, including a hot galvanisation line, which are used to produce a variety of longitudinal welded pipes.

Tagmet also operates its own research and development unit specialising in pressure tight premium class joints, which join pieces of casing and tubing pipe together.

#### ***Sinarsky Pipe Plant***

Sinarsky Pipe Plant was founded in 1934 and underwent significant modernisation in the 1990s. As with Seversky, Sinarsky is located in the Sverdlovsk region, near the Ural mountains, in close proximity to major Russian oil and gas fields. We own the facility and the land, comprising approximately 3.2 million square metres, on which the facility is situated. We also lease approximately 0.7 million square metres of land near the facility.

Sinarsky specialises in producing drill, casing, tubing and line pipes as well as special grade seamless steel pipes principally for the power generation, chemical and machine building industries. In 2008, OCTG accounted for approximately 66% of Sinarsky's total output. Sinarsky does not have any in-house steel making capacity, but obtains steel billets from Volzhsky, Seversky and Tagmet and third party suppliers.

Sinarsky's principal production facilities consist of:

- a tandem mill, including a heat treatment line, a pipe upsetting area and two threading lines, principally used for the production of seamless drill and casing pipes;
- a continuous pipe-rolling mill, which is used for seamless tubing and high quality corrosion resistant pipes;
- cold drawing and cold rolling mills, which are used for seamless industrial pipes, including cold rolled pipe finishing lines;
- a new 200,000 tpa heat treatment line, completed in 2008; and
- a pipe finishing and coupling production line.

#### ***TMK IPSCO***

TMK IPSCO, which comprises IPSCO Tubulars, NS Group and their subsidiaries and is based in Illinois, is a leading vertically integrated manufacturer and supplier of both seamless and welded steel pipes in the United States that began operations more than 50 years ago and conducts its production operations through 10 facilities located throughout the central United States. TMK IPSCO is strongly focused on oil and gas products, and is a leading

producer of high performance OCTG and premium connections required in unconventional drilling environments such as gas shale drilling. IPSCO Tubulars produces a wide range of welded pipe products primarily for energy applications, including casing and tubing for oil and gas wells, line pipe, standard pipe and HSS. NS Group manufactures a diverse range of carbon and alloyed seamless and welded pipe products for the oil and gas sector, and its product offering includes seamless tubing and casing, drill pipe, line pipe, coupling stock, premium connections and oilfield accessories. Through its facility in Koppel, Pennsylvania, NS Group also has steel making facilities that produce steel billets for the manufacturing of seamless pipes.

TMK IPSCO's facilities, along with the annual production capacity and products manufactured in each facility, are set forth in the following table:

| <u>Facility</u>                 | <u>Products</u>  | <u>Capacity</u> |
|---------------------------------|--|-----------------|
| <b>Seamless</b>                 |  | <i>(tonnes)</i> |
| Ambridge, Pennsylvania . . .    | Seamless OCTG and line pipe  | 296,000         |
| <b>Welded</b> . . . . .         |  | <i>(tonnes)</i> |
| Blytheville, Arkansas . . . . . | Electric resistance welded pipe, OCTG, line pipe and standard pipe | 204,000         |
|                                 | Heat treating  | 91,000          |
|                                 | Threading  | 181,000         |
| Camanche, Iowa . . . . .        | Electric resistance welded pipe, OCTG, line pipe and standard pipe | 249,000         |
|                                 | Threading  | 290,000         |
| Geneva, Nebraska . . . . .      | Electric resistance welded pipe and HSS                            | 109,000         |
| Wilder, Kentucky . . . . .      | Electric resistance welded pipe, OCTG and standard pipe            | 435,000         |
| Steel Making and Finishing      |  | <i>(tonnes)</i> |
| Baytown, Texas . . . . .        | Heat treating  | 113,000         |
|                                 | Threading  | 145,000         |
| Koppel, Pennsylvania . . . . .  | Billets  | 435,000         |
|                                 | Heat treating  | 73,000          |
| Catoosa, Oklahoma . . . . .     | Heat treating  | 91,000          |
|                                 | Threading  | 118,000         |
| <b>ULTRA</b>                    |  | <i>(joints)</i> |
| Houston, Texas . . . . .        | Premium connections  | 104,000         |
| Odessa, Texas . . . . .         | Premium connections  | 208,000         |

#### *Seamless Pipe Facility*

- *Ambridge facility.* TMK IPSCO manufactures its seamless products at its Ambridge, Pennsylvania facility, which began pipe-making operations in 1973. It is strategically located in the Marcellus Shale and adjacent to rail lines and waterways and in close proximity to the interstate highway system for transporting our products. TMK IPSCO owns the land and the facility, which is 632,000 square feet under roof. At this facility, TMK IPSCO manufactures seamless OCTG tubing and casing, line pipe and coupling stock. The Ambridge facility's seamless mill has a piercer, stand floating mandrel mills, stand stretch-reducing mills, and IMS wall control gauges

#### *Welded Pipe Facilities*

TMK IPSCO manufactures its welded pipe products at four facilities, which include its Blytheville, Arkansas, Camanche, Iowa, Geneva, Nebraska and Wilder, Kentucky facilities.

- *Blytheville facility.* The Blytheville, Arkansas facility began operations in 1999 as a Greenfield site and manufactures OCTG casing and tubing, line pipe and standard pipe products. The facility occupies 297,000 square feet. This facility has full finishing, upsetting, heat treating and high speed threading capabilities.
- *Camanche facility.* TMK IPSCO also manufactures OCTG casing, line pipe and standard pipe products at its Camanche, Iowa facility, was purchased by IPSCO in 1990. The company owns the land and the facility, which is approximately 337,000 square feet, including 12,000 square feet of office space. This facility has ERW, full finishing and high speed threading capabilities.
- *Geneva facility.* The Geneva, Nebraska facility (approximately 13,000 square feet) was acquired in 1988 and manufactures HSS and hollow structural rounds ("HSR"). TMK IPSCO owns the land and the facility.
- *Wilder facility.* The Wilder, Kentucky facility began operation in 1981 and was purchased by IPSCO Tubulars in 2006. It is now operated by IPSCO Tubulars (KY) Inc., which owns the land and the facility (453,000 square feet).

### *Steel-Making and Finishing Facilities*

- *Finishing.* The Baytown, Texas pipe and tube finishing facility is operated by IPSCO Koppel Tubulars Corporation. The land and buildings (196,000 square feet) are owned by IPSCO Koppel Tubulars Corporation. This facility has full finishing and high speed threading capabilities for OCTG casing, external upset end tubing and line pipe. The facility also has a heat treat line and a temper line.
- *Catoosa facility.* The Catoosa facility, which occupies approximately 138,000 square feet, has heat treating, testing and threading capabilities. The land on which the facility is located is leased from the Port of Catoosa.
- *Steel-Making.* TMK IPSCO's Koppel, Pennsylvania facility, which occupies approximately 265,000 square feet, produces steel billets from scrap using an EAF. It is capable of producing 5½ and 6½ inch steel billets. The majority of the billets are transferred to the Ambridge facility for seamless pipe production and the remainder are sold externally.

### *ULTRA Facilities*

TMK IPSCO manufactures premium connections and oilfield accessories at and provides field services for complex oil and gas exploration and production from our Houston and Odessa, Texas facilities. These services include fishing tool repair, custom threading and general oilfield machine work and manufacturing.

- *Houston facility.* The Houston facility (41,000 square feet) began operations in 2006 and is capable of manufacturing casing joints. The land and the facility are owned by ULTRA Premium Oilfield Services, Ltd.
- *Odessa facility.* The Odessa facility (27,000 square feet) is capable of manufacturing both tubing and casing joints. The Odessa facility comprises five physical locations. All the land and the facilities are owned by ULTRA Premium Oilfield Services, Ltd.

### *TMK-Artrom*

TMK-Artrom, a leading Romanian pipe manufacturer, was founded in 1982 and modernised in 1992. TMK-Artrom is located in Slatina, in southern Romania.

The plant produces seamless pipes for various applications, including for the mechanical engineering and automotive industries, as well as seamless line pipes for the oil and gas industry. TMK-Artrom's pipe products are exported to over 30 countries. TMK-Artrom does not have any in-house steel-making capacity.

TMK-Artrom's principal production facilities consist of:

- one double Assel line with one billet reducing mill, one piercing mill, two Assel pipe-rolling mills, one size mill and one reducing mill, a heat-treatment complex and a finishing line which consists of cutting, bevelling, non-destructive testing and hot-rolling mill;
- four cold rolling mills, a continuous furnace, in which the material being heated moves steadily on a conveyor through the furnace, and a bevelling machine, used in the production of cold rolled pipes; and
- a cross piercing elongator pipe rolling mill ("**CPE mill**") producing carbon steel pipes.

### *TMK-Resita*

TMK-Resita, a Romanian steel mill, was founded in 1771 and has recently undergone a number of significant modernisations. TMK-Resita is located in Resita, in south-western Romania, approximately 400 kilometres from TMK-Artrom.

TMK-Resita produces billets for TMK-Artrom and other consumers, as well as heavy round profiles, blooms and square billets. The majority of TMK-Resita's steel production is delivered to TMK-Artrom.

TMK-Resita's principal production facilities consist of a steel shop, including an EAF, a ladle furnace and a continuous casting machine.

### *TMK-Kaztrubprom*

Located in western Kazakhstan, TMK-Kaztrubprom specialises in the threading and finishing of tubing and casing pipes used in the oil and gas industry. We acquired TMK-Kaztrubprom in June 2008. The plant's production capacity is approximately 60,000 tonnes of pipes per year.

### ***Orsky Machine Building Plant***

Located in the Urals region, in the town of Orsk, Orsky Machine Building Plant produces a wide range of tool joints, drilling accessories, gas cylinders and hydraulics. Orsky Machine Building Plant is authorised by the American Petroleum Institute to manufacture drill pipe joints in compliance with the API Spec 7 international standards. Its quality management system is certified according to EN ISO 9001/API Q1 international standards and its products are delivered to both Russian and international customers.

### ***Truboplast***

Truboplast was founded in 1993 and it is located in Yekaterinburg, near the Ural mountains, in close proximity to our Seversky and Sinarsky mills.

Truboplast is one of Russia's largest producers of protective coatings to steel pipes and pipe fittings for oil and gas industry. Truboplast has a 50,000 tonne per annum coating capacity, representing about 2,000 linear kilometres per year of pipes with diameters ranging from 57 to 720 mm, such as tubing, drill pipes, casing, line pipes and large diameter pipes. Truboplast produces one-, two-, and three-layered exterior coatings, thermo-hydro insulated coatings, and interior protection for the inner part of the weld. Truboplast's products are used by major Russian and international oil and gas companies confronted with complex oil and gas drilling conditions that necessitate the use of anti-corrosive coatings.

### ***Central Pipe Yard and Pipe Maintenance Department***

In December 2007, we acquired certain service assets of TNK-BP including OOO "Central Pipe Base" and ZAO "Pipe Maintenance Department". These service companies specialise in the repair of tubing pipes, piston rods and pipe coatings, the manufacturing of pipe column sections and other downhole equipment as well as provide transportation services for tubular goods to oil field sites located in the Urals-Volga and Western-Siberian oil and gas regions. TMK plans to develop the companies by expanding their service offerings. At present, these service companies have the capacity to repair 760,000 pipes per year and to coat 690 linear kilometres of pipes per year.

## **Capital Expenditures**

### ***Strategic Capital Expenditure Programme***

Since 2004, we have engaged in a significant capital expenditure programme which, though currently put on hold in light of the current global economic crisis, is largely complete and has significantly increased our Russian seamless pipe production and enhanced the efficiency of our production processes. As a result of our strategic capital expenditure programme to date, we have increased our Russian seamless pipe production capacity by 0.9 million tonnes per annum to 2.9 million tonnes per annum and our Russian steel making capacity by 1.0 million tonnes per annum to 3.3 million tonnes per annum. As a result of the capital improvements we have thus far achieved, we believe we are well placed to capitalise on our improved production facilities and capacity once market demand returns.

Pursuant to our strategic capital expenditure programme, we made expenditures of U.S.\$1,390 million between 2005 and 30 June 2009. Our total expenditure under our strategic capital expenditure programme was U.S.\$550 million in 2008. Given the current financial and economic situation, we have adjusted our strategic capital expenditure programme and have, accordingly, curtailed spending under the programme.

Our strategic capital expenditure programme is focused principally on:

- increasing our seamless pipe production;
- increasing the efficiency of our production processes, through both the modernisation and expansion of our steel making operations and our pipe-rolling facilities;
- improving the quality and range of our products;
- increasing the production of high value added products; and
- reducing the environmental impact of our operations.

From 2004 to 30 June 2009, we made the following principal capital expenditures as part of our strategic capital expenditure programme:

- U.S.\$340.0 million to modernise our steel-making facilities for seamless pipes;
- U.S.\$238.3 million to increase production capacity for heat treatment and finishing of pipes;

- U.S.\$24.8 million to upgrade testing and control facilities;
- U.S.\$539.3 million to increase production capacity for and improve the quality of seamless pipes;
- U.S.\$215.9 million to increase production capacity for large diameter welded pipes; and
- U.S.\$25.4 million to enhance our environmental protection systems.

We have financed the major part of our strategic capital expenditure programme primarily out of cash flows from operating activities and existing cash balances and we plan to continue to finance the rest of our programme from these sources, as well as from debt financing and other sources as appropriate. See “*Management’s Discussion and Analysis of Financial Position and Results of Operations — Liquidity and Capital Resources*”.

As of 30 June 2009, we had total contractual commitments for the acquisition of property, plant and equipment from third parties of U.S.\$320.3 million, the majority of which relates to the continuation of our capital expenditure plan.

We believe that our experience in implementing large scale capital expenditure programmes will be important for the success of our current strategic capital expenditure programme. In particular, we expect to benefit from the experience of the management of Volzhsky, Russia’s largest integrated pipe plant, a number of whom participated in a major modernisation of the plant in 1990 and its subsequent upgrades. In April 2005, we also created a technical development department to oversee the implementation of our strategic capital expenditure programme.

A more detailed description of our planned expenditures under our strategic capital expenditure programme on a plant-by-plant basis is set forth below.

#### *Volzhsky*

Volzhsky is our most modern facility in Russia. It was substantially modernised in 1990 and, as a result, it is already equipped with EAFs, continuous casting machines and a continuous rolling mill. In 2008, we completed a new 650,000 tonne capacity large-diameter longitudinal welded pipe mill with anti-corrosion and smooth internal coating capacity, a new finishing line and a 340,000 tonnes per annum heat treatment line for casing and line pipes, which has increased Volzhsky’s production of high grade threaded and heat-treated line and casing pipes by over 150,000 tonnes and 200,000 tonnes per annum, respectively. Our principal future capital expenditure projects at Volzhsky include the upgrade of Volzhsky’s hot rolling capacity, which is expected to increase the capacity of Volzhsky’s hot-rolling complex to 630,000 tonnes of seamless pipes per annum. The key production equipment for the project has already been delivered to Volzhsky and installation and construction work is scheduled to start in 2010.

#### *Seversky*

Seversky is our oldest plant and currently conducts its steel making operations using an EAF and continuous casting machine, which replaced an open-hearth furnace and an ingot casting facility, respectively, as part of our strategic capital expenditure programme. In the fourth quarter of 2008, we completed a new one million tonnes of steel per annum EAF to replace Seversky’s former open hearth furnace, which is expected to increase Seversky’s steel output by 150,000 tonnes per annum, improve the quality of the steel it produces, significantly increase efficiency of its steel making operations and reduce emissions. In late 2009, we completed a vacuum steel degassing facility as part of the modernisation of Seversky’s steelmaking facilities. Our principal remaining capital expenditure project at Seversky includes construction of a new FQM. On 9 November 2007, we entered into an agreement to acquire an FQM from Danieli, a leader in the design, manufacture and installation of equipment for the steel industry, to be installed at Seversky. The modernisation of one of Seversky’s pipe rolling workshops with this new FQM (three-roll retained mandrel mill) is aimed at achieving cost savings, improving quality and product mix, and enhancing production of the seamless high-performance pipes for the oil and gas industry. The key production equipment for the project has already been delivered to Seversky and installation and construction work is scheduled to start in 2010. The new mill is expected to have capacity for 600,000 tonnes of pipes per year. A modern metallurgical complex is also being built in parallel to supply the new mill with billets.

#### *Tagmet*

Tagmet currently conducts its steel making operations using open hearth furnaces and a continuous casting machine. We plan to replace the open hearth furnaces as part of our strategic capital expenditure programme. In 2008, we completed construction of a new 600,000 tonne capacity PQF rolling mill to replace Tagmet’s existing pilger mill, which is expected to improve the productivity of Tagmet’s seamless pipe operations and the quality of its pipes and increase its seamless pipe output by 330,000 tonnes per annum. The new mill can produce high performance pipes, including pipes used in shale gas projects. In late 2008 and early 2009, we completed a heat



treatment line at Tagmet, which is fully automated and has a capacity of up to 200,000 tonnes per annum. Our remaining principal project at Tagmet includes construction of a new EAF to replace existing open hearth furnaces, which is expected to increase Tagmet's steel output by 400,000 tonnes per annum, improve the quality of the steel it produces, significantly increase the efficiency of its steel-making operations and reduce emissions. The key production equipment for the project has already been delivered to Tagmet and installation and construction work is scheduled to start in 2011.

#### *Sinarsky*

Our strategic capital expenditure programme for Sinarsky focuses on increasing the output and quality of its seamless production as well as enhancing its heat treatment and finishing capacity. In 2008, we introduced new heat treatment and finishing capacity, including a 200,000 tonnes per annum heat treatment line, two upsetting presses and new pipe preservative painting facilities, which have increased the plant's ability to produce premium value added pipes, and new testing and environmental systems, including new non-destructive testing equipment and hydraulic pressure testing equipment and new water treatment facilities, which have improved the plant's testing capabilities and improved its liquid waste treatment capacity. Our principal remaining projects at Sinarsky include:

- the installation of cold drawing equipment for carbon steel pipes, including a smelting facility and the modernisation of a cold-rolling mill; and
- the installation of cold drawing equipment for stainless steel pipes, including the construction of a protecting gas furnace;

#### *TMK-Artrom*

The installation of a new pipe-rolling line was completed in 2008 and, together with the planned upgrading of existing facilities, is expected to increase TMK-Artrom's production capacity by approximately 175,000 tonnes.

#### *TMK-Resita*

Principal projects for TMK-Resita under our strategic capital expenditure programme include a general facilities upgrade and an upgrade of its environmental protection facilities. These projects are expected to increase TMK-Resita's steel output to 450,000 tonnes per annum, decrease its raw materials requirements, improve the quality of its steel billets and reduce emissions.

Currently, however, our strategic capital expenditure programme is on hold in light of the effect that the global economic crisis has had on market conditions, our financial position and the availability of financing. Additionally, once we resume the programme, it remains subject to revision and it is possible that our actual expenditures and production output results will differ, perhaps to a significant extent, from our estimates. See "*Risk Factors — Risks Relating to Our Business and the Pipe Industry — Steel pipe production is capital intensive, and the remaining projects in our capital investment programme may not be implemented on schedule or within budget, which could have a material adverse effect on our business, financial position and results of operations*".

#### **TMK IPSCO**

In addition, TMK IPSCO has certain limited capital expenditure plans which do not fall within our strategic capital expenditures programme and relate principally to the introduction of new equipment and the replacement of existing equipment at various U.S. facilities. In 2009, new heat treatment facilities were brought on stream at TMK IPSCO's Baytown and Blytheville mills in the United States. Each of these fully automated facilities is designed to heat treat and finish up to 100,000 tonnes of pipe per year.

### **Strategic Ventures**

#### *Strategic Venture with Corinth Pipeworks*

In January 2007, Seversky entered into a strategic venture with Corinth Pipeworks S.A., a leading producer of welded pipes in Greece, for the production of electric resistance welded ("ERW") longitudinal welded pipes with diameters from 168 mm to 530 mm principally for use in oil and gas, construction and machine building applications. We hold 51% of the strategic venture and Corinth Pipeworks holds 49% of the strategic venture. We contribute land and facilities to the strategic venture and Corinth Pipeworks contributes welding equipment. Under the terms of the strategic venture, Corinth Pipeworks has an option to sell its interest in the strategic venture back to us in the event of certain significant adverse changes in the economic, political or legal environment relating to the strategic venture or in the case of deadlock. In July 2007, the strategic venture launched a new production line at

Seversky. We expect that our strategic venture will have a capacity to produce 220,000 tonnes of medium-diameter welded pipes per annum.

## **Raw Materials**

Our raw material requirements consist principally of the following:

- *Integrated Seamless Pipe Operations:* Our principal raw materials are scrap metal, pig iron, ferroalloys and refractories purchased from third party suppliers.
- *Other Seamless Pipe Operations:* Our principal raw materials are steel billets purchased from third party suppliers as well as produced by our integrated steel operations.
- *Welded Pipe Operations:* Our principal raw materials for the production of welded pipes are steel plates and steel coils purchased from third party suppliers.

In the first six months of 2009, our raw material costs amounted to U.S.\$720.8 million, which represented 60.6% of our total cost of production.

## **Seamless Pipe Operations**

We produce steel for use in our seamless pipe-making operations at Volzhsky, Tagmet and Seversky. Our seamless pipe production facilities at Volzhsky, Tagmet and Seversky are now integrated, such that we supply substantially all of the steel billets required for our own seamless pipe production at such facilities, with the exception of certain special high-grade steel billets, which we purchase in small amount, from third parties. In addition, TMK-Resita provides TMK-Artrom with substantially all of its steel billet requirements.

Sinarsky, which does not have internal steel making facilities, purchases steel billets from a number of Russian integrated steel companies including Evraz, OOO Ural Steel, Orsky Machine Building Plant, OAO ZMZ and Mechel Steel Group. In addition, Volzhsky, Seversky and Tagmet supplied Sinarsky with approximately 74% of its annual steel billet requirements in 2008.

EAFs, which we operate at Volzhsky, TMK-Resita and, since the fourth quarter of 2008, Seversky, consume almost exclusively scrap, whereas open hearth furnaces consume significant amounts of pig iron. As part of our strategic capital expenditure programme, we replaced Seversky's open hearth furnace with an EAF in 2008 and plan to construct a new EAF to replace the existing open hearth furnace at Tagmet. These improvements are expected to reduce further our pig iron and ferroalloy requirements and increase our scrap metal consumption.

Steel for use in our United States seamless pipe-making operations is produced at TMK IPSCO's Koppel, Pennsylvania facility. The Koppel facility supplies substantially all of the steel billets required for our seamless pipe production at our Ambridge facility and sells a small quantity of its steel billets externally.

For several years, we have purchased scrap metal in Russia from a strategic supplier, with which we maintain a positive relationship. We also obtain it internally from waste created in our steel making and pipe-making operations. Once we are in a position to obtain the necessary financing, we intend to acquire a major steel scrap collector and processor to better control the availability and quality of our scrap as well as reduce our raw material costs and are currently in discussions with one of our principal scrap suppliers regarding a potential acquisition. We purchase our pig iron in Russia principally from Evraz, OAO Mechel and OAO Tulachermet. We purchase ferroalloys, which are used in various stages of the steel making process, such as deoxidation, and provide properties needed to make particular steel products, principally from a number of Russian and Ukrainian suppliers, including ChEMK, Serovsky Ferroalloy and Nikopol Ferroalloy. We purchase refractories, which are heat resistant materials used to line our open hearth furnaces and EAFs, from a number of Russian suppliers, including Satkinsky Magnesite. TMK-Resita sources most of its scrap from suppliers in Romania, Serbia, Hungary and Bulgaria and also derives a portion of its scrap requirements from the dismantling of its obsolete assets. TMK-Resita purchases most of its refractories from European producers. Though Russian scrap prices rose significantly in 2007 and the first half of 2008 and nearly reached world benchmark scrap prices, they have decreased significantly since the second half of 2008. In the first half of 2009, based on data from the industry publications Metal Courier, the delivery price of heavy metal scrap — HMS1-FOB Rotterdam scrap — was approximately U.S.\$228-234, whereas the average Russian scrap metal price was approximately U.S.\$138-150. In 2008 and 2007, delivery prices of heavy metal scrap were approximately U.S.\$433-442 and U.S.\$295-300 per tonne, respectively, whereas the average Russian scrap metal prices were approximately U.S.\$315-317 and U.S.\$221-231 per tonne, respectively (excluding VAT).

TMK IPSCO obtains scrap metal for its steel operation at Koppel from a number of regional scrap companies and from its internally created scrap. TMK IPSCO purchases ferroalloys, which are used in various stages of the steel-

making process, such as deoxidation, and provide properties needed to make particular steel products, principally from Traxys, Minerais and Climax. TMK IPSCO purchases refractories, which are heat resistant materials used to line our open hearth furnaces and EAFs, from Vesuvius, Universal and LWB. United States scrap prices have decreased significantly in the second half of 2008, but since then scrap has recovered to some degree to an average of approximately U.S.\$187 per tonne of delivered scrap in the first six months of 2009.

The benefits from having in-house steel production include lower prices, as scrap is cheaper and less expensive to transport than semi-finished products; greater quality control and greater speed to market; and greater operational flexibility.

### ***Welded Pipe Operations***

For the production of welded pipes in Russia, we purchase steel plate and coils from international and Russian producers for processing into welded steel pipes. Our principal suppliers of steel plate include MMK, Dilinger, Salzgitter, OAO Azovstal, MMP Iljich and Voestalpine AG. Our principal suppliers of steel coil include MMK, Severstal, Novolipetsk and Zaporozhstal. For the production of welded pipes in the United States, coils are purchased from 8 domestic steel producers for processing into welded steel pipes. Principal suppliers of steel hot rolled band coil include SSAB, Nucor and Severstal. TMK IPSCO's pipemills are in close proximity to the steel mills which supply TMK IPSCO.

### ***Supply Agreements***

Most of our raw material supply agreements represent framework agreements for a period of one calendar year, which may be extended for the following calendar year. Terms of delivery of products under our supply agreements are generally determined based on individual orders. While we generally enter into short-term one year supply agreements with our principal suppliers of raw materials, in June 2005 we entered into a long-term agreement with MMK, one of Russia's largest ferrous metal production companies, for the supply of strip rolled stock to be used by our Volzhsky plant in the production of large diameter pipes for the oil and gas industry, including 1,420 mm diameter pipes, as a means of better securing the availability of key raw materials. Annual purchase volume of strips under the agreement is estimated to be approximately 400,000 tonnes, which accounts for more than 50% of our needs for steel strips. Under the agreement, prices for the supplied products are to be adjusted quarterly.

In addition, on 8 February 2007 we signed a strategic cooperation memorandum with MMK. Pursuant to the terms of the memorandum, we have agreed to cooperate on future joint activities relating to the implementation of key technologies at MMK's mills and at our mills, the use of MMK products in the production of new types of pipes by us, and on future deliveries of wide plates for longitudinal large diameter welded pipes. MMK is one of the main suppliers of flat rolled steel for pipe production at our mills. The memorandum also establishes a joint research and development programme to create new products. TMK IPSCO does not rely on a single source of supply for skelp material. Aiming to have diversified supply channels, TMK IPSCO cooperates with numerous U.S. flat steel producers.

### ***Energy and Utilities***

Our steel making and pipe-rolling operations require a significant amount of electrical power and heat energy. In the first six months of 2009, energy and utilities costs related to our costs of production amounted to approximately 8.6% of our total costs of production, as compared to 8.0% in the first six months of 2008. In 2008, energy and utilities costs related to our costs of production amounted to approximately 6.7% of our total costs of production. In 2008, our Russian plants consumed approximately 2.180 billion kWh of electricity, as compared to 2.200 billion kWh in 2007.

We purchase electricity from certain electricity suppliers. The average cost of electricity purchased in 2008 was RUB 1.25 per kWh. In addition, Sinarsky has its own electricity generating capabilities and produced 97.5 million kWh of electricity in 2008, which comprised approximately 30% of its total electricity consumption. Prices for electricity in the Russian market have continued to increase and we expect further increases as a result of the significant capital expenditure requirements of the Russian electricity industry and the liberalisation of the energy market. See "*Risk Factors — Risks Relating to Our Business and the Pipe Industry — Increasing tariffs and the continuing liberalisation of the Russian energy sector could adversely affect our business*". We expect that with the planned installation of EAFs which consume electricity instead of natural gas at our Tagmet and Seversky plants our electricity costs will increase as a percentage of our total energy costs.

We also use natural gas, principally to heat our open hearth furnaces. We purchase all of our natural gas supplies from subsidiaries of Gazprom. In 2008, we purchased 897 million cubic metres of natural gas as compared to 943 million cubic meters in 2007. Average natural gas tariffs increased by approximately 25% in 2008, as compared to 2007. In 2008, we replaced our open hearth furnace in Seversky and plan to replace our open hearth furnace in

Tagmet with an EAF. We believe that these improvements will serve to reduce our consumption of natural gas. The increase in consumption of electricity due to the addition of EAFs and simultaneous reduction in our consumption of natural gas due to closure of our open hearth furnaces should have a positive effect on our energy and utility costs.

## **Sales and Marketing**

We sell our products to customers in over 60 countries through two principal channels:

- directly, pursuant to ongoing supply contracts and tenders, to both Russian and non-Russian customers; and
- through wholesale traders for onward sale to end-use customers, principally in some of our export markets.

In addition, to satisfy the immediate demand of some of our customers, we maintain inventories of our products at our own warehouse facilities.

We sell our products in Europe, the Middle East, North America, Central Asia, South Asia and the Far East as well as to customers in Russia. In the first six months of 2009 and 2008, sales in Russia accounted for 68% and 71%, respectively, of our consolidated sales by volume. In recent periods, the percentage of our sales to customers outside of Russia has increased significantly principally as a result of our acquisition of TMK IPSCO and our enhanced focus on our Romanian operations. See “*Management’s Discussion and Analysis of Financial Position and Results of Operations — Results of Operations*” for a discussion of our revenue based on the legal location of the customer.

Our principal customers include major Russian oil and gas companies, such as Rosneft, TNK BP, Surgutneftegas, Gazprom, LUKOIL and Transneft and, major multinational oil and gas companies, such as Royal Dutch Shell, Agip, Total and ExxonMobil and national oil companies, such as Saudi Aramco, ONGC and KOC. In the United States, our major customers include ExxonMobil, BP, Chevron and Marathon Oil. In the first six months of 2009, our five largest customers by sales volumes were Surgutneftegas, TNK BP, Gazprom (including its subsidiaries), Rosneft and LUKOIL, which together accounted for approximately 32% of our total sales volumes.

## **Marketing**

We seek to tailor our sales and marketing strategies to our customers and the markets we serve. Our subsidiary, TMK Trade House, headquartered in Moscow, coordinates all of our Russian and CIS sales (other than sales in Kazakhstan) and is principally responsible for establishing, expanding and maintaining contacts with customers, conducting market development studies, marketing and promotion. TMK Trade House has six branch offices in Russia as well as representative offices in Azerbaijan, Turkmenistan, Singapore and China. In Kazakhstan, our sales operations are carried out by our wholly owned subsidiary, TMK-Kazakhstan. We also have a network of over 80 official distributors throughout Russia and the CIS, which principally market and sell our industrial welded pipes.

Our sales operations outside of Russia, CIS and Asia are coordinated principally by our subsidiaries: TMK Global, headquartered in Switzerland, TMK Europe, headquartered in Germany, TMK IPSCO and TMK North America, headquartered in the United States. Under agency agreements with TMK Trade House, our Russian plants deliver their products to TMK Trade House which in turn ships the products to TMK Europe and TMK Italy for the European market, to TMK North America for the North and South American market, and to TMK Global for markets in other parts of the world (other than America and Europe). With the acquisition of TMK IPSCO, we have now obtained significant access to the North American markets. TMK IPSCO coordinates the sales in the Western Hemisphere of all of the United States production facilities and the sales of imported products from our Russian and Romanian production facilities.

We seek to develop close, long-term relationships with our customers, including end customers who purchase our products through international wholesale traders, by seeking to provide them with a consistent quality of products, competitive pricing and timely delivery of orders. We also seek to respond to our end-customers’ individual requirements, ranging from specific packing or delivery requirements to the development of new products, including products manufactured using our own premium threaded connections. We periodically conduct customer satisfaction surveys and also arrange meetings with customers to discuss our products and services and their specific requirements. We attend major steel and pipe industry conventions to maintain and enhance our profile, and our press service issues regular press releases in various publications to publicise significant developments in our business operations.

As part of our downstream and marketing strategy, in 2007 we increased our distribution capabilities after the opening of representative offices in Singapore and Turkmenistan and the setting up of stockyards for storage of our pipe products in Houston, Texas, where we already have offices. We have also set up a stockyard in Dubai, United Arab Emirates, to supply pipes to the oil and gas industry in the Middle East. In addition, as an integral part of expanding our OCTG business, we intend to develop our threading capabilities and downstream services such as threading repair and maintenance. In furtherance of this goal, we have recently acquired the service assets of TNK



BP. In 2008, we enhanced our access to the Kazakhstan market via the acquisition of TMK-Kaztrubprom, which has 60,000 tonnes of OCTG finishing services capacity.

As a result of the current economic crisis, we have become more active in our non-core markets, including Latin America, central and North Africa and Southeast Asia. We are also taking active steps to protect our main Russian and U.S. markets by cooperating with state and non-state authorities on the introduction of protective tariffs.

We also expect to enhance our international profile through our ongoing qualification programmes with target customers. In addition, we derive a small portion of our revenues from leasing drill pipes, which can be reused, to our oil and gas customers.

### *Sales*

We sell our products primarily pursuant to sales contracts with our customers, including our international wholesale trading partners, typically based on standard industry terms and conditions. We set prices for our customers on a quarterly or semi-annual basis in order to allow for adjustments in line with our price lists, which we revise each calendar quarter. We may in some circumstances, such as in the case of large volume orders, offer discounted prices. Generally, we require our Russian customers to pay us in advance of the delivery of our products, while we generally permit our customers we deem reliable to pay us within 45 days of delivery.

We have entered into framework supply agreements with many of our principal Russian customers, including Surgutneftegas, LUKOIL and Slavneft. Under such agreements, each delivery of pipe products is made pursuant to individual purchase orders submitted by our customers. We also have a well-established supply relationship with Gazprom and its subsidiaries and have entered into long-term supply agreements with some of our principal customers, including TNK-BP. Our long-term supply and cooperation agreements include:

- In May 2005, we entered into a supply agreement with TNK-BP pursuant to which we agreed to supply TNK-BP with OCTG and other kinds of oil and gas pipes through 31 December 2007. In December 2006, we extended our supply agreement with TNK-BP to 2012. The agreement provides that TNK-BP will buy a range of pipes from TMK for approximately U.S.\$2 billion over five years to 2012 and the volumes are guaranteed;
- In June 2006, we entered into a three-year strategic cooperation agreement with Salym Petroleum Development N.V., an affiliate of Royal Dutch Shell, for the supply of pipe products. Pipes supplied under the agreement are to be made pursuant to purchase orders, the terms and conditions of which are to be agreed on a quarterly basis. The agreement provides, among other things, for tentative delivery quantities of between 41,000 and 49,000 tonnes of OCTG per annum;
- We also have long-term supply and co-operation agreements with the following oil and gas companies: Wintershall and Rosneft; and
- On 17 May 2007 we entered into a long-term strategic partnership agreement with Surgutneftegas. The strategic partnership agreement is valid for three years and may be extended with the agreement of both parties. Surgutneftegas is looking to strengthen its market positions in Russia and abroad and we have agreed to cooperate with Surgutneftegas in the production and supply of steel pipes. Steel pipes produced by our plants will be supplied to Surgutneftegas to meet its oil production needs. This agreement came about as a result of the Scientific-Technical Cooperation Joint Programme for 2007-2010, which we established with Surgutneftegas in 2006. Additionally, in December 2009, we entered into a supply agreement with Surgutneftegas relating to 2010 deliveries and pursuant to which we expect to deliver to Surgutneftegas an aggregate amount of 164,500 tonnes of casing, tubing, line pipe and drill pipe products over the course of 2010.

We also participate as a supplier of both seamless and welded line pipes for major oil and gas pipeline projects in Russia and the CIS, including BPS-2, which connects oil fields in Western Siberia to a Russian port on the Gulf of Finland, and the Sakhalin-Khabarovsk-Vladivostok gas pipeline. In 2009, we also delivered pipes for the construction of the Pochinki-Gryazovets pipeline and the Bovanenkovo-Ukhta gas pipeline. We are also supplying or have previously supplied pipes to several other significant international pipeline projects, including the onshore portion of the Nord Stream gas pipeline, which will connect Russia to Germany via the Baltic Sea and is expected to be completed in 2010; the construction of the CAC Pipeline, which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to China; and the Yamal Europe gas pipeline, which connects Western Siberian gas fields to Poland and Western Europe. We are also supplying pipes for phase two of the ESPO Pipeline, which will run from Eastern Siberia to the Amur region near the border with China.



### *Russian Sales*

Our customers in Russia principally include the major oil and gas companies and machinery and power generation enterprises. Gazprom (including its subsidiaries) is our most significant customer, accounting for approximately 10% of our sales volumes in 2007, 9% of our sales volumes in 2008 and 5% of our sales volumes in the first six months of 2009.

The following table sets forth, as a percentage of our total sales volumes in Russia, our consolidated sales volumes in Russia by seamless and welded pipes for the periods indicated.

|                        | Six months ended<br>30 June |              | Year ended 31 December |              |              |
|------------------------|-----------------------------|--------------|------------------------|--------------|--------------|
|                        | 2009                        | 2008         | 2008<br>(%)            | 2007         | 2006         |
| Seamless . . . . .     | 66.5                        | 64.5         | 64.8                   | 62.4         | 60.1         |
| Welded . . . . .       | 33.5                        | 35.5         | 35.2                   | 37.6         | 39.9         |
| <b>Total . . . . .</b> | <b>100.0</b>                | <b>100.0</b> | <b>100.0</b>           | <b>100.0</b> | <b>100.0</b> |

Our Russian production facilities are located in large industrial areas and have long-standing relationships with local end-user customers dating from the Soviet era. In particular, our Sinarsky and Seversky plants, which are located in the Ural region near key oil and gas fields, are oriented to domestic market sales.

We also operate warehouses in Moscow and the surrounding regions, where we sell primarily welded pipe products to wholesalers. We realise higher margins on these sales compared to our other sales of comparable products, and we intend to open such warehouses in other Russian regions in the future, once we are in a position to obtain the necessary financing. Through these sales, we also identify potential new end-user customers of our products and market our production capabilities and products directly to them. We are considering expanding the kinds of services provided by our warehouses and pilot service centre to include the supply of spare parts, OCTG repair and threading operations. Although we have begun to sell larger volumes of our OCTG products outside of Russia in the wake of our acquisition of TMK IPSCO, we still sell most of our OCTG products domestically principally to large Russian oil and gas producers pursuant to tenders or directly under contracts with such customers.

In 2007, our four largest domestic customers of seamless pipes by sales volumes were TNK BP, Surgutneftegas, LUKOIL and Rosneft, which together accounted for approximately 30% of our total volume of seamless pipe sales. In 2008, our four largest domestic customers of seamless pipes by sales volumes were TNK BP, Surgutneftegas, LUKOIL and Rosneft, which together accounted for approximately 34% of our total volume of seamless pipe sales. In the first six months of 2009, our four largest domestic customers of seamless pipes by sales volumes were TNK BP, Surgutneftegas, LUKOIL and Rosneft, which together accounted for approximately 40% of our total volume of seamless pipe sales. In 2008, our three largest domestic customers of welded pipes by sales volume were Gazprom, Steel Industrial Company, a major Russian wholesaler and retailer of rolled metal products, and Rosneft, which together accounted for approximately 19% of our total volume of welded pipe sales. Gazprom currently buys the entire output of 1,420 mm pipes produced at Volzhsky. Our sales of large diameter pipes to Gazprom amounted to approximately 265,200 tonnes of pipes in 2006, 252,100 tonnes of pipes in 2007 and 170,800 tonnes of pipes in 2008. The decrease in our sales of large diameter welded pipes to Gazprom in 2007 and 2008 was primarily due to a change in specifications with respect to wall thickness and internal coating requirements, in the orders for welded pipes, which reduced the tonnage of pipes sales to Gazprom. We expect that the commissioning of a new longitudinal welded pipe mill in 2008 and a new internal coating line, both at Volzhsky, will significantly enhance our prospects of meeting Gazprom's requirements. In the first six months of 2009 and 2008 and the years ended 31 December 2008 and 2007, we sold approximately 84%, 64%, 76% and 72%, respectively, of our large diameter welded pipes domestically.

### *Sales Outside Russia*

Our sales outside of Russia, which are comprised principally of our sales activity in the United States through TMK IPSCO and our sales activity in Europe through our Romanian subsidiaries, consist primarily of OCTG and line pipe for the oil and gas industry and industrial seamless pipes. In addition, we export pipes outside of our primary markets to Africa, Asia and the Middle East, among other regions. In the first six months of 2009, OCTG and line pipe amounted to 58% of our total sales volumes outside of Russia, as compared to 45% in the first six months of 2008. In 2008, OCTG and line pipe amounted to 58% of our total sales volumes outside of Russia, as compared to 41% in 2007 and 44% in 2006. The increase in 2008 was primarily attributable to our acquisition of TMK IPSCO, which led to increases in our sales of welded OCTG and line pipes outside of Russia.

The following table sets forth, as a percentage of our total non-Russian sales volumes, our consolidated non-Russian sales volumes by seamless and welded pipes for the periods indicated.

|                        | Six months ended<br>30 June |              | Year ended 31 December |              |              |
|------------------------|-----------------------------|--------------|------------------------|--------------|--------------|
|                        | 2009                        | 2008         | 2008<br>(%)            | 2007         | 2006         |
| Seamless . . . . .     | 57.4                        | 69.1         | 55.5                   | 74.5         | 74.2         |
| Welded . . . . .       | 42.6                        | 30.9         | 44.5                   | 25.5         | 25.8         |
| <b>Total</b> . . . . . | <b>100.0</b>                | <b>100.0</b> | <b>100.0</b>           | <b>100.0</b> | <b>100.0</b> |

Our sales of welded pipes increased significantly in the first six months of 2009 as compared to the first six months of 2008 primarily as a result of our June 2008 acquisition of TMK IPSCO, which focuses primarily on welded OCTG operations in the United States, where welded pipes represent a significant portion of the OCTG market.

Our sales of seamless pipes from Russia to customers in the European Union are limited by anti-dumping duties which apply to the import into the European Union of a broad range of seamless pipes manufactured by us. See “— *Legal Proceedings — Anti-dumping Proceedings*” and “*Risk Factors — Risks Relating to our Business and the Pipe Industry — Anti-dumping proceedings and other import restrictions may limit sales of our products in important geographical markets, in particular Europe*”. While a significant percentage of our pipes is purchased through European agents and representatives for other markets, some of the end customers for our OCTG and line pipe do take delivery of and use our pipes in the European Union. The duties were introduced in June of 2006 (by means of European Council Regulation (EC) No. 954/2006) for pipes from Croatia, Romania, Russian Federation and Ukraine. In case of TMK-Artrom the duties have had no significant effect. Prior to Romania’s accession to the European Union, TMK-Artrom had managed to secure permission to export annually up to 24,000 tonnes of certain kinds of seamless pipes that are subject to the European Council Regulation (EC) No. 954/2006 (the “**Anti-dumping Regulation**”) to the European Union free from anti-dumping duties. Romania acceded to the European Union on 1 January 2007 and the Anti-dumping Regulation ceased to apply to pipes produced by TMK-Artrom. With respect to our Russian plants, in June of 2007 the European Commission initiated a review with a view to a possible reduction of duties levied on exports to the European Union from our Russian plants. In August 2008, the duty was decreased to 27.2%.

In the first six months of 2009 and 2008, we exported approximately 23,000 tonnes and 26,900 tonnes, respectively, to North America from our non-U.S. plants, while in 2008 and 2007, we exported approximately 109,600 tonnes and 49,500 tonnes, respectively, of pipes to North America from our non-U.S. plants. Our acquisition of TMK IPSCO has enhanced our ability to ship both finished and green pipes from Russia to the United States for threading and subsequent sale to customers. TMK IPSCO has an established network of distributors and sales representatives throughout the United States with strong relationships with end use customers. TMK IPSCO is continuing to expand this network throughout the Americas.

Our largest export customers by net sales by value in the United States include Vass Pipe & Steel Co., Inc., Tool Pusher Supply Co., Bourland & Leverich Supply Co., National Tube Supply Inc., Energy Alloys, LLC, AM TEX Machine Products Inc., Continental Alloys & Services Canada, and Continental Alloys & Services.

Other largest export customers include:

- Rotac, Duferco and Lone Star in the Americas;
- Jardboranir, PPC, Marubeni Itochu and Arcelor projects in Europe; and
- Saudi Aramco, LOC, PDO, Occidental of Oman, SPC, Al-Furat, Offshore Engineering, PPME, Sonatrach, Petrosteel, Kala-Naft, Sigma Supplies, Snepco, SPDC, Waha, EZPC, Wintershall, Dublin International, Repsol, SABIC, Suez Oil Company, Peak, Dana Petroleum, Gulfsands, South Pars, Oil India, ONGC, OGDCL, SSKOC, SITEP, PVT, Orient Petroleum, Gaz de France, and Perenco in Middle East and Africa.

## Transportation

We ship our products principally by railway, water and motor transport. Substantially all of our finished products produced at our Russian operations are transported by railway directly to customers as well as to sea ports (Novorossiysk, Taganrog, Saint Petersburg, Astrakhan in Russia and Ilyichevsk in Ukraine) and the Volzhsky river port for export. A small portion of our products are delivered by motor transport. We have also concentrated our transportation and logistics operations in our subsidiary TMK Trade House, to allow each of our operating facilities to benefit from the TMK Group’s centralised planning, logistics and control systems.

Our main provider of rail transportation services is Russian Railways, the tariffs for which are set by Russian Railways and regulated by Russian Railways and the Federal Tariffs Service. Our main export points for sea transportation are on the Black Sea and Azov Sea. During the navigable season, we use shipment via the Volga River to European destinations, including the Netherlands and Romania. For export sales, we generally deliver our products on the following terms: for pipes delivered by rail, FCA (free carrier) or CPT (carriage paid to); for pipes delivered by sea, FOB (free on board) or CIF (cost, insurance and freight)/CFR (cost and freight) (to different ports of destination).

For our Russian sales, title to the products generally transfers upon loading of products into railway wagons at our plants.

In addition, the proximity of Sinarsky and Seversky, which are situated east of the Ural mountains, close to the main oil and gas fields of Western Siberia and the proximity of Volzhsky and Tagmet (whose production is export-oriented) to the ports of Black and Azov seas helps us to reduce our transportation costs.

## Research and Development

We engage in research and development of new products to meet the increasingly stringent requirements of our customers. Our research and development activities are carried out by the Directorate of the Chief Technologist, often in cooperation with Russian federal authorities (such as the Ministry of Industry and Science and Gosstandart), customers (such as Gazprom and Transneft), and suppliers (such as Severstal and MMK). We also cooperate with leading Russian industrial institutions in the gas industry (VNIIGAS), ferrous metals industry (CNII Chermet), oil and gas transportation industry (VNIIST) and energy equipment industry (CNIITMASH). Additionally, TMK IPSCO is in the process of developing a U.S. research and development centre, which will be based at its Baytown facility.

Product development and research projects we currently conduct include:

- development of spiral welded pipes using strong steel grades, such as API steel grades X70 - X100, which can withstand high levels of pressure;
- development of new types of external and internal insulating covers for oil and gas transmission pipes;
- smelting, billet production, rolling and heat treatment of high strength threaded cold resistant and hydrogen sulphide resistant pipes;
- development of casing and pump compressor pipes with different types of coating, including premium-class threaded pipes; and
- development of corrosion testing techniques.

In addition to research and development aimed at new or improved products, we continuously study opportunities to improve the efficiency of our manufacturing processes and, in particular, our steel production processes. See “— *Capital Expenditures — Strategic Capital Expenditure Programme*” for a description of our future strategic investment initiatives.

We are also working with the Russian Fund for the Development of the Pipe Industry and other Russian pipe producers to develop new technical rules and national standards for pipes.

In March 2007 we acquired from a related party, Sinara Group S.A., a controlling interest in RosNITI, which is engaged in the scientific and technological development of the Russian pipe industry, to enhance our research and development capabilities.

When appropriate, we seek to register rights to intellectual property that may result from our research and development efforts. As at 30 June 2009, our Russian plants had obtained 100 patents for inventions and 14 patents for design.

We spent U.S.\$15.2 million for research and development in 2008 as compared to U.S.\$10.1 million in 2007 and U.S.\$6.7 million in 2006. However, as a result of the onset of the global economic crisis in the second half of 2008, we have since curtailed funding for research and development. In the first six months of 2009, our expenses toward research and development decreased to U.S.\$4.8 million as compared to U.S.\$6.4 million in the first six months of 2008.

## Competition

### Global Market

Global pipe markets are highly competitive, particularly in view of the current poor global economic and financial conditions. The primary competitive factors consist of quality, price and value added features, such as premium threading, special steel grades and related services. The production of seamless steel pipe products following the stringent requirements of major oil and gas companies requires the development of specialised skills and significant investments in manufacturing facilities. In comparison, seamless pipe products for standard applications can be produced in most seamless pipe mills worldwide and sometimes compete with welded pipe products for such applications. Welded pipe, however, is not generally considered a satisfactory substitute for seamless steel pipe in high-pressure or high-stress applications, which constitute a significant segment of our target market.

We estimate that in 2008, we were the second largest producer of steel pipes in the world with an approximate 3% market share.

Our principal competitors in the international seamless steel pipe markets are:

- *Tenaris S.A.* is generally regarded as the world's largest supplier of seamless pipes, with a focus on seamless pipes to the oil and gas, energy and other industries. Tenaris has manufacturing facilities in Argentina, Mexico, Columbia, the United States, Canada, Italy, Romania and Japan. We estimate that Tenaris had approximately 3.5% of the worldwide market for steel pipes by sales volume in 2008;
- *Vallourec S.A.*, has hot rolled pipes facilities in Brazil, France, Germany and the United States. Vallourec has a strong presence in the European market for seamless pipes for industrial use and a significant market share in the international market with customers primarily in Europe, the United States, Brazil and the Middle East. Vallourec is an important competitor in the international OCTG market, particularly for high-value premium joint products. We estimate that Vallourec S.A. had approximately 2.5% of the worldwide market for steel pipes by sales volume in 2008; and
- *Sumitomo Metal Industries Limited*, based in Japan, has established a strong position in the markets in the Far East, North America and the Middle East. It is internationally recognised for the high quality of its products and for its supply of high-alloy grade pipe products. We estimate that Sumitomo had approximately 1.1% of the worldwide market for steel pipes by sales volume in 2008.
- *Chinese producers, including Baosteel and TPCO*, are rapidly becoming significant competitors globally. While Chinese producers have historically competed primarily in the "commodity" sector of the market, where price is more important than quality and service, these producers have been increasing their product quality and capacity and are becoming stronger competitors on the international market. Each of Baosteel and TPCO is state-owned and has direct and indirect forms of state financial support. We estimate that Baosteel and TPCO had approximately 1.8% and 1.4%, respectively, of the worldwide market for steel pipes by sales volume in 2008.

Ukrainian producer Interpipe has also historically competed in the "commodity" sector of the market, and, like the Chinese producers, is rapidly improving the quality of its products and capacity. We estimate that Interpipe had approximately 0.9% of the worldwide steel pipes market by sales volume in 2008.

### Russia

We estimate that we were the largest producer of steel pipes in the Russian market in 2008, with an estimated 31% of the market based on sales volume in the first six months of 2009. As a result of restrictions on imports of steel pipes to Russia, which are subject to import duties of up to 20%, we face relatively limited competition in most market segments in Russia from imports. See "*Risk Factors — Risks Relating to Our Business and the Pipe Industry — We benefit from barriers to the import of steel pipe products into Russia and, to a degree, the United States, the removal of which could lead to increased competition and adversely affect our financial position and results of operations*". We estimate that imports represented approximately 10% of the total sales of steel pipes in Russia by volume in the first six months of 2009, most of which were supplied by Ukrainian producers in the "commodity" sector of the market.

### OCTG

We currently estimate that in the first six months of 2009, our share in the Russian market for seamless OCTG based on sales volumes is approximately 70%. The only other significant producer of OCTG in Russia is the ChTPZ Group, which controls Chelyabinsk Tube Rolling Plant and Pervouralsky Novotrubny Works. UMC, which

controls, among others, Vyksa Steel Works and Almeteyevsky Pipe Plant, also produces certain grades of welded line and OCTG pipes that compete with our seamless line and OCTG products for certain applications.

#### *Seamless Line Pipe*

We currently estimate that we have an approximate 65% share in the Russian market for seamless line pipe based on sales volumes in the first six months of 2009. The ChTPZ Group is our only significant competitor in the Russian market, with a market share of approximately 28% of the market.

#### *Seamless Industrial Pipe*

We currently estimate that we have an approximate 32% share in the Russian market for seamless industrial pipe based on sales volumes in the first six months of 2009. The ChTPZ Group is the largest producer in Russia in this segment with a market share that is slightly under 50%.

#### *Large Diameter Welded Pipe*

We currently estimate that we have an approximate 13% share in the Russian market for large diameter welded pipe based on sales volumes in the first six months of 2009. UMC, Severstal (Izhora plant) and the ChTPZ Group are our principal competitors in this segment. Competition in this sector is increasing following the launch by UMC in 2007 of 1,420 mm diameter pipe production using imported heavy plates, and the commissioning in July 2006 of a new facility for the production of such pipes by Severstal. As a result of our completion of a new line for the production of large-diameter longitudinal welded pipes at Volzhsky in late 2008, we have provided a basis for consolidation of our market share.

#### *Industrial Welded Pipe*

We currently estimate that we have an approximate 20% share in the Russian market for industrial welded pipe based on sales volumes in the first six months of 2009. There are a large number of Russian producers in this market, of which we are among the largest, together with UMC. We are also subject to some competition in this market segment from importers, primarily from Ukraine.

Our principal competitors, other than Chinese producers, in the Russian market are:

#### **ChTPZ Group**

The ChTPZ Group, which includes Chelyabinsk Tube Rolling Plant and Pervouralsky Novotrubny Works, is located in the Urals region. ChTPZ has been actively modernising its large diameter welded pipe production. ChTPZ is expected to commission a new longitudinal welded pipe mill in 2010, which will allow ChTPZ to produce longitudinal large diameter pipes with diameters of up to 1,420 mm. ChTPZ is also reportedly contemplating an investment to enhance its own steel making facilities which would enable it to have greater control over production quality and speed of delivery, adding to its competitive strength in the industrial seamless pipe segment.

#### **United Metallurgical Company**

UMC, which includes Vyksa Steel Works and Almeteyevsky Pipe Plant, is headquartered in the Nizhny Novgorod region of Russia and produces welded pipes. In 2008 UMC installed and this year is ramping up a new scrap based integrated complex for coils production for industrial welded pipes. This plant produces hot rolled strip of up to X65 and X70 API grades. Welded pipes meeting API specifications would compete with our seamless pipes for the oil and gas industry. UMC is also in the process of constructing a new facility for wide heavy steel plate production at the Vyksa Steel Works plant by 2012.

#### **Severstal**

Severstal, a major Russian steel producer, is a relatively new entrant in the pipe market. Severstal has commenced manufacture at a new facility for the production of large diameter welded pipe for long distance pipelines, which was commissioned in July 2006. Severstal also launched an expansion project for HSS production at its Sheksna facility. We view Severstal as an emerging competitive threat to us in the large diameter pipe market, particularly in light of its self sufficiency in wide steel plate.



## ***United States***

The principal domestic competitors of TMK IPSCO in the United States are Tenaris, Vallourec and U.S. Steel, while Chinese producers, including Baosteel and TPCO have recently become increasingly significant competitors as a result of their provision of low-cost, lower-quality products. According to Preston Pipe & Tube Report, in 2008, U.S. domestic production of OCTG accounted for only 41% of shipments, while imports into the United States, principally from Chinese producers, accounted for the remainder of OCTG shipments. However, because TMK IPSCO focuses primarily on higher-quality and premium pipe products, we believe that we are currently less affected by competition from lower-quality pipe products, although we expect to face increased competition from Chinese producers in the higher-end products market, as they rapidly improve the range and quality of their pipes. However, due to actions taken by the U.S. Department of Commerce and the U.S. ITC in the second half of 2009 to curtail Chinese imports through the imposition of significant anti-dumping tariffs of up to 99%, Chinese imports into the United States have decreased significantly as at the date hereof.

## **Product Quality Standards**

All of our products are manufactured in accordance with a variety of internationally recognised and accepted standards set forth by the following organisations:

- American Petroleum Institute (API standards);
- ASTM International (ASTM standards);
- American Society of Nondestructive Testing (ASNT standards);
- German Standardisation Institute (Deutsches Institut für Normung, DIN standards);
- Det Norske Veritas (DNV) (standard for offshore pipelines);
- Technical Inspection Association (Technischer Überwachungs Verein, TÜV standards);
- Association française de normalisation (AFNOR);
- European Committee for Standardisation (CEN);
- National standards introduced by Gosstandart and the Russian Federal Agency on Technical Regulating and Metrology (GOST standards); and
- International Organisation for Standardisation (ISO certifications).

To help ensure compliance with industry standards and performance specifications, as well as the international competitiveness of our products, each of our plants has implemented an extensive quality management system. Currently, we maintain for all of our manufacturing operations the Quality System Certification ISO 9001:2000 granted by Germanischer Lloyd Certification (with respect to TMK-Resita and TMK-Artrom), TUV NORD Cert Germany (with respect to Volzhsky), Bureau Veritas Quality International (with respect to Seversky), the Quality Management Institute (with respect to Seversky), Quality Management Institute (with respect to Sinarsky and Tagmet) and the American Petroleum Institute Spec Q1 licence granted by the American Petroleum Institute (with respect to Seversky, Sinarsky, Volzhsky, Tagmet and TMK-Artrom).

TMK IPSCO maintains a Quality System Certification ISO 9001:2008 granted by SAI Global (former QMI — Quality Management Institute) for eight of its facilities (apart from its ULTRA facilities in Odessa and Houston, Texas). The Quality Systems of both the Odessa and Houston facilities have recently passed the qualification audit of SAI Global and are awaiting the issuance of the ISO 9001:2008 Certificate. In addition, TMK IPSCO maintains an American Petroleum Institute Spec Q1 license granted by the American Petroleum Institute for seven of its facilities.

The ISO 9001 quality management system is intended to ensure that the end product complies with applicable regulations and customers' quality requirements from the acquisition of raw materials to the delivery of the final product. ISO 9001 is designed to ensure the reliability of both the product and the process associated with the manufacturing operation.

API Spec Q1 licences are designed to cover all of the requirements of ISO 9001:2000 as well as additional quality-control requirements that are considered valuable to the oil and gas industry. API Spec Q1 licencees are entitled to apply the API mark to the products they offer, thereby identifying themselves as the producers of safe high-quality equipment for the petroleum and natural gas industry.

Our products must also satisfy our customers' requirements. Many international oil and gas companies purchase pipes only from suppliers that have satisfied the rigorous qualification requirements of such oil and gas companies with respect to specific kinds of pipes. These companies often keep official lists of qualified suppliers. Since the beginning of 2005, our Russian plants have received qualifications covering various kinds of pipes from a number of large international oil and gas companies including Royal Dutch Shell, Saudi Aramco, KOC, Statoil and Agip. We actively continue to seek to obtain qualifications from major global oil and gas companies as a means of increasing global market acceptance for our products.

## **Environmental Matters**

We are subject to a wide range of local, regional and national laws, regulations, permits and decrees in Russia, Romania and the United States concerning, among other matters, human health, discharges to the air and water and the handling and disposal of solid and hazardous wastes. Compliance with these environmental regulations is a significant factor in our business.

We have introduced environmental management systems at each of our plants as a means of improving our environmental processes and reducing our emissions and waste. Such systems include measures to aid in adhering to the limits imposed on air and water pollution and storage of industrial waste, introduction of environmentally-friendly industrial technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the recycling of water and industrial waste.

According to our Environmental Policy, each of our plants approves an environmental protection plan on an annual basis that complies with environmental regulations.

We also work with non-governmental organisations, including the Russian Union of Industrialists and Entrepreneurs and the Chamber of Commerce and Industry of the Russian Federation, to remain abreast of current Russian and global environmental legislation and regulatory standards.

We strive to ensure that the activity of our subsidiaries conforms to world standards and environmental legislation. Our primary goal in this respect is to make environmental protection an integral part of our business. As with our operations in Russia, TMK IPSCO's operations are subject to federal, state and local environmental permit and reporting obligations. Currently, three of TMK IPSCO's operations in the United States are ISO 14001 certified. In 2010, TMK IPSCO's remaining facilities will be subjected to gap analyses to become certified and will accordingly develop a plan to achieve ISO 14001 certification. The remaining sites are audited by external consultants on a regular basis to verify compliance.

All of our Russian and Romanian plants have received ISO 14001 2004 certifications with respect to their environmental management systems. In 2009 Orsky Machine Building Plant successfully passed the certification and is in the process of obtaining ISO certification.

We spent U.S.\$21.3 million on environmental protection measures in 2008 compared to U.S.\$27.0 million in 2007 and U.S.\$24.7 million in 2006. Such measures related primarily to (i) the modernisation of equipment and implementation of environmentally safe processes and (ii) the construction and reconstruction of purification facilities. In 2008, we implemented 38 environmental projects for a total amount of U.S.\$85.0 million, as compared to U.S.\$49.8 million in 2007.

In 2008, we received the award for Best Environmental Project of 2008 from the Ministry of Natural Resources of the Russian Federation, as a result of our efforts to modernise our Seversky steelmaking operations.

We are focusing specifically on improving our systems of waste management. We have also implemented a programme focusing on the regulation of greenhouse gas emission which is based on Russia's obligations under the Kyoto Protocol.

We have not been fined for any material environmental violation in the last five years, and we are not aware of any current material legal or administrative proceedings pending against us with respect to environmental matters which could have an adverse material impact on our financial position or results of operations.

## Employees

|   | As at 31 December |               |               | As at<br>30 September |
|---|-------------------|---------------|---------------|-----------------------|
|   | 2006              | 2007          | 2008          | 2009                  |
| <b>OA O TMK</b> .....                   | <b>482</b>        | <b>523</b>    | <b>295</b>    | <b>298</b>            |
| <b>TMK Trade House</b> .....            | <b>484</b>        | <b>529</b>    | <b>669</b>    | <b>645</b>            |
| <i>Russian Plants:</i>                  |                   |               |               |                       |
| Seversky .....                          | 9,556             | 7,673         | 7,848         | 7,959                 |
| Tagmet .....                            | 11,528            | 10,037        | 9,627         | 9,458                 |
| Sinarsky .....                          | 11,956            | 9,684         | 9,266         | 8,125                 |
| Volzhsky .....                          | 11,424            | 11,636        | 11,356        | 11,360                |
| <b>Total Russian Plants</b> .....       | <b>44,464</b>     | <b>39,030</b> | <b>38,097</b> | <b>36,902</b>         |
| <b>Total Service Division</b> .....     | <b>—</b>          | <b>4,067</b>  | <b>3,568</b>  | <b>3,068</b>          |
| <i>Foreign Subsidiaries:</i>            |                   |               |               |                       |
| TMK-Artrom .....                        | 1,100             | 1,442         | 1,257         | 1,034                 |
| TMK-Resita .....                        | 1,645             | 1,466         | 1,224         | 970                   |
| TMK IPSCO .....                         | —                 | —             | 2,272         | 1,556                 |
| <b>Total Foreign Subsidiaries</b> ..... | <b>2,745</b>      | <b>2,908</b>  | <b>4,753</b>  | <b>3,560</b>          |
| <b>Total Other</b> .....                | <b>1,634</b>      | <b>1,418</b>  | <b>1,559</b>  | <b>1,288</b>          |
| <b>Total TMK Group</b> .....            | <b>49,809</b>     | <b>48,475</b> | <b>48,941</b> | <b>45,761</b>         |

We are, where appropriate and, since the fourth quarter of 2008, particularly in light of the current global economic crisis, currently optimising our personnel structure. This is being achieved primarily through a controlled reduction in the number of our employees primarily in Russia, outsourcing of non-production activities, such as cafeteria and repair services, the imposition of a hiring freeze and reduction of administrative staff. The overall increase in employees that we experienced in 2008 principally reflects our acquisition of TMK IPSCO and its sizeable employee base, which was largely offset by headcount reductions in our Russian operations. Due to insufficient capacity utilisation, we had to temporarily introduce part-time work weeks or shifts at the majority of our plants, leading to a decrease in wages as compared to earlier periods. While our productivity (as measured by tonnes of production per employee) is below western European standards, our production facilities are the principal employers in their respective towns and regions and reductions in the workforce are generally constrained by relevant Russian labour legislation as well as other political and social considerations. For these reasons, we manage reductions in the number of personnel we employ gradually and in a controlled manner. Approximately 80% of our employees were members of the Mining and Metallurgical Trade Union of Russia as at 30 September 2009. Each of our production facilities enters into biannual or annual collective bargaining arrangements with this trade union. Our collective bargaining agreements establish certain benefits and privileges for employees, including working conditions which are more favourable than those provided for under Russian labour law.

The current agreements provide for an increase in employee wages which are indexed to the Russian consumer price index for the particular region and contain certain restrictions on layoffs, including restrictions on the use of part-time employees, the termination of temporary employees and substitutes, providing job search assistance to terminated employees and requiring us to provide notice to the trade union prior to making any major lay-offs.

We are party to collective bargaining arrangements at our numerous facilities in the United States, which regulate all facets of our labour relations, including salaries and compensations and working hours. Approximately 50% of our employees in the United States are members of the United Steel Workers (“USW”), the primary U.S. steel industry trade union. Work terms and conditions for our USW-affiliated employees are regulated by three collective bargaining agreements. We maintain strong relationships with our U.S. employees and with the trade unions. There have been no strikes or labour disputes in connection with our U.S. facilities since TMK IPSCO was acquired in June 2008.

We believe that, overall, our relations with our employees and the unions are good. We believe that this is due in part to our commitment to the social infrastructure of our host cities, our good history of timely salary payments and our strong commitment to the social welfare of our employees. There have been no strikes or other cases of industrial action at our production facilities since we acquired each of these facilities. We believe that average salaries at all of our production facilities are above average for the respective regions. In 2008, the average monthly wages at each of our four principal manufacturing facilities in Russia were in the range of RUB 19,037-20,211 (approximately U.S.\$766-813). In 2008, we developed a personnel incentives scheme, which included the payment of bonuses on the basis of results of project implementations.

Our Russian subsidiaries make defined contributions on behalf of their employees to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the applicable rates (approximately 26%) based on gross salary payments. These contributions are expensed as incurred and we have no legal or constructive obligation to make any further payment in respect of such statutory social and pension contributions. Furthermore, our subsidiaries provide additional pension and other post-employment benefits to their employees in accordance with collective bargaining agreements. Defined benefits consist of lump-sum amounts payable at the retirement date, typically ranging in amounts from one to four months' salary, 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.

In addition, we and each of our Russian plants are parties to one-year agreements with each of the regional authorities in the regions where our Russian plants operate, which cover certain aspects of activities in the respective regions. In particular, we have undertaken in the agreements to contribute to the social infrastructure of the localities where each of our plants operate, including providing assistance to schools and medical facilities

## **Insurance**

The insurance industry has not yet been well developed in Russia, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. We paid insurance premiums of an aggregate of approximately U.S.\$3.7 million and U.S.\$2.0 million in 2008 and 2007, respectively.

At present we have insurance for, among other things:

- our real property and production facilities against fires and certain other natural disasters;
- our equipment against damage;
- accidents and theft related to goods in transit;
- our production operations against damages to third parties, including environmental liabilities;
- transported goods against theft or damage;
- product liability for our exported products; and
- liability insurance for our directors and officers.

We maintain obligatory insurance policies required by Russian law and provide employees with medical insurance as part of our compensation arrangements with our employees. We have also obtained directors' and officers' liability insurance for our Board of Directors and senior management. We do not have business interruption insurance. TMK IPSCO has various types of insurance coverage, including property damage, casualty coverage and management liability coverage, among other things.

## **Legal Proceedings**

From time to time, we have been and continue to be involved in legal and arbitration proceedings both as plaintiff and defendant. We are not and have not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) during the 12 months preceding the date of this Offering Circular, which may have, or have had, in the recent past, a significant effect on our financial position or profitability.

### ***Anti-dumping Proceedings***

In 1997, the European Union introduced trade protection measures against tube and pipe producers in Russia and certain other jurisdictions through Council Regulation (EC) No. 2320, which imposed, among other things, anti-dumping duties on non-alloyed plain end line pipes and plain end general purpose pipes of Russian origin. Under the Council Regulation, ad valorem duties of 26.8% were imposed on pipes of the relevant type imported into the European Union and produced in Russia. Some Russian producers, including Tagmet, subsequently negotiated an agreement pursuant to which they could export certain volumes of pipes into the European Union duty-free. In July 2004, the Commission published an amending regulation No. 1322/2004 that suspended the application of anti-dumping measures and all open review procedures with respect to Russian producers indefinitely.

On 27 June 2006, the European Council issued the Anti-dumping Regulation, which imposed anti-dumping duties on certain types of seamless pipes imported into the European Union and produced in Russia, Romania, Ukraine and Croatia, including certain types of our seamless pipes. The anti-dumping duties imposed by the Anti-dumping

Regulation cover iron and steel seamless pipes and tubes with external diameters not exceeding 406.4 mm with a carbon equivalent value not exceeding 0.86%. This regulation covers most of our production of seamless pipes, including most of our OCTG, line pipe and industrial seamless pipe production. The Anti-dumping Regulation imposed an anti-dumping duty of 35.8% (expressed as a percentage of the CIF European Union border price) on the relevant seamless pipes produced by our Russian pipe plants and an anti-dumping duty of 17.8% on the relevant seamless pipes produced by TMK-Artrom. Under the terms of the European Union anti-dumping rules, definitive anti-dumping measures are to expire five years from the date such duties are imposed unless it is determined in a review that the expiry of such duties would likely lead to a continuation or recurrence of the dumping and consequent injury to European Union producers.

The European Commission has recently agreed to conduct a review of the anti-dumping measures applied against TMK, with a view towards reducing the duty. In August 2008, the European Commission reviewed the level of the duty on seamless pipes and decreased it to 27.2%.

In October 2007 the European Commission initiated new anti-dumping measures relating to imports of small and medium diameter welded pipe. This measure was aimed primarily at Chinese exporters, but also affected, among others, Russian producers. As a result, in 2008, a 16.8% anti-dumping duty was introduced, which affects imports from our Russian plants.

### ***Other Proceedings***

In 2007 and 2008, the Russian Federal Tax Service brought claims against certain of our Russian subsidiaries in an aggregate amount of RUB 827.9 million. In early 2009, the courts had found in favour of our subsidiaries for an aggregate amount of RUB 747.7 million. As at the date hereof, we are continuing to contest the residual claims in the amount of RUB 21.5 million.

In 2009, Seversky was subjected to a tax audit, which determined that it had underpaid income tax in the amount of RUB 310.4 million (excluding tax penalty and fine) with respect to the 2006-2007 fiscal periods. We have contested the determination of the tax audit.

These proceedings have not had, and are not expected to have a material adverse effect on our business, operations and financial position or on our ability to service our payment obligations under the Guarantee.



## RELATED PARTY TRANSACTIONS

*The following is a summary of our most significant transactions with related parties for the years ended 31 December 2007 and 2008 and for the first six months of 2009. For further details of these transactions, see note 18 to the 2009 Interim Condensed Consolidated Financial Statements, note 26 to the Annual Consolidated Financial Statements.*

In the ordinary course of our business, we have engaged, and continue to engage, in transactions with parties that are under common control with us or that are otherwise related parties to TMK. Transactions with entities under common control with us constitute transactions with parties that have the same beneficial owners as TMK or parties that have directors who are also members of our Board of Directors. See “*Directors and Management*”.

We seek to conduct all transactions with entities that are under common control or otherwise constitute related parties on market terms and in accordance with applicable law. Transactions with related parties are established on an arms length basis, however there can be no assurance that if such transactions were entered into by or among third parties, the terms of those transactions would not be different. See “*Risk Factors — Risks Relating to our Business and the Pipe Industry — Some transactions between our Russian subsidiaries and their interested parties, affiliates and other members of TMK Group require the approval of disinterested directors or disinterested shareholders*” and “*Risk Factors — Risks Relating to the Russian Federation — Legal and Legislative Risks — Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may affect our results of operations*” for a discussion of applicable Russian requirements.

Transactions with related parties for the first six months of 2009 and for the years ended 31 December 2008 and 2007 are set out below.

|   | Six months<br>ended 30 June |      | Year ended<br>31 December |      |
|---|-----------------------------|------|---------------------------|------|
|   | 2009                        | 2008 | 2008                      | 2007 |
|   | (millions of U.S. dollars)  |      |                           |      |
| Sales revenue . . . . .                                 | 0.62                        | 12.0 | 13.6                      | 22.3 |
| Purchases of goods and services . . . . .               | 3.4                         | 4.3  | 8.3                       | 3.8  |
| Interest expenses from loans and borrowings . . . . .   | 0.23                        | —    | 0.16                      | 0.06 |
| Interest income from loans and borrowings . . . . .     | 0.01                        | 0.78 | 0.84                      | 2.0  |
| Loss on sale of treasury shares to management . . . . . | —                           | —    | 0.02                      | —    |

In the first six months of 2009, sales transactions with related parties constituted approximately 0.04% of the total volume of the Group’s sales of goods. In the year ended 31 December 2008, sales transactions with related parties constituted approximately 0.2 % of the total volume of the Group’s sales of goods as compared to 0.5 % in 2007.

In 2009, TMK Steel, the parent company of OAO TMK, pledged its shares in OAO TMK to Gazprombank in order to guarantee the TMK Group’s loans in the amount of U.S.\$1,107.5 million from Gazprombank. In the six-month period ended 30 June 2009, the TMK Group paid U.S. \$36.3 million to TMK Steel for this arrangement. On 7 August 2009, the Board of Directors of TMK approved an additional charge of U.S.\$30 million by TMK Steel to the TMK Group for extending the term of the pledge from two-and-a-half to five years.

In the second half of 2009, Bravecorp Limited (an entity under common control with TMK Steel) pledged its shares in OAO TMK to VTB in order to guarantee the TMK Group’s loans in the amount of U.S. \$750 million from VTB. The TMK Group was charged U.S.\$10 million for this arrangement.

In 2008, sales revenues from related parties related principally to sales of heat and power energy to Kamenskaya Kommunalnaya Kompaniya. OAO TMK paid dividends to TMK Steel and entities under common control with TMK Steel in the amount of U.S.\$163.9 million, U.S.\$106.5 million and U.S.\$11.2 million in the years ended 31 December 2008, 2007 and 2006, respectively.

In 2007, sales revenues from related parties related principally to sales of heat and power energy to Kamenskaya Kommunalnaya Kompaniya. Purchases of goods and services from related parties related principally to purchases of rent services from Sinara Group companies.

The following table sets forth our outstanding balances with related parties as at 30 June 2009 and 31 December 2008 and 2007.

|   | <u>As at 30 June</u>       | <u>As at</u><br><u>31 December</u> |             |
|---|----------------------------|------------------------------------|-------------|
|   | <u>2009</u>                | <u>2008</u>                        | <u>2007</u> |
|   | (millions of U.S. dollars) |                                    |             |
| Cash and cash equivalents . . . . .         | 2.7                        | 6.1                                | 41.3        |
| Accounts receivable — current . . . . .     | 0.8                        | 9.4                                | 17.6        |
| Prepayments — current . . . . .             | 0.6                        | —                                  | —           |
| Accounts receivable — non current . . . . . | 0.1                        | 0.1                                | 0.2         |
| Accounts payable — current . . . . .        | (1.4)                      | (4.9)                              | (14.9)      |
| Interest payable . . . . .                  | (0.2)                      | (0.1)                              | —           |

### **Cash**

The cash balances represent cash in bank at SKB Bank (an entity under common control) as at 30 June 2009 and 31 December 2008 in the amount of U.S.\$2.7 million and U.S.\$6.1 million, respectively, and cash in bank and current deposits at SKB Bank as at 31 December 2007 in the amount of U.S.\$2.6 million and U.S.\$38.7 million, respectively.

### **Acquisitions from Related Parties**

In the past, we have made several acquisitions from our related parties. In June 2005, the TMK Group signed an agreement to purchase a 100% interest in Sinara Handel GmbH (currently TMK Europe) for U.S.\$40 million. The title to the 100% ownership interest was transferred to the TMK Group on 1 March 2006. On 25 August 2006, the TMK Group signed an agreement to purchase a 75% interest in Orsky Machine Building Plant for U.S.\$45.5 million from the Sinara Group S.A. Title transferred to the TMK Group in January 2007. In August 2007, we acquired a 100% interest in Truboplast for U.S.\$24.0 million from the Sinara Group.

## PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding the ownership of our shares as at 18 January 2010:

| <u>Owner</u>                                     | <u>Number</u>             | <u>%</u>            |
|--|---------------------------|---------------------|
| TMK Steel Limited and its subsidiaries . . . . . | 653,264,244               | 74.83               |
| Subsidiaries of OAO TMK . . . . .                | 7,100,238                 | 0.81                |
| Depository . . . . .                             | 196,425,224               | 22.50               |
| Other . . . . .                                  | 16,211,294                | 1.86                |
| <b>Total . . . . .</b>                           | <b><u>873,001,000</u></b> | <b><u>100.0</u></b> |

To our knowledge, no person other than TMK Steel Limited and its subsidiaries holds more than 3% of OAO TMK's outstanding shares.

TMK Steel expects to enter into a securities lending arrangement, pursuant to which it will lend GDRs to Rockarrow, which, in turn, will subsequently lend GDRs to the Issuer to support the issuance of the Bonds. TMK Steel has informed us that it intends to exercise its preemptive rights and subscribe pro rata according to its shareholding for new shares issued pursuant to TMK's planned Capital Increase. Upon the conclusion of the Capital Increase, and the settlement of the GDR lending arrangements with Rockarrow, TMK Steel's percentage of TMK's overall share capital is expected to remain unchanged. See "*Management's Discussion and Analysis of Financial Position and Results of Operations — Recent Developments*".

Based on our shareholder register, we believe that we are not directly or indirectly owned or controlled by any other person, corporation or government, and that there are no arrangements, the operation of which may result in a change of control.

## DIRECTORS AND MANAGEMENT

Our management bodies comprise the Board of Directors, the Management Board (collective executive body) and the General Director (sole executive body).

### General Meetings of Shareholders

See “*Description of the Ordinary Shares — General Meetings of Shareholders*”.

### Board of Directors

The Board of Directors is responsible for our overall governance and presently consists of ten members. For a description of the competence and procedure of the Board of Directors, see “*Description of Ordinary Shares — Board of Directors*”.

Our directors, and their respective years of birth, positions and duties outside TMK as at the date hereof, are as follows:

| <u>Name</u>            | <u>Year of birth</u> | <u>Position</u>                    | <u>Independent<sup>(1)</sup></u> | <u>Current duties outside TMK</u>  |
|------------------------|----------------------|------------------------------------|----------------------------------|--|
| Dmitriy A. Pumpyanskiy | 1964                 | Chairman of the Board of Directors | No                               | President of ZAO Sinara Group; member of the Board of Directors of Volzhsky, Tagmet, Sinarsky, Seversky and SKB BANK; and Chairman of the Board of Directors of ZAO Sinara Group and OAO Sinara Transport Machines   |
| Alexander N. Shokhin   | 1951                 | Director                           | Yes                              | President of the Russian Union of Industrialists and Entrepreneurs; member of the Board of Directors of Lukoil, Russian Railways, TNK-BP Limited, Fortum and Bear Company Baltika; President of the State University, Higher School of Economics                 |
| Mukhadin A. Eskindarov | 1951                 | Director                           | Yes                              | Rector at the Finance Academy of the Government of Russia; member of the Board of Directors of OAO Bank of Moscow and OAO Bank VTB   |
| Andrey Yu. Kaplunov    | 1960                 | Director                           | No                               | Chairman of the Board of Directors of Volzhsky, TMK Trade House, Tagmet, Sinarsky and Seversky; member of the Board of Directors of SKB BANK, ZAO Sinara Group; member of the Board of Interregional Non State Big Pension Fund and Senior Vice President of TMK |
| Igor B. Khmelevsky     | 1972                 | Director                           | No                               | Vice President of ZAO Sinara Group; member of the Board of Directors of ZAO Sinara Group, TMK Global AG, TMK Steel Limited, Bravecorp Limited and Tirelli Holding Limited  |
| Josef Marous           | 1949                 | Director                           | Yes                              | Member of the Board of Directors of OOO Thyssen Krupp Elevator.  |

| <u>Name</u>            | <u>Year of birth</u> | <u>Position</u> | <u>Independent<sup>(1)</sup></u> | <u>Current duties outside TMK</u>  |
|------------------------|----------------------|-----------------|----------------------------------|--|
| Sergey T. Papin        | 1955                 | Director        | No                               | Vice President of ZAO Sinara Group; member of the Board of Directors of ZAO Sinara Group, OAO Urals Railway Engineering Plant, ZAO Intourist Sinara OAO Burgas Vacation Hotel, OAO Sinara Transport Machines, OAO Arkhyz Sinara and OAO Lyudinovo Locomotive Works |
| Thomas Pickering       | 1931                 | Director        | Yes                              | Vice president of Hills and Company.   |
| Alexander G. Shiryayev | 1952                 | Director        | No                               | General Director of TMK; member of the Board of Directors of ZAO Sinara Group; member of the Board of Directors of Volzhsky, Tagmet, Sinarsky, Seversky and TMK Trade House  |
| Geoffrey Townsend      | 1949                 | Director        | Yes                              | Member of the Board of Directors of OAO Raspadskaya  |

(1) As defined in Order No. 07-102/pz-n of the Federal Service for the Financial Markets approving the Regulation on Activities Related to Organisation of Trading on the Securities Market dated 9 October 2007, as amended.

The term of our Board of Directors expires on the date of our next annual meeting of shareholders, which is expected to occur in June 2010.

Biographies of our directors are set out below.

**Dmitriy A. Pumpyanskiy** joined TMK in 2002 and has served as a member of our Board of Directors since 2004 and Chairman of the Board of Directors since June 2005. Mr. Pumpyanskiy graduated from the Ural S.M. Kirov Polytechnic Institute in 1986. In 2001 Mr. Pumpyanskiy received a PhD degree in technical sciences. From 1994 to 1998 he held various administrative positions in metallurgical enterprises, including OAO Verkh Yetski Metallurgical Works, AOOT Inter Industry Concern Uralsmetprom and OAO Mechel. Between 1998 and 1999, he was a General Director of ZAO Trade House of Sinarsky Pipe Plant. In 1999-2002, Mr. Pumpyanskiy held a position as the first deputy General Director and the Chairman of the Board of Directors of Sinarsky. During 2001-2002 he was a General Director of ZAO Sinara Group. Between 2002 and 2005, Mr. Pumpyanskiy was a General Director of TMK. Since 2001, Mr. Pumpyanskiy has been a member of the Board of Directors of OAO SKB-BANK. Since June 2005, Mr. Pumpyanskiy has held the position of President of ZAO Sinara Group. Since July 2006, Mr. Pumpyanskiy has served as Chairman of the Board of Directors of ZAO Sinara Group and OAO Sinara Transport Machines.

**Alexander N. Shokhin** has served as our Director since 27 June 2008. Mr. Shokhin graduated with a degree in economics from Moscow State University in 1974. Between 1991 and 1994, and again in 1998, he held the post of Deputy Prime Minister of the Russian Federation. From 1991 to 1994, he held the positions of Minister of Labour, Minister of Economics, Chairman of the Russian Agency for International Cooperation and Development and Russian governor at the International Monetary Fund and the World Bank. From 2002 to 2005, Mr. Shokhin was Chairman of the Supervisory Board of Renaissance Capital. Since 2005, Mr. Shokhin has served as President of the Russian Union of Industrialists and Entrepreneurs. In 2005, he became a member of the Public Chamber of the Russian Federation and Chairman of its Commission for Competitiveness, Economic Development and Entrepreneurship Issues. Mr. Shokhin is a member of several deliberative bodies under the President of Russia and the Government of Russia. Mr. Shokhin is a member of the Board of Directors of Lukoil, Russian Railways, TNK-BP Limited, Fortum and Bear Company Baltika.

**Mukhadin A. Eskindarov** has served as a member of our Board of Directors since 2005. Dr. Eskindarov received a degree in economics from Moscow Financial Institute in 1976 and received a PhD degree in 1981. From 1992 to September 2006 Dr. Eskindarov was a First Pro-Rector for educational matters at the Financial Academy of the Government of the Russian Federation. Since September 2006, Dr. Eskindarov has been Rector of the Financial Academy of the Government of the Russian Federation. Dr. Eskindarov is a member of the Board of Directors of OAO Bank of Moscow and OAO Bank VTB.



**Andrey Yu. Kaplunov** joined TMK in 2001 and has served as a member of our Board of Directors since 2005. Mr. Kaplunov received a degree in economics from Moscow Financial Institute in 1982. Mr. Kaplunov received a PhD degree in economics in 1985. Between 1998 and 1999 he served as deputy Head of currency and financial department of the Russian foreign economic union Zarubezhneft. From 1999 to 2000, Mr. Kaplunov was a senior Vice-President and a Director of the human resources and corporate development department at ZAO KB Guta Bank. In addition, Mr. Kaplunov served as a Director of the human resources and organisational development department of AKB Rosbank in 2000-2001. From 2001 to 2005, he was a deputy General Director of TMK responsible for organisational development. Since 2003 Mr. Kaplunov has been a member of the Board of Directors of OAO SKB-BANK. Since 2008, Mr. Kaplunov has been a Senior Vice President of TMK.

**Igor B. Khmelevsky** joined TMK in 2003 and has served as a member of our Board of Directors since 2004. Mr. Khmelevsky received a degree in law from Ural State Law Academy in 1994 and a degree in foreign languages from State Teachers College of Shadrinsky in 1995. In 1999 he served as deputy Head of the legal department at OAO Mechel. Between 1999 and 2001, Mr. Khmelevsky was the deputy General Director responsible for legal matters, head of the legal department at Zlatoustovsky Metallurgical Plant. From 2001 to 2003, Mr. Khmelevsky served as a deputy General Director responsible for legal matters and Head of the legal department at ZAO Sinara Group and from 2003 to 2005 he was the deputy General Director of TMK responsible for legal matters. Since 2004 Mr. Khmelevsky has been a Director of TMK Steel. Since 2005, Mr. Khmelevsky has been a Vice President and member of the Board of Directors of ZAO Sinara Group. Since 2006 Mr. Khmelevsky has been a Director of Bravecorp Limited and Tirelli Holding Limited.

**Josef Marous** has served as a member of our Board of Directors since 2005. Mr. Marous received a degree in economics from Goethe University, Frankfurt in 1976. Mr. Marous has held the following positions: Head of the Representative office of Thyssen Krupp AG in Russia (from 1999 until 2009), member of the Board of Directors of OOO Thyssen Krupp Elevator (since 2002).

**Sergey T. Papin** joined TMK in 2002 and has served as a member of our Board of Directors since 2005. Mr. Papin received a degree in metallurgical engineering from Donetsk Polytechnic Institute in 1977. Between 1996 and 2000, Mr. Papin was a Vice-President, a member of the Management Board and the Head of the expert and analytical council of OAO AB Incombank. From 2000 to 2002, he was the Vice-President and the Head of the department responsible for interaction with state authorities, advertising and public relations at ZAO KB Guta Bank. From 2002 and 2005, Mr. Papin was deputy General Director of TMK responsible for public relations. Since 2005, Mr. Papin has been a Vice President and member of the Board of Directors of ZAO Sinara Group and Chairman of the Board of Directors of OAO Urals Plant of Railway Engineering.

**Thomas Pickering** has served as a member of our Board of Directors since 2009. Since December 2006, Mr. Pickering has served as Vice President of Hills and Company, which provides advice and counsel to a number of major U.S. enterprises. Between 2001 and 2006, he served as Senior Vice President for International Relations and as a member of the Executive Council of Boeing. Between 1997 and 2001, Mr. Pickering served as U.S. Under-Secretary of State for Political Affairs. Mr. Pickering holds the rank of "Career Ambassador", the highest in the U.S. Foreign Service. Mr. Pickering's diplomatic career has spanned five decades, during which period he has served as U.S. ambassador to the Russian Federation, India, Israel, El Salvador, Nigeria and Jordan. From 1989 to 1992, he was Ambassador the United Nations. He also served as Executive Secretary of the Department of State and Special Assistant to Secretaries William P. Rogers and Henry A. Kissinger from 1973 to 1974.

**Alexander G. Shiryaev** joined TMK in 2003 and has served as a member of our Board of Directors since 2005. Mr. Shiryaev received a degree in economics from Sverdlov Institute of National Economics in 1991. From 1998 to 2000, Mr. Shiryaev served as the General Director and deputy General Director of OAO Uralshina. In 2001 Mr. Shiryaev served as deputy General Director responsible for strategic development at ZAO Trade House Sinarsky Pipe Plant. Between 2001 and 2003, he was the deputy General Director responsible for development at ZAO Sinara Group. In 2004-2005, Mr. Shiryaev worked as deputy General Director responsible for economics and finance at TMK Trade House. Between 2005 and 2008, Mr. Shiryaev served as a General Director of ZAO Sinara Group. Since 2008, Mr. Shiryaev has been a General Director of TMK.

**Geoffrey Townsend** has served as a member of our Board of Directors since 2005. Mr. Townsend received a MA degree in Physics from St. Catherine's College, Oxford in 1970. Between 1995 and 2002, Mr. Townsend held various positions within KPMG in Russia, including the head of the consulting department (1995-1997) and the head of the corporate finance department (1996-2000). Mr. Townsend was a partner in KPMG Deutsche Treuhand Gesellschaft from 1990 until 2002. In 2003-2006, Mr. Townsend was an independent consultant at KPMG. Since September 2006, he has been a member of the Board of Directors of OAO Raspadskaya.

None of the above directors has any family relationship with any other director or with any member of senior management. Furthermore, there are no potential conflicts of interest between any duties that each of the Board of Directors owes to TMK and any private interests and or other duties of such directors.

The business address for each of the members of our Board of Directors is 40 Pokrovka Street, Building 2A, 105062.

## Management Board

Currently, our Management Board consists of eight members. For a description of the powers and responsibilities of the Management Board, see “*Description of Ordinary Shares — Executive Bodies — The Management Board*”. Members of the Management Board, and their respective years of birth and positions as at the date hereof, are as follows:

| <u>Name</u>                       | <u>Year of birth</u> | <u>Position</u>  |
|-----------------------------------|----------------------|--|
| Andrey Yu. Kaplunov . . . . .     | 1960                 | Senior Vice President  |
| Alexander A. Klachkov . . . . .   | 1957                 | Vice President and Chief Engineer                              |
| Alexander G. Lyalkov . . . . .    | 1961                 | Vice President, Manufacturing                                  |
| Vladimir B. Oborsky . . . . .     | 1961                 | Vice President and Chief Sales Officer                         |
| Tigran I. Petrosyan . . . . .     | 1968                 | Vice President, Chief Financial Officer                        |
| Konstantin A. Semerikov . . . . . | 1959                 | Senior Vice President, CEO of TMK Trade House                  |
| Alexander G. Shiryayev . . . . .  | 1952                 | President and CEO, Chairman of the<br>Management Board         |
| Vladimir V. Shmatovich . . . . .  | 1964                 | Senior Vice President for Strategy and<br>Business Development |

Biographies of the members of the Management Board who are not directors of TMK are set out below.

**Andrey Yu. Kaplunov** — For biography, see “— *Board of Directors*”.

**Alexander A. Klachkov** joined TMK in 2004. From 2004 till 2005 he was a Director of Technical Department, from 2005 until 2009 — Director of Department for technical development. Since 2009 he has been Deputy General Director — Chief Engineer.

**Alexander G. Lyalkov** joined TMK in 2003. Mr. Lyalkov graduated from Volgograd Polytechnic College in 1989. Between 1980 and 2005, Mr. Lyalkov worked at Volzhsky. He held a number of managing positions at Volzhsky including Operations Director (2001), first deputy Director of Volzhsky (2001-2002) and subsequently as the plant’s General Director (2002-2004). From 2004 through August 2006, Mr. Lyalkov was a Managing Director of Volzhsky. Since August 2006 he has served as first Deputy General Director of TMK Trade House responsible for operational matters and Deputy General Director of TMK responsible for operational matters.

**Vladimir B. Oborsky** joined TMK in 2003. Mr. Oborsky graduated from Kiev High Military School in 1982 and Military Academy named after M.V. Frunze in 1994. In 2000-2001 Mr. Oborsky was Head of the Division of VIP clients and tenders and Head of the Division for interaction with gas industry at ZAO Trade House of Volzhsky Pipe Plant. In 2001 he joined TMK Trade House; from 2001 to 2003 he served as a Head of the Department for interaction with Transneft and enterprises of the gas industry; between 2003 and 2005, he was Head of the Department for interaction with Gazprom, independent gas producers and Transneft. In 2005 through February 2006 Mr. Oborsky was deputy general director for procurement at TMK. Between 2005 and 2008, he served as a general director of TMK Trade House. Since February 2006 he has been our Deputy General Director.

**Tigran I. Petrosyan** joined TMK in 2001. Mr. Petrosyan graduated from Yerevan State University in 1993. In 1993-1994 he held a position in the Ministry of the Economy of the Republic of Armenia. From 1994 to 1995 he served as an economist at AKB Noy and Volzhsky. Between 1995 and 1997, he was deputy General Director of OOO Volzhsky Audit. In 2000-2001 Mr. Petrosyan worked as a Head of Planning and economics department at OAO PO Volzhsky Pipe Plant. In 2001-2002 Mr. Petrosyan was a Head of Planning and economics department at TMK. From 2002 to April 2006 he served as a Director of the Economic and planning directorate of TMK. Since April 2007 Mr. Petrosyan has been our Deputy General Director, Chief Financial Officer.

**Konstantin A. Semerikov** joined TMK in 2003. Mr. Semerikov graduated from the Moscow Institute of Steel and Alloys in 1981 with an engineering degree in metallurgy. Since 1992, he has held various positions in Tagmet. In 2001 he was elected as a member of the Management Board of Tagmet. In 2002-2003 Mr. Semerikov was Mayor of Taganrog. In May 2003, he was nominated deputy Chief Engineer of TMK and in December 2003 deputy General Director for operations. In 2004-2005 Mr. Semerikov served as the General and Executive Director of TMK Trade House. Between 2005 and 2008, Mr. Semerikov served as our General Director and the Chairman of our

Management Board. Mr. Semerikov holds 86,680 shares in Tagmet, representing approximately 0.02% of the shares in Tagmet. Since 2008, Mr. Semerikov has been a General Director of TMK Trade House.

**Alexander G. Shiryaev.** — For biography, see “— *Board of Directors*”.

**Vladimir V. Shmatovich** joined TMK in 2005. Mr. Shmatovich graduated from Moscow Financial Institute in 1982 and completed an MBA programme at the University of Notre Dame in 1993. From 1996 to 2002, Mr. Shmatovich worked as a General Director and deputy General Director of OAO Interros. He served as a deputy General Director for economy and finance at OAO Udmurtneft (2002) and as a director for financial control at OAO Sidanco (2002-2003). From 2003 to 2005 he was a deputy General Director and Director for economy and finance of OOO RusPromAvto, and from May 2005 to April 2006, he worked as a deputy General Director for economics and finance at TMK. Since June 2005 Mr. Shmatovich has been the deputy General Director for finance and economics at TMK Trade House. Since April 2007 Mr. Shmatovich has served as our Deputy General Director for Strategy and Business Development.

None of the above members of the Management Board has any family relationship with any director or with any other member of the Management Board. Furthermore, there are no potential conflicts of interest between any duties that each of the Management Board owes to TMK and any private interests and or other duties of such members of the Management Board.

The business address for each of the members of our Management Board is 40 Pokrovka Street, building 2A, 105062, Moscow, Russian Federation

### **Remuneration of Directors and Management**

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the TMK Group, totalling 28 persons as at 30 June 2009 and 32 persons as at 30 June 2008. Total compensation to key management personnel included as part of the general and administrative expenses in the income statement amounted to U.S.\$6.9 million and U.S.\$10.2 million for the six months period ended 30 June 2009 and 2008, respectively. There were no share-based payments to key management personnel for the six months period ended 30 June 2009, as compared to U.S.\$2.2 million in 2008. Compensation to key management personnel consists of contractual salary and performance bonus depending on operating results. The TMK Group issued loans to key management personnel in the amount of U.S.\$328,000 during the six month period ended 30 June 2009. The TMK Group guaranteed debts of key management personnel outstanding as at 30 June 2009 in the amount of U.S.\$3.3 million with maturities ranging from 2009 to 2014. The TMK Group purchased 34,318 shares of OAO TMK from key management personnel for U.S.\$89,000 during the six month period ended 30 June 2009.

For the year ended 31 December 2008, total compensation to key management personnel included in general and administrative expenses in the income statement amounted to U.S.\$22.9 million as compared to U.S.\$29.6 million in 2007, including U.S.\$4.5 million of share-based payments, as compared to U.S.\$5 million in 2007. Compensation to key management personnel consisted of contractual salary, performance bonus depending on operating results and share-based payments. The Group guaranteed debts of key management personnel outstanding as at 31 December 2008 in the amount of U.S.\$3.8 million with maturities ranging from 2009 to 2014.

For the year ended 31 December 2008, members of the Board of Directors received an aggregate remuneration of approximately U.S.\$5.2 million, including salary, bonuses and other payments, as compared to U.S.\$4.6 million in 2007. The above amounts do not include expenses under our share options programme. For the year ended 31 December 2008, members of the Management Board received an aggregate remuneration of approximately U.S.\$11.7 million, including salary, bonuses and other payments, as compared to U.S.\$14.5 million in 2007. The above amounts do not include expenses under our share options programme.

Members of the Board of Directors, including the Chairman, serve in their capacities pursuant to written agreements with us. Agreements with the members of the Board of Directors, each of which contains largely standard identical terms, provide for the payment of monthly compensation to each member of the Board of Directors and annual remuneration to the Chairman and members of the Board of Directors' committees, as well as reimbursement of certain expenses. Such agreements are valid until termination of the powers of such member of the Board of Directors. Relations with the Chairman of the Board of Directors are governed by a separate agreement which is similar to agreements executed with the members of the Board of Directors. The Chairman has a right to receive monthly remuneration for the execution of his duties and for reimbursement of certain expenses. The agreement with our Chairman of the Board is valid until termination of the powers of the Chairman of the Board or re-election of the Chairman of the Board of Directors.

Members of our Management Board serve in their capacities pursuant to written labour agreements and contracts (soglasheniya) specifying their particular duties and responsibilities. Such contracts, containing identical terms, provide for the payment of monthly compensation and annual remuneration to each member of our Management Board. Annual remuneration is paid only if a member of the Management Board fully achieves the main objectives as provided under the contract. Furthermore, the General Director may grant to a member of the Management Board additional remuneration for specific achievements.

## **Board Practices**

### ***Board of Directors***

Members of our Board of Directors are elected at our annual general shareholders' meeting by cumulative voting. Each director is elected for a term that expires at the next annual general shareholders' meeting and may be re-elected for an unlimited number of periods. Our Board of Directors currently consists of ten members, including four independent directors. According to our charter the Board of Directors has the authority to make the principal management decisions for TMK, except in respect of those matters reserved for the shareholders.

The standing committees of our Board of Directors are:

- the Audit Committee;
- the Nomination and Remuneration Committee; and
- the Strategy Committee.

### ***Audit Committee***

Pursuant to our internal regulations, our Audit Committee consists of at least three members from our Board of Directors, each of whom is to be an independent director (or, if this is not reasonably possible, either an independent or non-executive director, an “**independent**” director generally being a director who does not hold, and did not hold during the last five years organisational, management or administrative positions with TMK, is not an affiliate of TMK, is not a representative of the state government, and who meets certain other criteria as provided in our Regulations of the Management Board, and a “**non-executive director**” being a director who does not hold an organisational, management or administrative position with TMK). As at the date of this Offering Circular, the Audit Committee consists of Mukhadin A. Eskindarov, Geoffrey Townsend and Igor Khmelevsky and is headed by Mr. Geoffrey Townsend, each of whom will serve until our next annual meeting of shareholders.

The Audit Committee is principally responsible for:

- review of our financial statements;
- review of reports of the Internal Audit Commission and the internal control department;
- review of, and making recommendations to, the Board of Directors in relation to the standards and procedures for internal and risk control of TMK;
- evaluating the efficiency of internal control procedures and preparing proposals for their improvement;
- assessment of planned major and interested party transactions to be entered into by TMK; and
- analysis, together with the external auditors, of major issues with respect to the audit of financial and accounting reporting.

### ***Nomination and Remuneration Committee***

Pursuant to our internal regulations, our Nomination and Remuneration Committee consists of at least three members from our Board of Directors, each of whom is to be an independent director (or, if this is not reasonably possible, either an independent or non-executive director). As at the date of this Offering Circular, the Nomination and Remuneration Committee consists of Mukhadin Eskindarov, Igor Khmelevsky and Josef Marous and is headed by Mr. Mukhadin Eskindarov, each of whom serves until our next annual meeting of shareholders.

The Nomination and Remuneration Committee encourages the recruitment of qualified specialists to our management and determines appropriate salary levels for our management.

The Nomination and Remuneration Committee is principally responsible for:

- establishing criteria for evaluation of candidates to the Board of Directors and the Management Board, as well as to the position of the General Director;



- defining principles and criteria for the amount of remuneration and compensation for the General Director and the members of the Board of Directors and the Management Board; and
- evaluating the performance of the General Director and the Management Board.

### ***Strategy Committee***

Pursuant to our internal regulations, the Strategy Committee consists of at least three members who are members of our Board of Directors and, if deemed necessary, other officers and employees of TMK. As at the date of this Offering Circular, the Strategy Committee consists of Josef Marous, Alexander Shokhin and Alexander Shiryayev and is headed by Mr. Josef Marous, each of whom serves until our next annual general shareholders' meeting.

The Strategy Committee is principally responsible for:

- proposing our business priorities, including budgets, long-term plans, strategies and development programmes;
- proposing upgrades of our budgeting system, investment planning, monitoring and analysis processes;
- reviewing and making recommendations in relation to our investment policy;
- making proposals on dividend policy; and
- making proposals on the mergers and acquisitions policy and the sale of fixed assets.

### **Management of Subsidiaries**

To achieve integrated control over the activities of our operating facilities, in December 2003 we assumed the duty of a centralised management company. TMK has been appointed by the shareholders of each of Seversky, Tagmet and Sinarsky as the management company until 1 January 2011, and by the shareholders of Volzhsky until 1 January 2012.

These management contracts transfer all executive powers that are not under the direct control of the Board of Directors of these plants to TMK. We exercise the managing powers of a sole executive body of the companies that we manage including entering into transactions on behalf of each company (within the limits provided for by applicable law and restrictive charters), operate their bank accounts and represent them in their relations with various governmental and judicial agencies. Management is exercised by our officer acting under a power of attorney. Payments received by us are applied fully against our operating expenses and reflected fully in the appropriate line item of our Consolidated Financial Statements.

Our appointment as a management company serves to centralise all management functions in a single body and facilitates the adoption of standard operating and financial management practices across all of our operations. The delegation of management functions to us also serves to improve the efficiency of management activities.

### **Corporate Governance**

Our corporate governance procedures have been prepared in accordance with general requirements of the Russian Joint Stock Companies Law, listing rules of the Russian stock exchanges, other regulatory acts governing operations of joint stock companies in the Russian Federation, our charter and internal regulations. We have adopted standards for relations with our shareholders, the composition and proceedings of our Board of Directors, the role of our executive officers, disclosure of information and the auditing of our financial performance that comply with the Recommended Corporate Governance Code adopted by the Federal Commission on Securities Market on 4 April 2002. For the purposes of implementation of the provisions of the Recommended Corporate Governance Code, we have adopted the following documents relating to the corporate governance matters:

- Regulations on the General Meeting of shareholders;
- Regulations on the Board of Directors;
- Regulations on the Management Board;
- Regulations on the Internal Audit Commission;
- Regulations on the Audit Committee of the Board of Directors;
- Regulations on the Strategy Committee of the Board of Directors;
- Regulations on the Nomination and Remuneration Committee of the Board of Directors;
- Regulations on the Information Policy;



- Regulations for use of information on activities of the Company, on the securities of the Company and on transactions with them which is not commonly accessible and a disclosure of which can essentially influence the market value of the securities of the Company; and
- Dividend Policy Regulations.

We have approved an Ethics Code that establishes standards of professional activity and ethics for all our employees, including members of the Board of Directors, Management Board and Internal Audit Commission.

#### **Certain Proceedings against our Management**

At the date of this Offering Circular, no member of our Board of Directors or Management Board for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

## THE ISSUER

The Issuer was incorporated in Luxembourg as a public limited liability company (*société anonyme*) with unlimited duration on 1 December 2009 under the name “**TMK Bonds SA**” and is registered with the Luxembourg trade and companies register under number B.149.705.

The articles of incorporation of the Issuer have been published in the Luxembourg Official Gazette (*Mémorial, Recueil des Sociétés et Associations*) No. 16 dated 5 January 2010 on page 735.

The registered office of the Issuer is at 2, boulevard Konrad Adenauer, L-1115 Luxembourg. The telephone number of the Issuer is +352 421 22 462 and the fax number of the Issuer is +352 421 22 718.

### Share capital and shareholder

The share capital of the Issuer is U.S.\$55,800 divided into 558 shares in registered form with a par value of U.S.\$100 each (the **Issuer Shares**) all of which are fully paid.

All of the Issuer Shares are held by Stichting TMK Bonds, a foundation (*stichting*) incorporated under the laws of the Netherlands, with registered office in Amsterdam.

No corporate governance regime to which the Issuer would be subject exists in Luxembourg as at the date of this Offering Circular.

The annual general meeting of the shareholders of the Issuer takes place on the third Friday in May of each year at 10:00 a.m.

### Business Activity

The Issuer has been established as a special purpose vehicle for the purposes of issuing the Bonds. The Issuer has not previously carried on any business or activities other than those incidental to its incorporation.

### Principal activities of the Issuer

The principal activities of the Issuer are those which are set out in the Issuer’s corporate objects clause, which is clause 4 of the Issuer’s articles of incorporation.

The corporate objects of the Issuer is (i) the acquisition, holding and disposal, in any form, by any means, whether directly or indirectly, of participations, rights and interests in, and obligations of, Luxembourg and foreign companies, (ii) the acquisition by purchase, subscription, or in any other manner, as well as the transfer by sale, exchange or in any other manner of stock, bonds, debentures, notes and other securities or financial instruments of any kind (including notes or parts or units issued by Luxembourg or foreign mutual funds or similar undertakings) and receivables, claims or loans or other credit facilities and agreements or contracts relating thereto, and (iii) the ownership, administration, development and management of a portfolio of assets (including, among other things, the assets referred to in (i) and (ii) above).

The Issuer may acquire or assume, directly or through another entity or vehicle, the risks relating to the holding or property of claims, receivables and/or other goods or assets (including securities of any kind), either movable or immovable, tangible or intangible, and/or risks relating to liabilities or commitments of third parties or which are inherent to all or part of the activities undertaken by third parties, by issuing securities of any kind whose value or return is linked to these risks. The Issuer may assume or acquire these risks by acquiring, by any means, claims, receivables and/or assets, by guaranteeing the liabilities or commitments of third parties or by binding itself in any other way.

The Issuer may borrow in any form. It may enter into a type of loan agreement and it may issue notes, bonds, debentures, certificates, shares, beneficiary parts, warrants and any kind of debt or equity securities (including convertible or exchangeable securities) including under one or more issue programmes. The Issuer may lend funds including the proceeds of any borrowings and/or issues of securities to its subsidiaries, affiliated companies or to any other company.

The Issuer may also give guarantees and grant security in favour of third parties to secure its obligations or the obligations of its subsidiaries, affiliated companies or any other company. The Issuer may further pledge, transfer, encumber or otherwise create security over some or all its assets.

The Issuer may enter into, execute and deliver and perform any swaps, futures, forwards, derivatives, options, repurchase, stock lending and similar transactions. The Issuer may generally employ any techniques and instruments relating to investments for the purpose of their efficient management, including, but not limited to,

techniques and instruments designed to protect it against credit, currency exchange, interest rate risks and other risks.

The descriptions above are to be understood in their broadest sense and their enumeration is not limiting. The corporate objects shall include any transaction or agreement which is entered into by the Issuer, provided it is not inconsistent with the foregoing enumerated objects.

In general, the Issuer may take any controlling and supervisory measures and carry out any operation or transaction which it considers necessary or useful in the accomplishment and development of its corporate objects.

## Corporate Administration

The Issuer is managed by a board of directors (the “**Directors**”) composed of the following persons:

| <u>Director</u>          | <u>Principal outside activities</u> |
|--------------------------|-------------------------------------|
| Heike Kubica . . . . .   | Director                            |
| Anja Lakoudi . . . . .   | Director                            |
| Rachel Aguirre . . . . . | Director                            |

The business address of each of the Directors is 2, boulevard Konrad Adenauer, L-1115 Luxembourg.

None of the Directors is aware of any conflicts of interests or potential conflicts of interests between their respective duties in the Issuer and their respective private interests or principal outside activities.

## Financial statements

The financial year of the Issuer shall begin on 1 January and shall terminate on 31 December of the same year except for the first financial year which began on the date of the Issuer’s incorporation and will end on 31 December 2010.

The Issuer has not yet produced any annual financial statements. Unless so required by applicable Luxembourg law, the Issuer will not prepare interim financial statements.

## Capitalisation and Indebtedness

Since the date of its incorporation, the Issuer has not commenced operations and no financial statements have been made up as at the date of this Offering Circular.

The following table sets out the unaudited capitalisation of the Issuer as at the date hereof as adjusted to provide for the issue of the Bonds:

|   | <u>As at<br/>the date hereof</u><br>(in U.S. dollars, unaudited) |
|---|--|
| <b>Liabilities</b> . . . . .                        | (as adjusted)  |
| Debt securities issued . . . . .                    | 412,500,000  |
| <b>Total liabilities</b> . . . . .                  | 412,500,000  |
| <b>Shareholders’ equity</b>                         |  |
| Issued and fully subscribed share capital . . . . . | 55,800   |
| <b>Total shareholders’ equity</b> . . . . .         | <u>55,800</u>  |
| <b>Total capitalisation</b> . . . . .               | <u>412,555,800</u>   |

As at the date of this Offering Circular, the Issuer has no indebtedness other than those described above.

## Statutory auditor

The statutory auditor (*commissaire aux comptes*) of the Issuer, which has been appointed by the sole shareholder upon the incorporation of the Issuer, is Ernst & Young S.A., having its registered office at 7, Parc d’Activité Syrdall, L-5365 Munsbach Luxembourg, and belonging to the Luxembourg institute of auditors (*Institut des réviseurs d’entreprises*).

**Material Contracts**

Certain administrative and corporate services will be provided to the Issuer by Deutsche Bank Luxembourg S.A. in its capacity as domiciliation agent and corporate service provider pursuant to a domiciliation and services agreement dated 1 December 2009. The office of the domiciliation agent will serve as the registered office of the Issuer which is located at 2, boulevard Konrad Adenauer, L-1115 Luxembourg. The appointment of the domiciliation agent may in principle, be terminated by either the Issuer or the domiciliation agent upon not less than 45 Luxembourg business days' prior written notice.

There are no other material contracts entered into in the ordinary course of the Issuer's business that are material to the Issuer's ability to meet its obligations to the Bondholders in respect of the Bonds being issued.

## THE GUARANTORS

OAOTMK, its 100% percent owned subsidiary OAOTVolzhsky Pipe Plant and its subsidiary ZAO TMK Trade House (of which OAOTMK owns all shares but one, which is held by OAOSinarsky Pipe Plant) are the Initial Guarantors of the Bonds. OAOTSeversky Pipe Plant, OAOSinarsky Pipe Plant, OAOTaganrog Metallurgical Works and IPSCO Tubulars Inc., which are 94.22%, 94.16%, 96.06% and 100% owned subsidiaries of TMK, respectively, are Additional Guarantors of the Bonds. See “*Overview of the Offering*”. As of 30 June 2009, the Guarantors represented approximately 88.2% of the total assets of the TMK Group and, for the six months ended 30 June 2009, the Guarantors were responsible for a majority of the TMK Group’s EBITDA.

The following discussion contains certain corporate and other information regarding each of the Guarantors other than TMK, the business of which is described in other sections of this Offering Circular.

### *Volzhsky Pipe Plant*

#### *Incorporation and Status*

Volzhsky Pipe Plant started operations in 1970 and was registered on 25 June 2002 as an open joint stock company under the laws of the Russian Federation. The registered office of Volzhsky is 6 Autodoroga No. 7, City of Volzhsky, Volgograd Region, 404119, Russian Federation, and its telephone number is +7 8443 22 2150. Volzhsky is registered in the Russian Federation under number 1023401997101.

#### *Objects*

The objects of Volzhsky, as set out in its charter, are to manufacture pipes for various application, including seamless casing and line pipes, spiral welded large-diameter pipes for oil pipelines, seamless pipes for steam boilers, seamless pipes for mechanical engineering and round and square steel billets.

#### *Share Capital*

Volzhsky’s share capital is RUB 1,440,910,000.00, represented by 1,440,910,000 registered ordinary shares, each with a nominal value of RUB 1.00, all of which has been issued and fully paid.

#### *Organisational Structure*

Volzhsky is one of our subsidiaries. Volzhsky owns 99% of the share capital in its subsidiary, OOO Blagoustroystvo.

#### *Business*

Volzhsky is one of our principal operating subsidiaries. See “*Business*” for a further description of Volzhsky’s operations.

#### *Management*

Volzhsky is managed by its sole executive body under the supervision of its Board of Directors. Presently, Volzhsky’s Board of Directors consists of the following members:

| <u>Director</u>                   | <u>Position</u>                    |
|-----------------------------------|------------------------------------|
| Andrey Yu. Kaplunov . . . . .     | Chairman of the Board of directors |
| Alexander G. Lyalkov . . . . .    | Director                           |
| Tigran I. Petrosyan . . . . .     | Director                           |
| Dmitriy A. Pumpyanskiy . . . . .  | Director                           |
| Konstantin A. Semerikov . . . . . | Director                           |
| Elena E. Blagova. . . . .         | Director                           |
| Alexander G. Shiryaev. . . . .    | Director                           |

Except as disclosed in “*Directors and Management — Board of Directors*”, none of the directors of Volzhsky performs other principal activities outside of TMK that are significant with respect to TMK.

The authority of the sole executive body was transferred to the managing company OAOTMK in December 2005.

The business address of each of the directors of Volzhsky is 6 Autodoroga No. 7, City of Volzhsky, Volgograd Region, 404119, Russian Federation. None of the directors of Volzhsky are aware of any conflicts of interests or potential conflicts of interests between their respective duties in Volzhsky and their respective private interests or principal outside activities.



### *Auditors*

Ernst & Young LLC are the auditors of the financial statements of Volzhsky, which are prepared in accordance with RAS. Volzhsky's financial year corresponds to the calendar year.

### ***TMK Trade House***

#### *Incorporation and Status*

TMK Trade House was founded in April 2000 as a closed joint stock company under the laws of the Russian Federation. The registered office of TMK Trade House is 51 Rosa Luxembourg Street, Yekaterinburg, 620026, Russian Federation, and its telephone number is +7 495 775-7600. TMK Trade House is registered in the Russian Federation under main state registration number 1027700429602.

#### *Objects*

The objects of TMK Trade House, as set out in its charter, are trading activities including wholesaling, import and export operations, warehousing, marketing and advertising.

#### *Share Capital*

TMK Trade House's share capital is RUB 504,000,000, represented by 6,000,000 registered ordinary shares, each with a nominal value of RUB 84, all of which has been issued and fully paid.

#### *Organisational Structure*

TMK Trade House is one of our subsidiaries. TMK Trade House has branch offices in the Russian cities of Volzhsky, Polevskoy, Taganrog, Kamensk-Uralsky and Moscow, as well as representative offices in Azerbaijan and the Republic of China.

#### *Business*

TMK Trade House is a trading entity. See "*Business*" for a further description of TMK Trade House's operations.

#### *Management*

TMK Trade House is managed by its sole executive body (general director) under supervision of its Board of Directors, which consists of the following members:

| <u>Director</u>                   | <u>Position</u>                    |
|-----------------------------------|------------------------------------|
| Andrey Yu. Kaplunov . . . . .     | Chairman of the Board of directors |
| Andrei A. Zimin . . . . .         | Director                           |
| Tigran I. Petrosyan . . . . .     | Director                           |
| Konstantin A. Semerikov . . . . . | Director                           |
| Alexander G. Shiryaev . . . . .   | Director                           |

Except as disclosed in "*Directors and Management — Board of Directors*", none of the directors of TMK Trade House performs other principal activities outside of TMK that are significant with respect to TMK.

The business address of each of the directors of TMK Trade House is 51 Rosa Luxembourg Street, Yekaterinburg, 620026, Russian Federation. None of the directors of TMK Trade House are aware of any conflicts of interests or potential conflicts of interests between their respective duties in TMK Trade House and their respective private interests or principal outside activities.

### *Auditors*

Ernst & Young LLC are the auditors of the financial statements of TMK Trade House, which are prepared in accordance with Russian Accounting Standards. TMK Trade House's financial year corresponds to the calendar year.

### ***Seversky Pipe Plant***

#### *Incorporation and Status*

Seversky Pipe Plant commenced pipe-making operations in 1964 and was registered on 26 November 1992 as an open joint stock company under the laws of the Russian Federation. The registered office of Seversky is 7 Vershinin

street, City of Polevskoy, Sverdlovsk Region, 623388, Russian Federation, and its telephone number is +7 8 34350 35404. Seversky is registered in the Russian Federation under number 1026601606118.

### *Objects*

The objects of Seversky, as set out in its charter, are to manufacture pipes of all types, including seamless casing and line pipes, spiral welded large-diameter pipes for oil pipelines, seamless pipes for steam boilers, seamless pipes for mechanical engineering and round and square steel billets.

### *Share Capital*

Seversky's share capital is RUB 721,936,800, represented by 48,129,120 registered ordinary shares, each with a nominal value of RUB 15, all of which has been issued and fully paid.

### *Organisational Structure*

Seversky is one of our subsidiaries. Seversky owns 51% of the share capital in its subsidiary, ZAO TMK-CPW and 51% of the share capital in OOO TMK-SMS Metallurgical Services.

### *Business*

Seversky is one of our principal operating subsidiaries. See “*Business*” for a further description of Seversky's operations.

### *Management*

Seversky is managed by its sole executive body under supervision of its Board of Directors. Presently, Seversky's Board of Directors consists of the following members:

| <u>Director</u>                   | <u>Position</u>                    |
|-----------------------------------|------------------------------------|
| Andrey Yu. Kaplunov . . . . .     | Chairman of the Board of directors |
| Leonid G. Marchenko . . . . .     | Director                           |
| Tigran I. Petrosyan . . . . .     | Director                           |
| Dmitriy A. Pumpyanskiy . . . . .  | Director                           |
| Konstantin A. Semerikov . . . . . | Director                           |
| Mikhail V. Zuev . . . . .         | Director                           |
| Alexander G. Shiryaev . . . . .   | Director                           |

Except as disclosed in “*Directors and Management — Board of Directors*”, none of the directors of Seversky performs other principal activities outside of TMK that are significant with respect to TMK.

The authority of the sole executive body was transferred to the managing company OAO TMK in December 2005.

The business address of each of the directors of Seversky is 7 Vershinin street, City of Polevskoy, Sverdlovsk Region, 623388, Russian Federation. None of the directors of Seversky are aware of any conflicts of interests or potential conflicts of interests between their respective duties in Seversky and their respective private interests or principal outside activities.

### *Auditors*

Ernst & Young LLC are the auditors of the financial statements of Seversky, which are prepared in accordance with RAS. Seversky's financial year corresponds to the calendar year.

### *Sinarsky Pipe Plant*

#### *Incorporation and Status*

*Sinarsky Pipe Works was founded in 1934.* Sinarsky was reorganised into an open joint stock company in November 1992. The registered office of Sinarsky is 1 Zavodskoy Proezd, City of Kamenetsk-Uralsky, Sverdlovsk region, 623401, Russian Federation, and its telephone number is +7 3439 36 3560. Sinarsky is registered in the Russian Federation under number 1026600931686.

### *Objects*

The objects of Sinarsky, as set out in its charter, are to manufacture drill, casting, tubing and line pipes and industrial seamless pipes.

### *Share Capital*

Sinarsky's share capital is RUB 409,211,075.00, represented by 6,295,555 registered ordinary shares, each with a nominal value of RUB 65, all of which have been issued and fully paid.

### *Organisational Structure*

Sinarsky is one of our subsidiaries. Sinarsky owns 100% of the share capital in its subsidiaries, OOO SinaraTransAuto and OOO TMK-INOX.

### *Business*

Sinarsky is one of our principal operating subsidiaries. See "*Business*" for a further description of Sinarsky's operations.

### *Management*

Sinarsky is managed by its sole executive body under the supervision of its Board of Directors. Presently, Sinarsky's Board of Directors consists of the following members:

| <u>Director</u>                             | <u>Position</u>                    |
|---|------------------------------------|
| Andrey Yu. Kaplunov . . . . .               | Chairman of the Board of directors |
| Mikhail S. Astahov <sup>(1)</sup> . . . . . | Director                           |
| Tigran I. Petrosyan . . . . .               | Director                           |
| Dmitriy A. Pumpyanskiy . . . . .            | Director                           |
| Konstantin A. Semerikov . . . . .           | Director                           |
| Anatoly I. Brizhan . . . . .                | Director                           |
| Alexander G. Shiryayev . . . . .            | Director                           |

(1) Mr. Astahov is the mayor of Kamensk-Uralsky.

Except as disclosed above and in "*Directors and Management — Board of Directors*", none of the directors of Sinarsky performs other principal activities outside of TMK that are significant with respect to TMK.

The authority of the sole executive body was transferred to the managing company OAO TMK in December 2005.

The business address of each of the directors of Sinarsky is 1 Zavodskoy Proezd, City of Kamenetsk-Uralsky, Sverdlovsk region, 623401, Russian Federation. None of the directors of Sinarsky are aware of any conflicts of interests or potential conflicts of interests between their respective duties in Sinarsky and their respective private interests or principal outside activities.

### *Auditors*

Ernst & Young LLC are the auditors of the financial statements of Sinarsky, which are prepared in accordance with RAS. Sinarsky's financial year corresponds to the calendar year.

### ***Taganrog Metallurgical Works***

#### *Incorporation and Status*

Taganrog Metallurgical Works was founded in 1986 and was registered as an open joint stock company under the laws of the Russian Federation on 16 November 1998. The registered office of Tagmet is 1 Zavodskaya Street, City of Taganrog, Rostov region, 347928, Russian Federation, and its telephone number is +7 8634 32 4201. Tagmet is registered in the Russian Federation under number 1026102572473.

### *Objects*

The objects of Tagmet, as set out in its charter, are to manufacture drill, casing and line pipes, industrial seamless pipes and electric welded pipes.

### *Share Capital*

Tagmet's share capital is RUB 508,706,000.00, represented by 508,706,000 registered ordinary shares, each with a nominal value of RUB 1.00, all of which have been issued and fully paid.

### *Organisational Structure*

Tagmet is one of our subsidiaries. Tagmet does not have any subsidiaries or dependent companies.

### *Business*

Tagmet is one of our principal operating subsidiaries. See "Business" for a further description of Tagmet's operations.

### *Management*

Tagmet is managed by its sole executive body under the supervision of its Board of Directors. Presently, Tagmet's Board of Directors consists of the following members:

| <u>Director</u>                     | <u>Position</u>                    |
|-------------------------------------|------------------------------------|
| Andrey Yu. Kaplunov . . . . .       | Chairman of the Board of directors |
| Vitaliy F. Miroshnichenko . . . . . | Director                           |
| Tigran I. Petrosyan . . . . .       | Director                           |
| Dmitriy A. Pumpyanskiy . . . . .    | Director                           |
| Konstantin A. Semerikov . . . . .   | Director                           |
| Nikolay I. Fartushny . . . . .      | Director                           |
| Alexander G. Shiryaev . . . . .     | Director                           |

Except as disclosed in "Directors and Management — Board of Directors", none of the directors of Tagmet performs other principal activities outside of TMK that are significant with respect to TMK.

The authority of the sole executive body was transferred to the managing company OAO TMK in December 2005.

The business address of each of the directors of Tagmet is 1 Zavodskaya Street, City of Taganrog, Rostov region, 347928, Russian Federation. None of the directors of Tagmet are aware of any conflicts of interests or potential conflicts of interests between their respective duties in Tagmet and their respective private interests or principal outside activities.

### *Auditors*

Ernst & Young LLC are the auditors of the financial statements of Tagmet, which are prepared in accordance with Russian Accounting Standards. Tagmet's financial year corresponds to the calendar year.

### **IPSCO Tubulars**

#### *Incorporation and Status*

IPSCO Tubulars was incorporated in 1985 under the laws of Delaware and was assigned file number 2068504. IPSCO Tubulars has its headquarters at 2650 Warrenville Road, Suite 700, Downers Grove, Illinois 60515, United States of America and its telephone number is +(630) 874 0078. IPSCO Tubulars was originally incorporated under the name IPSCO Sales Inc., which was subsequently changed to IPSCO Steel Inc. in 1986 and further changed to IPSCO Tubulars Inc. in 1994.

#### *Objects*

The purpose of IPSCO Tubulars is to engage in any lawful act or activity for which corporations may be organised under the General Corporation Law of Delaware as set forth in its amended and restated certificate of incorporation.

### *Share Capital*

IPSCO Tubulars has issued 10,100 shares of common stock, each with a par value of U.S.\$0.01. All 10,100 shares of common stock have been issued to OAO TMK.

### *Organisational Structure*

IPSCO Tubulars is one of our wholly-owned subsidiaries and has a 100% interest in NS Group and Blytheville Finance Corporation.

### *Business*

IPSCO Tubulars is one of our principal operating subsidiaries. See “*Business*” for a further description of the operations of IPSCO Tubulars.

### *Management*

IPSCO Tubulars is managed by its Board of Directors. Presently, IPSCO Tubulars’ Board of Directors consists of the following members:

| <u>Director</u>              | <u>Position</u>                    |
|------------------------------|------------------------------------|
| Piotr D. Galitzine . . . . . | Chairman of the Board of directors |
| Andrei A. Zimin . . . . .    | Director                           |
| Vicky Avril . . . . .        | Director                           |
| Adrian N.W. Cobb . . . . .   | Director                           |

Except as disclosed in “*Directors and Management — Board of Directors*”, none of the directors of IPSCO Tubulars performs other principal activities outside of TMK that are significant with respect to TMK.

The business address of each of the directors of IPSCO Tubulars is 2650 Warrenville Road, Suite 700, Downers Grove, Illinois 60515, United States of America. None of the directors of IPSCO Tubulars are aware of any conflicts of interests or potential conflicts of interests between their respective duties in IPSCO Tubulars and their respective private interests or principal outside activities.

### *Auditors*

Ernst & Young LLP are the auditors of the financial statements of IPSCO Tubulars. IPSCO Tubulars’ financial year ends on 31 December of each year.



## TERMS AND CONDITIONS OF THE BONDS

*The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Bonds.*

The issue of the U.S.\$412,500,000 5.25 per cent. Convertible Bonds due 2015 (the “**Bonds**”), which expression shall, unless otherwise indicated, include any further bonds issued pursuant to Condition 19 and consolidated and forming a single series with the Bonds) was (save in respect of any such further bonds) authorised by a resolution of the board of directors of TMK Bonds SA incorporated and existing under the laws of the Grand Duchy of Luxembourg as a public limited liability company, having its registered office at 2, boulevard Konrad Adenauer, L-1115 Luxembourg and to be registered with the Luxembourg trade and companies register under registration number B-149.705 (the “**Issuer**”) passed on 29 January 2010.

The giving of the guarantees in respect of the Bonds by OAO TMK (“**TMK**”) and by OAO Volzhsky Pipe Plant (“**Volzhsky**”) and ZAO TMK Trade House (“**Trade House**” and together with TMK and Volzhsky, the “**Initial Guarantors**” and each a “**Initial Guarantor**”) was authorised by a resolution of the board of directors of TMK and a decision by the sole shareholder and general shareholders meeting of Volzhsky and Trade House, respectively, passed on 4 February 2010 (the “**Initial Guarantee**”). TMK has undertaken in these Terms and Conditions (the “**Conditions**”) that the Bonds will be additionally guaranteed (the “**Additional Guarantee**”) by each of OAO Seversky Pipe Plant, OAO Sinarsky Pipe Plant, OAO Taganrog Metallurgical Works and IPSCO Tubulars Inc. (“**IPSCO**”) (the “**Additional Guarantors**” and, together with the Initial Guarantors, the “**Guarantors**”) executing a deed of accession to the Deed of Guarantee, substantially in the form set out in the Schedule to the Deed of Guarantee, which is expected to occur within 90 calendar days after the Closing Date. The Initial Guarantees and the Additional Guarantees are together referred to as the “**Guarantee**”. The Bonds are constituted by a trust deed dated on or about 11 February 2010 (the “**Trust Deed**”) between the Issuer, TMK and Deutsche Trustee Company Limited (the “**Trustee**”, which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds. The statements set out in these Conditions are summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Bonds. The Bondholders (as defined below) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions applicable to them which are contained in the Paying, Transfer and Conversion Agency Agreement dated on or about 11 February 2010 (the “**Paying, Transfer and Conversion Agency Agreement**”) relating to the Bonds between the Issuer, TMK, the Trustee, Deutsche Bank AG, London Branch (the “**Principal Paying, Transfer and Conversion Agent**”, which expression shall include any successor as principal paying, transfer and conversion agent under the Paying, Transfer and Conversion Agency Agreement), the paying, transfer and conversion agents for the time being (such persons, together with the Principal Paying, Transfer and Conversion Agent, being referred to below as the “**Paying, Transfer and Conversion Agents**”, which expression shall include their successors as Paying, Transfer and Conversion Agents under the Paying, Transfer and Conversion Agency Agreement) and Deutsche Bank Luxembourg S.A. in its capacity as registrar (the “**Registrar**”, which expression shall include any successor as registrar under the Paying, Transfer and Conversion Agency Agreement). Copies of the Trust Deed and the Paying, Transfer and Conversion Agency Agreement are available for inspection during usual business hours at the office of the Trustee at Winchester House, 1 Great Winchester Street, London EC2N 2DB, and at the specified offices of the Paying, Transfer and Conversion Agents and the Registrar.

Capitalised terms used but not defined in these Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

### 1. Form, Denomination, Title, Status and Guarantee

#### (a) Form and Denomination

The Bonds are in registered form, serially numbered, in principal amounts of U.S.\$100,000 each and integral multiples thereof (“**authorised denominations**”).

#### (b) Title

Title to the Bonds will pass by transfer and registration as described in Condition 4. The holder (as defined below) of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related certificate, as applicable) or anything written on it or the certificate representing it (other than a duly executed transfer thereof)) and no person will be liable for so treating the holder.

### (c) Status of the Bonds

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 2) unsecured obligations of the Issuer ranking *pari passu* and rateably, without any preference among themselves, and equally with all other existing and future unsecured and unsubordinated obligations of the Issuer but, in the event of insolvency, save for such obligations that may be preferred by provisions of law that are mandatory and of general application.

### (d) Guarantee

The payment of all amounts payable in respect of the Bonds and all other moneys payable under or pursuant to the Trust Deed and the performance by the Issuer of all its payment and conversion obligations under the Bonds and the Trust Deed has been unconditionally and irrevocably guaranteed on a joint and several basis by the Guarantors in the Trust Deed, in the case of TMK, and in a deed of guarantee (the “**Deed of Guarantee**”) in the case of the other Guarantors (together, the “**Guarantee**”) provided, however, that the guarantee of the Additional Guarantors shall not become effective until each Additional Guarantor shall execute a deed of accession to the Deed of Guarantee, and all references to the Guarantors and the Guarantee herein shall be interpreted accordingly. The obligations of the Guarantors under the Trust Deed and the Deed of Guarantee constitute direct, unconditional, unsubordinated and (subject to Condition 2) unsecured obligations of the Guarantors ranking equally with all other existing and future unsecured and unsubordinated obligations of the Guarantors but, in the event of insolvency, save for such obligations that may be preferred by provisions of law that are mandatory and of general application.

### (e) Procurement of Additional Guarantees

In the event that the Additional Guarantors do not, within 90 calendar days of the Closing Date, execute Additional Guarantees in favour of the Trustee on behalf of the Bondholders, the provisions of Condition 7(e)(iii) shall apply, but such failure to procure such Additional Guarantees shall not otherwise constitute an Event of Default. TMK shall also procure that the following opinions are delivered to the Trustee on the date of the execution of the Additional Guarantees:

- (i) an opinion of counsel or tax advisors reasonably acceptable to the Trustee, in form and substance satisfactory to the Trustee, to the effect that neither the Issuer nor any Bondholder will recognise any income, gain or loss for Tax purposes as a result of the addition of such Additional Guarantees, subject to customary exceptions, qualifications and limitations; and
- (ii) an opinion of counsel reasonably acceptable to the Trustee, in form and substance satisfactory to the Trustee, stating that all legal conditions precedent in relation to such substitution or addition have been complied with and that each Additional Guarantee constitutes legal, valid and binding obligations of the respective Additional Guarantor, enforceable in accordance with its terms, subject to customary exceptions, qualifications and limitations.

## 2. Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor any Guarantor will, and TMK will ensure that none of its Subsidiaries will, create, or have outstanding, any Encumbrance upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

This Condition 2 shall not apply to the issuance by IPSCO or its direct or indirect Subsidiaries (the “**TMK IPSCO Group**”) of Relevant Indebtedness up to a maximum of U.S.\$400 million in aggregate, provided that (a) such Relevant Indebtedness benefits only from an Encumbrance on the assets, undertaking or revenues of members of the TMK IPSCO Group and (b) such Relevant Indebtedness is not guaranteed by, or secured on the assets, undertakings or revenues of other members of the Group.

## 3. Definitions

In these Conditions, unless otherwise provided:

“**Additional GDRs**” has the meaning provided in Condition 6(c).

“**Additional Cash Settlement Amount**” has the meaning provided in Condition 6(n).

“**Bondholder**” and “**holder**” mean the person in whose name a Bond is registered in the Register (as defined in Condition 4(a)).

“**business day**” means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are generally open for business in that place.

“**Capital Increase**” means the capital increase of the charter capital of TMK by way of open subscription for additional Ordinary Shares, including the placement of such shares to TMK Steel Limited through the exercise of TMK Steel Limited’s pre-emptive right in connection with such open subscription, at a price per share to be determined by the Board of Directors on or about 5 February 2010.

“**Capital Stock**” means, with respect to any person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or nonvoting) of such person’s equity, including any preferred stock of such person and depositary receipts representing such equity, whether now outstanding or issued after the Closing Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into such Capital Stock.

“**Capitalised Lease Obligations**” means an obligation that is required to be classified and accounted for as a capital or finance lease for financial reporting purposes in accordance with IFRS and the amount of Indebtedness represented by such obligation will be the capitalised amount of such obligation at the time any determination thereof is to be made as determined in conformity with IFRS, and the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

“**Cash Settlement Amount**” means an amount calculated in accordance with the following formula and which shall be payable to a Bondholder upon an exercise of a Conversion Right in circumstances where Condition 6(n)(i) shall apply to such exercise:

$$CSA = \sum_{N=1}^N \frac{1}{N} \times S \times P_n$$

where:

CSA = the Cash Settlement Amount;

S = the number of GDRs that the Issuer or TMK is unable to deliver (including, for this purpose, any fraction of GDRs but rounded, if necessary, to five decimal places, with 0.000005 being rounded up) determined by dividing the aggregate principal amount of Bonds in respect of which such Bondholder shall have exercised Conversion Rights divided by the Conversion Price in effect on the relevant Conversion Date, less the number of GDRs that are able to be delivered (if any);

P<sub>n</sub> = the Volume Weighted Average Price of GDRs on the nth dealing day of the Cash Settlement Calculation Period; and

N = 20, being the number of dealing days in the Cash Settlement Calculation Period,

provided that if any Dividend or other entitlement in respect of the Ordinary Shares is announced on or prior to the relevant Conversion Date in circumstances where the record date in respect of the GDRs for, or other due date for the establishment of entitlement of holders of GDRs to, such Dividend or other entitlement shall be on or after the relevant Conversion Date and if on such dealing day in the Cash Settlement Calculation Period the price determined as provided above is based on a price per GDR ex-Dividend or ex-any other entitlement, then such price shall be increased by an amount equal to the Fair Market Value of any such Dividend or other entitlement per GDR as at the date of the first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the immediately preceding dealing day), where the Fair Market Value of any such Dividend or entitlement is translated into the Relevant Currency at the Prevailing Rate on such dealing day.

“**Cash Settlement Calculation Period**” means the period of 20 consecutive dealing days commencing on the third dealing day following notification to the Bondholder by the Issuer of the requirement to cash settle pursuant to Condition 6(n), which notice must be delivered no later than thirteen dealing days after delivery of the relevant Conversion Notice (or the next dealing day if such date is not a dealing day).

“**Clearstream, Luxembourg**” means Clearstream Banking, société anonyme.

“**Closing Date**” means on or about 11 February 2010.

“**Control**” means (a) the holding, ownership, acquisition or control of, or the right to acquire, hold, own or control, more than 50 per cent. of the Voting Stock of the relevant entity or (b) control over the right to appoint and/or remove all or the majority of the members of the relevant entity’s board of directors or other governing body, whether

obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise and “**controlled**” shall be construed accordingly.

“**Conversion Date**” has the meaning provided in Condition 6(h).

“**Conversion Notice**” has the meaning provided in Condition 6(h).

“**Conversion Period**” has the meaning provided in Condition 6(a).

“**Conversion Price**” has the meaning provided in Condition 6(a).

“**Conversion Right**” has the meaning provided in Condition 6(a).

“**Current Market Price**” means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of a GDR on each of the ten consecutive dealing days (in the case of calculations relating to Dividends pursuant to Condition 6(b)(iii)) or five consecutive dealing days (in each other case) ending on the dealing day immediately preceding such date (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate for each such dealing day and divided by the number of Ordinary Shares represented by a GDR on the relevant dealing date); provided that if at any time during the said five or ten-dealing-day period, as the case may be, the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:

- (a) if the Ordinary Shares to be issued or transferred and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dealing days on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend (or entitlement) in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax and disregarding any associated tax credit; or
- (b) if the Ordinary Shares to be issued or transferred and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dealing days on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend (or entitlement) in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax and disregarding any associated tax credit,

and provided further that if on each of the said five or ten dealing days, as the case may be, the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued or transferred and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of the first public announcement of such Dividend or entitlement in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax and disregarding any associated tax credit,

and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five or ten dealing days, as the case may be, (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five or ten-dealing-day period, as the case may be, shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period the Current Market Price shall be determined in good faith by an Independent Financial Adviser.

“**dealing day**” means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which the GDRs, Securities or Spin-Off Securities (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time).

“**De-listing Event**” means the occurrence of either of the following:

- (i) the GDRs at any time cease to be admitted to listing on the Official List of the UK Listing Authority and to trading on the EEA Regulated Market of the London Stock Exchange (or if the GDRs have been admitted to



listing and trading on another EEA Regulated Market in place of (and not in addition to) the London Stock Exchange, have ceased to be admitted to listing and trading on such EEA Regulated Market), save that the movement of listing from the Official List of the UK Listing Authority and to trading on the EEA Regulated Market of the London Stock Exchange to another EEA Regulated Market in accordance with the Trust Deed and Condition 12(h) shall not constitute a De-listing Event; or

- (ii) trading of the GDRs on the EEA Regulated Market of the London Stock Exchange (or any such other EEA Regulated Market on which the GDRs are at the relevant time listed and admitted to trading in place of (and not in addition to) the London Stock Exchange) is suspended for a period of 30 consecutive dealing days or more or, in circumstances where such suspension is requested by TMK in connection with a corporate reorganisation, a period of 60 consecutive dealing days.

**“De-listing Event Period”** means the period commencing on the date on which a De-listing Event occurs and ending 60 calendar days following such date or, if later, 60 days following the date on which a De-listing Event Notice is given as required by Condition 6(g) or, in any such case, if that is not a dealing day, the next following dealing day.

**“Deposit Agreement”** means the deposit agreement dated as of 11 September 2006 between TMK and the Depositary (as amended and restated from time to time).

**“Depositary”** means The Bank of New York Mellon in its capacity as Depositary under the Deposit Agreement, or its successor from time to time.

**“Dividend”** means any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property, and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to holders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares, GDRs or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves) provided that:

- (a) where a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of the greater of an amount equal to (i) such cash amount and (ii) the Current Market Price of such Ordinary Shares or, as the case may be, Fair Market Value of such other property or assets (as at the date of the first public announcement of such Dividend or capitalisation (as the case may be) or if later, the date on which the number of Ordinary Shares (or Securities or amount of property or assets, as the case may be) which may be issued or transferred and delivered is determined);
- (b) any issue of Ordinary Shares falling within Condition 6(b)(ii) shall be disregarded;
- (c) a purchase or redemption or buy back of Ordinary Shares or GDRs by TMK or any Subsidiary of TMK shall not constitute a Dividend unless the weighted average price per Ordinary Share or GDR (before expenses) on any one day (a **“Specified Share Day”**) in respect of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate) on such day exceeds by more than 5 per cent. the average of the closing prices of the Ordinary Shares or the GDRs, as the case may be, on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange) on the ten dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares or GDRs at some future date at a specified price, on the ten dealing days immediately preceding the date of such announcement, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares or GDRs, as the case may be, purchased, redeemed or bought back by the Issuer or, as the case may be, any of its Subsidiaries (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of the average closing price of the Ordinary Shares or GDRs, as the case may be, determined as aforesaid and (ii) the number of Ordinary Shares or GDRs, as the case may be, so purchased, redeemed or bought back (and for the purpose of this paragraph (c), the closing price of an Ordinary Share on any day shall be the closing price of a GDR on such day on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange), divided by the number of Ordinary Shares represented by an GDR on such day and translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate); and



- (d) if TMK or any of its Subsidiaries shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares (other than GDRs), the provisions of paragraph (c) shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined by an Independent Financial Adviser.

**“EEA Regulated Market”** means a regulated market as defined in Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on Markets in financial instruments.

**“Encumbrance”** means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any affiliate of the seller, or any agreement to give any security interest) securing any obligation of any person.

**“equity share capital”** means, in relation to any entity, its issued share capital excluding any part of that capital which, does not carry any right (other than Voting Rights in accordance with applicable law) to participate beyond a specific preferential dividend right and/or a specific preferential amount in the capital of such entity on redemption or on a liquidation.

**“Euroclear”** means Euroclear Bank S.A./N.V.

**“Event of Default”** has the meaning given to it in Condition 11.

**“Excepted Person”** means any and all of (i) TMK Steel Limited; (ii) any persons or persons acting together directly or indirectly beneficially owning Capital Stock of TMK Steel Limited; (iii) the legal representatives of any of the foregoing and the trustees of bona fide trusts of which all or any of the foregoing are the only beneficiaries; or (iv) any entity controlled by any of the foregoing persons.

**“Exempt Newco Scheme”** means a Newco Scheme (as defined below) where immediately after completion of the relevant scheme of arrangement or analogous proceeding the ordinary shares of Newco (as defined below) are (1) admitted to trading on the Relevant Stock Exchange or (2) admitted to listing on such other regulated, regularly operating, recognised stock exchange or securities market as TMK or Newco may determine.

**“Fair Market Value”** means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser provided that (i) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined in good faith by an Independent Financial Adviser), the Fair Market Value (a) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined in good faith by an Independent Financial Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per GDR, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall in the case of (i), be translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Relevant Currency; and in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii), the Fair Market Value shall be determined on a gross basis and any withholding or deduction required to be made on account of tax and any associated tax credit shall be disregarded.

**“Final Maturity Date”** means 11 February 2015.

**“Free Float”** means the aggregate issued and outstanding GDRs other than GDRs held by persons who (together with any other person or persons with whom they act in concert) hold GDRs representing 5 per cent. or more of the total number of issued ordinary shares, as determined by the Independent Financial Adviser acting reasonably and in good faith, in consultation with TMK.

**“GDRs”** means a depositary receipt representing an Ordinary Share or Ordinary Shares (or a fraction of an Ordinary Share (with each GDR representing four Ordinary Shares as at the Closing Date) issued pursuant to the Regulation S Facility (as defined in the Deposit Agreement) under the Deposit Agreement.

**“Group”** means TMK and its Subsidiaries, taken as a whole.

**“IFRS”** means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time).

**“Indebtedness”** means, with respect to any person at any date of determination (without duplication):

- (a) all indebtedness of such person for borrowed money;
- (b) all obligations of such person evidenced by bonds, debentures, notes or other similar instruments;
- (c) all obligations of such person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto);
- (d) all obligations of such person to pay the deferred and unpaid purchase price of property, assets or services, which purchase price is due more than 180 days after the earlier of the date of placing such property in service or taking delivery and title thereof or the completion of such services;
- (e) all Capitalised Lease Obligations of such person;
- (f) all Indebtedness of other person secured by a Encumbrance granted by such person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest half year period of the person providing the Encumbrance) of such person, whether or not such Indebtedness is assumed by such person;
- (g) all Indebtedness of other persons guaranteed or indemnified by such person to the extent such Indebtedness is guaranteed or indemnified by such person;
- (h) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements; and
- (i) any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing.

For the avoidance of doubt Indebtedness of any person does not include trade account payables, including, without limitation, trade letters of credit, bills of exchange, counter-indemnities in respect of any guarantee or indemnity or other negotiable instruments arising solely in the ordinary course of business of such person and maturing in less than 180 days (other than promissory notes, other negotiable instruments, bills of exchange, trade letters of credit and similar obligations incurred for the purpose of a borrowing.

For the purpose of determining compliance with any U.S. Dollar-denominated restriction on Indebtedness, the U.S. Dollar Equivalent of Indebtedness denominated in another currency shall be calculated.

The amount of Indebtedness of any person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation.

**“Independent Financial Adviser”** means an independent investment bank, financial institution or accounting firm of international repute appointed by TMK and approved in writing by the Trustee or, if TMK fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such adviser and otherwise in connection with such appointment, appointed by the Trustee following notification to TMK.

**“Interest Payment Date”** has the meaning provided in Condition 5(a).

**“Interest Period”** has the meaning provided in Condition 5(a).

**“London Stock Exchange”** means the London Stock Exchange plc.

**“Material Subsidiary”** means at any relevant time a Subsidiary of TMK:

- (a) whose total consolidated assets (excluding intercompany loans, intercompany payables, intercompany receivables and intercompany unrealised gains and losses in inventories) represent not less than 10 per cent.

of the total consolidated assets of TMK or whose gross consolidated revenues (excluding intercompany revenues) represent not less than 10 per cent. of the gross consolidated revenues of TMK (determined by reference to the most recent publicly available annual or interim financial statements of TMK prepared in accordance with IFRS and the latest financial statements of the Subsidiary); or

- (b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary,

save that each Guarantor shall at all times be deemed to be a Material Subsidiary.

“**Merge**” means consolidate or amalgamate with, merge with or into or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the property or assets of one person to another person and the terms “**Merged**” and “**Merger**” shall be construed accordingly.

“**Newco Scheme**” means a scheme of arrangement which effects the interposition of a limited liability company (“**Newco**”) between the Shareholders of TMK immediately prior to the scheme of arrangement (the “**Existing Shareholders**”) and TMK; provided that only ordinary shares of Newco are issued to Existing Shareholders and that immediately after completion of the scheme of arrangement the only shareholders of Newco are the Existing Shareholders and that all Subsidiaries of TMK immediately prior to the scheme of arrangement (other than Newco, if Newco is then a Subsidiary of TMK) are Subsidiaries of TMK (or of Newco) immediately after the scheme of arrangement.

“**Optional Put Date**” has the meaning provided in Condition 7(e).

“**Optional Redemption Date**” has the meaning provided in Condition 7(b).

“**Optional Redemption Notice**” has the meaning provided in Condition 7(b).

“**Ordinary Shares**” means fully paid ordinary shares in the capital of TMK currently with a par value of Roubles 10 each.

“**Parity Value**” means in respect of any dealing day, the U.S. dollar amount calculated as follows:

$$PV = GDR \times VWAP$$

Where

PV = the Parity Value

GDR = the number of GDRs that would fall to be issued or delivered on the exercise of Conversion Rights in respect of a Bond in the principal amount of U.S.\$100,000 assuming the Conversion Date to be such dealing day

VWAP = the Volume Weighted Average Price of a GDR on such dealing day (provided that if on any such dealing day the GDRs shall have been quoted cum-Dividend or cum-any other entitlement, the Volume Weighted Average Price of a GDR on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per GDR as at the date of first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the immediately preceding dealing day), and provided further that, only for the purposes of “B” in the definition of “Bond Price”, if on any such dealing day the GDRs shall have been quoted ex-Dividend or ex-any other entitlement, the Volume Weighted Average Price of a GDR on such dealing day shall be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per GDR as at the date of first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the immediately preceding dealing day), in each case where the Fair Market Value of any such Dividend or entitlement is translated into the Relevant Currency at the Prevailing Rate on such dealing day).

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, government, trust, state or agency of a state (in each case whether or not being a separate entity).

“**Potential Event of Default**” means any specified event in Condition 11 hereof which, after expiry of a grace period, the giving of notice, the passage of time or combination thereof and/or fulfilment of any other requirement, would be an Event of Default.

“**Prevailing Rate**” means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant

Page or if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined.

**“Put Date”** has the meaning provided in Condition 7(e).

**“Put Exercise Notice”** has the meaning provided in Condition 7(e).

**“Record Date”** has the meaning provided in Condition 8(c).

**“Reference Date”** means, in relation to a Retroactive Adjustment, the date as of which the relevant Retroactive Adjustment takes effect or, in any such case, if that is not a dealing day, the next following dealing day.

**“Relevant Currency”** means US dollars or, if at the relevant time or for the purposes of the relevant calculation or determination, the EEA Regulated Market of the London Stock Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares or the GDRs, as the case may be, are quoted or dealt in on the Relevant Stock Exchange at such time. **“Relevant Date”** means, in respect of any Bond, whichever is the later of (i) the date on which payment in respect of it first becomes due and (ii) if any amount of the money payable is improperly withheld or refused the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given by the Issuer or TMK or to the Bondholders in accordance with Condition 18 that, upon further presentation of the Bond, where required pursuant to these Conditions, being made, such payment will be made, provided that such payment is in fact made as provided in these Conditions.

a **“Relevant Event”** shall occur if (a) any person or persons, acting together, (other than one or more Excepted Persons) acquires or acquire Control of TMK (other than as a result of an Exempt Newco Scheme) (for the avoidance of doubt any alteration or change in the percentage of Voting Stock in TMK held by any one or more Excepted Persons, shall not constitute the acquisition of Control pursuant to this paragraph (a)); or (b) for any period of at least 30 consecutive calendar days the number of Ordinary Shares represented by the GDRs comprising the Free Float is equal to or less than the higher of 10 per cent. of the total number of issued Ordinary Shares (including Ordinary Shares represented by outstanding GDRs) and two times the number of Ordinary Shares represented by the GDRs underlying the outstanding Bonds from time to time determined by reference to the initial Conversion Price.

**“Relevant Event Notice”** has the meaning provided in Condition 6(g).

**“Relevant Event Period”** means the period commencing on the date on which a Relevant Event occurs and ending 60 calendar days following such date or, if later, 60 days following the date on which a Relevant Event Notice is given as required by Condition 6(g) or, in any such case, if that is not a dealing day, the next following dealing day.

**“Relevant Indebtedness”** means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

**“Relevant Stock Exchange”** means (i) in relation to the GDRs, the EEA Regulated Market of the London Stock Exchange or if at the relevant time the GDRs are not at that time listed and admitted to trading on the EEA Regulated Market of the London Stock Exchange, the principal stock exchange or securities market on which the GDRs are then listed or quoted or dealt in and (ii) in relation to the Ordinary Shares, the principal stock exchange or securities market on which the Ordinary Shares are then listed or quoted or dealt in.

**“Retroactive Adjustment”** has the meaning provided in Condition 6(c).

**“Roubles”** means the lawful currency for the time being of the Russian Federation.

**“Securities”** means any securities including, without limitation, Ordinary Shares, GDRs, or options, warrants or other rights to subscribe for or purchase or acquire Ordinary Shares or GDRs.

**“Shareholders”** means the holders of Ordinary Shares or GDRs.

**“Specified Date”** has the meaning provided in Condition 6(b)(vii), for the purposes of that Condition only, and (viii), for the purposes of that Condition only.

**“Spin-Off”** means:

- (a) a distribution of Spin-Off Securities by TMK to Shareholders as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or securities of or in or issued or allotted by any entity) by any entity (other than TMK) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of

ordinary shares by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with TMK or any of its Subsidiaries.

**“Spin-Off Securities”** means equity share capital of an entity other than TMK or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than TMK.

**“Stock Lending Agreements”** means the stock lending agreements entered into between the Issuer and each of Morgan Stanley & Co. International plc and UBS AG and relating to the lending and borrowing of GDRs.

**“Subsidiary”** of any specified person means (a) any corporation more than 50 per cent. of the outstanding Voting Stock of which is owned or controlled, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries thereof, (b) any limited partnership of which such Person or any affiliate of such Person is a general partner or (c) any other Person in which such Person, or one or more other Subsidiaries of such Person, or such Person and one or more other Subsidiaries, directly or indirectly, has more than 50 per cent. of the outstanding partnership or similar interests or has the power, by contract or otherwise, to direct or cause the direction of the policies, management and affairs thereof.

**“Tax Redemption Date”** has the meaning provided in Condition 7(c).

**“Tax Redemption Notice”** has the meaning provided in Condition 7(c).

**“Transaction Documents”** means the Bonds, the Trust Deed, the Deed of Guarantee, the Paying, Transfer and Conversion Agency Agreement, the Deposit Agreement and the Stock Lending Agreements.

**“UK Listing Authority”** means the Financial Services Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000.

**“Volume Weighted Average Price”** means, in respect of a GDR, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of a GDR, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of a GDR) from Bloomberg page VAP or (in the case of a Security (other than the GDRs) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a GDR, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined.

**“Voting Rights”** means, with respect to any entity, the right generally to vote at a general meeting of shareholders of such entity (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

**“Voting Stock”** means, with respect to any entity, any and all Capital Stock of such entity which affords the holder Voting Rights.

References to any provision of any statute or the like shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders or Existing Shareholders “as a class” or “by way of rights” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser considers in good faith appropriate to reflect any change in the number of Ordinary Shares represented by a GDR or any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of Condition 6(b), (c), (h) and (i) and Condition 12 only, (a) references to the “issue” of Ordinary Shares shall include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of TMK or any of its Subsidiaries, and (b) Ordinary Shares held by or on behalf of TMK or any of its Subsidiaries (and which, in the case of Condition 6(b)(iv) and (vi), do not rank for the relevant



right or other entitlement) shall not be considered as or treated as “in issue” or as being part of the “issued share capital” of TMK.

References in these Conditions to listing on the London Stock Exchange (or like or similar references) shall be construed as admission to the Official List of the UK Listing Authority and (in the case of the GDRs and the Bonds) admission to trading on the EEA Regulated Market of the London Stock Exchange.

#### **4. Registration and Transfer of Bonds**

##### **(a) Registration**

The Issuer will cause a register (the “**Register**”) to be kept at the specified office of the Registrar outside the United Kingdom on which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of Bonds.

A duplicate of the Register will be maintained at the registered office of the Issuer in Luxembourg. For Luxembourg law purposes, the information in the Register held at the Issuer’s registered office will prevail over the information included in the Register held by the Registrar.

##### **(b) Transfer**

Bonds may, subject to the terms of the Paying, Transfer and Conversion Agency Agreement and to Conditions 4(c) and 4(d), be transferred in whole or in part in an authorised denomination by lodging the relevant Bond (with the form of application for transfer in respect thereof duly executed by the transferor and transferee and duly stamped where applicable) at the specified office of the Registrar or any Paying, Transfer and Conversion Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days, in the place of the specified office of the Registrar, of any duly made application for the transfer of a Bond, register the transfer in the Register and deliver a new Bond to the transferee (and, in the case of a transfer of part only of a Bond, deliver a Bond for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond by uninsured mail to such address as the transferee or, as the case may be, the transferor may request. The Registrar will also inform, promptly, the Issuer of any change made to the Register.

##### **(c) Formalities Free of Charge**

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee (as initially set out in the Paying, Transfer and Conversion Agency Agreement).

##### **(d) Closed Periods**

Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of 15 days ending on and including the day immediately prior to the Final Maturity Date or any earlier date fixed for redemption of the Bonds pursuant to Condition 7(b) or 7(c); (ii) in respect of which a Conversion Notice has been delivered in accordance with Condition 6(h); (iii) in respect of which a Put Exercise Notice has been delivered in accordance with Condition 7(e) or (iv); during the period of 15 days ending on (and including) any Record Date in respect of any payment of interest on the Bonds.

#### **5. Interest**

##### **(a) Interest Rate**

The Bonds bear interest from (and including) the Closing Date at the rate of 5.25 per cent. per annum calculated by reference to the nominal amount thereof and payable quarterly in arrear in equal instalments on 11 February, 11 May, 11 August and 11 November in each year (each an “**Interest Payment Date**”), commencing with the Interest Payment Date falling on 11 May 2010.

Where interest is required to be calculated for any period which is not an Interest Period, it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the number of days elapsed.

**“Interest Period”** means the period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next following Interest Payment Date.

#### **(b) Accrual of Interest**

Each Bond will cease to bear interest (i) where the Conversion Right shall have been exercised by a Bondholder, from the relevant Conversion Date, save that (A) where the Conversion Date in respect of a Bond falls in the 20 calendar days immediately preceding the Final Maturity Date, such Bond shall bear interest to (and including) the last day of the applicable Conversion Period and (B) where the Conversion Date in respect of a Bond falls after such Bondholder has received an Optional Redemption Notice pursuant to Condition 7(b), such Bond shall bear interest to (and including) the last day of the applicable Conversion Period or (ii) where such Bond is redeemed or repaid pursuant to Condition 7 or Condition 11, from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused, in which event interest will continue to accrue at the rate specified in Condition 5(a) (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying, Transfer and Conversion Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

### **6. Conversion of Bonds**

#### **(a) Conversion Period and Conversion Price**

Subject to and as provided in these Conditions, each Bond shall entitle the holder to convert such Bond into GDRs (a **“Conversion Right”**).

The number of GDRs to be issued or delivered on exercise of a Conversion Right shall be determined by dividing the nominal amount of the Bond(s) to be converted by the conversion price (the **“Conversion Price”**) in effect on the relevant Conversion Date.

The initial Conversion Price is U.S.\$23.075 per GDR. On the basis of the initial Conversion Price, each U.S.\$100,000 nominal amount of Bonds would entitle the holder to receive (subject as provided in these Conditions) 4,333.69 GDRs representing 17,334.76 Ordinary Shares on the basis of each GDR representing, on the Closing Date, four Ordinary Shares. The Conversion Price is subject to adjustment in the circumstances described in Condition 6(b) and the expression **“Conversion Price”** shall be construed accordingly.

A Bondholder may exercise the Conversion Right in respect of a Bond by delivering such Bond, together with a duly completed Conversion Notice, to the specified office of any Paying, Transfer and Conversion Agent in accordance with Condition 6(h) whereupon the Issuer, failing whom the Guarantors, shall (subject as provided in these Conditions) procure the delivery, to or as directed by the relevant Bondholder of the relevant number of GDRs, as provided in this Condition 6.

Subject to and as provided in these Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time subject to any applicable fiscal or other laws or regulations and as hereinafter provided) from 24 March 2010 to the close of business (at the place where the relevant Bond is delivered for conversion) on the date falling seven London business days prior to the Final Maturity Date (both days inclusive) or, if such Bond is to be redeemed pursuant to Condition 7(b) or 7(c) prior to the Final Maturity Date, then up to the close of business (at the place aforesaid) on the seventh London business day before the date fixed for redemption thereof pursuant to Condition 7(b) or 7(c), unless there shall be default in making payment in respect of such Bond on such date fixed for redemption, in which event the Conversion Right shall extend up to the close of business (at the place aforesaid) on the date on which the full amount of such payment becomes available for payment and notice of such availability has been duly given in accordance with Condition 18 or, if earlier, the Final Maturity Date; provided that, in each case, if the final such date for the exercise of Conversion Rights is not a business day at the place aforesaid, then the period for exercise of Conversion Rights by Bondholders shall end on the immediately preceding business day at the place aforesaid.

Conversion Rights may not be exercised (i) following the giving of notice by the Trustee pursuant to Condition 11 or (ii) in respect of a Bond in respect of which the relevant holder has exercised its right to require the Issuer to redeem pursuant to Condition 7(e).

Conversion Rights may not be exercised by a Bondholder in circumstances where the relevant Conversion Date would fall during the period commencing on the Record Date in respect of any payment of interest on the Bonds and ending on the relevant Interest Payment Date (both days inclusive).

The period during which Conversion Rights may (subject as provided below) be exercised by a Bondholder is referred to as the “**Conversion Period**”.

Conversion Rights may only be exercised in respect of the whole of an authorised denomination, and may not be exercised if, after conversion, the Bonds held by the relevant Bondholder would have a principal amount of less than U.S.\$100,000. Where Conversion Rights are exercised in respect of part only of a Bond, the old Bond shall be cancelled and a new Bond for the balance thereof shall be issued in lieu thereof without charge but upon payment by the holder of any taxes, duties and other governmental charges payable in connection therewith and the Registrar will within seven business days, in the place of the specified office of the Registrar, following the relevant Conversion Date deliver such new Bond to the Bondholder at the specified office of the Registrar or (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary mail, at the expense of the Bondholder) mail the new Bond by uninsured mail to such address as the Bondholder may request.

GDRs will only be issued and/or delivered in respect of any exercise of Conversion Rights in such numbers as represent upon the relevant Conversion Date an integral number of Ordinary Shares. Fractions of GDRs will not be issued and/or delivered in any circumstances. No cash payment or other adjustment will be made in lieu of any GDRs or fractions of GDRs which are not issued and/or delivered as a result of the foregoing sentence. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that GDRs to be delivered on conversion or pursuant to Condition 6(c) are to be registered in the same name, the number of such GDRs to be delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of GDRs.

Subject to Condition 6(n), the Issuer, failing whom the Guarantors, will procure that GDRs to be issued and/or delivered on conversion will be issued and/or delivered to the holder of the Bonds completing the relevant Conversion Notice or his nominee in book-entry form within 15 London and Luxembourg business days following the relevant Conversion Date through the facilities of Euroclear or Clearstream, Luxembourg as provided in these Conditions. The Depositary shall be entitled to rely on the instructions of the Issuer, TMK or an agent of any of them as to the number of GDRs to be issued and/or delivered to the relevant Bondholder or its nominee, and shall not be responsible or liable to the Trustee or Bondholders or any other persons arising as a result of relying on any such instructions.

Interest will accrue on Bonds in respect of which Conversion Rights are exercised up to (but excluding) the relevant Conversion Date and interest accrued to such date shall be payable by the Issuer, failing whom the Guarantors, by no later than 15 London and Luxembourg business days following the relevant Conversion Date, save (A) where the Conversion Date in respect of a Bond falls in the 20 calendar days immediately preceding the Final Maturity Date, such Bond shall bear interest to (and including) the last day of the applicable Conversion Period, and interest accrued to such date shall be payable by the Issuer, failing whom the Guarantors, on the Final Maturity Date and (B) where the Conversion Date in respect of a Bond falls after such Bondholder has received an Optional Redemption Notice pursuant to Condition 7(b), such Bond shall bear interest to (and including) the last day of the applicable Conversion Period, and interest accrued to such date shall be payable by the Issuer, failing whom the Guarantors, on the Optional Redemption Date, in each case by transfer to a US dollar account maintained by the payee with a bank in New York City in accordance with instructions given by the relevant Bondholder in the relevant Conversion Notice.

#### **(b) Adjustment of Conversion Price**

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows, save that in no event shall the Capital Increase cause or result in any such adjustment:

- (i) If and whenever there shall be a consolidation, reclassification or subdivision in respect of the Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B} \times \frac{C}{D}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and
- B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be;
- C is the number of Ordinary Shares represented by a GDR following or as a result or consequence of such consolidation, reclassification or subdivision in respect of the Ordinary Shares; and
- D is the number of Ordinary Shares represented by a GDR immediately prior to such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever TMK shall issue any Ordinary Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves, including any share premium account or capital redemption reserve, (other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive or (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B} \times \frac{C}{D}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such issue of Ordinary Shares;
- B is the aggregate number of Ordinary Shares in issue immediately after such issue of Ordinary Shares;
- C is the number of Ordinary Shares represented by a GDR following or as a result or consequence of such issue of Ordinary Shares; and
- D is the number of Ordinary Shares represented by a GDR immediately prior to such issue of Ordinary Shares.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

(iii)

- (A) If and whenever TMK shall pay or make any Capital Distribution to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and
- B is the portion of the Fair Market Value of the aggregate Capital Distribution attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution attributable to the Ordinary Shares by the number of Ordinary Shares entitled to receive the relevant Capital Distribution (or, in the case of a purchase, redemption or buy back of Ordinary Shares, GDRs or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of TMK or any Subsidiary of TMK, by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Ordinary Shares in issue immediately prior to such purchase, redemption or buy back, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by GDRs or other depositary receipts or certificates representing Ordinary Shares, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Capital Distribution is capable of being determined as provided herein.

“**Effective Date**” means, in respect of this paragraph (b)(iii), the first date on which the GDRs are traded on the Relevant Stock Exchange ex-the entitlement corresponding to the relevant Capital Distribution or Extraordinary Dividends relating to the Ordinary Shares or, in the case of a purchase, redemption or buy back of Ordinary Shares, GDRs or any depositary or other receipts or certificates representing Ordinary Shares, the date on which such purchase, redemption or buy back is made or in the case of a Spin-Off, the first date on which the GDRs are traded ex- the relevant Spin-Off on the Relevant Stock Exchange.

“**Capital Distribution**” means any Non-Cash Dividend.

“**Non-Cash Dividend**” means any Dividend which is not a Cash Dividend (as defined below) and shall include a Spin-Off.

- (B) If and whenever TMK shall pay any Extraordinary Dividends to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A - C}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and  
 B is the portion of the Fair Market Value of the aggregate Extraordinary Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Extraordinary Dividend by the number of Ordinary Shares entitled to receive the Relevant Dividend; and  
 C is the amount (if any) by which the Threshold Amount determined in respect of the Relevant Dividend exceeds an amount equal to the aggregate of the Fair Market Values of any previous Cash Dividends per Ordinary Share paid or made in respect of the Relevant Fiscal Year (where C shall be zero if such previous Cash Dividends per Ordinary Share are equal to, or exceed, the Threshold Amount in respect of the Relevant Fiscal Year). For the avoidance of doubt “C” shall equal the Threshold determined in respect of the Relevant Dividend where no previous Cash Dividends per Ordinary Share have been paid in such Relevant Fiscal Year.

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Extraordinary Dividend can be determined.

“**Extraordinary Dividend**” means any Cash Dividend (the “**Relevant Dividend**”) paid or made in respect of a fiscal year of TMK (commencing with the fiscal year ended 31 December 2009) (the “**Relevant Fiscal Year**”), if (a) the Fair Market Value of the Relevant Dividend per Ordinary Share or (b) the sum of (i) the Fair Market Value of the Relevant Dividend per Ordinary Share and (ii) an amount equal to the aggregate of the Fair Market Value or Values of any other Cash Dividend or Cash Dividends per Ordinary Share paid or made in respect of the Relevant Fiscal Year, exceeds the Threshold Amount, and in that case the Extraordinary Dividend shall be the Relevant Dividend.

“**Threshold Amount**” means in respect of any Relevant Fiscal Year, the amount per Ordinary Share corresponding to the fiscal year set out below (adjusted pro rata for any adjustments to the Conversion Price made pursuant to the provisions of this Condition 6(b)).

|                                       | Gross amount per<br>Ordinary Share<br>(U.S. dollars) | Equivalent gross<br>amount per GDR,<br>assuming 1 GDR<br>represents 4<br>Ordinary Shares<br>(U.S. dollars) |
|---------------------------------------|--|--|
| In respect of the fiscal year ending: |  |  |
| 31 December 2009 .....                | 0  | 0  |
| 31 December 2010 .....                | 0  | 0  |
| 31 December 2011 .....                | 0.0375   | 0.15   |
| 31 December 2012 .....                | 0.05   | 0.20   |
| 31 December 2013 .....                | 0.0625   | 0.25   |
| 31 December 2014 .....                | 0.0625   | 0.25   |

“**Cash Dividend**” means (i) any Dividend which is to be paid or made in cash (in whatever currency), but other than falling within paragraph (b) of the definition of “**Spin-Off**” and (ii) any Dividend determined to be a Cash Dividend pursuant to paragraph (a) of the definition of “**Dividend**”, and for the avoidance of doubt, a Dividend falling within paragraph (c) or (d) of the definition of “**Dividend**” shall be treated as being a Non-Cash Dividend.

- (C) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of “**Dividend**” and in the definition of “**Fair Market Value**”) be determined as at the Effective Date.
- (D) In making any calculations for the purposes of this Condition 6(b)(iii), such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (i) any



consolidation or sub-division of any Ordinary Shares or the issue of Ordinary Shares by way of capitalisation of profits or reserves (or any like or similar event) or any increase in the number of Ordinary Shares in issue in relation to the fiscal year of TMK in question, or (ii) any change in the fiscal year of TMK.

- (iv) If and whenever TMK shall issue Ordinary Shares to Shareholders as a class by way of rights, or shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase any Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue on the Effective Date;  
 B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights plus the additional consideration (if any) receivable upon (and assuming) the exercise of such options, warrants or rights at the initial subscription, purchase or acquisition price, would purchase at such Current Market Price per Ordinary Share on the Effective Date; and  
 C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(iv), the first date on which the GDRs are traded on the Relevant Stock Exchange ex the entitlement corresponding to the relevant rights, options or warrants relating to the Ordinary Shares.

- (v) If and whenever TMK shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase any Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and  
 B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(v), the first date on which the GDRs are traded on the Relevant Stock Exchange ex the entitlement corresponding to the relevant Securities, option or warrants relating to the Ordinary Shares.

- (vi) If and whenever TMK shall issue (otherwise than as mentioned in paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares) or issue or grant (otherwise than as mentioned in paragraph (b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the Bonds, which term shall for this purpose include any Optional Bonds and any further bonds issued pursuant to Condition 19 and forming a single series with the Bonds), in each case at a price per Ordinary Share

which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(vi), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

- (vii) If and whenever TMK or any Subsidiary of TMK or (at the direction or request of or pursuant to any arrangements with TMK or any Subsidiary of TMK) any other company, person or entity (otherwise than as mentioned in paragraphs (b)(iv), (b)(v) or (b)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Bonds, which term shall for this purpose exclude any further bonds issued pursuant to Condition 19 and forming a single series with the Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such issue or grant;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share; and
- C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation;

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this paragraph (b)(vii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided) then for the purposes of this paragraph (b)(vii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

(viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Bonds, which term shall for this purpose include any further bonds issued pursuant to Condition 19 and forming a single series with the Bonds) as are mentioned in paragraph (b)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue on the dealing day immediately before such modification;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for the relevant modification or, if lower, the existing conversion, exchange or subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser shall in good faith consider appropriate for any previous adjustment under this paragraph (b)(viii) or paragraph (b)(vii) above;

provided that if at the time of such modification (as used in this paragraph (b)(viii) the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this paragraph (b)(viii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date

“**Effective Date**” means, in respect of this paragraph (b)(viii), the date of modification of the rights of conversion, exchange or subscription, purchase or acquisition attaching to such Securities.

(ix) If and whenever TMK or any Subsidiary of TMK or (at the direction or request of or pursuant to any arrangements with TMK or any Subsidiary of TMK) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under paragraphs (b)(ii), (b)(iii), (b)(iv), (b)(vi) or (b)(vii) above or (b)(x) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day) or under sub-paragraph (b)(v) above) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and
- B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(ix), the first date on which the GDRs are traded on the Relevant Stock Exchange ex the entitlement corresponding to the relevant rights relating to the Ordinary Shares.

- (x) If a Relevant Event shall occur, then upon any exercise of Conversion Rights where the Conversion Date falls during the Relevant Event Period the Conversion Price (the “**Relevant Event Conversion Price**”) shall be determined as set out below:

$$\text{RECP} = \text{OCP} / (1 + (\text{CP} \times c / t))$$

where:

- RECP means the Relevant Event Conversion Price  
OCP means the Conversion Price in effect on the relevant Conversion Date  
CP means 30 per cent. (expressed as fraction)  
c means the number of days from and including the date the Relevant Event occurs to but excluding the Final Maturity Date  
t means the number of days from and including the Closing Date to but excluding the Final Maturity Date.

- (xi) If TMK (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this Condition 6(b) (even if the relevant circumstance is specifically excluded from the operation of sub-paragraphs (b)(i) to (x) above), TMK shall, at its own expense and acting reasonably, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph (b)(xi) if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

Notwithstanding the foregoing provisions:

- (a) where the events or circumstances giving rise to any adjustment pursuant to this paragraph (b) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of TMK, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be appropriate to give the intended result;
- (b) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be appropriate (i) to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once; and
- (c) for the avoidance of doubt, the issue of Ordinary Shares pursuant to the exercise of Conversion Rights shall not result in an adjustment to the Conversion Price.

For the purpose of any calculation of the consideration receivable or pursuant to sub-paragraphs (iv), (vi), (vii) and (viii), the following provisions shall apply:

- (a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by TMK to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant date of first public announcement as referred to in sub-paragraphs (b)(vi), (vii) or (viii), as the case may be, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the

consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date (in the case of (a) above) or the relevant date of the first public announcement (in the case of (b) above);
- (d) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith and
- (e) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to TMK or another entity.

***(c) Retroactive Adjustments***

Subject as provided in Condition 6(n), if the Conversion Date in relation to the conversion of any Bond shall be after the date on which any consolidation, reclassification or sub-division as is mentioned in Condition 6(b)(i) becomes effective, or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Condition 6(b)(ii), (iii) (iv), (v) or (ix) above, or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in paragraph (b)(vi) and (vii) above or of the terms of any such modification as mentioned in paragraph (b)(viii) above, but before the relevant adjustment to the Conversion Price becomes effective under paragraph (b) above (such adjustment, a **“Retroactive Adjustment”**), then the Issuer, failing whom the Guarantors, shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued or delivered to the converting Bondholder, in accordance with the instructions contained in the Conversion Notice, such additional number of GDRs (if any) (the **“Additional GDRs”**) as, together with the GDRs issued or to be issued or delivered on conversion of the relevant Bond (together with any fraction of a GDR not so issued), is equal to the number of GDRs which would have been required to be issued or delivered on conversion of such Bond if the relevant adjustment (more particularly referred to in the said provisions of Condition 6(b)) to the Conversion Price had in fact been made and become effective immediately prior to the relevant Conversion Date.

***(d) Decision of an Independent Financial Adviser***

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price and, following consultation between TMK and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

***(e) Employees’ Share Schemes***

No adjustment will be made to the Conversion Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees or former employees (including Directors holding or formerly holding executive office or the personal service company of any such person) or their spouses or relatives, in each case, of TMK or any of its Subsidiaries or any associated company or to trustees to be held for the benefit of any such person, in any such case pursuant to any employees’ share or option scheme.

***(f) Rounding Down and Notice of Adjustment to the Conversion Price***

On any adjustment, the resultant Conversion Price, if not an integral multiple of U.S.\$0.01, shall be rounded down to the nearest whole multiple of U.S.\$0.01. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment on the basis that the adjustment not



required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Issuer or TMK to Bondholders in accordance with Condition 18 and the Trustee promptly after the determination thereof.

***(g) Relevant Event or De-listing Event***

- (i) Within five London business days following the occurrence of a Relevant Event, the Issuer and/or TMK shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 18 (a “**Relevant Event Notice**”). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and of their entitlement to exercise their rights of redemption under Condition 7(e).

The Relevant Event Notice shall also specify:

- (a) all information material to Bondholders concerning the Relevant Event;
  - (b) the Conversion Price immediately prior to the occurrence of the Relevant Event and the Conversion Price applicable pursuant to Condition 6(b)(x) during the Relevant Event Period on the basis of the Conversion Price in effect immediately prior to the occurrence of the Relevant Event;
  - (c) the closing price of the GDRs as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of such notice;
  - (d) the last day of the Relevant Event Period; and
  - (e) such other information relating to the Relevant Event as the Trustee may require.
- (ii) Upon the occurrence of a De-listing Event, the Issuer and/or TMK shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 18 (a “**De-listing Event Notice**”). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their rights of redemption under Condition 7(e).

The De-listing Event Notice shall also specify:

- (a) all information material to Bondholders concerning the De-listing Event;
- (b) the Conversion Price immediately prior to the occurrence of the De-Listing Event;
- (c) the closing price of the GDRs as derived from the Relevant Stock Exchange as at the latest practicable date prior to the occurrence of the De-listing Event; and
- (d) such other information relating to the De-listing Event as the Trustee may require.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or, as the case may be, a De-listing Event or any event which could lead to a Relevant Event or, as the case may be, De-listing Event has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

***(h) Procedure for exercise of Conversion Rights***

Conversion Rights may be exercised by a Bondholder during the Conversion Period by delivering the relevant Bond to the specified office of any Paying, Transfer and Conversion Agent, during its usual business hours, accompanied by a duly completed and signed notice of conversion (a “**Conversion Notice**”) in the form (for the time being current).

A Bondholder exercising Conversion Rights shall, as a pre-condition to receiving GDRs, also be required to comply with any relevant provisions of the Deposit Agreement, including the provision of such confirmations, certificates and undertakings and compliance with such other formalities as may be required pursuant to the Deposit Agreement or requested by the Depositary (the “**Deposit Requirements**”). Such Bondholder will also be required to certify (a “**Deposit Certificate**”) to TMK and the Depositary that it:

- (i) is, or at the time the Ordinary Shares were deposited and at the time the GDRs will be issued, will be, the beneficial owner of the Ordinary Shares represented by the GDRs;
- (ii) is located outside the United States (within the meaning of Regulation S under the United States Securities Act of 1933, as amended (the “**Act**”));

- (iii) acknowledges that the GDRs and the Ordinary Shares represented thereby have not been and will not be registered under the Act; and
- (iv) to the extent relevant to an exercise of Conversion Rights, it has acquired, or has agreed to acquire and will have acquired the Ordinary Shares represented by the relevant GDRs outside the United States (within the meaning of Regulation S under the Act) and it has purchased such Bond in a transaction made in accordance with Rule 903 or Rule 904 of Regulation S.

If a converting Bondholder shall fail to provide a Deposit Certificate or if a converting Bondholder shall fail to comply with any Deposit Requirements, the purported exercise of Conversion Rights shall be invalid.

Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Paying, Transfer and Conversion Agent to whom the relevant Conversion Notice is delivered is located.

If delivery of the relevant Bond, Conversion Notice and Deposit Certificate is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Paying, Transfer and Conversion Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

The form of Conversion Notice and Deposit Certificate for the time being current is obtainable from the specified office of any Paying, Transfer and Conversion Agent.

Any determination as to whether a Conversion Notice has been duly completed and properly delivered shall be made by the relevant Paying, Transfer and Conversion Agent and shall save in the case of manifest error, be conclusive and binding on the Issuer, the Guarantors, the Trustee, the Depositary and the relevant Bondholder.

A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be the London business day immediately following the date of the delivery of the Bonds, the Conversion Notice and the Deposit Certificate and compliance with any Deposit Requirements.

A Bondholder exercising a Conversion Right must pay directly to the relevant authorities any taxes and capital, stamp, issue and registration and transfer taxes and duties arising on conversion (other than any taxes or capital, stamp, issue and registration and transfer taxes and duties payable in the Russian Federation, the United States, the United Kingdom, Luxembourg or Belgium in respect of the issue or transfer and delivery of any Ordinary Shares and GDRs (including any Additional GDRs), which shall be paid by the Issuer, failing whom the Guarantors). Such Bondholder must also pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with such conversion.

Neither the Trustee nor the Depositary shall be responsible for determining whether such taxes or capital, stamp, issue and registration and transfer taxes and duties are payable or the amount thereof and neither of them shall be responsible or liable for any failure by the Issuer or the Guarantors to pay such taxes or capital, stamp, issue and registration and transfer taxes and duties.

The Issuer, failing whom the Guarantors, will pay all costs, fees and expenses of the Depositary in connection with the issue to and/or deposit with the Depositary or its nominee of the relevant Ordinary Shares and of the Depositary in connection with the issue and/or delivery of the relevant GDRs (including any Additional GDRs) pursuant to the Deposit Agreement on conversion. The Issuer, failing whom the Guarantor, will also pay all costs, fees and expenses, including those of the Depositary in connection with the delivery of the relevant GDRs (including any Additional GDRs) in book-entry form through the facilities Euroclear and Clearstream, Luxembourg as specified in the relevant Conversion Notice).

Following the exercise of Conversion Rights in accordance with these Conditions, the Issuer, failing whom the Guarantors, shall procure that the Depositary shall issue and/or deliver the relevant GDRs (or Additional GDRs, as the case may be) to be issued and/or delivered upon exercise of Conversion Rights and shall issue and/or deliver such GDRs (or Additional GDRs, as the case may be) in book-entry form through the facilities of Euroclear and Clearstream, Luxembourg to such account with Euroclear or Clearstream, Luxembourg as specified by the relevant Bondholder in the relevant Conversion Notice by not later than 15 London and Luxembourg business days following the relevant Conversion Date (or, as the case may be, 15 London and Luxembourg business days following the relevant Reference Date).

***(i) Ranking and Entitlement***

- (i) GDRs delivered upon conversion will be fully paid and will in all respects rank pari passu with the other such fully paid GDRs in issue on the relevant Conversion Date or, in the case of Additional GDRs, on the relevant Reference Date (except in any such case for any right excluded by mandatory provisions of applicable law) and, without prejudice to the provisions of the Deposit Agreement, the relevant Bondholder shall be treated as the holder thereof with effect from, and be entitled to all rights, distributions and entitlements in respect of which the record date or other due date for the establishment of entitlement falls on or after, the relevant Conversion Date or, as the case may be, the relevant Reference Date (provided that where the relevant rights, distribution, or entitlement relates to Ordinary Shares, the record date or other due date for establishment of entitlement in relation thereto falls on or after such Conversion Date or, as the case may be, the relevant Reference Date); and
- (ii) Save as provided in Condition 6(j), no payment or adjustment shall be made on conversion for any interest which otherwise would have accrued on the relevant Bonds since the last Interest Payment Date preceding the Conversion Date relating to such Bonds (or, if such Conversion Date falls before the first Interest Payment Date, since the Closing Date).

***(j) GDRs***

Where there is any change to the number of Ordinary Shares represented by a GDR, such modification shall be made to the operation of these Conditions and, where appropriate, such adjustment shall be made to the Conversion Price, as is determined in good faith by an Independent Financial Adviser to be appropriate.

References in this Condition 6 to the issue of Ordinary Shares or the issue or grant by way of rights, options, warrants or other rights to subscribe for or purchase any Ordinary Shares shall be construed to include circumstances where such Ordinary Shares are to be represented by and/or such issue or grant is made by TMK in respect of GDRs to be issued or to be issued by the Depositary and representing such Ordinary Shares, and the provisions of this Condition 6 shall be construed accordingly with such (if any) modifications as an Independent Financial Adviser shall determine to be appropriate, by reference, where appropriate, to the number of Ordinary Shares represented by such GDRs.

***(k) Purchase or Redemption of Ordinary Shares or GDRs***

TMK, or any Subsidiary of TMK, may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back shares in TMK (including Ordinary Shares) or GDRs or any other depositary or other receipts or certificates representing the same without the consent of the Bondholders or any other person.

***(l) No duty to Monitor***

Neither the Trustee nor any Paying, Transfer and Conversion Agent shall be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price and will not be responsible or liable to the Bondholders for any loss arising from any failure by it to do so.

***(m) Merger***

In the case of any Merger of TMK with any other corporation (other than a Merger in which TMK is the continuing corporation), TMK will forthwith notify the Trustee and the Bondholders of such Merger and take such steps as shall be required by the Trustee (including the execution of a deed or Deed supplemental to or amending the Trust Deed and the Deed of Guarantee) to ensure that each Bond then outstanding will (during the period in which Conversion Rights may be exercised) be convertible into the class and amount of shares and other securities and property receivable upon such Merger by a holder of the number of Ordinary Shares which would have become liable to be issued upon exercise of Conversion Rights immediately prior to such Merger. Such supplemental deed supplement or amendment will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in this Condition 6. The above provisions of this Condition 6(m) will apply, mutatis mutandis to any subsequent Merger.

***(n) Cash Settlement upon inability to deliver GDRs***

- (i) Upon exercise of Conversion Rights by a Bondholder, if at that time the Issuer or TMK deems in good faith that they are unable, after using their reasonable efforts, to deliver or procure the delivery of any or all GDRs to such Bondholder(s), the Issuer may make an election (a “**Cash Settlement Election**”) by giving notice (a “**Cash Settlement Election Notice**”) to the relevant Bondholder and the Trustee as soon as reasonably

practicable and in any event no later than thirteen dealing days following the relevant Conversion Date to the address (or, if a fax number or email address is provided in the relevant Conversion Notice, that fax number or email address) specified for that purpose in the relevant Conversion Notice (with a copy to the Trustee and the Principal Paying and Conversion Agent) to satisfy the exercise of the Conversion Rights in respect of the relevant Bonds by making payment, or procuring that payment is made, to the relevant Bondholder of the Cash Settlement Amount, together with delivery of such number of GDRs that it is able to deliver and any other amount payable by the Issuer to such Bondholder pursuant to these Conditions in respect of or relating to the relevant exercise of Conversion Rights and such notice shall specify if any GDRs are to be delivered, and if so, the number of GDRs to be delivered.

Prior to the publication of any notice pursuant to this paragraph (i), the Issuer shall deliver to the Trustee a certificate signed by two directors of TMK stating that TMK deems in good faith that it is unable, after using its reasonable efforts, to deliver or procure the delivery of any or all such GDRs and the Trustee shall accept without any liability for so doing such certificate as sufficient evidence of the matters set out above, in which event it shall be conclusive and binding on the Bondholders.

- (ii) The Issuer will pay the Cash Settlement Amount, together with any other amount as aforesaid, by not later than five New York and London business days following the last day of the Cash Settlement Calculation Period by transfer to a U.S. dollar account with a bank in New York in accordance with instructions contained in the relevant Conversion Notice.
- (iii) If there is a Retroactive Adjustment to the Conversion Price in relation to any exercise of Conversion Rights by a Bondholder, in circumstances where the provisions of Condition 6(n)(i) shall apply in respect of such exercise the Issuer shall (conditional on the relevant adjustment becoming effective) pay to the relevant Bondholder an additional amount (the “**Additional Cash Settlement Amount**”) equal to the Market Price of such number of GDRs equal to that by which the number of GDRs by reference to which the Cash Settlement Amount shall have been determined would have been increased if the relevant adjustment to the Conversion Price had in fact been made and become effective immediately prior to the relevant Conversion Date.

The Issuer will pay the Additional Cash Settlement Amount not later than five New York and London business days following the relevant Reference Date by transfer to a U.S. dollar account with a bank in New York in accordance with instructions contained in the relevant Conversion Notice.

- (iv) “**Market Price**” means the Volume Weighted Average Price of a GDR on the relevant Reference Date, provided that if any Dividend or other entitlement in respect of the Ordinary Shares is announced on or prior to the relevant Conversion Date in circumstances where the record date or other due date for the establishment of entitlement in respect of such dividend or other entitlement shall be on or after the Conversion Date and if, on the relevant Reference Date, the Volume Weighted Average Price of a GDR is based on a price ex-Dividend or ex-any other entitlement, then such price shall be increased by an amount equal to the Fair Market Value of such dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement (or if that is not a dealing day, the immediately preceding dealing day).

## **7. Redemption and Purchase**

### ***(a) Final Redemption***

Unless previously purchased and cancelled, redeemed or converted as herein provided, the Bonds will be redeemed at their principal amount plus accrued interest (if any) on the Final Maturity Date. The Bonds may only be redeemed at the option of the Issuer prior to the Final Maturity Date in accordance with Condition 7(b) or 7(c).

### ***(b) Redemption at the Option of the Issuer***

On giving not less than 30 nor more than 60 days’ notice (an “**Optional Redemption Notice**”) to the Trustee and to the Bondholders (which notice shall be irrevocable) in accordance with Condition 18, the Issuer may redeem all but not some only of the Bonds on the date (the “**Optional Redemption Date**”) specified in the Optional Redemption Notice at their principal amount, together with accrued but unpaid interest to such date:

- (i) at any time on or after 4 March 2013, if the Parity Value on at least 20 dealing days in any period of 30 consecutive dealing days ending not earlier than 5 days prior to the giving of the relevant Optional Redemption Notice, exceeds U.S.\$130,000; or
- (ii) if, at any time prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of

85 per cent. or more in nominal amount of the Bonds originally issued (which shall for this purpose include any further bonds issued pursuant to Condition 19 and consolidated and forming a single series with the Bonds).

*(c) Redemption for Taxation Reasons*

At any time the Issuer may, having given not less than 45 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders (which notice shall be irrevocable) redeem (subject to the second following paragraph) all, and not some only, of the Bonds on the date specified in the Tax Redemption Notice ("**Tax Redemption Date**"), each at their Tax Redemption Amount, together with accrued but unpaid interest to such date, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer (or, if the Guarantee were called, a Guarantor) has or will become obliged to pay additional amounts in respect of interest on the Bonds pursuant to Condition 9 as a result of any change in, or amendment to, the laws or regulations of Luxembourg (in the case of a payment by the Issuer) or the Russian Federation or the United States (in the case of a payment by the relevant Guarantors) or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date, and (ii) such obligation cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking all reasonably commercially available measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the relevant Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer or the relevant Guarantor stating that the obligation referred to in (i) above cannot be avoided by the Issuer or such Guarantor (taking all reasonably commercially available measures available to it) and (b) an opinion of independent legal or tax advisers of recognised international standing to the effect that such change or amendment has occurred and that the Issuer or such Guarantor has or will be obliged to pay such additional amounts as a result thereof (irrespective of whether such amendment or change is then effective) and the Trustee shall accept without any liabilities for so doing such certificate and opinion as sufficient evidence of the matters set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders.

Upon the expiry of a Tax Redemption Notice, the Issuer shall (subject to the next following paragraph) redeem the Bonds on the Tax Redemption Date at their Tax Redemption Amount, together with accrued interest to such date. If the Issuer gives a notice of redemption pursuant to this Condition 7(c), each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of interest to be made on such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 in respect of payments of interest falling due on Interest Payment Dates falling after the Tax Redemption Date and payment of all amounts of such interest on such Bonds shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by Luxembourg or any political subdivision or any authority thereof or therein having power to tax. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying, Transfer and Conversion Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Paying, Transfer and Conversion Agent together with the relevant Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

The "**Tax Redemption Amount**" of a Bond means (A) in the case of a change in, or amendment to, the laws or regulations of Luxembourg or the United States affecting the Issuer or IPSCO respectively, the principal amount of such Bond and (B) in the case of a change in, or amendment to, the laws or regulations of the Russian Federation affecting a Guarantor incorporated in the Russian Federation, the higher of (i) the principal amount of such Bond and (ii) the Bond Price of such Bond.

*(d) Optional and Tax Redemption Notices*

Any Optional Redemption or Tax Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date or, as the case may be, the Tax Redemption Date, (ii) the amount of accrued interest payable on the Optional Redemption Date or, as the case may be, the Tax Redemption Date, (iii) the Conversion Price, the aggregate nominal amount of the Bonds outstanding and the closing price of the GDRs as published by or derived from the Relevant Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice or, as the case may be, the Tax Redemption Notice and (iv) the last day on which Conversion Rights may be exercised by Bondholders.



***(e) Redemption at the Option of Bondholders***

***(i) Upon a Relevant Event or a De-listing Event***

The Issuer will, at the option of the holder of any Bond, redeem such Bond following the occurrence of a Relevant Event or a De-listing Event on the relevant Put Date (as defined below) at its principal amount, together with interest accrued to but excluding the Put Date. To exercise such option the holder must deposit such Bond with any Paying, Transfer and Conversion Agent together with a duly completed put notice (a “**Put Exercise Notice**”) in the form obtainable from any of the Paying, Transfer and Conversion Agents, not later than (and excluding) the last day of the Relevant Event Period or the De-listing Event Period, as the case may be. No Bond so deposited may be withdrawn (except as provided in the Paying, Transfer and Conversion Agency Agreement) without the prior consent of the Issuer. The “**Put Date**” shall be the fourteenth day after (and excluding) the last day of the Relevant Event Period or the fourteenth day after (and excluding) the date of the De-listing Event Notice, as appropriate.

***(ii) Redemption on 11 February 2013***

The Issuer will, at the option of the holder of any Bond, redeem such Bond on 11 February 2013 (the “**Optional Put Date**”) at its principal amount, together with interest accrued to but excluding the Optional Put Date. To exercise such option the holder must deposit such Bond with any Paying, Transfer and Conversion Agent together with a duly completed Put Exercise Notice, not earlier than (and excluding) 90 days nor less than 14 days prior to the Optional Put Date. No Bond so deposited may be withdrawn (except as provided in the Paying, Transfer and Conversion Agency Agreement) without the prior consent of the Issuer.

***(iii) Upon an Additional Guarantor Event***

In the event that the Issuer and TMK fail to fulfil their respective obligations to procure any Additional Guarantee under Condition 1(e) by the deadline set out in such Condition (an “**Additional Guarantee Event**”), the Issuer will, at the option of the holder of any Bond, redeem such Bond on the Additional Guarantee Event Put Date (as defined below) at the Additional Guarantee Event Redemption Amount (as defined below), together with interest accrued to but excluding the Additional Guarantee Event Put Date.

The Issuer and TMK shall immediately after an Additional Guarantee Event give notice (an “**Additional Guarantee Event Notice**”) to each Bondholder in accordance with Condition 18, with a copy to the Trustee, such notice containing the following information: (i) that an Additional Guarantee Event has occurred; and (ii) the purchase price and the purchase date, which will be a London business day which is three London business days after the end of the Parity Calculation Period (as defined below) (the “**Additional Guarantee Event Put Date**”).

To exercise such option the holder must deposit such Bond with any Paying, Transfer and Conversion Agent together with a duly completed Put Exercise Notice. No Bond so deposited may be withdrawn (except as provided in the Paying, Transfer and Conversion Agency Agreement) without the prior consent of the Issuer.

The Issuer will publicly announce the results of the Additional Guarantee Event offer on or as soon as practicable after the Additional Guarantee Event Put Date.

The Trustee shall not be required to take any steps to ascertain whether an Additional Guarantor Event or any event which could lead to an Additional Guarantor Event has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

In this Condition 7(e)(iii):

“**Additional Guarantee Event Redemption Amount**” in respect of each Bond means the higher of:

- (i) 102.5% of the principal amount of such Bond; and
- (ii) the Bond Price.

“**Bond Price**” means the sum of A and B, where:

A is the simple arithmetic average of the Trading Price minus the Parity Value calculated for each of the three consecutive dealing days immediately prior to the date of delivery of the Additional Guarantee Event Notice or Tax Redemption Notice, as the case may be, or, if earlier, the date specified in the Additional Guarantee Event Notice as the date when the Additional Guarantee Event was notified to the public; and

B is the greater of (a) the simple arithmetic average of the Parity Value for each of the 3 consecutive dealing days used to calculate “A” above and (b) the simple arithmetic average of the Parity Value for each of the 20 consecutive

dealing days (the “**Parity Calculation Period**”) commencing on the dealing day following delivery of the Additional Guarantee Event Notice or Tax Redemption Notice, as the case may be, to Bondholders.

The “**Trading Price**” for a Bond on a particular dealing day means the average of the Bond prices quoted by three leading dealers of international repute selected by TMK; provided that (a) if only two of the selected dealers provides such quotation, the Trading Price shall be the average of the Bond prices quoted by such two dealers and (b) if only one of the selected dealers provides such quotation, the Trading Price shall be such quotation and provided that if none of the selected dealers provides such quotation, the Trading Price shall be determined by an Independent Financial Adviser. The Trading Price of each dealer so selected shall be such dealer’s closing price.

*(iv) General*

Payment in respect of any such Bond shall be made by transfer to a U.S. dollar account with a bank in New York City specified by the relevant Bondholder in the relevant Put Exercise Notice.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Put Exercise Notices delivered as aforesaid on the relevant Additional Guarantee Event Put Date, Put Date or the Optional Put Date, as the case may be.

*(f) Purchase*

Subject to the requirements (if any) of any stock exchange on which the Bonds may be admitted to listing and trading at the relevant time and subject to compliance with applicable laws and regulations, the Issuer or TMK or any Subsidiary of TMK may at any time purchase Bonds in the open market or otherwise at any price.

*(g) Cancellation*

All Bonds which are redeemed or in respect of which Conversion Rights are exercised will be cancelled and may not be reissued or resold. Bonds purchased by the Issuer or TMK or any Subsidiary of TMK may, at the option of the Issuer or TMK or the relevant Subsidiary of TMK (as the case may be), be held, reissued or resold or surrendered to the Principal Paying, Transfer and Conversion Agent for cancellation.

*(h) Multiple Notices*

If more than one notice of redemption is given pursuant to this Condition 7, the first of such notices to be given shall prevail.

## **8. Payments**

*(a) Principal*

Payment of principal in respect of the Bonds and accrued interest payable on a redemption of the Bonds other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date and subject to the surrender of the Bonds at the specified office of the Registrar or of any of the Paying, Transfer and Conversion Agents.

*(b) Interest and other Amounts*

- (i) Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.
- (ii) Payments of all amounts other than as provided in Condition 8(a) and (b)(i) will be made as provided in these Conditions.

*(c) Record Date*

“**Record Date**” means the seventh business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

*(d) Payments*

Each payment in respect of the Bonds pursuant to Condition 8(a) and (b)(i) will be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

Payment instructions (for value on the due date or, if that is not a business day in New York City, for value the first following day which is a business day in New York City) will be initiated on the business day in New York City preceding the due date for payment or, in the case of payments referred to in Condition 8(a), if later, on the business day in the place of the specified office of the Paying, Transfer and Conversion Agent to which the relevant Bond is surrendered as specified in Condition 8(a) (for value the next following business day in New York City).

***(e) Payments subject to fiscal laws***

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

***(f) Delay in payment***

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a payment business day, (ii) if the Bondholder is late in surrendering the relevant Bond (where such surrender is required pursuant to these Conditions as a precondition to payment).

***(g) Business Days***

In this Condition 8, “payment business day” means a day which is a business day in New York City and (where surrender of the relevant Bond is required pursuant to these Conditions as a precondition to payment) in the place of the specified office of the Paying, Transfer and Conversion Agent to whom the relevant Bond is surrendered.

***(h) Paying, Transfer and Conversion Agents, etc.***

The initial Paying, Transfer and Conversion Agents and Registrar and their initial specified offices are listed below. The Issuer reserves the right under the Paying, Transfer and Conversion Agency Agreement at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying, Transfer and Conversion Agent or the Registrar and appoint additional or other Paying, Transfer and Conversion Agents or Registrars, provided that it will (i) maintain a Principal Paying, Transfer and Conversion Agent and a Registrar, (ii) maintain Paying, Transfer and Conversion Agents having specified offices in at least two major European cities including a Paying, Transfer and Conversion Agent having a specified office in London, (iii) maintain a Paying, Transfer and Conversion Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive and (iv) maintain a Registrar with a specified office outside the United Kingdom. Notice of any change in the Paying, Transfer and Conversion Agents or the Registrar or their specified offices will promptly be given by the Issuer to the Bondholders in accordance with Condition 18.

***(i) Fractions***

When making payments to Bondholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

**9. Taxation**

All payments made by or on behalf the Issuer or the Guarantors in respect of the Bonds will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Luxembourg, the United States or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is required to be made by law.

In the event that any such withholding or deduction is required to be made, the Issuer or the Guarantors, as the case may be, will pay such additional amounts as will result in the receipt by the Bondholders of the amounts which would otherwise have been receivable had no such withholding or deduction been required, except that no such additional amount shall be payable in respect of interest on any Bond:

- (a) to a holder (or to a third party on behalf of a holder) who is (i) able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption

to the relevant non-residence or other claim for exemption to the relevant tax authority; or (ii) subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with Luxembourg, the United States or the Russian Federation, as the case may be, otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond; or

- (b) (in the case of a payment of principal) if the Bond is surrendered more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such additional amount on surrendering the Bond for payment on the last day of such period of 30 days; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying, Transfer or Conversion Agent in a Member State of the European Union.

References in these Conditions to any amount payable by the Issuer or the Guarantors shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed and the Deed of Guarantee.

This Condition 9 shall not apply in respect of payments of interest falling due on Interest Payment Dates falling after the Tax Redemption Date or any Bonds which are the subject of an election by the relevant Bondholder pursuant to Condition 7(c).

#### **10. Limitations on Activities of the Issuer**

So long as any Bond remains outstanding (as defined in the Trust Deed), save with the prior written consent of the Trustee or as approved by any Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or as expressly permitted in any of the Transaction Documents or these Conditions, the Issuer will not, and TMK will procure that the Issuer will not:

- (i) transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its property or assets other than as contemplated in or pursuant to the Transaction Documents and other than any such transaction made between the Issuer and TMK or any Subsidiary of TMK;
- (ii) without prejudice to the remainder of this Condition 10 engage in any activity which is not incidental and necessary to any of the activities which the Transaction Documents provide or envisage that the Issuer will engage in;
- (iii) have any subsidiaries or employees or purchase, own, lease or otherwise acquire any real property (including office premises or like facilities);
- (iv) amend, supplement or otherwise modify its constitutional documents;
- (v) act as a director of any company or other corporation;
- (vi) until such time as the Issuer becomes a Subsidiary, indirectly or directly, of TMK, declare, pay or make any dividend or make any other distribution to its shareholders or issue any further shares;
- (vii) directly or indirectly incur or assume any indebtedness or incur or assume any other liabilities whatsoever or give any guarantee or indemnity in respect of any obligation of any person, in each case, other than under or pursuant to the Transaction Documents or incurred or assumed solely for or directly connected with the purposes of funding the Issuer's obligations pursuant to the Bonds (including, but not limited to, the borrowing of cash or the borrowing or purchase of GDRs and the payment of interest or the like in respect of such borrowings) or incurred or assumed towards TMK or any Subsidiary or Shareholder of TMK;
- (viii) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person (other than pursuant to the Transaction Documents); or
- (ix) make or provide any loan or advance or other financial accommodation to any person (other than a loan to TMK and/or a Subsidiary and/or a Shareholder of TMK of all or part of the proceeds of the issue of the Bonds (or any monies for the time being held for the purposes of enabling the Issuer to meet its obligations under the Bonds or the Transaction Documents) or a loan of any Ordinary Shares or GDRs to all or any of the Stock

Borrowers or any other monies received in respect of GDRs or the Stock Lending Agreements) or provide any financial assistance to, or in favour of, or in respect of any obligation or liabilities of, any person.

## 11. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer that the Bonds are, and they shall accordingly thereby immediately become, due and repayable at their principal amount together with accrued interest if any of the following events (each an “**Event of Default**”) shall have occurred:

- (a) default by Issuer, TMK or any Guarantor in the payment of principal of the Bonds when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise and such default continues for a period of 5 London business days;
- (b) default by the Issuer, TMK or any Guarantor in the payment of interest on the Bonds when the same becomes due and payable if such default continues for a period of 7 London business days;
- (c) failure by the Issuer, TMK or any Guarantor to repay the Bonds in accordance with Condition 7(e) and such default continues for a period of 10 London business days;
- (d) default by the Issuer, TMK or any Guarantor in the performance of any of their respective obligations under the Conditions, the Trust Deed or the Deed of Guarantee, as the case may be and (except where in any such case that failure is not capable of remedy in the opinion of the Trustee) that failure continues in the opinion of the Trustee for a period of 30 calendar days following the submission by the Trustee of a notice requiring the breach to be remedied;
- (e) any Indebtedness of either the Issuer, TMK, any Guarantor or any Subsidiary of TMK is not paid when due (taking into account any originally applicable grace period), or any Indebtedness of either the Issuer, TMK, any Guarantor or any Subsidiary of TMK is either declared to be or otherwise becomes due and payable prior to its maturity date (otherwise than at the option of the Issuer, TMK, any Guarantor or any Subsidiary of TMK, as the case may be, or (provided that no Event of Default has occurred) any person entitled to such Indebtedness; provided, however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its maturity date is equal to or greater than U.S.\$30 million (or its equivalent in another currency) disregarding any guarantee of the Issuer, TMK, any Guarantor or any Subsidiary of TMK given in respect of such Indebtedness owed by the Issuer, TMK, any Guarantor or any Subsidiary of TMK, as the case may be;
- (f) any final judgment or order (not covered by insurance) for the payment of money in excess of U.S.\$30 million (or its equivalent in another currency) in the aggregate for all such final judgments or orders against all such persons (treating any deductibles, self-insurance or retention as not so covered) shall be rendered against the Issuer, TMK, any Guarantor or any Material Subsidiary of TMK and shall not be paid or discharged, and there shall be any period of 60 consecutive calendar days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed U.S.\$30 million (or its equivalent in another currency) during which a stay of enforcement of such final judgment or order, by reason of a pending appeal or otherwise, shall not be in effect;
- (g) the validity of the Bonds, the Trust Deed or the Deed of Guarantee is contested by the Issuer, TMK or any Guarantor or the Issuer, TMK or any Guarantor shall deny any of its obligations under the Bonds, the Trust Deed or the Deed of Guarantee; or it is, or will become, unlawful for the Issuer, TMK or any Guarantor to perform or comply with any of its obligations under or in respect of the Bonds, the Trust Deed or the Deed of Guarantee, as the case may be, or any of such obligations shall become unenforceable or cease to be legal, valid and binding;
- (h) a decree, judgment, or order by any agency or a court of competent jurisdiction shall have been entered adjudging the Issuer, TMK, any Guarantor or any Material Subsidiary of TMK as bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation of the Issuer, TMK, any Guarantor or any Material Subsidiary of TMK under any bankruptcy or similar law, and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or a decree or order of a court of competent jurisdiction over the appointment of a receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of the Issuer, TMK, any Guarantor or any Material Subsidiary of TMK, or any substantial part of the assets or property of any such person, or for the winding up or liquidation of the affairs of any such person, shall have



been entered, and such decree, judgment or order shall have remained in force undischarged and unstayed for a period of 60 days, or any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in this Condition 11(h); or

- (i) the Issuer, TMK, any Guarantor or any Material Subsidiary of TMK shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganisation under any bankruptcy or similar law or similar statute, or shall consent to the filing of any such petition, or shall consent to the appointment of a custodian, receiver, liquidator, trustee or assignee in bankruptcy or insolvency of it or any substantial part of its assets or property, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall, within the meaning of any bankruptcy law, become insolvent, fail generally to pay its debts as they become due, or takes any corporate action in furtherance of or to facilitate, conditionally or otherwise, any of the foregoing or any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in this Condition 11(i).

## 12. Undertakings

Whilst any Conversion Right remains exercisable, TMK will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (a) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:
  - (i) by the issue of fully paid Ordinary Shares to Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Ordinary Shares or other shares or securities on a capitalisation of profits or reserves; or
  - (ii) by the issue of Ordinary Shares paid up in full (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a cash Dividend; or
  - (iii) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of TMK which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares); or
  - (iv) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office of TMK or any of its Subsidiaries or any associated company or any personal service company of any such person or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share or option scheme whether for all employees, directors, or executives or any one or more of them,

unless, in any such case, the same constitutes a Dividend or is otherwise taken into account for the purposes of determining whether an adjustment should be made to the Conversion Price; or

- (b) not modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than the rights attaching to the Ordinary Shares but so that nothing in this Condition 12(b) shall prevent:
  - (i) any consolidation, reclassification or subdivision of the Ordinary Shares; or
  - (ii) any modification of such rights which is not, in the opinion of an Independent Financial Adviser, materially prejudicial to the interests of the holders of the Bonds; or
  - (iii) any issue of equity share capital where the issue of such equity share capital results, or would, but for the provisions of Condition 6(f) relating to the roundings and minimum adjustments or the carry forward of adjustments or, where comprising Ordinary Shares, the fact that the consideration per Ordinary Share receivable therefore is at least 95 per cent. of the Current Market Price per Ordinary Share, otherwise result, in an adjustment to the Conversion Price; or
  - (iv) any issue of equity share capital or modification of rights attaching to the Ordinary Shares, where prior thereto the Issuer shall have instructed an Independent Financial Adviser to determine in good faith what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Independent Financial Adviser shall have determined either that no adjustment is required or that an adjustment resulting in a decrease in the Conversion Price is required and, if so, the

new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly);

- (c) procure that no Securities (whether issued by the Issuer, TMK or any Subsidiary of TMK or procured by the Issuer or TMK or any Subsidiary of TMK to be issued or issued by any other person pursuant to any arrangement with the Issuer or TMK or any Subsidiary of TMK) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 6(f) relating to the roundings or carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;
- (d) not make any issue, grant or distribution or take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Conversion Price to below any minimum level permitted by applicable laws or regulations or that would otherwise result in the Ordinary Shares to be issued and represented by GDRs to be issued on exercise of Conversion Rights not being able to be lawfully issued and fully paid;
- (e) not reduce its issued share capital, share premium account, or any uncalled liability in respect thereof, or any non-distributable reserves, except:
  - (i) pursuant to the terms of issue of the relevant share capital; or
  - (ii) by means of a purchase or redemption of share capital of TMK to the extent permitted by applicable law; or
  - (iii) by way of transfer to reserves or share premium as permitted under applicable law; or
  - (iv) where the reduction does not involve any distribution of assets; or
  - (v) solely in relation to a change in currency in which the nominal value of the Ordinary Shares is expressed; or
  - (vi) to create distributable reserves; or
  - (vii) as may be required pursuant to IFRS; or
  - (viii) where the reduction is permitted by applicable law and the Trustee is advised in writing by an Independent Financial Adviser, acting as an expert, that the interests of the Bondholders will not be materially prejudiced by such reduction; or
  - (ix) where the reduction is permitted by applicable law and results in (or would, but for the provisions of Condition 6(f) relating to the rounding or carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made,

provided that, without prejudice to the other provisions of these Conditions, TMK may exercise such rights as they may from time to time enjoy pursuant to applicable law to purchase, redeem or buy back its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of Bondholders;

- (f) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associates of the offeror) to acquire the whole or any part of the issued Ordinary Shares or the GDRs, or if any person proposes a scheme with regard to such acquisition, give notice of such offer or scheme to the Bondholders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying, Transfer and Conversion Agents and, where such an offer or scheme has been recommended by the board of directors of TMK, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use its reasonable endeavours to procure that a like or substantially like offer or scheme is extended to the holders of any GDRs issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights by the Bondholders and that an appropriate and fair offer is made in respect of the Bonds;
- (g) in the event of a Newco Scheme, TMK shall take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of the scheme of arrangement, at

its option, either (a) Newco is substituted under the Bonds, the Trust Deed and the Deed of Guarantee as principal obligor in place of the Issuer (with TMK and the other Guarantors providing a guarantee) subject to and as provided in the Trust Deed and the Deed of Guarantee; or (b) Newco becomes a guarantor under the Bonds, the Trust Deed and the Deed of Guarantee (jointly and severally with the Guarantors) and, in either case, that (i) such amendments are made to these Conditions, the Trust Deed and the Deed of Guarantee as are necessary, in the opinion of the Trustee, to ensure that the Bonds may be converted into or exchanged for ordinary shares in Newco or depositary receipts representing such ordinary shares *mutatis mutandis* in accordance with and subject to these Conditions, the Trust Deed and the Deed of Guarantee and (ii) the ordinary shares of Newco and such depositary receipts are:

- (A) admitted to the Relevant Stock Exchange; or
- (B) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market;
- (h) use all reasonable endeavours to ensure that the GDRs continue to be admitted to listing on the Official List of the UK Listing Authority and to trading on the EEA Regulated Market of the London Stock Exchange, or on another EEA Regulated Market as determined by TMK;
- (i) maintain the GDR facility in accordance with the Deposit Agreement such that GDRs can be delivered, subject to Condition 6(n), as and when required to satisfy Conversion Rights;
- (j) at all times maintain for so long as any of the Bonds remains outstanding, a “block listing” on the London Stock Exchange of a sufficient number of GDRs to enable all GDRs that may be issued on conversion of the Bonds and on the exercise of all other rights of subscription, conversion or exchange, to be admitted, on issue, to listing on the London Stock Exchange without any other formality or requirement (other than of a purely administrative nature), including the obligation to publish a prospectus pursuant to the Listing Rules of the UK Listing Authority.

Each of the Issuer and the Guarantors has undertaken in the Trust Deed and the Deed of Guarantee to deliver to the Trustee annually and at other times at the request of the Trustee a certificate that there has not occurred an Event of Default or Potential Event of Default since the date of the last such certificate or if such event has occurred as to the details of such event. The Trustee will be entitled to rely on such certificate and shall not be obliged to monitor compliance by the Issuer or the Guarantors with the undertakings set forth in this Condition 12, nor be liable to any person for not so doing.

### **13. Prescription**

Claims against the Issuer or the Guarantors for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of such payment.

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

### **14. Replacement of Bonds**

If any Bond is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying, Transfer and Conversion Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

### **15. Meetings of Bondholders, Modification and Waiver, Substitution**

#### **(a) Meetings of Bondholders**

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed and the Deed of Guarantee. Such a meeting may be convened by the Issuer, the Guarantors or the Trustee and shall be convened by the Trustee (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) if requested in writing by Bondholders holding not less than 10 per cent. in nominal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons present in person holding Bonds or being proxies or

representatives and representing in the aggregate a clear majority in nominal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the nominal amount of the Bonds so held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the nominal amount, or interest on, the Bonds or to reduce the amount payable on redemption of the Bonds, (iii) to modify or cancel the Conversion Rights, other than pursuant to or as a result of any amendments to these Conditions, the Trust Deed and the Deed of Guarantee made pursuant to the provision of Condition 12(g) (“**Newco Scheme Modification**”), (iv) to increase the Conversion Price other than in accordance with these Conditions or pursuant to a Newco Scheme Modification, (v) to change the currency of any payment in respect of the Bonds, (vi) to change the governing law of the Bonds, the Trust Deed, a Deed of Guarantee, or the Paying, Transfer and Conversion Agency Agreement (other than in the case of a substitution of the Issuer (or any previous substitute or substitutes) under Condition 15(c)), (vii) to modify or cancel the Guarantee or (viii) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-quarter, in nominal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

An Extraordinary Resolution is a resolution in respect of which not less than two-thirds of the votes cast shall have been in favour at a meeting of Bondholders duly governed and held in accordance with the Trust Deed.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. of the aggregate nominal amount of Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held.

No consent or approval of Bondholders shall be required in connection with any Newco Scheme Modification.

#### ***(b) Modification and Waiver***

The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, a Deed of Guarantee, any agreement supplemental to the Deed of Guarantee, the Paying, Transfer and Conversion Agency Agreement, any agreement supplemental to the Paying, Transfer and Conversion Agency Agreement, the Bonds or these Conditions which in the Trustee’s opinion is of a formal, minor or technical nature or to comply with mandatory provisions of law or is made to correct a manifest error, and (ii) any other modification to the Trust Deed, a Deed of Guarantee, any deed supplemental thereto any trust deed supplemental to the Trust Deed, any agreement supplemental to the Deed of Guarantee, the Paying, Transfer and Conversion Agency Agreement, any agreement supplemental to the Paying, Transfer and Conversion Agency Agreement, the Bonds or these Conditions (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Deed of Guarantee, any agreement supplemental to the Deed of Guarantee, any deed supplemental thereto the Paying, Transfer and Conversion Agency Agreement, any agreement supplemental to the Paying, Transfer and Conversion Agency Agreement, the Bond or these Conditions which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the Bondholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders promptly in accordance with Condition 18.

#### ***(c) Substitution***

The Trustee may, without the consent of the Bondholders, agree with the Issuer and TMK as provided in, and for the purposes of, Condition 12(g) to the substitution in place of the Issuer (or any previous substitute or substitutes under this Condition) as the principal debtor under the Bonds and the Trust Deed of any Subsidiary of TMK subject to (a) the Bonds continuing to be unconditionally and irrevocably guaranteed by the Guarantors, and (b) the Bonds continuing to be convertible or exchangeable into GDRs as provided in these Conditions *mutatis mutandis* as provided in these Conditions, with such amendments as the Trustee shall consider appropriate provided that in any such case, (x) the Trustee is satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (y) certain other conditions set out in the Trust Deed have been complied with. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed and/or the Deed of Guarantee provided that such change would not in the opinion of

the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders. By subscribing to, acquiring or otherwise purchasing the Bonds, the holders of the Bonds are expressly deemed to have consented to the substitution of the Issuer by a new issuer and to the release of the Issuer from any and all obligations in respect of the Bonds and all relevant agreements and are expressly deemed to have accepted such substitution and the consequences thereof.

***(d) Entitlement of the Trustee***

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Guarantors or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

**16. Enforcement**

The Trustee may at any time, at its discretion and without notice, take such actions, steps or proceedings against the Issuer or the Guarantors as it may think fit to enforce the provisions of the Trust Deed, the Deed of Guarantee and the Bonds, but it shall not be bound to take any such actions, steps or proceedings or any other action in relation to the Trust Deed, the Deed of Guarantee or the Bonds unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in nominal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Issuer or the Guarantors unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

**17. The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking proceedings unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or the Guarantors and any entity related to the Guarantors without accounting for any profit. The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee shall be entitled to rely on any such report, confirmation or certificate or advice where the Issuer procures delivery of the same pursuant to its obligation to do so under a condition hereof or any provision of the Conditions or the Trust Deed and in such circumstances such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee, the Guarantors and the Bondholders in the absence of manifest error.

**18. Notices**

All notices regarding the Bonds will be valid if published in one leading daily newspaper in the United Kingdom (which is expected to be the *Financial Times*) or, if this is not possible, in one other leading English language daily newspaper with general circulation in Europe. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one newspaper or in more than one manner, on the date of the first such publication in all the required newspapers or in each required manner. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

So long as the Bonds are listed on the Official List of the United Kingdom Financial Services Authority and/or admitted to trading on the London Stock Exchange and the rules of that exchange so permit, notices to Bondholders shall be given by filing a notice with a Regulatory Information Service approved by the United Kingdom Financial Services Authority instead of in accordance with the above paragraph.

*So long as the Bonds are represented by a Global Bond and such Global Bond is held on behalf of a clearing system and where the rules of the London Stock Exchange plc so permit, notices to Bondholders shall be given by delivery*



*of the relevant notice to such clearing system for communication by it to its accountholders instead of in accordance with Condition 18.*

## **19. Further Issues**

The Issuer may from time to time without the consent of the Bondholders create and issue further notes, bonds or debentures either having the same terms and conditions in all respects as the outstanding notes, bonds or debentures of any series (including the Bonds) or in all respects except for the first payment of interest on them and the first date on which conversion rights may be exercised and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may determine at the time of their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes, bonds or debentures may, with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

## **20. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

## **21. Governing Law and Jurisdiction**

### ***(a) Governing Law***

The Trust Deed, the Deed of Guarantee, the Paying, Transfer and Conversion Agency Agreement, and any non-contractual obligations arising out of or in connection with them, and the Bonds are governed by, and shall be construed in accordance with, English law.

The application of Articles 86 to 94-8 of the law of 10 August 1915 relating to commercial companies, as amended, of the Grand Duchy of Luxembourg to the Bonds is excluded.

### ***(b) Jurisdiction***

Subject to the option of the Trustee described below, the Issuer and the Guarantors have in the Trust Deed and the Deed of Guarantee agreed that any disputes which may arise out of or in connection with the Trust Deed, the Guarantees or the Bonds (including any questions regarding their existence, validity or termination) shall be referred to and finally resolved by arbitration under the Rules of the LCIA (previously the London Court of International Arbitration), which rules are deemed to be incorporated by reference in the Trust Deed and the Deed of Guarantee.

Before an arbitrator or arbitral tribunal has been appointed to determine a dispute, the Trustee may by notice in writing to the Issuer and the Guarantors, require that all disputes or a specific dispute be heard by a court of law. If the Trustee gives such notice, the Dispute to which such notice refers shall be determined in accordance with the paragraph below.

With respect to any disputes heard in a court of law, the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Deed of Guarantee or the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Deed of Guarantee or the Bonds (“Proceedings”) may be brought in such courts. Each of the Issuer and the Guarantors has in the Trust Deed and the Deed of Guarantee irrevocably submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

***(c) Waiver of Immunity***

To the extent that the Issuer or the Guarantors may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced with respect to the Bonds, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under the Bonds and/or to the extent that in any such jurisdiction there may be attributed to the Issuer or the Guarantors any such immunity (whether or not claimed), the Issuer and the Guarantors hereby irrevocably agree not to claim, and hereby waive, any such immunity.

***(d) Agent for Service of Process***

Each of the Issuer and the Guarantors has irrevocably appointed Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent in England to receive service of process in any Proceedings in England. Nothing herein or in the Trust Deed or the Deed of Guarantee shall affect the right to serve process in any other manner permitted by law.

## SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

### Initial Issue of Bonds

Upon the initial registration of the Bonds in the name of a nominee of Euroclear and Clearstream, Luxembourg and delivery of the Temporary Global Bond to a common depositary for Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”), Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Bonds equal to the nominal amount thereof for which it has subscribed and paid.

### Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Bond represented by a Global Bond must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the underlying Bond and in relation to all other rights arising under a Global Bond, subject to and in accordance with the respective rules and procedures of Euroclear and Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bonds are represented by such Global Bond and such obligations of the Issuer will be discharged by payment to the holder of a Global Bond, as the case may be, in respect of each amount so paid.

### Exchange

The Temporary Global Bond is exchangeable in whole or in part for interests in the Permanent Global Bond on or after a date which is expected to be 24 March 2010, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Permanent Global Bond will be exchangeable (free of charge to the holder of the Permanent Global Bond and the Bondholders) in whole, but not in part, for the definitive Bonds described below if, but only if, the Permanent Global Bond is held on behalf of Clearstream, Luxembourg and/or Euroclear and either such clearing system is closed for business for a continuous period of 14 days or more (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon the holder may give notice to the Trustee of its intention to exchange the Permanent Global Bond for definitive certificates in respect of the Bonds on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the Issuer will deliver, or procure the delivery of an equal aggregate principal amount of duly executed and authenticated definitive Bonds in registered form, printed in accordance with any applicable legal and stock exchange requirements and in, or substantially in, the form set out in the Trust Deed. Such definitive Bonds will be registered in the name of the accountholders at Clearstream, Luxembourg and Euroclear which previously had Bonds credited to their accounts.

“**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring conversion is given and on which banks are open for business in the city in which the specified office of the Registrar is located.

### Conversion Rights

Conversion Rights in respect of Bonds represented by the Global Bonds are exercisable by delivery of or by procuring the delivery of the Global Bonds to or to the order of the specified office of any Paying, Transfer and Conversion Agent for notation of exercise of the Conversion Rights together with one or more duly completed Conversion Notices, in the form obtainable from the specified office of any Paying, Transfer and Conversion Agent. Delivery of such Conversion Notice will constitute confirmation by the beneficial owner of the Bonds to be converted that the information and the representations in the Conversion Notice are true and accurate on the date of delivery.

A Bondholder exercising Conversion Rights shall, as a pre-condition to receiving GDRs, also be required to comply with any Deposit Requirements and to provide a Deposit Certificate to TMK, the Depositary and the Trustee in compliance with Condition 6(h).

### Notices

So long as the Bonds are represented by a Global Bond and a Global Bond is held on behalf of a clearing system and where the rules of the London Stock Exchange so permit, notices to Bondholders shall be given by delivery of the relevant notice to that clearing system for communication by it to its accountholders in substitution for publication as required by the Conditions.

**Prescription**

Claims against the Issuer or the Guarantors for payment in respect of the Bonds while the Bonds are represented by a Global Bond shall be prescribed within 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in the Conditions) in respect of such payment.

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

**Purchase and Cancellation**

Cancellation of any Bonds to be cancelled following their purchase will be effected by endorsement by or on behalf of the Principal Paying, Transfer and Conversion Agent of the reduction in the principal amount of the Global Bonds and by an appropriate entry made in the Register maintained in respect of the Bonds.

**Meetings**

At any meeting of Bondholders, the holder of a Global Bond will be treated as having one vote in respect of each U.S.\$100,000 in principal amount of Bonds.

**Trustee's Powers**

In considering the interests of Bondholders while a Global Bond is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to a Global Bond and may consider such interests as if such accountholders were the holder of a Global Bond.

**Redemption at the Option of the Issuer**

The options of the Issuer provided for in Condition 7(b) or 7(c) shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in, and containing the information required by, those Conditions.

**Redemption at the Option of Bondholders**

The option of the holder of any Bond provided for in Condition 7(e) shall be exercised by the delivery to or to the order of any Paying, Transfer and Conversion Agent of such Bond together with a duly completed Put Exercise Notice in the form available from any Paying, Transfer and Conversion Agent within the time limits set out in and containing the information required by Condition 7(e).

## DESCRIPTION OF THE ORDINARY SHARES

*This section describes our share capital, the material provisions of our charter in effect as of the date of this Offering Circular and certain requirements of Russian legislation applicable to the Shares and their holding and disposal. This description, however, is not complete and is qualified in its entirety by reference to our charter and applicable Russian law.*

### Our Purpose

Article 6 of our charter provides that our purpose is to receive profit. We are entitled to carry out various activities permissible under Russian law, such as conducting of operational and managerial activities relating to the production sector, including foreign trade operations, conducting scientific and technical research activities and implementing results arising therefrom, provision of marketing services, distribution of technical equipment, ownership of securities and other activities provided for by our charter and applicable Russian legislation.

### Description of Share Capital and Certain Rights and Obligations of Shareholders

#### General Matters

Upon our incorporation, the share capital of ZAO TMK was RUB 10,000. On 12 July 2004, the shareholders' meeting of ZAO TMK decided on share capital increase from RUB 10,000 to RUB 8,730,010,000 through an issuance of 873 million ordinary shares with a nominal value of RUB 10 each. The issuance of shares was registered with the FSFM on 31 August 2004. In November 2004, all of the newly issued shares were placed to TMK Steel by way of a closed subscription.

The following table sets forth the changes in ZAO/OAO TMK's share capital from its formation until 18 January 2010:

| <u>Registration Date</u> | <u>Means of issuance</u>       | <u>Change in<br/>number of<br/>shares</u> | <u>Change<br/>in share<br/>capital</u><br>(in roubles) | <u>Total number<br/>of shares</u> | <u>Total share<br/>capital</u><br>(in roubles) | <u>Nominal<br/>value</u><br>(in roubles) |
|--------------------------|--------------------------------|---|--|-----------------------------------|--|--|
| 26 July 2001 . . . .     | Distribution among<br>founders | 1,000                                     | 10,000   | 1,000                             | 10,000   | 10                                       |
| 31 August 2004 . .       | Closed<br>subscription         | 873,000,000                               | 8,730,000,000  | 873,001,000                       | 8,730,010,000                                  | 10                                       |

Under Russian legislation, share capital refers to the aggregate nominal value of the issued and outstanding shares. Pursuant to our charter and the Joint Stock Companies Law, OAO TMK may issue registered ordinary shares, preferred shares of different types and other securities provided for by the securities legislation of the Russian Federation. Currently, we have an issued share capital of RUB 8,730,010,000, represented by 873,001,000 registered ordinary shares, each with a nominal value of RUB 10, issued, fully paid and outstanding.

In addition, pursuant to our charter, we are authorised to issue additional 436,500,500 ordinary shares, each with a nominal value of RUB 10, at any time in the future.

No preferred shares are outstanding or authorised as of the date of this Offering Circular.

The Joint Stock Companies Law in certain cases allows or, as the case may be, requires us to repurchase our shares. See “—Share Capital Decrease, Share Repurchases”. Shares repurchased by the issuer are referred to as treasury shares. Russian law does not permit voting for the treasury shares. The treasury shares must be resold at market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the share capital.

As at the date of this Offering Circular, treasury shares account for 0.8% of TMK's share capital. These shares are held by Rockarrow and TMK Trade House. Our ordinary shares have been admitted to trading on the RTS under the symbol TRMKG since 30 August 2005 and included into quotation list “B” since 11 May 2007 and on the MICEX under the symbol TRMK since 10 April 2007 and included into quotation list “A1” since 8 July 2009.

#### Rights Attaching to Ordinary Shares

Holders of our ordinary shares have the right to vote at all shareholders' meetings. As required by the Joint Stock Companies Law and our charter, all of our ordinary shares have the same nominal value and grant identical rights to their holders. Each fully paid ordinary share, except for treasury shares, entitles its holder to:

- participate in our management as provided for by the Joint Stock Companies Law and our charter;



- participate in shareholders' meetings and vote on all matters within shareholders' competence;
- elect and be elected to our executive and controlling bodies;
- receive dividends on a pro rata basis;
- upon liquidation, receive a proportionate amount of our property after our obligations to the creditors have been settled;
- if holding, alone or with other shareholders, 2% or more of the voting shares, within 30 days after the end of our financial year, submit proposals for the annual shareholders' meeting and nominate candidates to the Board of Directors and the audit committee;
- if holding, alone or with other shareholders, 10% or more of the voting shares, demand that the Board of Directors convene an extraordinary shareholders' meeting or an unscheduled audit by the Internal Audit Commission or by the external auditor;
- have access to certain of our documents and receive copies thereof;
- freely transfer the shares without the consent of our other shareholders;
- acquire our shares by exercising pre-emptive rights on a pro rata basis in relation to his existing holding of our shares as provided for by the Joint Stock Companies Law and our charter;
- demand repurchase by us of all or some of the shares held by shareholder, as long as such shareholder voted against or did not participate in the voting on a decision approving the following:
- our reorganisation;
- conclusion of a major transaction, which value exceeds 50% of the book value of the company's assets; or
- amendment of our charter that restricts the shareholder's rights;
- transfer voting rights to a representative on the basis of a power of attorney; and
- exercise other rights of a shareholder as provided by our charter and Russian legislation.

### ***Pre-emptive Rights***

The Joint Stock Companies Law and our charter provide shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law and our charter provide shareholders with a pre-emptive right to purchase shares or securities convertible into shares during a closed subscription if the shareholders voted against or did not participate in the voting on a decision approving such subscription. The pre-emptive right does not apply to a closed subscription for shares by existing shareholders, provided that such shareholders may each acquire a whole number of the shares or securities convertible into shares being placed, in proportion to their existing shareholdings. We must notify shareholders of the opportunity to exercise their pre-emptive rights and the period under which such pre-emption rights may be exercised, which, as a general rule, may not be shorter than 45 days from the date when notification is sent to the shareholders, and in case share issuance documents expressly specify that the placement price in respect of shares placed under an open subscription is to be determined following the expiration of the pre-emptive rights period, this period may be shortened to 20 days.

### ***Dividends***

The Joint Stock Companies Law and our charter set forth a procedure for determining the dividends that we distribute to our shareholders. According to our charter, we may declare dividends based on our three months, six months, nine months and/or annual results. The amount of dividends is recommended to a shareholders' meeting by a majority vote of the Board of Directors, and approved by a majority vote of the General Shareholders' Meeting. The amount of dividends approved at such shareholders' meeting may not exceed the amount recommended by the Board of Directors. Pursuant to Dividend Policy Regulations approved by our Board of Directors on 30 June 2006, we target to pay dividends in the amount of between 20% and 25% of our IFRS net profits depending on our financial performance, capital expenditures and availability of funds from external sources, as well as other relevant factors.

A decision on three months, six months and nine months dividends must be taken at a shareholders' meeting within three months of the end of the respective quarter, and a decision on annual dividends must be taken at the annual General Shareholders' Meeting. Dividends are distributed to holders of our shares as of the record date of the

shareholders' meeting approving the dividends. See “—*General Meetings of Shareholders — Notice and Participation*”.

Dividends are paid in cash. Dividends are not paid on treasury shares.

The declared dividends are subject to tax. See “*Taxation of the Bonds and the GDRs — Taxation of the GDRs: Dividends*”.

The Joint Stock Companies Law allows dividends to be declared only out of our net profits calculated in accordance with RAS and as long as the following conditions have been met:

- the share capital of the company has been paid in full;
- the value of the company's net assets is not less, and would not become less as a result of the proposed dividend payment, than the sum of its share capital, the reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares, if any;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase; and
- the company is not, and would not become as a result of the proposed dividend payment, insolvent.

### ***Distribution to Shareholders upon Liquidation***

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter stipulate that the Company may be liquidated:

- by a three-quarters majority vote of our shareholders' meeting; or
- by a court order.

Following a decision to liquidate the Company, the right to manage its affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by the shareholders' meeting and, in the case of compulsory liquidation, is appointed by the court. Our creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Russian Civil Code sets forth the following order of priority between the creditors during liquidation:

- individuals claiming compensations relating to death or injury;
- employees entitled to salary and severance payments, as well as remunerations under copyright agreements;
- secured creditors;
- federal and local governmental entities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- other creditors in accordance with Russian legislation.

We note that Federal Law No 127-FZ “On Insolvency (Bankruptcy),” dated 26 October 2002, as amended, provides for a somewhat different order of priority of creditors' claims in the event of insolvent liquidation.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of ordinary and preferred shares on a *pro rata* basis.

### ***Liability of Shareholders***

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of such company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another. The person or entity capable of determining such decisions is called an “effective parent”. The person or entity whose decisions

are capable of being determined is called an “effective subsidiary”. The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives binding instructions to the effective subsidiary.

Accordingly, a shareholder of an effective parent is not itself liable for the debts of the effective parent’s effective subsidiary, unless that shareholder is itself an effective parent of the effective subsidiary. In other words, our shareholders will not be personally liable for our debts or those of our effective subsidiaries, unless such shareholders control our business.

In addition, an effective parent is secondarily liable for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case no matter how the effective parent’s ability to determine decisions of the effective subsidiary arises. For example, such liability could arise through ownership of voting securities or by contract. In these instances, shareholders (other than the effective parent) of the effective subsidiary may claim compensation for the effective subsidiary’s losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing in advance that such action or failure to take action would result in losses. See *“Risk Factors — Risks relating to the Russian Federation — Legal and Legislative Risks — Shareholder liability under Russian law could cause us to become liable for the obligations of our Russian subsidiaries”*.

### ***Share Capital Increase***

We may increase our share capital by issuing new shares, or increasing the nominal value of already issued and outstanding shares.

According to our charter, a decision on increasing the nominal value of issued shares requires a simple majority vote of a shareholders’ meeting. In addition, the issuance of shares above the number of authorised and non-issued shares provided in our charter necessitates a charter amendment, which requires a three-quarters majority vote of a shareholders’ meeting.

A decision to issue shares or securities convertible into shares by closed subscription, or to issue ordinary shares or securities convertible into ordinary shares constituting 25% or more of the number of issued ordinary shares by open subscription, requires a three-quarters vote of a shareholders’ meeting. A decision to issue shares among all shareholders by way of conversion of our assets to share capital, or to issue ordinary shares or securities convertible into ordinary shares constituting less than 25% of the number of issued and outstanding ordinary shares by open subscription, requires a unanimous vote by our Board of Directors.

The Joint Stock Companies Law requires that newly issued shares be sold at market price, except when existing shareholders exercise a pre-emptive right to purchase shares at not less than 90% of the price paid by third parties. Fees of intermediaries participating in the placement of shares cannot exceed 10% of the share price. The price may not be set below the nominal value of the shares. The board of directors and an independent appraiser evaluate any in-kind contributions for new shares.

Federal Law No. 39-FZ “On the Securities Market,” dated 22 April 1996, as amended (the “**Securities Market Law**”) and the FSFM regulations set out detailed procedures for the registration and issuance of shares of a joint stock company, including:

- adoption of a placement decision;
- approval of a share issue resolution;
- registration of the share issuance with the FSFM;
- placement of the shares; and
- registration of the placement report or, as the case may be, filing the placement notification with the FSFM.

### ***Share Capital Decrease, Share Repurchases***

The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which currently is RUB 100,000 for an open joint stock company. Our charter and the Joint Stock Companies Law require that any decisions to reduce our share capital, through the reduction of the nominal value of the shares or through the repurchase and cancellation of our shares, are to be made by a three-quarters

majority vote of shareholders' meeting. The shares repurchased pursuant to a decision of the shareholders' meeting to decrease the overall number of shares are cancelled at their redemption.

Additionally, within 30 days of a decision to reduce our share capital, we must notify our creditors in writing and publish this notification. Our creditors would then have a right to demand, within 30 days of publication or receipt of such notice, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law and our charter allow our shareholders to authorise the repurchase by the Company of up to 10% of our outstanding shares in exchange for cash. The shares repurchased pursuant to a shareholders' decision must be resold at market price but, in any case, no less than a nominal value of shares within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease our share capital.

The Joint Stock Companies Law allows a company to repurchase its shares only if, at the time of repurchase:

- the share capital of the company is paid in full;
- the value of the company's net assets is not less, and would not become less as a result of the repurchase, than the sum of its share capital, the reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares, if any;
- the company is not, and would not become as a result of the repurchase, insolvent; and
- the company has repurchased all shares from shareholders having the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation and our charter provide that our shareholders may demand repurchase of all or some of their shares as long as the shareholder demanding the repurchase voted against or did not participate in the voting on a decision approving any of the following:

- our reorganisation;
- conclusion of a major transaction, which value exceeds 50% of the book value of the company's assets; or
- amendment of our charter that restricts the shareholder's rights.

We may spend up to 10% of our net assets calculated in accordance with RAS for a share repurchase requested by the shareholders. If the value of the shares in respect of which shareholders have exercised their rights to request repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro rata basis. The shares repurchased pursuant to a shareholders' request must be resold at market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease our share capital. The shares repurchased pursuant to a shareholders' request in case of our reorganisation must be cancelled at their redemption.

### ***Registration and Transfer of Shares***

All of our shares are ordinary shares in registered form. Russian legislation requires that a joint stock company must procure the maintenance of a register of its shareholders. Moreover, the shareholders' register of a joint stock company having more than 50 shareholders must be maintained by a licensed registrar. Ownership of our registered ordinary shares is evidenced by entries made in our shareholder register or in a "depo" account opened with a licensed depository. Any of our shareholders may obtain an extract from the register certifying the number of shares that such shareholder owns. Our shareholder register is maintained by an independent licensed registrar, OAO Registrar R.O.S.T.

The purchase, sale or other transfer of shares is accomplished through registration of the transfer in the shareholder register, or registration of the transfer with a licensed Russian depository if shares are held by such depository in its capacity of a nominee holder.

As a general rule under Russian law, an acquirer of shares is responsible for a registrar or a depository being notified in a timely manner regarding the share transfer. The registrar may not require any documents in addition to those required by Russian legislation in order to record the transfers of shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the shareholder, in the name of a nominee holder, may be challenged in court.

### ***Reserve Fund***

Under Russian law, each joint stock company is required to establish a reserve fund to be used solely for purposes of covering the company's losses, redemption of bonds and repurchase of the company's shares in cases when other

funds are not available. Our charter provides for a reserve fund of 5% of our share capital, funded through mandatory annual transfers of at least 5% of net profits until the reserve fund has reached the 5% requirement. As of the date of this Offering Circular our reserve fund was paid in full.

### ***Disclosure of Information***

Russian securities regulations require us to make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about us, our shareholders, management bodies, members of the Board of Directors, branches and representative offices, our shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about our financial and business activity;
- publishing in newswire, as well as on our web-site and, in certain cases, in press, any information concerning material facts and changes in our financial and business activity, including among other things our reorganisation, certain changes in the amount of our assets, decisions on share issuances, certain changes in ownership and shareholding, as well as shareholder resolutions;
- disclosing on our web-site as well as publishing in newswire information which may have a significant impact on the price of our securities;
- disclosing our charter and internal regulations;
- disclosing information on various stages of share issuance through publication of certain data, as required by the securities regulations;
- publishing our annual report and annual financial statements prepared in accordance with RAS;
- disclosing on a quarterly basis a list of our affiliated persons on our website; and
- other information, as required by applicable Russian securities legislation and regulations.

### **General Meetings of Shareholders**

#### ***Competence and Procedure***

The General Shareholders' Meeting is our supreme governing body. The General Shareholders' Meeting must be convened at least once a year. The scope of authority of a general shareholders' meeting is limited to the issues specified by the Joint Stock Companies Law and our charter. Among the issues that the shareholders have the power to decide are:

- amendments to our charter;
- our reorganisation or liquidation, appointment of liquidation commission and approval of preliminary and final liquidation balance sheets;
- determination of the number of members of the board of directors, election and dismissal of members of the board of directors;
- determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- changes in our share capital (other than those specifically delegated to the competence of the board of directors);
- appointment and dismissal of members of the Internal Audit Commission;
- approval of our external auditor;
- adoption of annual reports and financial statements;
- distribution of profits;
- split and consolidation of our shares;
- approval of certain interested party transactions and major transactions;
- repurchase by us of issued shares in cases stipulated by the Joint Stock Companies Law and our charter;
- approval of our participation in financial and industrial groups, associations and other unions of commercial organisations;



- approval of certain internal documents and corporate records; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per ordinary share, except for the election of the board of directors, which is effected through cumulative voting. Decisions are generally passed by a simple majority vote of the voting shareholders present at a shareholders' meeting. However, Russian law and our charter require a three-quarters majority vote of the voting shareholders present at a shareholders' meeting to approve the following:

- amendments to our charter;
- our reorganisation or liquidation, appointment of liquidation commission and approval of preliminary and final liquidation balance sheets;
- determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- any issuance of shares or securities convertible into shares by closed subscription;
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting 25% or more of the number of issued and outstanding ordinary shares;
- reduction of the nominal value of our shares;
- repurchase by the Company of our outstanding shares pursuant to a shareholders' decision, as provided for by our charter; and
- major transaction involving assets in excess of 50% of the book value of our assets.

The shareholders' meeting also approves compensation for the members of the board of directors. A shareholder or a group of shareholders owning in aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for the board of directors and the Internal Audit Commission. Any agenda proposals or nominations must be provided to the company no later than 30 calendar days after the end of the preceding financial year. Extraordinary shareholders' meetings may be convened by the board of directors at its own initiative, or at the request of the Internal Audit Commission, the external auditor or a shareholder or a group of shareholders owning in the aggregate at least 10% of the issued voting shares as at the date of the request. A general shareholders' meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general shareholders' meeting through attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, *provided that* if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general shareholders' meeting by absentee ballot envisages collecting shareholders' opinions on issues on the agenda by means of a written poll. The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of members of the board of directors;
- appointment of members of the Internal Audit Commission;
- approval of the annual reports and financial statements, including the balance sheet and profit and loss statement;
- approval of an external auditor; and
- approval of distribution of profits, including approval of annual dividends, if any.

### ***Notice and Participation***

All shareholders entitled to participate in a General Shareholders' Meeting must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification must specify the agenda of the meeting. However, in case of an extraordinary shareholders' meeting to (i) elect the Board of Directors or (ii) decide on reorganisation of the company by way of merger, spin-off or split-off and election of members of the Board of Directors of the reorganised company, shareholders must be notified at least 70 days prior to the date of the meeting. Only the items set out in the agenda may be voted upon at a General Shareholders' Meeting.

The list of persons entitled to participate in a General Shareholders' Meeting is compiled on the basis of data in our shareholder register as of the date established by the Board of Directors, which date may neither be earlier than the date of adoption of the board resolution to hold a General Shareholders' Meeting, nor more than 50 days before the date of the meeting (or, in case of an extraordinary shareholders' meeting to elect the Board of Directors, not more than 65 days before the date of the meeting).

Generally, the right to participate in a General Shareholders' Meeting may be exercised by shareholders as follows:

- by personal attendance;
- by attendance of a duly authorised representative (by proxy);
- by absentee ballot; or
- by delegating the right of absentee ballot to a duly authorised representative.

## **Board of Directors**

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for joint stock companies with more than 1,000 holders of voting shares, and at least a nine-member board of directors for joint stock companies with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to be members of the board of directors. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by company's charter or a decision of a shareholders' meeting.

Our charter provides a ten-member Board of Directors. Furthermore, pursuant to the charter, members of the Management Board may not constitute more than one fourth of the Board of Directors.

According to our charter, our entire Board of Directors must be elected at each annual general shareholders' meeting through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by a total number of directors to be elected, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

Pursuant to the Joint Stock Companies Law and our charter, the Board of Directors directs our general management, except for adoption of such decisions that fall within the exclusive competence of the General Shareholders' Meeting. In particular, the Board of Directors has the powers to decide, among others, the following issues:

- determination of our business priorities, including approval of financial and business plans and budgets;
- convening of annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda of a shareholders' meeting, determination of the record date for shareholders entitled to participate in a shareholders' meeting and other issues in connection with preparation for, and holding of, general meetings of shareholders;
- adoption of decision on placement by way of open subscription of ordinary shares and securities convertible into ordinary shares, constituting less than 25% of previously issued and outstanding ordinary shares;
- adoption of decision on issuance of shares among all shareholders by way of conversion of our assets to share capital;
- placement of our bonds and other securities, as provided in the Joint Stock Companies Law and our charter;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of our bonds and other securities non-convertible into our shares;
- participation (increase of our participatory share/shareholding) in other entities, except for financial industrial groups, associations and other amalgamations of commercial entities, or termination of our participation (decrease of our participatory share/shareholding) in such entities, as well as disposal by any other means, including by way of encumbrance, of our shareholding and (or) participatory shares in other entities;
- election and dismissal of the General Director and members of the Management Board;

- approving the amount of remuneration to be paid to the General Director, members of the Management Board and on fees payable for the services of an external auditor;
- recommendation on the amount of remuneration to be paid to members of the Internal Audit Commission;
- recommendation on the amount of a dividend and the payment procedure thereof;
- the use of our reserve fund and other funds;
- creation of branches and representative offices;
- approval of major and interested party transactions in cases provided for by the Joint Stock Companies Law;
- approval of certain other transactions as provided for by our charter;
- appointment of our shareholder registrar;
- other issues, as provided for by the Joint Stock Companies Law and our charter.

A meeting of our Board of Directors has a quorum if not less than six out of ten members are present. Generally, a majority vote of the directors present at the meeting is required to adopt a decision. Certain decisions, such as increases of the share capital and approvals of major transactions, require a unanimous vote of all members of the Board of Directors or a majority vote of the disinterested and independent directors, as provided for by our charter. In a tie vote the chairman of the Board of Directors has a casting vote. See “*Directors and Management — Board of Directors*”.

### **Executive Bodies**

Pursuant to the provisions of the Joint Stock Companies Law and our charter, our day-to-day activities, except for the matters falling within the competence of our general shareholders’ meeting or the Board of Directors, are managed by the following executive bodies:

- the Management Board; and
- the General Director.

### ***General Director***

The General Director is the Chairman of the Management Board. Together with the Management Board, the General Director is responsible for implementing decisions of our General Shareholders’ Meeting and our Board of Directors. The General Director has the powers to, among other things, act on our behalf without a power of attorney, including representing our interests, entering into transactions, disposing assets, opening bank accounts, approving staffing structure and issuing internal orders and directives.

The General Director is elected by our Board of Directors for a one-year term and may be re-elected an unlimited number of times. The General Director may not serve as the chairman of the Board of Directors. Upon a decision taken at our General Shareholders’ Meeting, the functions of the General Director may be transferred to a management company.

Our present General Director is Mr. Alexander G. Shiryayev, who was appointed effective as of 12 November 2008 and re-appointed as of 30 June 2009. In accordance with our charter, Mr. Shiryayev’s current appointment will be effective until 30 June 2010. See “*Directors and Management — Board of Directors*”.

The General Director serves in his capacity pursuant to written labour agreement executed for a five year period. Under this agreement the General Director is entitled to receive monthly compensation and remuneration for achievement of industrial and financial indicators provided for by our budget. The General Director is also entitled to obtain an option for acquisition of our shares or other securities upon a decision of the Board of Directors.

### ***The Management Board***

The Management Board is our collective executive body. Its members are appointed by the Board of Directors for a one-year period. Together with the General Director, the Management Board is responsible for our day-to-day management and administration. The Management Board’s activities are coordinated by the General Director (Chairman of the Management Board) and are regulated by applicable Russian law and our charter. Except for the matters specifically reserved to the General Shareholders’ Meeting, the Board of Directors or the General Director (Chairman of the Management Board), the Management Board has the authority to make decisions on all aspects of our activities.

Our charter provides that the Management Board shall consist of not less than seven and not more than fifteen members. Currently, the Management Board consists of fourteen members. See “*Directors and Management — Management Board*”.

### Revision Commission

Our Revision Commission supervises our financial and operational activities, as well as verifies the accuracy of our financial reporting and accounting under Russian law. Our Revision Commission currently consists of three members who are nominated and elected by our shareholders for a term of one year. Members of our Board of Directors or our other executive bodies may not simultaneously serve as members of the Revision Commission.

Members of the Revision Commission, and their respective names, years of birth and positions as of the date hereof, are as follows:

| <u>Name</u>                      | <u>Year of birth</u> | <u>Position</u>  |
|----------------------------------|----------------------|--|
| Alexander V. Maximenko . . . . . | 1955                 | Head of the Internal Control Department  |
| Nina V. Pozdnyakova . . . . .    | 1979                 | Deputy Head of Methodology of Accounting and Audit Department                                |
| Alexander P. Vorobyev . . . . .  | 1957                 | Deputy Head of the Department for Internal Audit Practice of the Internal Control Department |

The Internal Audit Commission performs its duties in conformity with applicable Russian legislation and our charter. The Internal Audit Commission is responsible for:

- inspecting our financial documentation and comparing the documents with the primary accounting data;
- analysing compliance of RAS/IFRS accounting and statistical reports with current regulations;
- inspecting compliance of the financial and economic activities with established standards, rules and other applicable requirements;
- analysing our financial standing, solvency, asset liquidity, the ratio of equity to debt; identifying reserves for improving our economic standing and making recommendations to our executive bodies; and
- verifying compliance with our internal documents.

### Interested Party Transactions

Under the Joint Stock Companies Law certain transactions defined as “interested party transactions” require approval by disinterested directors or shareholders of the company. Under Russian law, an “interested party” includes (i) a member of the board of directors of the company, (ii) a person performing functions of the sole executive body (including a managing company or a manager who performs functions of the sole executive body of the company under a contract), (iii) a member of the collective executive body of the company or a shareholder, who owns, together with any of its affiliates, at least 20% of the company’s voting shares, (iv) or any person able to issue mandatory instruction to the company, if any of the abovementioned persons, or any of such persons’ spouse, close relatives, adoptive parents or children or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- holds offices in any management body of a company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- in other cases provided for by the company’s charter.

The Joint Stock Companies Law requires that an “interested party transaction” by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors who are not interested in the transaction. An “independent director” is a person who is not, and within the year preceding the decision was not, the general director, a member of any executive body or an affiliate of the company. Additionally, such person’s spouse, parents, children, adoptive parents or children and other close relatives may not occupy positions in the executive bodies of the company. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by

a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

An interested party transaction must be approved by a decision of a majority of disinterested shareholders holding voting shares if:

- the value of such transaction, or series of transactions, is 2% or more of the book value of the company's assets as of the last reporting date, determined in accordance with RAS;
- the transaction, or series of transactions, involves a placement by subscription or disposal of ordinary shares or securities convertible into such shares in an amount exceeding 2% of the company's existing ordinary shares or securities convertible into such shares;
- all the members of the board of directors of a company with more than 1,000 shareholders holding voting shares are interested parties, or if none of them is an independent director; or
- the number of disinterested directors of a company with 1,000 or less shareholders holding voting shares is not sufficient to constitute a quorum.

Approval of an interested party transaction by a majority of disinterested shareholders may not be required if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. This exemption is effective only within a period from the date when such party became an interested party with respect to the transaction and until the next annual shareholders' meeting.

Interested party transactions do not need to be approved in the following instances:

- the company has only one shareholder that simultaneously performs the function of the executive body of the company;
- all shareholders of the company are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the company merges with another company or is accessed to or is accessing another company to itself; or
- the company is bound by law to enter into the transactions and settlement thereunder is made based on fixed tariffs established by the respective state authority.

An interested party transaction entered into in breach of the above rules may be invalidated by a court pursuant to an action brought by the company or any of its shareholders within one year from the day when the plaintiff learned or should have learned about circumstances that are the basis for invalidation of the transaction. The interested party is liable to the company for any loss incurred by such company.

Effective from 21 October 2009 the Joint Stock Companies Law was amended so that to allow the subsequent approval of an interested party transaction. Pursuant to the Joint Stock Companies Law the court must dismiss a claim to invalidate major transactions entered into in breach of the above rules, if any of the following instances exist: (i) voting by a shareholder, who brought a claim for the invalidation of a major transaction, decision of approval of which is made by the general shareholders' meeting, even if he participated in the voting on this issue, could not have influenced the results of the voting; or (ii) it is not proved that entering into this transaction has resulted in or may result in the infliction of loss to the company or its shareholder, who filed a claim, or in the occurrence of other adverse effects for them; or (iii) by the moment of hearing of the case in court the evidence of the subsequent approval of this transaction in accordance with the Joint Stock Companies Law is presented; or (iv) during the hearing of the case in court it is proved that the other party to this transaction did not know and should not have known about its completion with violation of the requirements provided for by Joint Stock Companies Law.

## **Major Transactions**

The Joint Stock Companies Law defines a "major transaction" as a transaction, or series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal of property having the value of 25% or more of the book value of the assets of the company as determined in accordance with RAS, with the exception of transactions conducted in the ordinary course of business or transactions involving a placement of ordinary shares or securities convertible into ordinary shares. Major transactions involving assets ranging from 25% to 50% of the



book value of the company's assets, as determined according to its financial statement for the most recent reporting date, require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders' meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the company require a three-quarters' majority vote of a shareholders' meeting.

Any major transaction entered into in breach of the above rules may be invalidated by a court pursuant to an action brought by the company or any of its shareholders within one year from the day when the plaintiff learned or should have learned about circumstances that are the basis for invalidation of the transaction.

Pursuant to the Joint Stock Companies Law the court must dismiss a claim to invalidate major transactions entered into in breach of the above rules, if any of the following instances exist: (i) voting by a shareholder, who brought a claim for the invalidation of a major transaction, decision of approval of which is made by the general shareholders' meeting, even if he participated in the voting on this issue, could not have influenced the results of the voting; or (ii) it is not proved that entering into this transaction has resulted in or may result in the infliction of loss to the company or its shareholder, who filed a claim, or in the occurrence of other adverse effects for them; or (iii) by the moment of hearing of the case in court the evidence of the subsequent approval of this transaction in accordance with the Joint Stock Companies Law is presented; or (iv) during the hearing of the case in court it is proved that the other party to this transaction did not know and should not have known about its completion with violation of the requirements provided for by Joint Stock Companies Law.

## **Change of Control**

### ***Anti-takeover Protection***

Effective 1 July 2006, a person (alone or together with its affiliates) intending to acquire more than 30% of shares in an open joint stock company may offer to the company's existing shareholders to sell the remaining shares held by such shareholders ("**Voluntary Offer**"), whereas a shareholder (alone or together with its affiliates) who already has acquired more than 30% of shares in an open joint stock company must offer to the company's existing shareholders to sell the remaining shares held by such shareholders ("**Obligatory Offer**"). Obligatory Offers must be made within 35 days from the date when title to more than 30% of the shares was registered in the purchaser's name. Once a shareholder has made an Obligatory Offer upon acquiring more than 30% of shares, the shareholder will only be required to repeat such an offer if he/she exceeds the 50% and 75% share ownership thresholds.

Both Voluntary and Obligatory Offers must be accompanied by an irrevocable bank guarantee of payment, a share price valuation report prepared by an independent appraiser and certain other documents.

A shareholder that acquired more than 95% of shares in a company (as a result of Obligatory Offer or a Voluntary Offer for purchase of all shares) is required to:

- notify all the other shareholders (within 35 days from the date when title to more than 95% of the shares was registered in the purchaser's name) of their right to sell their shares (the "**Buy-out Notice**"); and
- purchase their shares upon the request of each such shareholder.

The Buy-out Notice should be backed by an irrevocable bank guarantee. In addition, as an alternative to giving the Buy-Out Notice, the acquirer has the right to deliver a mandatory buy-out request, requiring the other shareholders to sell their shares (the "**Buy-out Request**"). Both Buy-out Notice and Buy-out Request must also be accompanied by a share price valuation report prepared by an independent appraiser and certain other documents.

If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. Buy-out Notice and Buy-out Request in any case must be filed with the FSFM prior to their submission to the company. The FSFM may require revisions to be made to the terms of the Voluntary and Obligatory Offers (including the price) in order to bring them into compliance with the rules.

At any time after the company receives the Voluntary or Obligatory Offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for the Voluntary or Obligatory Offer, respectively) to purchase shares in the quantity of and at the price that are greater than or equal to the quantity and the price offered in the respective Voluntary or the Obligatory Offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the respective Voluntary or Obligatory Offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period. As soon as the Voluntary or Obligatory Offer has been made and until expiration of a 20-day period after the expiration of the period for acceptance of the Voluntary or the Obligatory Offer, the company's shareholders meeting will have

the sole power to make decisions on a share capital increase through an additional share issuance, on approval of interested party and certain other transactions and on certain other significant matters.

### ***Approval of the Russian Antimonopoly Service***

The Federal Law No. 135-FZ “On Protection of Competition” dated 26 July 2006, as amended (the “**Competition Law**”) provides for a mandatory pre-approval by the FAS of the following actions:

- an acquisition by a person (or its group) of more than 25%, or more than 50%, or more than 75% of the total number of the voting shares of a joint-stock company, or acquisition by a person (or its group) of the core production assets and/or intangible assets of an entity (except for the non-industrial buildings, land plots, and unfinished construction) if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity, or obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group), if the aggregate asset value of an acquirer together with a target (and their respective groups) exceeds RUB 7 billion and at the same time the total asset value of the target (and its group) exceeds RUB 250 million, or the total annual revenues of such acquirer and the target (and their respective groups) for the preceding calendar year exceed RUB 10 billion and at the same time the total asset value of the target (and its group) exceeds RUB 250 million, or an acquirer, and/or a target, or any entity within the acquirer’s group or a target’s group are included in the Register of Entities Having a Market Share in Excess of 35% on a Particular Commodity Market (the “**Monopoly Register**”);
- mergers and consolidations of entities, if the aggregate asset value of such entities (and their respective groups) exceeds RUB 3 billion, or total annual revenues of such entities (and their respective groups) for the preceding calendar year exceed RUB 6 billion, or if one of these entities (or any entity within their respective groups) is included in the Monopoly Register; and
- foundation of an entity, if its share capital is paid by the shares and/or the assets of another entity and the newly founded entity acquires rights in respect of such shares and/or assets as specified above, provided that the aggregate asset value of the founders (and their respective groups) and the entities (and their respective groups) which shares and/or assets are contributed to the share capital of the newly founded entity exceeds RUB 7 billion, or total annual revenues of all abovementioned entities for the preceding calendar year exceed RUB 10 billion, or if an entity whose shares and/or assets are contributed to the share capital of the newly founded entity is included in the Monopoly Register.

The stipulated requirements of a mandatory pre-approval by the Russian antimonopoly authorities shall not apply if the aforementioned transactions are performed by persons that are part of the same group on the grounds envisaged by paragraph 1 of Article 9 (1) of the Competition Law (specifically, a legal entity has more than 50% of the voting shares of another legal entity). In this case, the anti-monopoly authority must be notified of their performance subsequently as prescribed by the Russian anti-monopoly legislation.

The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) of the antimonopoly authorities in connection with actions specified in items above if the aggregate asset value or total annual revenues of an acquirer and a target (and their respective groups) for the preceding calendar year exceed RUB 400 million and at the same time the total asset value of the target (or its group) exceeds RUB 60 million.

The transaction entered into in violation of the above requirements, to the extent such transaction resulted or may result in restriction of competition, may be invalidated by the court decision at the claim of Russian anti-monopoly authorities, and the company and its officials may be subject to the fines in the amount from RUB 300 thousand to RUB 500 thousand.

### **Currency Control**

Pursuant to Federal Law No. 173-FZ “On Currency Regulation and Currency Control,” dated 10 December 2003, as amended (the “**Currency Law**”), purchases of ordinary shares in Russian companies may be settled:

- in roubles or in foreign currencies, if the transaction is entered into between non-residents or between a resident and a non-resident; and
- in roubles only, if the transaction is entered into between residents.

Russian companies may pay dividends:

- in roubles or foreign currencies (confirmed by the CBR in its Information Letter No. 31, dated 31 March 2005), if paid to non-residents. Dividends paid in roubles may be freely converted through Russian authorised banks and remitted outside of Russia; and
- in roubles only, if paid to residents.

#### **Notification of Foreign Ownership**

Foreign persons registered as individual entrepreneurs in Russia and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their shares acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to the foreign ownership of our Shares.

## TERMS AND CONDITIONS OF THE GDRS

*The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:*

The Global Depositary Receipts (“**GDRs**”) represented by this certificate are each issued in respect of four ordinary shares of nominal value RUR 10 each (the “**Shares**”) in OAO TMK (the “**Company**”) pursuant to and subject to an agreement dated 11 September 2006, and made between the Company and The Bank of New York in its capacity as depositary (the “**Depositary**”) (such agreement, as amended from time to time, being hereinafter referred to as the “**Deposit Agreement**”) for the “**Regulation S Facility**” and for the “**Rule 144A Facility**” such terms as defined in the Deposit Agreement. Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Bank (Eurasia) as Custodian (the “**Custodian**”) to receive and hold on its behalf any relevant documentation respecting certain Shares (the “**Deposited Shares**”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “**Deposited Property**”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the “**Conditions**”), references to the “**Depositary**” are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “**Custodian**” are to ING Bank (Eurasia) or any other custodian from time to time appointed under the Deposit Agreement and references to the “**Main Office**” mean, in relation to the relevant Custodian, its head office in the city of Moscow or such other location of the head office of the Custodian in Russia as may be designated by the Custodian with the approval of the Depositary (if outside the city of Moscow) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

*The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the GDRs while in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.*

References in these Conditions to the “**Holder**” of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the “**Register**”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

### 1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Subject to Condition 1.8, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Russia of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;
- (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

- (iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and
- (iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (a) in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Restricted Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offering, the original issue date of the GDRs, and the latest issue date with respect to the additional GDRs (if any) issued pursuant to the over-allotment option granted to the Managers pursuant to the Underwriting Agreement) in respect of surrendered Regulation S GDRs, or (b) in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Russia of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

- 1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- 1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement (*which is described in the following paragraph*) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.



*The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and will comply with the restrictions on transfer set forth under “Transfer Restrictions”.*

*The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the US Securities Act of 1933, as amended (“QIB”)) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under “Transfer Restrictions”.*

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).
- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a “Pre-Release” as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a “**Pre-Release**”). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the “**Pre-Releasee**”) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection herewith, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

- 1.8 Notwithstanding any other provisions of the Deposit Agreement or the Conditions, the Depositary may, with (to the extent reasonably practicable) prior notice to the Company and the Holders, cancel a number of the GDRs then outstanding, sell (either by public or private sale and otherwise at its discretion, subject to all

applicable laws and regulations) the Deposited Property formerly represented by such GDRs and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto, and thereby reduce the Depositary's holdings of any class of Deposited Property below an amount that the Depositary determines to be necessary or advisable, if (i) the Depositary or its agent receives any notice from any Russian governmental or regulatory authority that the existence or operation of a Facility or the holding by the Depositary (or its Custodian or any of their respective nominees) of the Deposited Property violates any Russian law or regulation, or that the Depositary (or its Custodian or any of their respective nominees) is required to make any filing or obtain any consent, approval or license to operate that Facility or to own or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences which the Depositary in its reasonable discretion considers to be of a routine administrative nature required in the ordinary course of business) or (ii) the Depositary or the Custodian receives advice from Russian counsel that the Depositary (or the Custodian or any of their respective nominees) reasonably could be subject to criminal or civil liabilities as a result of the existence or operation of the Facility or the holding or exercise by the Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property. If the Depositary cancels GDRs and sells Deposited Property under the preceding sentence, the Depositary shall allocate the cancelled GDRs converted under the preceding sentence and the net proceeds of the sale of the number of Deposited Property previously represented thereby, among the Holders pro-rata to their respective holdings of GDRs immediately prior to the cancellation, except that the allocations may be adjusted by the Depositary, in its sole discretion, so that no fraction of a cancelled GDR is allocated to any Holder. Any payment pursuant to this Clause in connection with GDRs represented by a Master GDR shall be made according to the usual practice between the Depositary and the relevant settlement system. Any payment pursuant to this Clause in connection with a GDR in definitive form shall be made to the relevant Holder only after surrender to the Depositary of the GDR certificate by such Holder for cancellation of the relevant number of GDRs.

## **2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property**

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. If the Company makes a written request to the Depositary to refuse to accept Shares for deposit into a Facility in the circumstances set out in such request in order to facilitate the compliance by the Company with securities laws in the United States, the Depositary shall discuss with the Company the terms on which the Depositary may agree to comply with such request. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws, regulations or stock exchange requirements.

## **3. Transfer and Ownership**

The GDRs are in registered form, each corresponding to four Shares. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the

transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”). Prior to expiration of the Restricted Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (each a “**QIB**”) in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

#### **4. Cash Distributions**

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 22, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT: -

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1 (iv).

#### **5. Distributions of Shares**

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall, after consultation with the Company to the extent reasonably practicable, cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges, or due to the fact that such Shares would have to be registered under the U.S. Securities Act in order to be distributed to Holders) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

#### **6. Distributions other than in Cash or Shares**

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall, after consultation with the Company to the extent reasonably practicable, distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and

practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges, or due to the fact that such Shares would have to be registered under the U.S. Securities Act in order to be distributed to Holders) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

## 7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 22, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below, after consultation with the Company to the extent reasonably practicable:-

- (i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in Russian Roubles or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- (iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the “**Primary GDR Rights Offering**”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“**Additional GDR Rights**”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the “**Instruction Date**”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“**Additional GDR Rights Requests**”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “**Maximum Additional Subscription**”) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“**Unsubscribed Rights**”), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in Russian Roubles or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the



Depository shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

- (b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depository shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.
- (c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depository shall be entitled to receive such opinions from Russian counsel and US counsel to the Company as in its discretion it deems necessary which opinions shall be in a form and provided by counsel reasonably satisfactory to the Depository and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depository shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depository shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depository will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depository or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depository concerning such matters as the Depository may reasonably specify).

If the Company notifies the Depository that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs or to sell the securities corresponding to such rights, the Depository will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depository of an opinion from counsel to the Company reasonably satisfactory to the Depository that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depository shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depository shall (after consultation with the Company to the extent reasonably practicable) be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depository shall permit the rights to lapse. The Depository will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

## **8. Conversion of Foreign Currency**

Whenever the Depository shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depository be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depository shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depository shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depository shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depository, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depository, the Depository may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depository may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be



effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

## **9. Distribution of any Payments**

- 9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 22, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.
- 9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

## **10. Capital Reorganisation**

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

## **11. Withholding Taxes and Applicable Laws**

- 11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.
- 11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws (provided, however, for the avoidance of doubt, that nothing in this Condition 11.2 shall require the Company to register any Shares or other securities (including rights to subscribe or purchase Shares or securities convertible or exchangeable for Shares) under the U.S. Securities Act). In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

## 12. Voting Rights

- 12.1 Subject to Condition 1.8, Holders will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any meeting at which holders of the Deposited Shares are entitled to vote, and the resolutions to be voted on at such meeting and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 22. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

- 12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such cut-off time as the Depositary may specify.
- 12.3 Voting instructions may be given only in respect of a number of GDRs which represent a whole number of Deposited Shares. After the cut-off time specified by the Depositary pursuant to Condition 12.2, the Depositary shall exercise or cause to be exercised relevant voting rights in accordance with the valid voting instructions received prior to the cut-off time from GDR Holders, to the extent reasonably practicable and in so far as permitted by applicable law, the constitutive documents of the Company and the terms of the Deposit Agreement. The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received. If no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary not to exercise the voting rights attaching to such Deposited Shares. The votes attaching to Deposited Shares represented by GDRs for which no specific voting instructions have been received by the Depositary from the relevant Holder by the cut-off time specified by the Depositary pursuant to Condition 12.2 shall not be voted.
- 12.5 If the Depositary is advised in the opinion referred to in Condition 12.6 below that it is not permissible under Russian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Condition 12.3, the Depositary shall not vote or cause to be voted such Deposited Shares.
- 12.6 Where the Depositary is to vote in respect of each and any resolution in the manner described in Condition 12.3 above the Depositary shall notify the General Director of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition 12. The Depositary shall be entitled to request from the Company, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Russian law and the constitutive documents of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.
- 12.7 By continuing to hold the GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12 as it may be amended from time to time in order to comply with applicable Russian law.

- 12.8 The Depositary shall not, and the Depositary shall ensure the Custodian and its nominee do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares other than pursuant to and in accordance with instructions given in accordance with this Condition 12. Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion in the exercise of voting rights attaching to Deposited Shares, or exercise voting rights relating to a number other than a whole number of Deposited Shares, or be required to exercise or procure the exercise of voting rights attaching to Deposited Shares in a manner which is inconsistent with any applicable law.

### **13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary**

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the “Charges”) shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 22.

### **14. Liability**

- 14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- 14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs (i) by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement, or (ii) for the inability of a Holder or owner of GDRs, or any other person, to benefit from any distribution, offering, right or other benefit which is made available to holders of Deposited Shares which is not under the terms of this Deposit Agreement or the Conditions made available to Holders. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- 14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.
- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the

conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

- 14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 20 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 21, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.
- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a Director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on



the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.
- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.
- 14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Russian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.
- 14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

## **15. Issue and Delivery of Replacement GDRs and Exchange of GDRs**

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

## **16. Depositary's Fees, Costs and Expenses**

- 16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
  - (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;



- (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of U.S.\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
- (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.\$0.02 or less per GDR for each such dividend or distribution;
- (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution; and
- (vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.\$0.05 or less per GDR;
- (vii) a fee of U.S.\$0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below; and
- (viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions, together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as may be agreed separately in writing between the Company and the Depositary.

## 17. Agents

- 17.1 The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.
- 17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

## 18. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 22. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a

manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

## **19. Resignation and Termination of Appointment of the Depositary**

- 19.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 22 and, if the GDRs are at that time admitted to the official list of the Financial Services Authority and admitted to trading on the London Stock Exchange, to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 22 and to the Financial Services Authority and the London Stock Exchange.

- 19.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall as soon as reasonably practicable deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

## **20. Termination of Deposit Agreement**

- 20.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 19 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 22.
- 20.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.
- 20.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions,

except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

- 20.4 Notwithstanding the foregoing, after the execution of the Deposit Agreement but prior to the first deposit of Shares into either Facility, the Depositary and the Company may agree to terminate the Deposit Agreement on such terms as they consider appropriate.

## **21. Amendment of Deposit Agreement and Conditions**

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 21) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Notwithstanding the foregoing, if any laws, rules or regulations require immediate amendment or supplement to the Deposit Agreement or the Conditions, the Company and the Depositary may amend or supplement the Deposit Agreement and Conditions as required, subject to provision of notice to GDR Holders of such amendments as soon as reasonably practicable. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 21, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

## **22. Notices**

- 22.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- 22.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any facsimile transmission received by it from the other or from any Holder, notwithstanding that such facsimile transmission shall not subsequently be confirmed as aforesaid.

## **23. Reports and Information on the Company**

- 23.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-
- (i) in respect of the financial year ending on 31 December 2005 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Company, prepared in conformity with International Financial Reporting Standards and reported upon by independent public accountants selected by the Company, as soon as practicable after the end of such year;

- (ii) if the Company publishes semi-annual financial statements prepared in conformity with International Financial Reporting Standards and reported upon by independent public accountants selected by the Company for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published; and
- (iii) if the Company publishes quarterly financial statements prepared in conformity with International Financial Reporting Standards and reported upon by independent public accountants selected by the Company for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published.

23.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

23.3 For so long as any of the GDRs remains outstanding and are “**restricted securities**” within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the U.S. Securities Act of 1933, as amended, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

## 24. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company’s expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

## 25. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

## 26. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

## 27. Governing Law

- 27.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the Deposit Agreement to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has submitted in respect of the Deed Poll to the jurisdiction of the English courts. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.
- 27.2 The Company has irrevocably appointed Interserve (UK) Limited as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll. If for any reason the Company does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 27.3 The courts of England are to have jurisdiction to settle any disputes (each a “**Dispute**”) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“**Proceedings**”) may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 27.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 27.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.
- 27.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.



## **SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM**

The GDRs will initially be evidenced by a single Master Regulation S GDR in registered form. The Master Regulation S GDR will be deposited with a common depositary for Euroclear and Clearstream (and registered in the name of the common depositary's nominee) on the date the GDRs are issued.

The Master Regulation S GDR contains provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set out in this document. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

The Master Regulation S GDR will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii) or (iii) below in whole but not in part. The Depositary will irrevocably undertake in the Master Regulation S GDR to deliver certificates evidencing GDRs in definitive registered form in exchange for the Master Regulation S GDR to the Holders within 60 days in the event that:

- (i) Euroclear or Clearstream notifies the Company that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or
- (ii) either Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and no alternative clearing system satisfactory to the Depositary is available within 45 days; or
- (iii) the Depositary has determined that, on the occasion of the next payment in respect of the Master Regulation S GDR, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master Regulation S GDR which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear or Clearstream, Luxembourg. Upon any exchange of a Master Regulation S GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master Regulation S GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register provided always that if the number of GDRs represented by a Master Regulation S GDR is reduced to zero such Master Regulation S GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

### **Payments, Distributions and Voting Rights**

Payments of cash dividends and other amounts (including cash distributions) will be made by the Depositary through Euroclear and Clearstream on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master Regulation S GDR.

Holders of GDRs will have voting rights as set out in the Terms and Conditions of the GDRs.

### **Surrender of GDRs**

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a GDR to the Depositary shall be satisfied by the production by the common depositary for Euroclear and Clearstream, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the

Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDR.

#### **Notices**

For as long as the Master Regulation S GDR is registered in the name of the common nominee for Euroclear and Clearstream, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 22.

The Master Regulation S GDR shall be governed by, and construed in accordance with, English law.

## GDR PRICE HISTORY

The table below sets out, for the periods indicated, the reported high and low closing sales prices per GDR on the London Stock Exchange, the principal market for the GDRs. As at 2 February 2010, the closing price in U.S. dollars per GDR on the London Stock Exchange was U.S.\$17.81.

| <u>Quarter Ending</u>  | <u>Price per GDR in U.S.\$</u> |            |
|------------------------|--------------------------------|------------|
|                        | <u>High</u>                    | <u>Low</u> |
| <b>2009</b>            |                                |            |
| 31 December . . . . .  | 17.93                          | 17.27      |
| 30 September . . . . . | 15.91                          | 15.25      |
| 30 June . . . . .      | 10.60                          | 10.01      |
| 31 March . . . . .     | 4.80                           | 4.49       |
| <b>2008</b>            |                                |            |
| 31 December . . . . .  | 3.90                           | 3.50       |
| 30 September . . . . . | 24.90                          | 22.50      |
| 30 June . . . . .      | 39.38                          | 37.94      |
| 31 March . . . . .     | 33.00                          | 32.30      |
| <b>2007</b>            |                                |            |
| 31 December . . . . .  | 45.00                          | 45.00      |
| 30 September . . . . . | 41.30                          | 41.05      |
| 30 June . . . . .      | 36.75                          | 36.40      |
| 31 March . . . . .     | 33.70                          | 33.25      |

Source: The website of the London Stock exchange [www.londonstockexchange.com](http://www.londonstockexchange.com)

Information about the past and further performance of the GDRs and their volatility can be obtained from the website of the London Stock Exchange. TMK's ordinary shares are also admitted to trading on the RTS and the MICEX, although, historically, trading volumes of TMK's ordinary shares on these exchanges have been significantly lower than trading volumes of the GDRs on the London Stock Exchange.

In relation to the year ended 31 December 2008, TMK declared an interim dividend of U.S.\$0.065 per Ordinary Share (U.S.\$0.26 per GDR).

In relation to the year ended 31 December 2007, TMK declared a final dividend of U.S.\$0.044 per Ordinary Share (U.S.\$0.176 per GDR) on and interim dividend of U.S.\$0.15 per Ordinary Share (U.S.\$0.60 per GDR).

According to the Dividend Policy Regulations adopted on 26 February 2007, TMK normally expects to pay dividends not less than 25% of its annual consolidated net income, as calculated under IFRS.

However, at the annual general shareholders meeting of the TMK's shareholders held on 30 June 2009, TMK's shareholders approved the proposal not to pay a final dividend for 2008.

## SUBSCRIPTION AND SALE

Morgan Stanley & Co. International plc, UBS Limited and VTB Capital plc (together, the “**Joint Lead Managers**”) have entered into a subscription agreement dated on or about 4 February 2010 with the Issuer and TMK (the “**Subscription Agreement**”). Upon the terms and subject to the conditions contained therein, each Joint Lead Manager, separately and not jointly, has agreed to subscribe for the principal amount of the Bonds set forth opposite its name below at the issue price of 100% of their principal amount (the “**Issue Price**”).

| <u>Manager</u>                                   | <u>Principal<br/>Amount</u><br>(U.S.\$) |
|--|---|
| Morgan Stanley & Co. International plc . . . . . | 154,700,000                             |
| UBS Limited . . . . .                            | 154,700,000                             |
| VTB Capital plc . . . . .                        | 103,100,000                             |
| <b>Total</b> . . . . .                           | <u><u>412,500,000</u></u>               |

The Issuer has agreed to pay to the Joint Lead Managers a combined underwriting commission of up to 2.5% of the aggregate principal amount of the Bonds.

TMK, the Issuer, Volzhsky, TMK Steel, Bravecorp and Tirelli have each undertaken to the Joint Lead Managers that each of them will not, and any other member of the Group or other affiliates over which it exercises management or voting control will not, nor will any person acting on its or their behalf, from the date of the Subscription Agreement until 90 days after the Closing Date (both dates inclusive), without the prior written consent of the Joint Lead Managers (i) issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, issue or sell any option on or right or warrant to purchase, purchase any option or contract to issue or sell, lend, grant any option, right or warrant to purchase or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or GDRs or any securities convertible or exchangeable into or exercisable for any Ordinary Shares or GDRs or warrants or other rights to purchase Ordinary Shares or GDRs or any security or financial product whose value is determined directly or indirectly by reference to the price of the Ordinary Shares or GDRs, including equity swaps, forward sales and options, participation certificates and any depositary or other receipt, instrument, rights or entitlement representing the right to receive any such Ordinary Shares or GDRs or other securities listed above, whether such transaction is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise, or (ii) enter into any swap or other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any economic consequences of ownership of such Ordinary Shares or GDRs, or agree to, or publicly announce any intention to, enter into any transaction described above whether any such swap or transaction described in paragraph (i) or (ii) above is to be settled by delivery of Ordinary Shares or GDRs or such other securities, in cash or otherwise. The foregoing restriction is subject to certain customary exemptions in relation to, inter alia, dealings required by the Bond documentation and the maintenance of share pledges described herein.

The Issuer, failing whom the Guarantors, have agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Bonds. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

### **Other**

The Bonds are a new issue of securities with no established trading market. Accordingly, none of the Issuer, any of the Guarantors or the Joint Lead Managers can assure the liquidity of the trading market for the Bonds.

From time to time, the Joint Lead Managers and their respective affiliates have or may have engaged in, and may continue to engage in transactions with the Issuer and OAO TMK and other members of the Group (including credit agreements and credit lines and the provision of investment banking services) for which they may have been or will be paid customary fees. In particular, VTB, an affiliate of VTB Capital, has extended certain loans to TMK. See “*Management’s Discussion and Analysis of Financial Position and Results of Operations — Current Debt Profile*”

In connection with the offering of the Bonds, the Joint Lead Managers and/or their respective affiliates may act as investors for their own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for their own account such Bonds and any securities of the Issuer, TMK or related investments and may offer or sell such securities or other related investments otherwise than in connection with the offering.

Accordingly, references herein to the Bonds being offered or placed should be read as including any offering or placement of Bonds to the Joint Lead Managers and/or their respective affiliates acting in such capacity. Such

persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

### **United States of America**

The Bonds and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has severally and not jointly represented that it has not offered and sold the Bonds, and severally and not jointly agrees that it will not offer or sell any Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of (i) the commencement of the Offering and (ii) the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, except in accordance with Rule 903 of Regulation S under the Securities Act and it will have sent each distributor to which it sells Bonds during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Bonds within the United States, or to or for the account or benefit of U.S. persons. Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds and the GDRs to be issued or delivered on conversion of the Bonds. Terms used in this paragraph have the meanings given to them by Regulation S.

### **United Kingdom**

Each Joint Lead Manager severally and not jointly has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

### **Russian Federation**

Each of the Joint Lead Managers has severally and not jointly agreed that the Bonds will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Joint Lead Managers may distribute the Offering Circular to persons in the Russian Federation in a manner that does not constitute an advertisement or offering of the Bonds in Russia (each as defined in Russian laws) and may sell the Bonds to Russian persons in a manner that does not constitute “offering”, “placement” or “circulation” of the securities in the Russian Federation (as defined in Russian securities laws) and otherwise not in breach of Russian law.

### **Luxembourg**

Each Joint Lead Manager severally and not jointly represents, warrants and agrees that it has not and will not, offer or sell the Bonds to the public in Luxembourg, directly or indirectly, and neither this Offering Circular nor any offering circular, prospectus, form of application, advertisement, communication or other material may be distributed, or otherwise made available in, or from or published in, Luxembourg, except in circumstances which do not constitute a public offer of securities to the public pursuant to the provisions of the Luxembourg act dated 10 July 2005 relating to prospectuses for securities.



## **INFORMATION RELATING TO THE DEPOSITARY**

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286, United States of America. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286, United States of America. A copy of the Depositary's Articles, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the principal office of the Depositary located at One Wall Street, New York, NY 10286, United States of America, and at The Bank of New York Mellon, One Canada Square, London E14 5AL, United Kingdom.

## TAXATION OF THE BONDS AND THE GDRS

*The following summary of the principal United States federal income, United Kingdom and Russian tax consequences of purchase, ownership, conversion and disposal of the Bonds and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Offering Circular. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Bonds and holders of the GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Bonds or GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the Bonds or GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Offering Circular, and of any actual changes in applicable tax laws after such date.*

### Russian Federation

#### General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership, and disposal of the Bonds and GDRs as well as conversion of the Bonds to GDRs by the Non-Resident Holders. The summary is based on the laws of Russia in effect on the date of this Offering Circular. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisors regarding the tax consequences of investing in the Bonds or GDRs, and no representation with respect to the Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Furthermore, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and tax systems.

For the purposes of this summary, a “**Non-Resident Holder**” means:

- an individual Holder (“**Non-Resident Holder — Individual**”) who does not satisfy the criteria for being a Russian tax resident. By inference this means an individual not present in Russia for an aggregate period of 183 days or more in a period comprised of 12 consecutive months. Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education. The Tax Code is generally interpreted by both tax authorities and taxpayers such that days of arrival do not count and that days of departure do count when calculating the total number of days of presence in Russia, although there have been several incidents of the Ministry of Finance and Federal Tax Service suggesting a different methodology; or
- a legal entity or an organisation in each case not organised under Russian law that holds and disposes of the Bonds, the GDRs otherwise than through a permanent establishment in Russia, (“**Non-Resident Holder — Legal Entity**”); or

For the purposes of this summary, a “**Russian Resident Holder**” means:

- an individual Holder who is present in Russia for an aggregate period of 183 days or more in a period comprised of 12 consecutive months. Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education. The Tax Code is generally interpreted by both tax authorities and taxpayers such that days of arrival do not count and that days of departure do count when calculating the total number of days of presence in Russia, although there have been several incidents of the Ministry of Finance and Federal Tax Service suggesting a different methodology; or
- a legal entity or an organisation in each case organised under Russian law, that holds and disposes of the Bonds GDRs; or
- a legal entity or an organisation, in each case organised under a foreign law, that holds and disposes of the Bonds or GDRs, where the disposal is attributable to its permanent establishment in Russia.

For the purposes of this summary, the definitions of “**Russian Resident Holder**” and “**Non-Resident Holder**” in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice however the application of the above formal residency definition may differ based on the position of the tax

authorities. The law is currently worded in a way implying that an individual may be tax resident in Russia for a part of a calendar year. However, the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full calendar year and consequently even where the travel pattern dictates differing residency status for a part of the year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to articles of the Russian Tax Code dealing with taxation of individuals which may be enacted in the future.

The Tax Code is generally interpreted by both tax authorities and taxpayers such that days of arrival do not count and that days of departure do count when calculating the total number of days of presence in Russia, although there have been several incidents of the Ministry of Finance and the Federal Tax Service suggesting a different methodology.

Russia's rights with regard to taxation may be affected by an applicable double-taxation treaty.

For the purposes of this summary, a **"Tax Agent"** means a Russian legal entity or a legal person or organisation, in either case organised under a foreign law and having a registered presence in the Russian Federation, which pays out income on the Bonds, or the GDRs to Non-Resident Holders.

### ***Taxation of the Bonds***

#### ***Non-Resident Holders***

A Non-Resident Holder should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Bonds received from the Issuer.

A Non-Resident Holder Legal Entity also generally should not be subject to any Russian taxes in respect of any gain or other income realised on redemption, conversion, sale or other disposal of the Bonds outside of Russia, provided that the proceeds of such disposal are not received from a source within Russia.

In the event that proceeds from a redemption, conversion, sale or other disposal of the Bonds are received (subject to applicable securities legislation) from a source within Russia, a Non-Resident Holder Legal Entity should not be subject to Russian tax on any gain on sale or other disposal of the Bonds, except for the portion of the proceeds, if any, from disposal of the Bonds that is attributable to accrued interest on the Bonds. Subject to reduction or elimination under provisions of an applicable double tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 20%, even if the disposal results in a capital loss.

There is also a residual uncertainty on the treatment of capital gains on the Bonds, namely there is a risk that Russian source income might be viewed as arising on sale, redemption, conversion or disposal of the Bonds owing to the fact that the Bonds are convertible into GDRs (see *"— Taxation of the GDRs: Capital Gains"*) and hence income thereon might be viewed as income from a financial instrument derivative from Ordinary Shares and other similar income.

That is, provisions of the Tax Code can be interpreted as requiring the Russian withholding tax at a rate of 20% on proceeds from the redemption, conversion, sale or other disposal of the convertible Bonds by a Non-Resident Holder Legal Entity (or on the disposal gain) if (i) the Bonds are classified as derivatives of the Ordinary Shares, and (ii) more than 50% of the Company's assets consist of immovable property located in the Russian Federation, and (iii) the Bonds are disposed otherwise than through a foreign stock exchange (or another similar foreign stock trading institution).

Consequently, subject to reduction or elimination under provisions of an applicable double tax treaty that are related to capital gains, capital gains from sale, redemption or other disposal of the Bonds (capital gain being the difference between the sales price and documented acquisition costs of the Bonds) may be taxed at a rate of 20%, where no information on the acquisition costs of the Bonds (subject to Russian tax deductibility rules) is available to the payer of income before payment tax could be assessed on gross proceeds received on sale, exchange or other disposal of the Bonds. Gains from sale, redemption or disposal of the Bonds through a foreign exchange should not be subject to Russian withholding tax for Non-Resident Holder Legal Entity.

Subject to available tax treaty relief, the receipt of proceeds by a Non-Resident Holder — Individual from a source within Russia in respect of the gain from a disposal of the Bonds is likely to be treated as Russian source income for personal income tax purposes and, as such, will be subject to Russian personal income tax at a rate of 30% on the gross proceeds received less any available cost deduction (including the original purchase value). In certain circumstances if the disposal proceeds are paid (subject to applicable Russian securities legislation) by a licensed Russian broker, asset manager, management company, which performs asset management of a unit investment fund property, or another person that meets the definition of a tax agent under Russian tax laws (including a foreign company with a registered presence in Russia and an individual entrepreneur located in Russia), the applicable

individual income tax at a rate of 30% should be withheld at source. The amount of tax withheld would be calculated after taking into account deductions for the purchase value and related expenses to the extent such deductions and expenses can be determined by the entity making the payment of income. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the Non-Resident Holder Individual would be liable to file a tax return, report his or her income realised and apply for a deduction of acquisition expenses, based on the provision of supporting documentation. The applicable tax would then have to be paid by the individual on the basis of the tax return. There is some uncertainty regarding the treatment of the portion of the proceeds, if any, from a disposal of the Bonds that is attributable to accrued interest on the Bonds. Subject to reduction or elimination of tax under the provision of an applicable tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30%, even if the disposal results in a capital loss.

There is also a risk that the amount of taxable gain of the Non-Resident Holder may be affected by changes in the exchange rate between the currency of acquisition of the Bonds, the currency of disposal of the Bonds and roubles.

#### *Resident Holders*

A Russian Resident Holder will be subject to all applicable Russian taxes in respect of gains from redemption, conversion, sale or other disposal of the Bonds and interest received on the Bonds.

#### ***Taxation of the GDRs: Dividends***

##### *Non-Resident Holders*

Dividends paid to a Non-Resident Holder of GDRs generally should be subject to Russian withholding income tax, which should be withheld by TMK acting as a Tax Agent. Dividends paid to a Non-Resident Holder-Legal Entity and Non-Resident Holder-Individual would generally be subject to Russian withholding tax at a rate of 15%.

Withholding income tax on dividends may generally be reduced under the terms of a double tax treaty between the Russian Federation and the country of tax residency of the Non-Resident Holder subject to tax treaty clearance requirements being met, as described below in “— *Tax Treaty Relief*”. However, because the beneficial ownership concept is not developed in Russian tax law, treaty relief may not be available to Non-Resident Holders of the GDRs. It is not clear whether the Depositary (the legal holder of the shares) or a GDR holder should be treated for the purposes of such treaties as the beneficial owner of the Ordinary Shares underlying the GDRs. The Ministry of Finance expressed an opinion that GDR holders (rather than the relevant Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax residence of the GDR holders is duly confirmed. However, this position was expressed in private responses to inquiries by taxpayers with respect to particular situations and, as such, does not represent a statement of tax law. It is not obligatory for taxpayers or the tax authorities to follow this position, although it represents the most recent view taken by the authorities. Moreover, from a practical perspective, it may not be possible for the Depositary to collect confirmations of tax residence from all GDR holders and submit them to TMK and, in addition, TMK may be unaware of the exact amount of income payable to each holder.

In the absence of any specific provisions in Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts would ultimately treat the GDR holders in this regard.

Therefore, since the Depositary rather than the Holder of the GDRs will be viewed as the legal owner of the dividends, if the information on the beneficial owners of such dividends is not available or incomplete, TMK may be obliged to withhold income tax at a rate of 15% from dividend payments on Ordinary Shares represented by GDRs and consequently intends to take such an approach.

Although Non-Resident Holders of GDRs may apply for a refund under the relevant double tax treaty of a portion of the amount withheld by TMK, TMK cannot make any assurances that the Russian tax authorities will grant any refunds. See “— *Tax Treaty Relief*” for details.

With respect to Non-Resident Holders-Individuals, it is unlikely that advance treaty relief will be available, and a refund can only be obtained by submitting a tax return and supporting documentation in accordance with the procedures described in “— *Tax Treaty Relief*”.

## ***Taxation of the GDRs: Capital Gains***

### ***Non-Resident Holders-Legal Entities***

Under current Russian tax law, capital gains arising from the sale, exchange or other disposal of the GDRs that are circulated (i.e. listed and traded) on foreign stock exchanges on such stock exchanges by Non-Resident Holders-Legal Entities, otherwise than through their permanent establishment in Russia, fall outside the scope of Russian taxes. Therefore, so long as the GDRs remain listed and traded on the London Stock Exchange, gains arising from the sale, exchange or other disposal of GDRs on the London Stock Exchange by Non-Resident Holders-Legal Entities that have no permanent establishment in Russia to which such a sale, exchange or disposal could be connected, should not be subject to Russian withholding income tax and, hence, to taxation in Russia.

The remainder of this sub-section applies only to the GDRs that are not circulated (i.e., listed and traded) on foreign stock exchanges.

Capital gains arising from the sale, exchange or other disposal of the GDRs by Non-Resident Holders Legal Entities should not be subject to tax in Russia if TMK's immovable property located in Russia constitutes 50% or less of its assets. We believe that TMK's immovable property located in Russia does not currently, and will not in the future, constitute more than 50% of its assets. However, because the determination of whether 50% or less of the TMK's assets consist of immovable property located in Russia is inherently factual and is made on an on going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that the immovable property located in Russia does not currently, or will not in the future constitute more than 50% of TMK's assets. There is a risk that the Tax Agents which are obliged to withhold tax on capital gains may not have sufficient information regarding TMK's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the Non-Resident Holders Legal Entities selling the GDRs.

If a 20% withholding tax applies, it is assessed either (i) on capital gains realised from the sale, being the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the GDRs, or (ii) on the gross proceeds from the sale of the GDRs.

Where the GDRs are sold by a Non-Resident Holder-Legal Entity to persons other than a Russian company or a foreign legal entity or organisation with a permanent establishment in Russia (or, arguably, with any registered presence in Russia) and the resulting capital gain is considered taxable Russian source income, no procedural mechanism currently exists to withhold and remit this tax.

Some double tax treaties entered into by Russia provide for a reduction or elimination of taxation of capital gains in Russia for Non-Resident Holder-Legal Entities qualifying for the relevant treaty benefits. If there is an applicable double tax treaty, Non-Resident Holders-Legal Entities of GDRs may apply for a refund of a portion of the withholding tax, but there is no assurance that such refund will be obtained. See “— *Tax Treaty Relief*”.

### ***Non-Resident Holders-Individuals***

According to Russian personal income tax law, taxation of capital gains realised on a sale, exchange or other disposal of the GDRs of Non-Resident Holders-Individuals will depend on whether this income is considered as received from Russian or non-Russian sources. While Russian tax law gives no clear indication as to how the sale of the GDRs should be treated in this regard, a common practical approach is to consider the place of sale as determinant for sourcing purposes. For example, the sale, exchange or other disposal of the GDRs outside Russia by Non-Resident Holders-Individuals should not be considered Russian source income and, therefore, should not be taxable in Russia. However, as there is no definition of what should be considered to be a “sale in Russia,” the Russian tax authorities have a certain amount of freedom to conclude whether transactions take place inside or outside Russia. The sale, exchange or other disposal of the GDRs by the Non-Resident Holder-Individual in Russia will be considered Russian source income and will be subject to tax at a rate of 30% of the sales price less the acquisition cost of the GDRs and other documented expenses, such as depositary expenses and broker fees, among others. There is a risk that, in respect of GDRs acquired by Non-Resident Holders-Individuals as a result of conversion, the tax authorities would not allow the acquisition value of Bonds as an expense reducing the taxable base at sale, or would require from Non-Resident Holders-Individuals detailed explanation of the nature of the underlying transaction to support the transfer of the cost basis from the Bonds to the GDRs.

If the sale is made by a Non-Resident Holder-Individual through a Russian broker, asset manager, management company, which performs asset management of a unit investment fund property, or another person that meets the definition of a tax agent under Russian tax laws, such a Tax Agent should withhold the applicable tax. The Tax Agent is required to report to the Russian tax authorities on the income realised by the Non-Resident Holder-



Individual and the tax withheld upon the sale, exchange or other disposal of the GDRs. Where the sale, exchange or other disposal of the GDRs is made in Russia (subject to applicable securities legislation) but not through a Tax Agent, or if no withholding is made for any reason, the Non-Resident Holder-Individual has an obligation to file a tax return with the Russian tax authorities and to pay Russian income tax as appropriate.

Some tax treaties entered into by Russia provide for a reduction or elimination of taxation of capital gains in Russia arising from the sale, exchange or other disposal of the GDRs by Non-Resident Holder-Individuals qualifying for the relevant treaty benefits. Please see “—*Tax Treaty Relief*” regarding the order of application of the tax treaty relief.

#### *Russian Resident Holders*

Russian Resident Holders will be subject to all applicable Russian taxes in respect of gains arising from the sale, exchange or other disposal of the GDRs and dividends received on the GDRs.

### ***Tax Treaty Relief***

#### *Advance Treaty Relief*

##### Non-Resident Holders-Legal Entities

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that reduce or eliminate Russian tax due with respect to income received from a source within Russia by a Non-Resident Holder in connection with the Bonds or the GDRs. To obtain the benefit of such tax treaty provisions, the Holder must comply with the certification, information, and reporting requirements in force in Russia. Currently a Non-Resident Holder-Legal Entity would need to provide the payer of income with the original or a notarised copy of a duly legalised (apostilled) and translated certificate of tax residence issued by the competent tax authority of the relevant treaty country. The tax residency confirmation needs to be renewed on an annual basis, and provided to the payer of income before the first payment of income in each calendar year. There can be no assurance that advance treaty relief will be available, whilst obtaining a refund of the tax withheld can be difficult and extremely time-consuming.

##### Non-Resident Holders-Individuals

A Non-Resident Holder-Individual must provide to the Russian tax authorities a tax residency certificate and appropriate documentary evidence of income received and the tax payment made outside Russia on income with respect to which treaty benefits are claimed. Individuals in practice would not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, whilst obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

#### *Refund of Tax Withheld*

##### Non-Resident Holders-Legal Entities and Individuals

If the Russian withholding tax on income was withheld by a payer of income from payment to a Non-Resident Holder-Legal Entity for which double tax treaty relief is available, a claim for refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld. If Russian tax on income was withheld by the payer of income from payment to a Non-Resident Holder-Individual for which double tax treaty relief is available, a claim and supporting documentation for treaty relief should be filed within one year after the end of the year to which the treaty benefit relates.

In order to obtain a refund, a Non-Resident Holder would need to file with the Russian tax authorities a certificate of tax residence issued by the competent tax authority of the relevant double tax treaty country, as well as documents confirming receipt of income and withholding of Russian tax. Non-Resident Holders that are not individuals should confirm that they are the beneficial owners of income received. In addition, a Non-Resident Holder who is an individual would need to provide appropriate documentary proof of tax payments made outside of Russia on income with respect to which tax refund is claimed. The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Russian Tax Code. Obtaining a refund of Russian tax withheld may be a time consuming process and can involve considerable practicable difficulties for legal entities and organisations, and can be extremely difficult, if not impossible, for individuals.

The procedures described above may be more complicated with respect to GDRs due to the separation of legal and beneficial ownership of the Russian shares underlying the GDRs. Russian tax legislation does not provide clear guidance regarding availability of double tax treaty relief or reduction for GDRs. Holders. See “—*Taxation of the GDRs: Dividends*”. Non-Resident Holders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received upon disposal of the Bonds or the GDRs.

#### ***Taxation of Interest under the On-loan Agreement between the Issuer and OAO TMK***

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal entity are subject to Russian withholding tax at a rate of 20%, absent reduction or elimination pursuant to the terms of an applicable double tax treaty. TMK believes that payments of interest made by OAO TMK to the Issuer under the on-loan agreement between the Issuer and OAO TMK should not be subject to withholding tax under the terms of the Convention between the Grand Duchy of Luxembourg and the Russian Federation for the Avoidance of Double Taxation and the prevention of Fiscal Evasion with respect to Taxes on Income and on Capital signed on 28 June 1993. However, there can be no assurance that treaty relief will continue to be available in the future.

For treaty relief from Russian withholding tax, preliminary approval from the Russian tax authorities is neither required, nor possible. However, the Russian tax authorities may subsequently scrutinise the Issuer’s eligibility for treaty relief during tax audits of TMK.

If payments under the on-loan agreement between the Issuer and OAO TMK are subject to any withholding of Russian tax, OAO TMK shall increase the payment of principal or interest or any other payment due hereunder to such amount as may be necessary to ensure that the Issuer receives a net amount equal to the full amount which it would have received had payment not been made subject to such taxes.

#### ***Taxation of Payments under the Guarantee***

In general, payments under a guarantee by a Russian entity to a Non-Resident Holder-Legal Entity should not be subject to Russian withholding tax to the extent such payments do not represent Russian source income regardless of whether the payment is made in monetary form or in kind, if any. However, it is possible that Russian tax authorities may characterise payments under the Trust Deed, or the Deed of Guarantee, as the case may be, as “other similar” Russian source income. If the Russian tax authorities take such position, such payments (whether of interest or, less likely, of principal) would be subject to 20% withholding tax. This tax may be subject to relief under the terms of the Treaty. However, there can be no assurance that such relief will be available.

Payments under the Trust Deed or the Deed of Guarantee, as the case may be, to a Non-Resident Holder-Individual performed by the Guarantors may be subject to Russian tax as Russian-source income regardless of whether payment is made in monetary form or in kind. In this case, depending on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the Bonds, would be subject to a 30% tax, which may be withheld at the source or payable on a self-assessed basis. This tax may be subject to relief under the terms of an applicable double tax treaty. However, because of uncertainties regarding the form and procedures for providing such documentary proof, Non-Resident Holder-Individuals in practice would be unlikely to be able to obtain advance treaty relief, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

If payments under the Trust Deed or the Deed of Guarantee, as the case may be, that cover interest and principal of the Bonds are paid to the Trustee pursuant to the Trust Deed, any benefit of a double tax treaty between Russia and the country of residency of the Trustee may not be applicable, and payments under the Trust Deed or the Deed of Guarantee, as the case may be, (whether of interest or, less likely, of principal) may be subject to Russian withholding tax at a rate of 20% (or, potentially, at a rate of 30% with respect to Non-Resident Holders-Individuals). It is not expected that the Trustee will be able to claim a withholding tax exemption under any double tax treaty under such circumstances. In such cases, there can be no assurance that Non-Resident Holders will be able to obtain reduction of withholding tax under double taxation treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable. See “*Risk Factors — Risks relating to the Bonds, the GDRs and the Trading Market — Guarantor’s payments under the Trust Deed or the Deed of Guarantee may be subject to withholding tax*”.

Russian thin capitalisation rules may also be applicable to payments under the Trust Deed or the Deed of Guarantee, as the case may be, thus, giving rise to additional tax risks.

No value added tax will be payable in Russia in respect of payments under the Trust Deed or the Deed of Guarantee, as the case may be, representing principal or interest on the Bonds.

## **Luxembourg Taxation**

The following is a general description of certain Luxembourg tax considerations relating to the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds, whether in Luxembourg or elsewhere. Prospective purchasers of the Bonds should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Bonds and receiving payments of interest, principal and/or other amounts under the Bonds and the consequences of such actions under the tax laws of Luxembourg. This summary is based upon the law as in effect on the date of this Offering Circular. The information contained within this section is limited to taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Bonds.

All payments of principal and interest in respect of the Bonds by or on behalf of the Issuer will be made in full without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Luxembourg or any authority thereof or therein having the power to tax, unless such deduction is required by law. In the event of any deduction or withholding on account of tax becoming required by law, the Issuer shall make the required deduction or withholding and shall not pay any additional amounts to the Bondholders.

### ***Withholding Tax***

Save for the provisions of the Savings Directive (see below), under the Luxembourg tax law currently in effect, there is no withholding tax on interest (including accrued but unpaid interest), other than interest on profit participating bonds and similar instruments, payable to non-resident Bondholders and certain entities so long as the interest rate is considered to be at arm's length. Since the payments made by the Issuer to the Bondholders will not depend on the profit generated by the Issuer, such payments of interest will not be subject to any withholding tax in Luxembourg. There is also no Luxembourg withholding tax, with the possible exception of payments made to individual Bondholders and to certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Bonds.

### ***Taxation of Luxembourg non-residents***

Under the Luxembourg laws dated 21 June 2005 implementing the Savings Directive and several agreements concluded between Luxembourg and certain dependent or associated territories of the European Union ("EU"), a Luxembourg-based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual or certain residual entities resident in another Member State or in certain dependent or associated territories or third countries, unless the beneficiary of the interest payments elects for the procedure of exchange of information or for the tax certificate procedure. The withholding tax rate is 20% from 1 July 2008 to 30 June 2011 and will be increased to 35% after 30 June 2011. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

### ***Taxation of Luxembourg residents***

Interest payments made under the Bonds by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg resident individual beneficial owners of the Bonds will be subject to a 10% withholding tax. The 10% withholding tax on the interest payments received by Luxembourg resident individuals receiving the payment in their private capacity constitutes a final tax charge (i.e., the interest payment does not need to be included in the recipient's tax return). Luxembourg resident individuals receiving the interest payments as business income must include interest income in their taxable basis. The 10% withholding tax levied will then be credited against their final income tax liability.

### ***Taxes on Income and Capital Gains***

A Bondholder who derives income from such Bonds (including accrued but unpaid interest) or who realises a gain on the disposal, redemption, repurchase or exchange thereof will not be subject to Luxembourg taxation on such income or capital gains unless:

- (a) such holder is, or is deemed to be, a resident company fully taxable in Luxembourg; or
- (b) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg.

Luxembourg resident individual Bondholders who hold Bonds in their private capacity are not subject to taxation on capital gains upon disposal of a Bond, unless such a disposal precedes the acquisition of the Bond or the Bond is disposed of within six months of its date of acquisition.

### ***Net Wealth Tax***

Luxembourg net wealth tax will not be levied on a Bondholder unless:

- (a) such holder is, or is deemed to be, a Luxembourg fully taxable resident company; or
- (b) such Bond is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg.

The net wealth tax does not apply to resident and non-resident individuals.

### ***Inheritance and Gift Tax***

Where the Bonds are transferred for no consideration, note in particular:

- (a) no Luxembourg inheritance tax is levied on the transfer of the Bonds upon death of a Bondholder in cases where the deceased holder was not a resident of Luxembourg for inheritance tax purposes; and
- (b) Luxembourg gift tax will be levied on the transfer of a Bond by way of a gift by the Bondholder, if this gift is registered in Luxembourg.

### ***Value Added Tax***

There is no Luxembourg value-added tax payable in respect of payments in consideration for the issue of the Bonds or in respect of the payment of interest or principal under the Bonds or the transfer of a Bond. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services.

### ***Other Taxes and Duties***

There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Bonds. In case of proceedings in a Luxembourg court or of the presentation of documents relating to the Bonds to an “**autorité constituée**”, it may be required the documents be registered, in which case the documents will be subject to registration duties depending on the nature of the documents.

### ***Residence***

A Bondholder will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such Bond or the execution, performance, delivery and/or enforcement of that or any other Bond.

### ***Stamp Duty and Stamp Duty Reserve Tax***

No stamp duty or stamp duty reserve tax is payable on the issue of the Bonds or on a transfer by delivery of the Bonds in definitive form.

### **EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Directive 2003/48/EC)**

A European Directive regarding taxation of savings income in the form of interest payments within the European Community (the “**Savings Directive**”) was passed on 3 June 2003 and published on 26 June 2003. Subject to a number of important conditions being met, the Savings Directive and relating agreements with certain non-European Union countries foresee that the tax authorities of European Member States (and certain non-European Union countries) will have to provide to the tax authorities of another Member State (and certain non-European Union countries) details of payments of interest or similar income paid by a paying agent within its jurisdiction to an individual who is the beneficial owner of the interest and resident in that other Member State (and certain non-European Union countries) or to certain residual entities. However, Luxembourg, Austria and Belgium may apply a withholding tax system for a transitional period which began on 1 July 2005 (the end of such transitional period

being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). Belgium has recently announced that, with effect from 1 January 2010, it no longer operates the withholding system under the Savings Directive. The Savings Directive further prescribes that an individual subject to the withholding regime set by Luxembourg, Austria or Belgium should have the right to elect that the exchange of information regime be applied instead.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Principal Paying and Transfer Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by a Paying and Transfer Agent, the Issuer will be required to maintain a Paying and Transfer Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.



## **INDEPENDENT AUDITORS**

The Annual Consolidated Financial Statements have been audited, in accordance with International Standards on Auditing, by Ernst & Young LLC. The 2009 Interim Condensed Consolidated Financial Statements have been reviewed, in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. The address of Ernst & Young LLC is Sadovnicheskaya Naberezhnaya 77, Building 1, Moscow 115035, Russian Federation.

## GENERAL INFORMATION

1. It is expected that listing of the Bonds on the Official List of the UK Listing Authority and admission of the Bonds to trading on the Regulated Market of the London Stock Exchange will be granted on or before 12 February 2010, subject only to the issue of the Bonds. The listing of the Bonds on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest).
2. Each of the Issuer and the Initial Guarantors has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds and the Initial Guarantee. The issue of the Bonds was authorised by a decision of the Issuer's Board of Directors on 29 January 2010 and by TMK's Board of Directors on 4 February 2010 and the giving of the Initial Guarantee by TMK, Volzhsky and TMK Trade House was authorised by each of a decision of TMK's Board of Directors, a decision of Volzhsky's sole shareholder and a decision of the general meeting of shareholders of TMK Trade House, respectively, on 4 February 2010.
3. The Issuer estimates that the total expenses relating to the preparation of this Offering Circular amount to approximately U.S.\$15,000,000.
4. It is expected that the Bonds will be rated B by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
5. There has been no significant change in the financial or trading position of the Issuer, the Guarantors (and their respective subsidiaries) or the TMK Group since the date of the Issuer's incorporation (in the case of the Issuer) or 30 June 2009 (in the case of the Guarantors (and their respective subsidiaries) and the TMK Group), and no material adverse change in the prospects of the Issuer, the Guarantors (and their respective subsidiaries) or the TMK Group, which has occurred since the date of the Issuer's incorporation (in the case of the Issuer) or 31 December 2008 (in the case of the Guarantors (and their respective subsidiaries) and the TMK Group).
6. Neither the Issuer, the Guarantors (and their respective subsidiaries) or the TMK Group are or have been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantors are aware) during the 12 months preceding the date of this Offering Circular, which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer, the Guarantors (and their respective subsidiaries) or the TMK Group.
7. There are no material contracts entered into in the ordinary course of the Issuer's or the Guarantors' business which could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Bondholders in respect of the Bonds being issued.
8. The Bonds are expected to be accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 048465404. The International Security Identification Number ("ISIN") for the Bonds is XS0484654040.  
  
The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.
9. The Common Code of the GDRs is 027164862 while the ISIN for the GDRs is US87260R2013.
10. For the period of 12 months starting on the date on which this Offering Circular is made available to the public, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of Principal Paying, Transfer and Conversion Agent:
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the Charters of each of the Guarantors;
  - (c) the Paying, Transfer and Conversion Agency Agreement;
  - (d) the Trust Deed;
  - (e) the Deposit Agreement;
  - (f) the audited annual consolidated financial statements of OAO TMK as at and for the years ended 31 December 2008, 2007 and 2006; and
  - (g) the unaudited interim condensed consolidated financial statements of OAO TMK as at and for the six-month periods ended 30 June 2009 and 2008.

The Issuer does not intend to provide any post-issuance information in relation to the issue of the Bonds, except if required by any applicable laws and regulations.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

|  |      |
|--|------|
| <b>TMK's Unaudited Interim Condensed Consolidated Financial Statements as at and for the six-month periods ended 30 June 2009 and 2008</b> . . . . . | F-2  |
| Report on Review of Interim Condensed Consolidated Financial Statements . . . . .  | F-4  |
| Unaudited Interim Consolidated Income Statement . . . . .  | F-5  |
| Unaudited Interim Consolidated Statement of Comprehensive Income . . . . .   | F-6  |
| Unaudited Interim Consolidated Statement of Financial Position . . . . .   | F-7  |
| Unaudited Interim Consolidated Statement of Changes in Equity . . . . .  | F-8  |
| Unaudited Interim Consolidated Cash Flow Statement . . . . .   | F-10 |
| Notes to the Unaudited Interim Condensed Consolidated Financial Statements . . . . .   | F-12 |
| <b>TMK's Consolidated Financial Statements as at and for the years ended 31 December 2008, 2007 and 2006</b> . . . . .                               | F-34 |
| Independent auditors' report . . . . .   | F-35 |
| Consolidated Income Statement . . . . .  | F-38 |
| Consolidated Balance Sheet . . . . .   | F-39 |
| Consolidated Statement of Changes in Equity . . . . .  | F-40 |
| Consolidated Cash Flow Statement . . . . .   | F-43 |
| Notes to Consolidated Financial Statements . . . . .   | F-45 |

**OAQ TMK**  
**Unaudited Interim Condensed**  
**Consolidated Financial Statements**  
**Six-month period ended June 30, 2009**

# **OAo TMK**

## **Unaudited Interim Condensed Consolidated Financial Statements**

**Six-month period ended June 30, 2009**

### **Contents**

Report on review of interim condensed consolidated financial statements

Unaudited Interim Condensed Consolidated Financial Statements:

|  |   |
|--|---|
| Unaudited Interim Consolidated Income Statement.....                             | 1 |
| Unaudited Interim Consolidated Statement of Comprehensive Income .....           | 2 |
| Unaudited Interim Consolidated Statement of Financial Position .....             | 3 |
| Unaudited Interim Consolidated Statement of Changes in Equity.....               | 4 |
| Unaudited Interim Consolidated Cash Flow Statement .....                         | 6 |
| Notes to the Unaudited Interim Condensed Consolidated Financial Statements ..... | 8 |



## Report on Review of Interim Condensed Consolidated Financial Statements

The Shareholders and Board of Directors  
OAO TMK

### Introduction

We have reviewed the accompanying interim consolidated statement of financial position of OAO TMK and its subsidiaries ("the Group") as at June 30, 2009 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

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

### Conclusion

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

### Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 1, Going Concern, in the interim financial statements. The Group incurred a net loss of US\$203,808 thousand during the six-month period ended June 30, 2009 and, as of that date, the Group's current liabilities exceeded current assets by US\$951,734 thousand. These conditions, along with other matters as set forth in Note 1, Going Concern, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.



October 15, 2009

# OAO TMK

## Unaudited Interim Consolidated Income Statement

**Six-month period ended June 30, 2009**

*(All amounts in thousands of US dollars)*

|   | NOTES | Six-month period ended June 30, |                  |
|---|-------|---------------------------------|------------------|
|   |       | 2009                            | 2008             |
| Revenue:  | 1     | 1,478,578                       | 2,368,398        |
| <i>Sales of goods</i>   |       | <i>1,447,031</i>                | <i>2,321,284</i> |
| <i>Rendering of services</i>  |       | <i>31,547</i>                   | <i>47,114</i>    |
| Cost of sales   | 2     | (1,254,717)                     | (1,750,579)      |
| <b>Gross profit</b>   |       | <b>223,861</b>                  | <b>617,819</b>   |
| Selling and distribution expenses   | 3     | (146,406)                       | (144,132)        |
| Advertising and promotion expenses  | 4     | (2,246)                         | (4,828)          |
| General and administrative expenses   | 5     | (98,531)                        | (124,401)        |
| Research and development expenses   | 6     | (4,757)                         | (6,445)          |
| Other operating expenses  | 7     | (13,782)                        | (24,457)         |
| Other operating income  | 8     | 4,102                           | 4,088            |
| Impairment of goodwill  | 15    | (9,645)                         | -                |
| Impairment of property, plant and equipment   | 14    | (28,074)                        | -                |
| Impairment of financial assets  |       | -                               | (13,043)         |
| Foreign exchange (loss)/gain, net   |       | (11,658)                        | 14,131           |
| Finance costs   | 9     | (211,675)                       | (85,143)         |
| Finance income  | 9     | 31,967                          | 6,580            |
| Share of profit in associate  |       | 764                             | 220              |
| <b>(Loss)/Profit before tax</b>   |       | <b>(266,080)</b>                | <b>240,389</b>   |
| Income tax benefit/(expense)  | 10    | 62,272                          | (82,189)         |
| <b>(Loss)/Profit for the period</b>   |       | <b>(203,808)</b>                | <b>158,200</b>   |
| <b>Attributable to:</b>   |       |                                 |                  |
| Equity holders of the parent entity   |       | (198,780)                       | 150,870          |
| Minority interests  |       | (5,028)                         | 7,330            |
|   |       | <b>(203,808)</b>                | <b>158,200</b>   |
| <b>(Loss)/Earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)</b> | 11    | <b>(0.23)</b>                   | <b>0.17</b>      |

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

# OAO TMK

## Unaudited Interim Consolidated Statement of Comprehensive Income

### Six-month period ended June 30, 2009

*(All amounts in thousands of US dollars)*

|  | NOTES     | Six-month period ended June 30, |                |
|--|-----------|---------------------------------|----------------|
|  |           | 2009                            | 2008           |
| <b>(Loss)/Profit for the period</b>  |           | <b>(203,808)</b>                | <b>158,200</b> |
| Exchange differences on translation to presentation currency               |           | 48,053                          | 81,522         |
| Foreign currency (loss)/gain on hedged net investment in foreign operation | 20 (v)    | (164,946)                       | 15,138         |
| Income tax   | 10,20 (v) | 15,872                          | -              |
|  |           | (149,074)                       | 15,138         |
| Net unrealised gains/(losses) on available-for-sale investments            |           | 312                             | (10,683)       |
| Income tax   |           | (62)                            | -              |
|  |           | 250                             | (10,683)       |
| Impairment of available for sale investments                               |           | -                               | 13,043         |
| <b>Other comprehensive (loss)/income for the period, net of tax</b>        |           | <b>(100,771)</b>                | <b>99,020</b>  |
| <b>Total comprehensive (loss)/income for the period, net of tax</b>        |           | <b>(304,579)</b>                | <b>257,220</b> |
| Attributable to:   |           |                                 |                |
| Equity holders of the parent entity  |           | (292,993)                       | 245,877        |
| Minority interests   |           | (11,586)                        | 11,343         |
|  |           | <b>(304,579)</b>                | <b>257,220</b> |

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

**OAo TMK**

**Unaudited Interim Consolidated Statement of Financial Position**

**At June 30, 2009**

*(All amounts in thousands of US dollars)*

|  | NOTES | June 30, 2009    | December 31, 2008 |
|--|-------|------------------|-------------------|
| <b>ASSETS</b>                            |       |                  |                   |
| <b>Current assets</b>                    |       |                  |                   |
| Cash and cash equivalents                | 12    | 86,223           | 143,393           |
| Financial investments                    |       | 4,171            | 3,885             |
| Trade and other receivables              |       | 531,364          | 751,691           |
| Accounts receivable from related parties | 18    | 1,373            | 6,009             |
| Inventories                              | 13    | 1,024,252        | 1,175,936         |
| Prepayments and input VAT                |       | 141,152          | 185,068           |
| Prepaid income taxes                     |       | 54,079           | 26,290            |
|  |       | <b>1,842,614</b> | <b>2,292,272</b>  |
| <b>Non-current assets</b>                |       |                  |                   |
| Investments in an associate              |       | 1,522            | 2,726             |
| Available-for-sale investments           |       | 6,452            | 6,520             |
| Intangible assets, other than goodwill   | 15    | 611,343          | 665,545           |
| Accounts receivable - related parties    | 18    | 67               | 68                |
| Property, plant and equipment            | 14    | 3,216,972        | 3,323,836         |
| Goodwill                                 | 15    | 552,768          | 568,424           |
| Deferred tax asset                       |       | 177,898          | 138,707           |
| Other non-current assets                 |       | 59,334           | 69,609            |
|  |       | <b>4,626,356</b> | <b>4,775,435</b>  |
| <b>TOTAL ASSETS</b>                      |       | <b>6,468,970</b> | <b>7,067,707</b>  |
| <b>LIABILITIES AND EQUITY</b>            |       |                  |                   |
| <b>Current liabilities</b>               |       |                  |                   |
| Trade and other payables                 | 16    | 621,390          | 738,533           |
| Advances from customers                  |       | 91,453           | 67,831            |
| Accounts payable to related parties      | 18    | 1,692            | 1,459             |
| Accrued liabilities                      |       | 91,014           | 665,452           |
| Provisions                               |       | 12,985           | 11,510            |
| Interest-bearing loans and borrowings    | 17    | 1,968,510        | 2,216,459         |
| Dividends payable                        |       | 2,469            | 361               |
| Income tax payable                       |       | 4,835            | 39,823            |
|  |       | <b>2,794,348</b> | <b>3,741,428</b>  |
| <b>Non-current liabilities</b>           |       |                  |                   |
| Interest-bearing loans and borrowings    | 17    | 1,681,806        | 994,225           |
| Deferred tax liability                   |       | 346,925          | 370,561           |
| Provisions                               |       | 17,656           | 18,668            |
| Employee benefit liability               |       | 15,800           | 17,187            |
| Other liabilities                        |       | 15,587           | 15,216            |
|  |       | <b>2,077,774</b> | <b>1,415,857</b>  |
| <b>Total liabilities</b>                 |       | <b>4,872,122</b> | <b>5,157,285</b>  |
| <b>Equity</b>                            |       |                  |                   |
| Parent shareholders' equity              |       |                  |                   |
| Issued capital                           |       | 305,407          | 305,407           |
| Treasury shares                          |       | (37,916)         | (37,827)          |
| Additional paid-in capital               |       | 98,260           | 97,915            |
| Reserve capital                          |       | 15,387           | 15,387            |
| Retained earnings                        |       | 1,142,301        | 1,343,255         |
| Foreign currency translation reserve     |       | (5,173)          | 89,274            |
| Net unrealized gains                     |       | 234              |                   |
| Minority interests                       |       | 78,348           | 97,011            |
|  |       | <b>1,596,848</b> | <b>1,910,422</b>  |
| <b>Total equity</b>                      |       | <b>1,596,848</b> | <b>1,910,422</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>      |       | <b>6,468,970</b> | <b>7,067,707</b>  |

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

# OAo TMK

## Unaudited Interim Consolidated Statement of Changes in Equity Six-month period ended June 30, 2009 (All amounts in thousands of US dollars)

|  | Attributable to equity holders of the parent |                 |                            |                 |                   |                                      |                      | Minority interests | TOTAL            |
|--|--|-----------------|----------------------------|-----------------|-------------------|--------------------------------------|----------------------|--------------------|------------------|
|  | Issued capital                               | Treasury shares | Additional paid-in capital | Reserve capital | Retained earnings | Foreign currency translation reserve | Net unrealized gains |                    |                  |
| At January 1, 2009   | 305,407                                      | (37,827)        | 97,915                     | 15,387          | 1,343,255         | 89,274                               | -                    | 97,011             | 1,910,422        |
| Loss for the period  | -  | -               | -                          | -               | (198,780)         | -                                    | -                    | (5,028)            | (203,808)        |
| Other comprehensive income/ (loss)   | -  | -               | -                          | -               | -                 | (94,447)                             | 234                  | (6,558)            | (100,771)        |
| <b>Total comprehensive income/ (loss)</b>  | -  | -               | -                          | -               | (198,780)         | (94,447)                             | 234                  | (11,586)           | (304,579)        |
| Purchase of the Company's shares for the purpose of realization of the Share Options Programme (Note 18, 20 iii) | -  | (89)            | -                          | -               | -                 | -                                    | -                    | -                  | (89)             |
| Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 20 ii)                       | -  | -               | -                          | -               | -                 | -                                    | -                    | (2,302)            | (2,302)          |
| Acquisition of minority interests (Note 20 vi)   | -  | -               | 345                        | -               | (2,174)           | -                                    | -                    | (4,775)            | (6,604)          |
| <b>At June 30, 2009</b>  | <b>305,407</b>                               | <b>(37,916)</b> | <b>98,260</b>              | <b>15,387</b>   | <b>1,142,301</b>  | <b>(5,173)</b>                       | <b>234</b>           | <b>78,348</b>      | <b>1,596,848</b> |

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



# 

## 

|  | Attributable to equity holders of the parent |                 |                            |                 |                   |                                      |                       |                  |                    |                  |
|--|--|-----------------|----------------------------|-----------------|-------------------|--------------------------------------|-----------------------|------------------|--------------------|------------------|
|  | Issued capital                               | Treasury shares | Additional paid-in capital | Reserve capital | Retained earnings | Foreign currency translation reserve | Net unrealised losses | Total            | Minority interests | TOTAL            |
| At January 1, 2008   | 305,407                                      | (10,752)        | 97,338                     | 15,387          | 1,239,993         | 357,510                              | (2,187)               | 2,002,696        | 103,913            | 2,106,609        |
| Profit for the period  | -  | -               | -                          | -               | 150,870           | -                                    | -                     | 150,870          | 7,330              | 158,200          |
| Other comprehensive income/ (loss)   | -  | -               | -                          | -               | -                 | 92,820                               | 2,187                 | 95,007           | 4,013              | 99,020           |
| <b>Total comprehensive income</b>  | -  | -               | -                          | -               | <b>150,870</b>    | <b>92,820</b>                        | <b>2,187</b>          | <b>245,877</b>   | <b>11,343</b>      | <b>257,220</b>   |
| Purchase of the Company's shares for the purpose of realization of the Share Options Programme | -  | (6,219)         | -                          | -               | -                 | -                                    | -                     | (6,219)          | -                  | (6,219)          |
| Share-based payments   | -  | -               | 2,978                      | -               | -                 | -                                    | -                     | 2,978            | -                  | 2,978            |
| Purchase of warrants (Note 20 iv)  | -  | -               | (5,590)                    | -               | -                 | -                                    | -                     | (5,590)          | -                  | (5,590)          |
| Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 20 ii)     | -  | -               | -                          | -               | -                 | -                                    | -                     | -                | (4,752)            | (4,752)          |
| Dividends  | -  | -               | -                          | -               | (38,146)          | -                                    | -                     | (38,146)         | -                  | (38,146)         |
| <b>At June 30, 2008</b>  | <b>305,407</b>                               | <b>(16,971)</b> | <b>94,726</b>              | <b>15,387</b>   | <b>1,352,717</b>  | <b>450,330</b>                       | <b>-</b>              | <b>2,201,596</b> | <b>110,504</b>     | <b>2,312,100</b> |

# OAO TMK

## Unaudited Interim Consolidated Cash Flow Statement Six-month period ended June 30, 2009 (All amounts in thousands of US dollars)

|   | NOTES | Six-month period ended June 30, |                    |
|---|-------|---------------------------------|--------------------|
|   |       | 2009                            | 2008               |
| <b>Operating activities</b>   |       |                                 |                    |
| (Loss)/profit before tax  |       | (266,080)                       | 240,389            |
| <b>Adjustment to reconcile loss/profit before tax to net cash flows</b> |       |                                 |                    |
| <b>Non-cash:</b>  |       |                                 |                    |
| Depreciation of property, plant and equipment                           |       | 96,645                          | 86,321             |
| Amortisation of intangible assets                                       | 15    | 54,064                          | 4,194              |
| Loss on disposal of property, plant and equipment                       | 7     | 1,683                           | 586                |
| Impairment of goodwill  | 15    | 9,645                           | -                  |
| Impairment of fixed assets  | 14    | 28,074                          | -                  |
| Impairment of financial assets  |       | -                               | 13,043             |
| Foreign exchange loss/(gain)  |       | 11,658                          | (15,242)           |
| Finance costs   | 9     | 211,675                         | 85,143             |
| Finance income  | 9     | (31,967)                        | (6,580)            |
| Share-based payments  |       | -                               | 2,978              |
| Share of profit in associate  |       | (764)                           | (220)              |
| NRV allowance   |       | 23,152                          | 944                |
| Allowance for doubtful debts  |       | 2,622                           | (401)              |
| Movement in provisions  |       | 5,358                           | 5,524              |
| <b>Operating cash flow before working capital changes</b>               |       | <b>145,765</b>                  | <b>416,678</b>     |
| <b>Working capital adjustments:</b>                                     |       |                                 |                    |
| Decrease/(increase) in inventories                                      |       | 88,778                          | (127,528)          |
| Decrease in trade and other receivables                                 |       | 189,159                         | 5,374              |
| Decrease/(increase) in prepayments                                      |       | 29,291                          | (86,638)           |
| (Decrease)/increase in trade and other payables                         |       | (90,471)                        | 126,975            |
| (Decrease)/increase in accrued liabilities                              |       | (32,696)                        | 13,360             |
| (Decrease)/increase in advances from customers                          |       | (2,150)                         | 116,224            |
| <b>Cash generated from operations</b>                                   |       | <b>327,676</b>                  | <b>464,445</b>     |
| Income taxes paid   |       | (41,725)                        | (60,862)           |
| <b>Net cash flows from operating activities</b>                         |       | <b>285,951</b>                  | <b>403,583</b>     |
| <b>Investing activities</b>   |       |                                 |                    |
| Purchase of property, plant and equipment and intangible assets         |       | (163,808)                       | (459,380)          |
| Proceeds from sale of property, plant and equipment                     |       | 896                             | 2,885              |
| Acquisition of subsidiaries, net of cash acquired                       | 17    | (507,542)                       | (1,295,827)        |
| Acquisition of minority interest  |       | (7,870)                         | (2,673)            |
| Issuance of loans   |       | (657)                           | (2,194)            |
| Proceeds from repayment of loans issued                                 |       | 533                             | 1,714              |
| Interest received   |       | 844                             | 1,639              |
| Dividends received from associate                                       |       | 1,746                           | -                  |
| <b>Net cash flows used in investing activities</b>                      |       | <b>(675,858)</b>                | <b>(1,753,836)</b> |

*Continued on the next page*

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

# OAO TMK

## Unaudited Interim Consolidated Cash Flow Statement (continued)

Six-month period ended June 30, 2009

*(All amounts in thousands of US dollars)*

|  |       | Six-month period ended June 30, |                  |
|--|-------|---------------------------------|------------------|
|  |       | 2009                            | 2008             |
| <b>Financing activities</b>                            |       |                                 |                  |
| Purchase of treasury shares                            |       | -                               | (6,219)          |
| Purchase of warrants                                   | 20 iv | -                               | (5,590)          |
| Proceeds from borrowings                               |       | 1,880,548                       | 2,322,812        |
| Repayment of borrowings                                |       | (1,350,022)                     | (771,935)        |
| Interest paid  |       | (196,892)                       | (96,698)         |
| Payment of finance lease liabilities                   |       | (1,294)                         | (342)            |
| Capital contribution by minority owner to a subsidiary |       | 44                              | -                |
| Dividends paid to equity holders of the parent         |       | -                               | (116,369)        |
| Dividends paid to minority shareholders                |       | (170)                           | (139)            |
| <b>Net cash flows from financing activities</b>        |       | <b>332,214</b>                  | <b>1,325,520</b> |
| Net (decrease) in cash and cash equivalents            |       | (57,693)                        | (24,733)         |
| Net foreign exchange difference                        |       | 523                             | 19,182           |
| Cash and cash equivalents at January 1                 |       | 143,393                         | 89,045           |
| <b>Cash and cash equivalents at June 30</b>            |       | <b>86,223</b>                   | <b>83,494</b>    |

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

**ОАО ТМК**  
**Notes to Unaudited Interim Condensed Consolidated Financial Statements**  
**Six-month period ended June 30, 2009**  
*(All amounts in thousands of US dollars, unless specified otherwise)*

## **Corporate Information**

These interim condensed consolidated financial statements of ОАО ТМК and its subsidiaries (the “Group”) for the six-month period ended June 30, 2009 were authorised for issue in accordance with a resolution of the General Director on October 15, 2009.

ОАО ТМК (the “Company”) is an open joint stock company incorporated under the laws of the Russian Federation. Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

As at June 30, 2009, 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.

### *Going Concern*

These interim condensed consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. The Group’s activities in all of its operating segments have been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. As a result, the Group reported net loss of 203,808 for the six-month period ended June 30, 2009. At June 30, 2009, the Group’s current liabilities were 2,794,348 (including loans and borrowings of 1,968,510 with maturities within 12 months after the reporting date) and exceeded current assets by 951,734.

In the period from July 1, 2009 to the date of authorisation for issue of these interim condensed consolidated financial statements, the Group received 1,348,946 of new borrowings and repaid 1,224,784 of loans and borrowings including 814,784 of current loans and borrowings. The remaining loans with current maturities are expected to be covered by free cash flows and refinancing of current debts.

At the date of authorisation for issue of these interim condensed consolidated financial statements, the Group had unutilised bank loans for the amount of 201,876. As disclosed in Note 21, Events after the Statement of Financial Position Date, the Group’s ability to increase the debts is limited to 100,000.

Based on the current economic environment and the management’s outlook, when the Group’s consolidated financial statements for the year ending December 31, 2009 are published, the Group may not be in compliance with financial covenants under certain of its debt instruments, which, if not resolved, could also constitute a cross default under its other debt instruments. Such an event would permit the Group’s lenders to demand immediate payment of the outstanding borrowings under the relevant debt instruments. The management is considering a number of alternatives to proactively address this situation, including a financial covenant reset and/or waiver from its lenders. The Group may incur additional costs related to these alternatives.

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
(continued)**

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

**Corporate Information (continued)**

*Going Concern (continued)*

The management has concluded that the combination of the circumstances described above represents a material uncertainty related to events and conditions that may cast significant doubt upon the Group's ability to continue as a going concern. Nevertheless, after considering the uncertainties described above, the management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the management continues to adopt the going concern basis in preparing the consolidated financial statements.

**Basis of Preparation**

*Basis of Preparation*

The interim condensed consolidated financial statements for the six-month period ended June 30, 2009 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2008. Operating results for the six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

*Changes in Accounting Policies*

In the preparation of the interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the complete consolidated financial statements for the year ended December 31, 2008, except for the effect of adoption of new International Financial Reporting Standards ("IFRS") and revision of existing IAS none of which had a significant effect on the financial position or performance of the Group. The changes in accounting policies of the Group, which became effective on January 1, 2009, result from adoption of the following new or revised standards:

IAS 1 Presentation of Financial Statements (Revised)

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



**Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
(continued)**

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

**Basis of Preparation (continued)**

**IAS 23 Borrowing costs (Revised)**

The standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the Standard this has been adopted as a prospective change. However, there was no effect on financial statements as the Group had no any qualifying assets with commencement date after January 1, 2009 during the six months period ended June 30, 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed.

**IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation**

The amendments require some puttable financial instruments and some financial instruments that impose on the equity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

**IFRS 2 Share-based payment - Vesting Conditions and Cancellations (Amended)**

The amendments specify the accounting treatment of all cancellations of grant of equity instruments to the employees. It also imposes that vesting conditions are only service and performance conditions required in return for the equity instruments issued. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

**IFRS 7 Financial Instruments: Disclosures (Amended)**

The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. These amendments do not have impact on the financial position or performance of the Group but will result in more detailed disclosures regarding measurement of the fair value of financial instruments in the annual financial statements.

**IFRS 8 Operating Segments**

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

**IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement**

These amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The amendments to this interpretation have immaterial impact on the financial position or performance of the Group.

## OAo TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### Basis of Preparation (continued)

##### IFRIC 13 Customer Loyalty Programmes

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

##### IFRIC 15 Agreements for the Construction of Real Estate

The interpretation standardizes accounting practice for the recognition of revenue among real estate developers for sales of units, such as apartments or houses before construction is complete. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

## OAOTMKT

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### Index to the Notes

|     |   |    |
|-----|---|----|
| 1)  | Segment Information .....                                   | 13 |
| 2)  | Cost of Sales .....   | 15 |
| 3)  | Selling and Distribution Expenses .....                     | 15 |
| 4)  | Advertising and Promotion Expenses .....                    | 15 |
| 5)  | General and Administrative Expenses .....                   | 16 |
| 6)  | Research and Development Expenses .....                     | 16 |
| 7)  | Other Operating Expenses .....                              | 16 |
| 8)  | Other Operating Income .....                                | 16 |
| 9)  | Finance Costs and Finance Income .....                      | 17 |
| 10) | Income Tax .....  | 17 |
| 11) | Earnings per Share .....                                    | 18 |
| 12) | Cash and Cash Equivalents .....                             | 18 |
| 13) | Inventories .....   | 18 |
| 14) | Property, Plant and Equipment .....                         | 19 |
| 15) | Intangible Assets .....                                     | 20 |
| 16) | Trade and Other Payables .....                              | 22 |
| 17) | Interest-Bearing Loans and Borrowings .....                 | 23 |
| 18) | Related Parties Disclosures .....                           | 24 |
| 19) | Contingencies and Commitments .....                         | 25 |
| 20) | Equity .....  | 27 |
| 21) | Events after the Statement of Financial Position Date ..... | 28 |

# ОАО ТМК

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

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 for the period before depreciation and amortization, finance costs and finance income, foreign exchange gains and losses, losses from the impairment of non-current assets and income tax expenses, measured on the same basis as in the consolidated 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 six months periods ended June 30, 2009 and 2008, respectively.

| Six-month period ended June 30, 2009   | Russia         | Europe          | Americas        | TOTAL              |
|--|----------------|-----------------|-----------------|--------------------|
| Revenue  | 1,110,785      | 81,266          | 286,527         | <b>1,478,578</b>   |
| Cost of sales  | (893,004)      | (62,614)        | (299,099)       | <b>(1,254,717)</b> |
| <b>GROSS PROFIT</b>  | <b>217,781</b> | <b>18,652</b>   | <b>(12,572)</b> | <b>223,861</b>     |
| Selling, general and administrative expenses   | (153,281)      | (17,152)        | (81,507)        | <b>(251,940)</b>   |
| Other operating income (expenses), net   | (10,397)       | 945             | (228)           | <b>(9,680)</b>     |
| <b>OPERATING PROFIT/(LOSS)</b>   | <b>54,103</b>  | <b>2,445</b>    | <b>(94,307)</b> | <b>(37,759)</b>    |
| Impairment of goodwill   | (9,645)        | -               | -               | <b>(9,645)</b>     |
| Impairment of property, plant and equipment  | (2,602)        | (25,472)        | -               | <b>(28,074)</b>    |
| Foreign exchange gain/(loss), net  | 3,950          | (15,608)        | -               | <b>(11,658)</b>    |
| <b>OPERATING PROFIT/(LOSS) AFTER<br/>IMPAIRMENT AND FOREIGN EXCHANGE<br/>GAIN/(LOSS)</b> | <b>45,806</b>  | <b>(38,635)</b> | <b>(94,307)</b> | <b>(87,136)</b>    |
| Finance costs  |                |                 |                 | <b>(211,675)</b>   |
| Finance income   |                |                 |                 | <b>31,967</b>      |
| Share of profit in associate   |                |                 |                 | <b>764</b>         |
| <b>PROFIT/(LOSS) BEFORE TAX</b>  |                |                 |                 | <b>(266,080)</b>   |
| Add back:  |                |                 |                 |                    |
| Depreciation and amortisation  | 66,304         | 4,026           | 80,379          | <b>150,709</b>     |
| <b>ADJUSTED EBITDA</b>   | <b>120,407</b> | <b>6,471</b>    | <b>(13,928)</b> | <b>112,950</b>     |

# 

## 

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

### 

| Six-month period ended June 30, 2008   | Russia         | Europe        | Americas      | TOTAL              |
|--|----------------|---------------|---------------|--------------------|
| Revenue  | 2,133,147      | 144,680       | 90,571        | <b>2,368,398</b>   |
| Cost of sales  | (1,563,951)    | (112,091)     | (74,537)      | <b>(1,750,579)</b> |
| <b>GROSS PROFIT</b>  | <b>569,196</b> | <b>32,589</b> | <b>16,034</b> | <b>617,819</b>     |
| Selling, general and administrative expenses   | (245,971)      | (24,956)      | (8,879)       | <b>(279,806)</b>   |
| Other operating income (expenses), net   | (19,750)       | (706)         | 87            | <b>(20,369)</b>    |
| <b>OPERATING PROFIT/(LOSS)</b>   | <b>303,475</b> | <b>6,927</b>  | <b>7,242</b>  | <b>317,644</b>     |
| Impairment of financial assets   | (13,043)       | -             | -             | <b>(13,043)</b>    |
| Foreign exchange gain/(loss), net  | 10,969         | 3,162         | -             | <b>14,131</b>      |
| <b>OPERATING PROFIT/(LOSS) AFTER<br/>IMPAIRMENT AND FOREIGN EXCHANGE<br/>GAIN/(LOSS)</b> | <b>301,401</b> | <b>10,089</b> | <b>7,242</b>  | <b>318,732</b>     |
| Finance costs  |                |               |               | <b>(85,143)</b>    |
| Finance income   |                |               |               | <b>6,580</b>       |
| Share of profit in associate   |                |               |               | <b>220</b>         |
| <b>PROFIT/(LOSS) BEFORE TAX</b>  |                |               |               | <b>240,389</b>     |
| Add back:  |                |               |               |                    |
| Depreciation and amortisation  | 77,516         | 7,185         | 5,814         | <b>90,515</b>      |
| <b>ADJUSTED EBITDA</b>   | <b>380,991</b> | <b>14,112</b> | <b>13,056</b> | <b>408,159</b>     |

The following table presents segment assets of the Group's reportable segments as at June 30, 2009 and December 31, 2008:

|                       | Russia    | Europe  | Americas  | TOTAL            |
|-----------------------|-----------|---------|-----------|------------------|
| <b>SEGMENT ASSETS</b> |           |         |           |                  |
| AT JUNE 30, 2009      | 4,039,025 | 343,967 | 2,085,978 | <b>6,468,970</b> |
| AT DECEMBER 31, 2008  | 4,296,542 | 411,101 | 2,360,064 | <b>7,067,707</b> |

The following table presents the revenues from external customers for each group of similar products and services for the six months periods ended June 30, 2009 and 2008, respectively.

|                                      | Welded pipes | Seamless pipes | Other operations | TOTAL            |
|--------------------------------------|--------------|----------------|------------------|------------------|
| <b>SALES TO EXTERNAL CUSTOMERS</b>   |              |                |                  |                  |
| Six-month period ended June 30, 2009 | 396,706      | 990,835        | 91,037           | <b>1,478,578</b> |
| Six-month period ended June 30, 2008 | 583,579      | 1,620,476      | 164,343          | <b>2,368,398</b> |



# 

## 

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

### 

|   | Six-month period ended June 30, |                  |
|---|---------------------------------|------------------|
|   | 2009                            | 2008             |
| Raw materials and consumables                     | 720,757                         | 1,186,102        |
| Contracted manufacture                            | 10,716                          | 22,804           |
| Energy and utilities                              | 102,521                         | 137,827          |
| Depreciation and amortisation                     | 92,726                          | 81,540           |
| Repairs and maintenance                           | 39,538                          | 43,824           |
| Freight   | 12,602                          | 9,453            |
| Rent  | 3,761                           | 1,180            |
| Insurance   | 362                             | 396              |
| Staff costs including social security             | 182,635                         | 231,635          |
| Professional fees and services                    | 7,257                           | 6,251            |
| Travel  | 553                             | 880              |
| Communications                                    | 639                             | 618              |
| Taxes   | 14,772                          | 12,463           |
| Other   | 3,074                           | 3,345            |
| Less capitalised costs                            | (3,315)                         | (7,875)          |
| <b>TOTAL PRODUCTION COST</b>                      | <b>1,188,598</b>                | <b>1,730,443</b> |
| Change in own finished goods and work in progress | 19,918                          | (23,336)         |
| Cost of goods purchased for resale                | 15,405                          | 43,258           |
| Obsolete stock and write-offs                     | 30,796                          | 214              |
| <b>COST OF SALES</b>                              | <b>1,254,717</b>                | <b>1,750,579</b> |

### 

|  | Six-month period ended June 30, |                |
|--|---------------------------------|----------------|
|  | 2009                            | 2008           |
| Freight  | 48,534                          | 76,429         |
| Rent   | 3,078                           | 3,722          |
| Insurance                                      | 688                             | 616            |
| Depreciation and amortisation                  | 50,034                          | 2,794          |
| Staff costs including social security          | 22,225                          | 32,444         |
| Professional fees and services                 | 8,397                           | 10,180         |
| Travel   | 1,231                           | 2,846          |
| Communications                                 | 597                             | 1,257          |
| Utilities and maintenance                      | 1,135                           | 1,458          |
| Taxes  | 1,766                           | 1,603          |
| Consumables                                    | 5,236                           | 10,354         |
| Bad debt (reversal of expense)/ expense        | 2,622                           | (401)          |
| Other  | 863                             | 830            |
| <b>TOTAL SELLING AND DISTRIBUTION EXPENSES</b> | <b>146,406</b>                  | <b>144,132</b> |

### 

|   | Six-month period ended June 30, |              |
|---|---------------------------------|--------------|
|   | 2009                            | 2008         |
| Media   | 295                             | 722          |
| Exhibits and catalogues                         | 741                             | 1,881        |
| Outdoor advertising                             | 1,094                           | 2,094        |
| Other   | 116                             | 131          |
| <b>TOTAL ADVERTISING AND PROMOTION EXPENSES</b> | <b>2,246</b>                    | <b>4,828</b> |

# OAO TMK

## **Notes to the Unaudited Interim Condensed Consolidated Financial Statements** **(continued)**

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

### **5) General and Administrative Expenses**

|  | Six-month period ended June 30, |                |
|--|---------------------------------|----------------|
|  | 2009                            | 2008           |
| Staff costs including social security            | 50,075                          | 64,648         |
| Professional fees and services                   | 20,054                          | 22,691         |
| Depreciation and amortisation                    | 7,232                           | 6,432          |
| Travel   | 3,227                           | 6,620          |
| Transportation                                   | 2,111                           | 3,291          |
| Rent   | 2,962                           | 3,389          |
| Communications                                   | 2,580                           | 760            |
| Insurance  | 2,119                           | 550            |
| Utilities and maintenance                        | 3,333                           | 4,763          |
| Taxes  | 2,244                           | 2,488          |
| Consumables                                      | 1,259                           | 3,837          |
| Other  | 1,335                           | 4,932          |
| <b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b> | <b>98,531</b>                   | <b>124,401</b> |

### **6) Research and Development Expenses**

|  | Six-month period ended June 30, |              |
|--|---------------------------------|--------------|
|  | 2009                            | 2008         |
| Staff costs including social security          | 3,743                           | 4,600        |
| Professional fees and services                 | 266                             | 582          |
| Depreciation and amortisation                  | 280                             | 358          |
| Travel   | 49                              | 105          |
| Transportation                                 | 64                              | 84           |
| Communications                                 | 15                              | 36           |
| Utilities and maintenance                      | 168                             | 285          |
| Consumables                                    | 105                             | 273          |
| Other  | 67                              | 122          |
| <b>TOTAL RESEARCH AND DEVELOPMENT EXPENSES</b> | <b>4,757</b>                    | <b>6,445</b> |

### **7) Other Operating Expenses**

|   | Six-month period ended June 30, |               |
|---|---------------------------------|---------------|
|   | 2009                            | 2008          |
| Loss on disposal of property, plant and equipment     | 1,683                           | 586           |
| Social and social infrastructure maintenance expenses | 6,052                           | 11,206        |
| Charitable donations                                  | 2,732                           | 7,005         |
| Other   | 3,315                           | 5,660         |
| <b>TOTAL OTHER OPERATING EXPENSES</b>                 | <b>13,782</b>                   | <b>24,457</b> |

Other operating expenses mainly comprise expenses and additional provisions related to taxes, tax and other fines in the amount of 2,376 and 3,922 for the six months period ended June 30, 2009 and 2008, respectively.

### **8) Other Operating Income**

|                                     | Six-month period ended June 30, |              |
|-------------------------------------|---------------------------------|--------------|
|                                     | 2009                            | 2008         |
| Gain on sale of current assets      | 1,299                           | 22           |
| Assets received for free            | 124                             | 348          |
| Penalties and fines received        | 132                             | 738          |
| Other                               | 2,547                           | 2,980        |
| <b>TOTAL OTHER OPERATING INCOME</b> | <b>4,102</b>                    | <b>4,088</b> |

# 

## 

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

### 

| <b>Finance Costs</b>  | <b>Six-month period ended June 30,</b> |               |
|---|--|---------------|
|   | <b>2009</b>                            | <b>2008</b>   |
| Amortisation of ancillary costs incurred in connection with the arrangement of borrowings | 13,721                                 | 3,949         |
| Interest expense  | 197,954                                | 81,194        |
| <b>TOTAL FINANCE COSTS</b>  | <b>211,675</b>                         | <b>85,143</b> |

| <b>Finance Income</b>   | <b>Six-month period ended June 30,</b> |              |
|---|--|--------------|
|   | <b>2009</b>                            | <b>2008</b>  |
| Gain on extinguishment of debts   | 30,979                                 | -            |
| Interest income - bank accounts and deposits  | 988                                    | 1,477        |
| Change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical plant | -                                      | 5,099        |
| Other finance income  | -                                      | 4            |
| <b>TOTAL FINANCE INCOME</b>   | <b>31,967</b>                          | <b>6,580</b> |

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 30,979 in the six-month period ended June 30, 2009.

### 

|  | <b>Six-month period ended June 30,</b> |               |
|--|--|---------------|
|  | <b>2009</b>                            | <b>2008</b>   |
| Current income tax expense   | 6,140                                  | 82,185        |
| Current income tax benefit   | (25,277)                               | -             |
| Current income tax benefit on hedges of net investment in foreign operations recognised directly in equity | 15,872                                 | -             |
| Adjustments in respect of income tax of previous years   | (456)                                  | -             |
| Deferred tax expenses arising from write-down of deferred tax asset  | 1,425                                  | -             |
| Deferred income tax (benefit) /expense related to origination and reversal of temporary differences        | (59,976)                               | 4             |
| <b>TOTAL INCOME TAX (BENEFIT) /EXPENSE</b>   | <b>(62,272)</b>                        | <b>82,189</b> |

Current income tax benefit relates to losses of American division that is refundable from fiscal authorities.

## OAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 11) Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of the parent entity by the weighted average number of ordinary shares in issue during the period. For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential shares which are the share options granted to employees.

|   | Six-month period ended June 30,<br>2009 | 2008        |
|---|---|-------------|
| Net (loss)/profit attributable to the equity holders of the parent entity   | (198,780)                               | 150,870     |
| Weighted average number of ordinary shares outstanding (excluding treasury shares)                                      | 865,833,951                             | 871,424,316 |
| <b>(Loss)/Earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)</b> | <b>(0.23)</b>                           | <b>0.17</b> |

Share options under the TMK share options programme were not included in the calculation of diluted earnings per share as at June 30, 2009 because they were antidilutive.

#### 12) Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

|  | June 30, 2009 | December 31, 2008 |
|--|---------------|-------------------|
| Russian rouble                         | 34,929        | 60,036            |
| US dollar                              | 46,041        | 75,727            |
| Euro                                   | 4,671         | 6,286             |
| Romanian lei                           | 386           | 854               |
| Other currencies                       | 196           | 490               |
| <b>TOTAL CASH AND CASH EQUIVALENTS</b> | <b>86,223</b> | <b>143,393</b>    |

#### 13) Inventories

Inventories consisted of the following:

|  | June 30, 2009    | December 31, 2008 |
|--|------------------|-------------------|
| Raw materials and Supplies                       | 477,577          | 501,910           |
| Finished goods and WIP                           | 596,032          | 702,613           |
| <b>GROSS INVENTORIES</b>                         | <b>1,073,609</b> | <b>1,204,523</b>  |
| Allowance for write down to net realizable value | (49,357)         | (28,587)          |
| <b>NET INVENTORIES</b>                           | <b>1,024,252</b> | <b>1,175,936</b>  |

# OAO TMK

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

### 14) Property, Plant and Equipment

Property, plant and equipment consisted of the following:

|   | Land and<br>buildings | Machinery<br>and<br>equipment | Transport<br>and motor<br>vehicles | Furniture and<br>fixtures | Leasehold<br>improvements | Construction<br>in progress | TOTAL            |
|---|-----------------------|-------------------------------|------------------------------------|---------------------------|---------------------------|-----------------------------|------------------|
| <b><u>COST</u></b>  |                       |                               |                                    |                           |                           |                             |                  |
| Balance at January 1, 2009                                | 1,174,461             | 1,946,569                     | 62,291                             | 35,463                    | 2,563                     | 769,217                     | <b>3,990,564</b> |
| Additions   | 1,890                 | 1,680                         | 250                                | 307                       | -                         | 195,670                     | <b>199,797</b>   |
| Assets put into operation                                 | 17,068                | 237,940                       | 1,119                              | 1,791                     | 531                       | (258,449)                   | <b>-</b>         |
| Disposals   | (652)                 | (9,354)                       | (302)                              | (715)                     | -                         | (1,176)                     | <b>(12,199)</b>  |
| Currency translation adjustments                          | (67,078)              | (90,418)                      | (3,836)                            | (1,886)                   | (126)                     | (43,693)                    | <b>(207,037)</b> |
| <b>BALANCE AT JUNE 30, 2009</b>                           | <b>1,125,689</b>      | <b>2,086,417</b>              | <b>59,522</b>                      | <b>34,960</b>             | <b>2,968</b>              | <b>661,569</b>              | <b>3,971,125</b> |
| <b><u>ACCUMULATED DEPRECIATION AND<br/>IMPAIRMENT</u></b> |                       |                               |                                    |                           |                           |                             |                  |
| Balance at January 1, 2009                                | (140,447)             | (482,935)                     | (23,116)                           | (16,919)                  | (435)                     | (2,876)                     | <b>(666,728)</b> |
| Depreciation charge                                       | (14,306)              | (80,251)                      | (1,777)                            | (2,386)                   | (35)                      | -                           | <b>(98,755)</b>  |
| Impairment  | -                     | (28,074)                      | -                                  | -                         | -                         | -                           | <b>(28,074)</b>  |
| Disposals   | 107                   | 5,979                         | 198                                | 457                       | -                         | -                           | <b>6,741</b>     |
| Currency translation adjustments                          | 7,419                 | 23,001                        | 1,274                              | 892                       | (5)                       | 82                          | <b>32,663</b>    |
| <b>BALANCE AT JUNE 30, 2009</b>                           | <b>(147,227)</b>      | <b>(562,280)</b>              | <b>(23,421)</b>                    | <b>(17,956)</b>           | <b>(475)</b>              | <b>(2,794)</b>              | <b>(754,153)</b> |
| <b>NET BOOK VALUE<br/>AT JUNE 30, 2009</b>                | <b>978,462</b>        | <b>1,524,137</b>              | <b>36,101</b>                      | <b>17,004</b>             | <b>2,493</b>              | <b>658,775</b>              | <b>3,216,972</b> |
| <b>NET BOOK VALUE<br/>AT JANUARY 1, 2009</b>              | <b>1,034,014</b>      | <b>1,463,634</b>              | <b>39,175</b>                      | <b>18,544</b>             | <b>2,128</b>              | <b>766,341</b>              | <b>3,323,836</b> |

As at June 30, 2009, the Group conducted an impairment test of property, plant and equipment at that date. As a result the Group determined that carrying value of property, plant and equipment of its Romanian subsidiaries and OAO Orsky Machine Building Plant exceeds their recoverable amount. The recoverable amount was determined based on the value in use determined based on discounted future cash flow. The group used pre-tax discount rates of 14.29% and 15.14% for determining the value in use for Romanian subsidiaries and OAO Orsky Machine Building Plant, respectively. As a result, the Group recognized impairment of property, plant and equipment amounting to 28,074. Events and circumstances that led to recognition of the impairment are disclosed in Note 19.



# 

## 

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

### 

|  | Patents and trademarks | Goodwill        | Software       | Customer relationships | Proprietary technology | Backlog        | Other          | TOTAL            |
|--|------------------------|-----------------|----------------|------------------------|------------------------|----------------|----------------|------------------|
| <b>COST</b>                                    |                        |                 |                |                        |                        |                |                |                  |
| Balance at January 1, 2009                     | 209,530                | 571,394         | 15,731         | 472,300                | 14,100                 | 8,500          | 8,065          | 1,299,620        |
| Additions                                      | 1                      | -               | 12             | -                      | -                      | -              | 1,536          | 1,549            |
| Disposals                                      | (25)                   | -               | -              | -                      | -                      | -              | (1,362)        | (1,387)          |
| Reclassification                               | 115                    | -               | 1,130          | -                      | -                      | -              | (1,245)        | -                |
| Currency translation adjustments               | (49)                   | (5,644)         | (882)          | -                      | -                      | -              | (449)          | (7,024)          |
| <b>BALANCE AT JUNE 30, 2009</b>                | <b>209,572</b>         | <b>565,750</b>  | <b>15,991</b>  | <b>472,300</b>         | <b>14,100</b>          | <b>8,500</b>   | <b>6,545</b>   | <b>1,292,758</b> |
| <b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b> |                        |                 |                |                        |                        |                |                |                  |
| Balance at January 1, 2009                     | (180)                  | (2,970)         | (5,740)        | (48,851)               | (974)                  | (4,332)        | (2,604)        | (65,651)         |
| Amortisation charge                            | (37)                   | -               | (1,516)        | (49,177)               | (881)                  | (2,200)        | (253)          | (54,064)         |
| Impairment                                     | -                      | (9,645)         | -              | -                      | -                      | -              | -              | (9,645)          |
| Disposals                                      | 18                     | -               | -              | -                      | -                      | -              | 508            | 526              |
| Currency translation adjustments               | 10                     | (367)           | 261            | -                      | -                      | -              | 283            | 187              |
| <b>BALANCE AT JUNE 30, 2009</b>                | <b>(189)</b>           | <b>(12,982)</b> | <b>(6,995)</b> | <b>(98,028)</b>        | <b>(1,855)</b>         | <b>(6,532)</b> | <b>(2,066)</b> | <b>(128,647)</b> |
| <b>NET BOOK VALUE AT JUNE 30, 2009</b>         | <b>209,383</b>         | <b>552,768</b>  | <b>8,996</b>   | <b>374,272</b>         | <b>12,245</b>          | <b>1,968</b>   | <b>4,479</b>   | <b>1,164,111</b> |
| <b>NET BOOK VALUE AT JANUARY 1, 2009</b>       | <b>209,350</b>         | <b>568,424</b>  | <b>9,991</b>   | <b>423,449</b>         | <b>13,126</b>          | <b>4,168</b>   | <b>5,461</b>   | <b>1,233,969</b> |

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

|                                       | June 30, 2009  | December 31, 2008 |
|---------------------------------------|----------------|-------------------|
| American division                     | 681,668        | 681,668           |
| European division                     | 6,692          | 6,740             |
| Oilfield service cash generating unit | 30,824         | 40,058            |
| Other cash generating units           | 42,284         | 48,658            |
| <b>TOTAL GOODWILL</b>                 | <b>761,468</b> | <b>777,124</b>    |

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate the carrying value may be impaired. At June 30, 2009 there were indicators of impairment, therefore, the Group performed an impairment test at that date.

The aggregation of assets for identifying cash generating units has changed since the previous estimate of the cash-generating unit's recoverable amount. The changes in aggregating the assets into cash generating units are as follows:

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

## OAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 15) Intangible Assets (continued)

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

As a result of the test, the Group determined that the carrying value of Oilfield service cash generating unit and Kaztrubprom Plant cash generating unit exceeds their recoverable amount and the carrying value of American division and other cash generating units approximates their recoverable amount. Consequently, the Group recognized impairment of Oilfield service cash generating unit's goodwill and Kaztrubprom Plant cash generating unit's goodwill in the amount of 6,424 and 3,221 respectively. Kaztrubprom Plant cash generating unit and Oilfield service cash generating unit belong to Russia reportable segment. Events and circumstances that led to recognition of impairment are disclosed in Note 19.

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

| Cash generating units       | Period of forecast, years | Pre-tax discount rate, % | Commodity      | Average price per ton of commodity |
|-----------------------------|---------------------------|--------------------------|----------------|------------------------------------|
| American division           | 5                         | 11.41                    | Welded pipes   | \$ 1,144                           |
|                             |                           |                          | Seamless pipes | \$ 2,109                           |
| European division           | 5                         | 14.29                    | Seamless pipes | \$ 1,230                           |
|                             |                           |                          | Billets        | \$ 657                             |
| Kaztrubprom Plant           | 5                         | 16.33                    | Seamless pipes | \$ 1,080                           |
| Oilfield division           | 5                         | 14.38                    |                |                                    |
| Other cash generating units | 5                         | 14.07-15.58              |                |                                    |

The calculation of Oilfield service and Kaztrubprom Plant cash generating units' fair value was most sensitive to the following assumptions.

#### *Discount Rates*

Discount rates reflect the current market assessment of the risks specific to cash generating unit. The discount rates have been determined using the CAPM concept and analysis of industry peers. Reasonable change in discount rate could lead to further impairment of goodwill.

A 10% increase in the discount rate of Oilfield service cash generating unit would result in an additional impairment of 6,458.

A 10% increase in the discount rate of Kaztrubprom Plant cash generating unit would result in an additional impairment of 1,840.

## OAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 15) Intangible Assets (continued)

##### *Volume of Production and Repair of OCTG Pipes (Oilfield service cash generating unit)*

The management assumed that the volume of repaired OCTG pipes would decline by 17% during 2009 and would grow by 1% in 2010. In 2011 and thereafter a zero growth rate was assumed. Reasonable changes in quantities of produced and sold and repaired OCTG pipes could lead to the additional impairment. If the quantities of the units of production sold and repaired were 10% lower than those assumed in the impairment test, this would lead to an additional impairment of 1,823.

##### *Volume of production of Well Casing and OCTG pipes (Kaztrubprom Plant cash generating unit)*

The management assumed that sale volumes of well casing and OCTG pipes would increase by 24% during July-December of 2009 and would grow in 2010, 2012, 2013 and 2014 by 43%, 25%, 12% and 7%, respectively. This growth will be provided by production capacity increase of the plant. Reasonable changes in quantities of produced and sold could lead to the additional impairment. If the quantities of the units of production sold were 10% lower than those assumed in the impairment test during 2009 and 2010, this would lead to an additional impairment of 604.

##### *Costs and Expenses*

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

If the actual costs of Oilfield service cash generating unit were 10% higher than those assumed in the impairment test during 2009-2013, this would lead to an additional impairment of 12,006.

If the actual costs of Kaztrubprom Plant cash generating unit were 10% higher than those assumed in the impairment test during 2009-2013, this would lead to an additional impairment of 6,384.

#### 16) Trade and Other Payables

|  | June 30, 2009  | December 31, 2008 |
|--|----------------|-------------------|
| Trade payables                                     | 425,811        | 578,749           |
| Accounts payable for property, plant and equipment | 170,437        | 144,585           |
| Notes issued to third parties                      | 3,773          | 869               |
| Sales rebate payable                               | 4,015          | 5,400             |
| Other payables                                     | 17,354         | 8,930             |
| <b>TOTAL ACCOUNTS PAYABLE</b>                      | <b>621,390</b> | <b>738,533</b>    |

# 

## 

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

### 

|  | June 30, 2009    | December 31, 2008 |
|--|------------------|-------------------|
| <i>Current:</i>  |                  |                   |
| Bank loans   | 1,193,698        | 1,676,590         |
| Interest payable                                       | 49,236           | 46,651            |
| Current portion of non-current borrowings              | 266,395          | 92,463            |
| Current portion of bearer coupon debt securities       | 459,793          | 402,078           |
| Unamortised debt issue costs                           | (3,499)          | (3,145)           |
|  | <b>1,965,623</b> | <b>2,214,637</b>  |
| Finance lease liability - current                      | 2,887            | 1,822             |
| <b>TOTAL SHORT-TERM BORROWINGS</b>                     | <b>1,968,510</b> | <b>2,216,459</b>  |
| <i>Non-current:</i>                                    |                  |                   |
| Bank loans   | 1,345,742        | 287,811           |
| Bearer coupon debt securities                          | 1,059,793        | 1,172,259         |
| Unamortised debt issue costs                           | (33,822)         | (10,273)          |
| Less: current portion of non-current borrowings        | (266,395)        | (92,463)          |
| Less: current portion of bearer coupon debt securities | (459,793)        | (402,078)         |
|  | <b>1,645,525</b> | <b>955,256</b>    |
| Finance lease liability - non-current                  | 36,281           | 38,969            |
| <b>TOTAL LONG-TERM BORROWINGS</b>                      | <b>1,681,806</b> | <b>994,225</b>    |

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

|                | Interest rates for period ended | June 30, 2009    | Interest rates for period ended | December 31, 2008 |
|----------------|---------------------------------|------------------|---------------------------------|-------------------|
| Russian Rouble | Fixed 5% -21%                   | 1,027,328        | Fixed 7.6% -17.55%              | 1,206,957         |
|                | Fixed 8.5%                      | 306,245          | Fixed 8.5%                      | 305,451           |
|                | Fixed 10%                       | 620,923          | Fixed 10%                       | 619,506           |
|                | Fixed 2.2%-16%                  | 1,413,423        | Fixed 9.75%-14.7%               | 114,195           |
| US Dollar      | Variable:                       | 4,676            | Variable:                       | 659,234           |
|                | Federal Funds Rate +1.6%        |                  | Libor (1m) + 1.6% - 2.5%        |                   |
|                | Libor (1w) + 2%                 |                  | Libor (3m) + 1.7%               |                   |
|                |                                 |                  | Federal Funds Rate +1.6%        |                   |
| Euro           | Fixed 8.5 %                     | 1,881            | Fixed 5.11%-9.4%                | 5,405             |
|                | Cost of funds + 1.25% (*)       | 30,536           |                                 |                   |
|                | Variable:                       | 206,136          | Variable:                       | 258,734           |
|                | Euribor (1m) + 1.6%             |                  | Euribor (1m) + 1.6%             |                   |
| Romanian Lei   | Euribor (3m) + 4%               |                  | Euribor (3m) + 2.75%            |                   |
|                | Euribor (6m) + 0.26% - 4%       |                  | Euribor (6m) + 0.23% - 2.4%     |                   |
| <b>TOTAL</b>   |                                 | <b>3,611,148</b> | Fixed 16%                       | <b>3,169,893</b>  |

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

#### 

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. As at June 30, 2009, the principle outstanding balance of the loan was 1,107,542.

On March 23, 2009, TMK entered into a short-term loan with VTB Bank in the principal amount of 90,185. As at June 30, 2009, the principle outstanding balance was 90,185. The proceeds were used to redeem the bearer coupon debt securities for the amount of 3,000,000 thousand Russian Roubles on March 24, 2009.

# OAO TMK

## **Notes to the Unaudited Interim Condensed Consolidated Financial Statements** **(continued)**

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

### **17) Interest-Bearing Loans and Borrowings (continued)**

#### *Unutilised Borrowing Facilities*

As at June 30, 2009, the Group had unutilised borrowing facilities in the amount of 245,550 (December 31, 2008: 280,522).

### **18) Related Parties Disclosures**

| <b>Entities under common control with the Group</b> | <b>June 30, 2009</b> | <b>December 31, 2008</b> |
|---|----------------------|--------------------------|
| Cash and cash equivalents                           | 2,710                | 6,062                    |
| Accounts receivable - current                       | 807                  | 6,007                    |
| Prepayments - current                               | 566                  | 2                        |
| Accounts receivable – non-current                   | 67                   | 68                       |
| Accounts payable - current                          | (1,446)              | (1,427)                  |
| Interest payable                                    | (246)                | (32)                     |

| <b>Entities under common control with the Group</b> | <b>Six-month period ended June 30,</b> |             |
|---|--|-------------|
|   | <b>2009</b>                            | <b>2008</b> |
| Sales revenue                                       | 616                                    | 12,040      |
| Purchases of goods and services                     | 3,379                                  | 4,260       |
| Interest income from loans and borrowings           | 14                                     | 777         |
| Interest expenses from loans and borrowings         | 233                                    | -           |

Parent company, TMK Steel, pledged shares of OAO TMK in order to guarantee the Group's loans from Gazprombank in the amount of 1,107,542. The Group paid to the parent company 36,300 for the guarantee.

#### *Compensation of Key Management Personnel of the Group*

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 28 persons as at June 30, 2009 and 32 persons as at June 30, 2008. Total compensation to key management personnel included as part of the general and administrative expenses in the income statement amounted to 6,895 and 10,248 for the six months period ended June 30, 2009 and 2008, respectively. There were no share-based payments to key management personnel for the six months period ended June 30, 2009 (2008: 2,214).

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

The Group issued loans to key management personnel in the amount of 328 during the six month period ended June 30, 2009.

The Group guaranteed debts of key management personnel outstanding as at June 30, 2009 in the amount of 3,264 with maturity in 2009-2014.

The Group purchased 34,318 shares of OAO TMK from key management personnel for 89 during the six month period ended June 30, 2009.



## ОАО ТМК

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 19) Contingencies and Commitments

##### *Operating Environment of the Group*

The Group's principal assets are located in the Russian Federation and in the USA. Therefore its significant operating risks are related to the activities of the Group in these countries.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crises has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Capital and credit markets in the United States have also experienced adverse conditions.

In the first half of the year 2009 the pipe markets of the Russian Federation and globally continued to deteriorate in terms of demand and prices and are expected to remain uncertain until the end of 2009 and in 2010. Based on the current economic outlook and in accordance with management's conservative forecast of market developments the Group expects a decrease in profit and cash flows in comparison with previous forecasts and a later recovery of demand and sale volumes. This led to a corresponding impairment of the certain Group assets in this interim period.

##### *Taxation*

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

## ОАО ТМК

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 19) Contingencies and Commitments (continued)

##### *Taxation (continued)*

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

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

In 2007 and 2008, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 827,852 thousand Russian roubles (26,457 at the exchange rate as at June 30, 2009). As at the date of the authorization for issue of these consolidated financial statements, the courts made decisions in favor of the Group for the total amount of 747,706 thousand Russian roubles (23,896 at the exchange rate as at June 30, 2009). The claims for 21,506 thousand Russian roubles (687 at the exchange rate as at June 30, 2009) are continued to be contested by the Group in the courts.

In 2009, one of the Russian subsidiaries of the Group received preliminary act for results of a tax audit in respect of 2006-2007 fiscal periods. The tax authorities indicated that, in their opinion, the subsidiary understated income tax by 310,355 thousand Russian roubles (9,919 at the exchange rate as at June 30, 2009). The Group intends to contest this act with the superior tax authorities.

Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Therefore, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the six-month period ended June 30, 2009.

##### *Contractual Commitments and Guarantees*

As at June 30, 2009, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 2,399,163 thousand Russian roubles (76,674 at the exchange rate as at June 30, 2009), 171,640 thousand euros (240,365 at the exchange rate as at June 30, 2009), 6,859 Romanian lei (2,273 at the exchange rate as at June 30, 2009) and 996 US dollars for the total amount of 320,308 (all amounts are expressed net of VAT). The Group has paid advances of 43,312 with respect to such commitments.

Under the contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 91,322 (2008: 154,556).

##### *Insurance Policies*

The Group maintains minimal obligatory insurance policies required by Russian Law and insurance policies in respect of certain assets pledged under loan agreements. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

## OAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 19) Contingencies and Commitments (continued)

##### *Legal Claims*

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these consolidated financial statements.

##### *Guarantees of Debts of Others*

The Group has guaranteed debts of others (including guaranteed debts of key management personal) outstanding in the amount of 5,374 and 6,219 at June 30, 2009 and December 31, 2008, respectively.

#### 20) Equity

##### *i) Dividends*

The Company declared no final dividend in respect of 2008.

##### *ii) Dividends by the Group's Subsidiaries to Minority Shareholders*

During the six-month period ended June 30, 2009 and 2008, the Group's subsidiaries declared dividends to minority shareholders in the amount of 2,302 and 4,752, respectively.

##### *iii) Treasury shares*

During the six-month period ended June 30, 2009, the Group purchased 34,318 shares of the Company for 89. As at June 30, 2009, the Group owned 7,201,367 treasury shares.

|                                   | Number of shares | Cost          |
|-----------------------------------|------------------|---------------|
| Outstanding as at January 1, 2009 | 7,167,049        | 37,827        |
| Purchased during six months       | 34,318           | 89            |
| Outstanding as at June 30, 2009   | <b>7,201,367</b> | <b>37,916</b> |

##### *iv) Warrants*

At March 5, 2008, the Group purchased 1,200,000 warrants for the total amount of 5,590. The warrants grant the Group a right to acquire the Company's shares at a strike price of 4,51 US dollars per share. The Group did not exercise the warrants which expired on October 10, 2009.

## OAOTM

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 20) Equity (continued)

##### v) *Hedge of Net Investment in Foreign Operations*

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

As disclosed in Notes 9 and 17, in January 2009 the Group refinanced its liabilities under the bridge loan and put option using the proceeds from borrowings. As a result, at the date of refinancing, the Group ceased previous hedging relationships and designated 600,000 10% loan participation notes and liability under the new borrowing facility as hedging instruments. The refinancing was structured in the way that reduced the Group's liabilities, which are available to hedge the foreign currency risk, to 1,200,000.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the six-month period ended June 30, 2009, the effective portion of net losses from spot rate changes of the above mentioned liabilities of 4,994,214 thousand roubles (164,946 at historical exchange rate), net of income tax benefit of 458,400 thousand roubles (approximately 15,872 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

##### vi) *Acquisition of Minority Interests in Subsidiaries*

In the six-month period ended 30 June 2009, the Company purchased additional 0.65% of OAOT Seversky Pipe Plant shares, 0.84% of OAOT Sinarsky Pipe Plant shares, 0.06% of OAOT Taganrog Metallurgical Plant shares and 0.24% of SC TMK-RESITA SA shares. The total cash consideration for the shares amounted to 6,749.

In addition, as a result of increase of share capital of SC TMK-ARTROM SA, the Group increased its interest in this subsidiary by 12.11% and received contribution from minority shareholders of 145.

#### 21) Events after the Statement of Financial Position Date

At the date of publication of these interim condensed consolidated financial statements the Group's debt to EBITDA ratio under 10% loan participation notes due 2011 exceeds its allowed level. As a consequence, the Group will be limited from increasing its financial indebtedness except for amounts available under clauses of permitted indebtedness.

## ОАО ТМК

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 21) Events after the Statement of Financial Position Date (continued)

On July 8, 2009, the Group offered to the holders of the loan participation notes to increase the level of permitted indebtedness up to 100,000 or sell the notes to the Group at offered price. The offer expired on July 31, 2009. As a result, the Group bought back 4,133 notes with carrying amount of 410,262. Total payments of the Group related to this transaction comprised 415,711, which was financed by 450,000 loan provided by VTB.

In August 2009, the Group amended agreement with Gazprombank for borrowing facilities of 1,107,542 extending the loan term from 2.5 to 5 years and reducing interest rate. The facilities will be repaid by 12 tranches starting from 2011.

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

On September 10, 2009 the Group disposed of VTB shares for 8,176.

**ОАО ТМК**

**Consolidated Financial Statements**

*for the years ended December 31, 2008, 2007 and 2006*



## 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 balance sheet as at December 31, 2008, 2007 and 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the years then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### ***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2008, 2007 and 2006, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*ERNST & Young LLC*

April 29, 2009

# OAo TMK

## Consolidated Financial Statements

for the years ended December 31, 2008, 2007 and 2006

### Contents

|  |    |
|--|----|
| Consolidated Income Statement .....  | 2  |
| Consolidated Balance Sheet.....  | 3  |
| Consolidated Statement of Changes in Equity.....                               | 4  |
| Consolidated Cash Flow Statement .....   | 7  |
| Notes to the Consolidated Financial Statements.....                            | 9  |
| Corporate Information .....  | 9  |
| Basis of Preparation of the Financial Statements .....                         | 10 |
| Statement of Compliance.....   | 10 |
| Basis of Accounting.....   | 10 |
| Functional and Presentation Currency.....                                      | 11 |
| Significant Estimates and Assumptions.....                                     | 12 |
| Impairment of Property, Plant and Equipment .....                              | 12 |
| Useful Lives of Items of Property, Plant and Equipment .....                   | 12 |
| Fair Values of Assets and Liabilities Acquired in Business Combinations.....   | 12 |
| Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives..... | 12 |
| Post-Employment Benefits .....   | 13 |
| Allowance .....  | 13 |
| Litigation.....  | 13 |
| Current Taxes.....   | 14 |
| Deferred Tax Assets.....   | 14 |
| Share-Based Payments.....  | 14 |
| Significant Judgments.....   | 14 |
| Consolidation of a Special Purpose Entity.....                                 | 14 |
| Changes in Accounting Policies .....   | 15 |
| Significant Accounting Policies.....   | 20 |
| Index to the Notes to the Consolidated Financial Statements.....               | 32 |

# 

## 

*(All amounts in thousands of US dollars)*

|  | NOTES | Year ended December 31, |                  |                  |
|--|-------|-------------------------|------------------|------------------|
|  |       | 2008                    | 2007             | 2006             |
| Revenue:   | 1     | 5,690,002               | 4,178,644        | 3,402,313        |
| <i>Sales of goods</i>  |       | <i>5,603,411</i>        | <i>4,144,680</i> | <i>3,378,151</i> |
| <i>Rendering of services</i>   |       | <i>86,591</i>           | <i>33,964</i>    | <i>24,162</i>    |
| Cost of sales  | 2     | (4,252,452)             | (2,890,616)      | (2,353,613)      |
| <b>Gross profit</b>  |       | <b>1,437,550</b>        | <b>1,288,028</b> | <b>1,048,700</b> |
| Selling and distribution expenses  | 3     | (295,210)               | (238,176)        | (180,361)        |
| Advertising and promotion expenses   | 4     | (10,122)                | (5,286)          | (5,143)          |
| General and administrative expenses  | 5     | (316,748)               | (218,275)        | (166,620)        |
| Research and development expenses  | 6     | (15,164)                | (10,139)         | (6,725)          |
| Other operating expenses   | 7     | (52,043)                | (56,225)         | (29,076)         |
| Other operating income   | 8     | 7,120                   | 4,968            | 4,633            |
| Impairment of goodwill   | 19    | (3,512)                 | -                | -                |
| Impairment of property, plant and equipment  | 18    | (59,846)                | -                | -                |
| Impairment of financial assets   | 16    | (23,675)                | -                | -                |
| Foreign exchange (loss)/gain, net  |       | (99,817)                | 20,460           | 13,023           |
| Finance costs  | 9     | (272,175)               | (102,397)        | (73,619)         |
| Finance income   | 9     | 8,720                   | 12,608           | 15,819           |
| Share of profit in associate   | 8     | 3,006                   | 971              | 1,249            |
| Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition | 10    | -                       | 2,214            | -                |
| <b>Profit before tax</b>   |       | <b>308,084</b>          | <b>698,751</b>   | <b>621,880</b>   |
| Income tax expense   | 11    | (109,612)               | (192,442)        | (159,632)        |
| <b>Net profit</b>  |       | <b>198,472</b>          | <b>506,309</b>   | <b>462,248</b>   |
| <b>Attributable to:</b>  |       |                         |                  |                  |
| <b>Equity holders of the parent entity</b>   |       | <b>199,408</b>          | <b>487,152</b>   | <b>442,115</b>   |
| <b>Minority interests</b>  |       | <b>(936)</b>            | <b>19,157</b>    | <b>20,133</b>    |
|  |       | <b>198,472</b>          | <b>506,309</b>   | <b>462,248</b>   |
| <b>Earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)</b>   | 12    | <b>0.23</b>             | <b>0.56</b>      | <b>0.51</b>      |

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

**OAo TMK**

**Consolidated Balance Sheet**

*(All amounts in thousands of US dollars)*

|  |        | NOTES | At December 31, |           |           |
|--|--------|-------|-----------------|-----------|-----------|
|  |        |       | 2008            | 2007      | 2006      |
| ASSETS                                   |        |       |                 |           |           |
| Current assets                           |        |       |                 |           |           |
| Cash and cash equivalents                | 13, 26 |       | 143,393         | 89,045    | 144,010   |
| Financial investments                    |        |       | 3,885           | 116       | 174,543   |
| Trade and other receivables              | 14     |       | 751,691         | 523,525   | 274,424   |
| Accounts receivable from related parties | 26     |       | 9,409           | 17,632    | 11,647    |
| Inventories                              | 17     |       | 1,175,936       | 782,373   | 593,434   |
| Prepayments and input VAT                | 15     |       | 185,068         | 223,731   | 199,960   |
| Prepaid income taxes                     |        |       | 26,290          | 14,658    | 2,695     |
|  |        |       | 2,295,672       | 1,651,080 | 1,400,713 |
| Non-current assets                       |        |       |                 |           |           |
| Investments in an associate              |        |       | 2,726           | 1,481     | 5,079     |
| Available-for-sale investments           | 16     |       | 6,520           | 29,417    | -         |
| Intangible assets                        | 19     |       | 665,545         | 20,715    | 15,700    |
| Accounts receivable - related parties    | 26     |       | 68              | 221       | 2,270     |
| Property, plant and equipment            | 18     |       | 3,323,836       | 2,712,343 | 2,010,751 |
| Goodwill                                 | 19     |       | 568,424         | 101,858   | 46,944    |
| Deferred tax asset                       | 11     |       | 138,707         | 18,404    | 14,915    |
| Other non-current assets                 | 16     |       | 69,609          | 140,763   | 54,321    |
|  |        |       | 4,775,435       | 3,025,202 | 2,149,980 |
| TOTAL ASSETS                             |        |       | 7,071,107       | 4,676,282 | 3,550,693 |
| LIABILITIES AND EQUITY                   |        |       |                 |           |           |
| Current liabilities                      |        |       |                 |           |           |
| Trade and other payables                 | 20     |       | 738,533         | 295,177   | 248,560   |
| Advances from customers                  |        |       | 67,831          | 89,578    | 102,732   |
| Accounts payable to related parties      | 26     |       | 4,859           | 14,924    | 5,278     |
| Accrued liabilities                      | 21     |       | 665,452         | 147,184   | 85,100    |
| Provisions                               | 22     |       | 11,510          | 4,674     | 3,024     |
| Interest-bearing loans and borrowings    | 23     |       | 2,216,459       | 1,033,322 | 368,175   |
| Borrowings from related parties          | 26     |       | -               | -         | 3,550     |
| Dividends payable                        |        |       | 361             | 129,116   | 1,383     |
| Income tax payable                       |        |       | 39,823          | 4,059     | 17,976    |
|  |        |       | 3,744,828       | 1,718,034 | 835,778   |
| Non-current liabilities                  |        |       |                 |           |           |
| Interest-bearing loans and borrowings    | 23     |       | 994,225         | 505,977   | 662,933   |
| Deferred tax liability                   | 11     |       | 370,561         | 279,034   | 259,696   |
| Provisions                               | 22     |       | 18,668          | 15,973    | 13,437    |
| Employee benefit liability               | 24     |       | 17,187          | 21,862    | 20,343    |
| Other liabilities                        |        |       | 15,216          | 28,793    | 5,297     |
|  |        |       | 1,415,857       | 851,639   | 961,706   |
| Total liabilities                        |        |       | 5,160,685       | 2,569,673 | 1,797,484 |
| Equity                                   |        | 28    |                 |           |           |
| Parent shareholders' equity              |        |       |                 |           |           |
| Issued capital                           |        |       | 305,407         | 305,407   | 305,407   |
| Treasury shares                          |        |       | (37,827)        | (10,752)  | -         |
| Additional paid-in capital               |        |       | 97,915          | 97,338    | 98,539    |
| Reserve capital                          |        |       | 15,387          | 15,387    | 15,387    |
| Retained earnings                        |        |       | 1,343,255       | 1,239,993 | 1,028,664 |
| Foreign currency translation reserve     |        |       | 89,274          | 357,510   | 225,110   |
| Net unrealised losses                    |        |       | -               | (2,187)   | -         |
|  |        |       | 1,813,411       | 2,002,696 | 1,673,107 |
| Minority interests                       |        |       | 97,011          | 103,913   | 80,102    |
| Total equity                             |        |       | 1,910,422       | 2,106,609 | 1,753,209 |
| TOTAL EQUITY AND LIABILITIES             |        |       | 7,071,107       | 4,676,282 | 3,550,693 |

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

**OAo TMK**

**Consolidated Statement of Changes in Equity**

**for the years ended December 31, 2008, 2007 and 2006**

*(All amounts in thousands of US dollars)*

|   | Attributable to equity holders of the parent |                 |                            |                 |                   |                                      |                       |           |                    |           |
|---|--|-----------------|----------------------------|-----------------|-------------------|--------------------------------------|-----------------------|-----------|--------------------|-----------|
|   | Issued capital                               | Treasury shares | Additional paid-in capital | Reserve capital | Retained earnings | Foreign currency translation reserve | Net unrealised losses | Total     | Minority interests | TOTAL     |
| At January 1, 2008  | 305,407                                      | (10,752)        | 97,338                     | 15,387          | 1,239,993         | 357,510                              | (2,187)               | 2,002,696 | 103,913            | 2,106,609 |
| Effect of exchange rate changes   | -  | -               | -                          | -               | -                 | 60,104                               | -                     | 60,104    | (20,496)           | 39,608    |
| Foreign currency loss on hedged net investment in foreign operation net of tax (Note 28 xi) | -  | -               | -                          | -               | -                 | (328,340)                            | -                     | (328,340) | -                  | (328,340) |
| Net unrealised losses on available-for-sale investments                                     | -  | -               | -                          | -               | -                 | -                                    | (9,901)               | (9,901)   | (782)              | (10,683)  |
| Impairment of available for sale investments (Note 16)                                      | -  | -               | -                          | -               | -                 | -                                    | 12,088                | 12,088    | 955                | 13,043    |
| Total income and expense for the year recognised directly in equity                         | -  | -               | -                          | -               | -                 | (268,236)                            | 2,187                 | (266,049) | (20,323)           | (286,372) |
| Net profit  | -  | -               | -                          | -               | 199,408           | -                                    | -                     | 199,408   | (936)              | 198,472   |
| Total income and expense for the year   | -  | -               | -                          | -               | 199,408           | (268,236)                            | 2,187                 | (66,641)  | (21,259)           | (87,900)  |
| Purchase of treasury shares for the Share Options Programme (Note 28 ix)                    | -  | (27,110)        | -                          | -               | -                 | -                                    | -                     | (27,110)  | -                  | (27,110)  |
| Sale of treasury shares (Note 28 ix)  | -  | 35              | -                          | -               | -                 | -                                    | -                     | 35        | -                  | 35        |
| Share-based payments (Note 28 viii)   | -  | -               | 5,989                      | -               | -                 | -                                    | -                     | 5,989     | -                  | 5,989     |
| Purchase of warrants (Note 28 x)  | -  | -               | (5,590)                    | -               | -                 | -                                    | -                     | (5,590)   | -                  | (5,590)   |
| Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 28 vi)  | -  | -               | -                          | -               | -                 | -                                    | -                     | -         | (4,752)            | (4,752)   |
| Purchase of minority interests (Note 28 v)  | -  | -               | 178                        | -               | (191)             | -                                    | -                     | (13)      | (2,534)            | (2,547)   |
| Derecognition of liability under expired minority put-options (Note 28 vii)                 | -  | -               | -                          | -               | (1,366)           | -                                    | -                     | (1,366)   | 21,643             | 20,277    |
| Dividends (Note 28 iii)   | -  | -               | -                          | -               | (94,589)          | -                                    | -                     | (94,589)  | -                  | (94,589)  |
| At December 31, 2008  | 305,407                                      | (37,827)        | 97,915                     | 15,387          | 1,343,255         | 89,274                               | -                     | 1,813,411 | 97,011             | 1,910,422 |

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



**OAo TMK**

**Consolidated Statement of Changes in Equity**

**for the years ended December 31, 2008, 2007 and 2006 (continued)**

*(All amounts in thousands of US dollars)*

|   | Attributable to equity holders of the parent |                 |                            |                 |                   |                                      |                       |           |                    |           |
|---|--|-----------------|----------------------------|-----------------|-------------------|--------------------------------------|-----------------------|-----------|--------------------|-----------|
|   | Issued capital                               | Treasury shares | Additional paid-in capital | Reserve capital | Retained earnings | Foreign currency translation reserve | Net unrealised losses | Total     | Minority interests | TOTAL     |
| At January 1, 2007  | 305,407                                      | -               | 98,539                     | 15,387          | 1,028,664         | 225,110                              | -                     | 1,673,107 | 80,102             | 1,753,209 |
| Effect of exchange rate changes   | -  | -               | -                          | -               | -                 | 132,400                              | -                     | 132,400   | 6,634              | 139,034   |
| Net unrealised losses on available-for-sale investments   | -  | -               | -                          | -               | -                 | -                                    | (2,187)               | (2,187)   | (173)              | (2,360)   |
| Equity elimination from the recognition of the financial liability in respect of the put option (Note 28 vii) | -  | -               | -                          | -               | (536)             | -                                    | -                     | (536)     | -                  | (536)     |
| Total income and expense for the year recognised directly in equity   | -  | -               | -                          | -               | (536)             | 132,400                              | (2,187)               | 129,677   | 6,461              | 136,138   |
| Net profit  | -  | -               | -                          | -               | 487,152           | -                                    | -                     | 487,152   | 19,157             | 506,309   |
| Total income and expense for the year   | -  | -               | -                          | -               | 486,616           | 132,400                              | (2,187)               | 616,829   | 25,618             | 642,447   |
| Purchase of the Company's shares for the purpose of realization of the Share Options Programme (Note 28 ix)   | -  | (28,426)        | -                          | -               | -                 | -                                    | -                     | (28,426)  | -                  | (28,426)  |
| Share-based payments  | -  | -               | 6,733                      | -               | -                 | -                                    | -                     | 6,733     | -                  | 6,733     |
| Exercise of share options (Note 28 ix)  | -  | 17,674          | (1,631)                    | -               | -                 | -                                    | -                     | 16,043    | -                  | 16,043    |
| De-recognition of minority interests in a subsidiary (Note 28 vii)  | -  | -               | -                          | -               | -                 | -                                    | -                     | -         | (389)              | (389)     |
| Capital contribution by minority owners to a subsidiary   | -  | -               | -                          | -               | -                 | -                                    | -                     | -         | 690                | 690       |
| Acquisition of subsidiary (Note 10)   | -  | -               | -                          | -               | -                 | -                                    | -                     | -         | 1,554              | 1,554     |
| Acquisition of minority interests (Note 28 v)   | -  | -               | 531                        | -               | (1,675)           | -                                    | -                     | (1,144)   | (3,545)            | (4,689)   |
| Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 28 vi)                    | -  | -               | -                          | -               | -                 | -                                    | -                     | -         | (117)              | (117)     |
| Dividends (Note 28 iii)   | -  | -               | -                          | -               | (273,612)         | -                                    | -                     | (273,612) | -                  | (273,612) |
| Other distributions to owners (Notes 10, 28 iv)   | -  | -               | (6,834)                    | -               | -                 | -                                    | -                     | (6,834)   | -                  | (6,834)   |
| At December 31, 2007  | 305,407                                      | (10,752)        | 97,338                     | 15,387          | 1,239,993         | 357,510                              | (2,187)               | 2,002,696 | 103,913            | 2,106,609 |

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

**OAo TMK**

**Consolidated Statement of Changes in Equity**

**for the years ended December 31, 2008, 2007 and 2006 (continued)**

*(All amounts in thousands of US dollars)*

|   | Attributable to equity holders of the parent |                            |                 |                   |                                      |           |                    |           |
|---|--|----------------------------|-----------------|-------------------|--------------------------------------|-----------|--------------------|-----------|
|   | Issued capital                               | Additional paid-in capital | Reserve capital | Retained earnings | Foreign currency translation reserve | Total     | Minority interests | TOTAL     |
| At January 1, 2006  | 305,407                                      | 141,909                    | 15,387          | 652,951           | 85,563                               | 1,201,217 | 76,833             | 1,278,050 |
| Effect of exchange rate changes   | -  | -                          | -               | -                 | 139,547                              | 139,547   | 8,978              | 148,525   |
| Total income and expense for the year recognised directly in equity   | -  | -                          | -               | -                 | 139,547                              | 139,547   | 8,978              | 148,525   |
| Net profit  | -  | -                          | -               | 442,115           | -                                    | 442,115   | 20,133             | 462,248   |
| Total income and expense for the year   | -  | -                          | -               | 442,115           | 139,547                              | 581,662   | 29,111             | 610,773   |
| Acquisition of Eurosinara S.r.L. (Note 10)  | -  | -                          | -               | (4,876)           | -                                    | (4,876)   | -                  | (4,876)   |
| Excess of the fair value of ordinary shares sold to the Group's employees over the offer price of ordinary shares (Note 28 xii) | -  | 2,142                      | -               | -                 | -                                    | 2,142     | -                  | 2,142     |
| Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 28 vi)                                      | -  | -                          | -               | -                 | -                                    | -         | (788)              | (788)     |
| Acquisition of minority interests (Note 28 v)   | -  | -                          | -               | (10,812)          | -                                    | (10,812)  | (10,611)           | (21,423)  |
| De-recognition of minority interests in a subsidiary (Note 28 vii)  | -  | -                          | -               | (12,663)          | -                                    | (12,663)  | (14,443)           | (27,106)  |
| Dividends (Note 28 iii)   | -  | -                          | -               | (17,101)          | -                                    | (17,101)  | -                  | (17,101)  |
| Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 28 iv)                                       | -  | -                          | -               | (950)             | -                                    | (950)     | -                  | (950)     |
| Other distributions to owners (Note 28 iv)  | -  | (45,512)                   | -               | (20,000)          | -                                    | (65,512)  | -                  | (65,512)  |
| At December 31, 2006  | 305,407                                      | 98,539                     | 15,387          | 1,028,664         | 225,110                              | 1,673,107 | 80,102             | 1,753,209 |

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

# OAO TMK

## Consolidated Cash Flow Statement

*(All amounts in thousands of US dollars)*

|  | NOTES   | Year ended December 31, |                  |                  |
|--|---------|-------------------------|------------------|------------------|
|  |         | 2008                    | 2007             | 2006             |
| <b>Operating activities</b>  |         |                         |                  |                  |
| Profit before tax  |         | 308,084                 | 698,751          | 621,880          |
| Adjustment to reconcile profit before tax to net cash flows  |         |                         |                  |                  |
| <b>Non-cash adjustments:</b>   |         |                         |                  |                  |
| Depreciation of property, plant and equipment  |         | 188,941                 | 137,687          | 114,384          |
| Amortisation of intangible assets  |         | 58,831                  | 2,572            | 2,381            |
| Loss on disposal of property, plant and equipment  |         | 1,555                   | 7,417            | 5,240            |
| Impairment of goodwill   | 19      | 3,512                   | -                | -                |
| Impairment of fixed assets   | 18      | 59,846                  | -                | -                |
| Impairment of financial assets   | 16      | 23,675                  | -                | -                |
| Foreign exchange loss/(gain)   |         | 99,817                  | (20,460)         | (13,023)         |
| Finance costs  |         | 272,175                 | 102,397          | 73,619           |
| Finance income   |         | (8,720)                 | (12,608)         | (15,791)         |
| Gains on sale of investments   |         | -                       | -                | (28)             |
| Share-based payments   | 28 viii | 5,989                   | 6,733            | -                |
| Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition | 10      | -                       | (2,214)          | -                |
| Excess of the fair value of ordinary shares sold to the Group's employees over the offer price of ordinary shares  |         | -                       | -                | 2,142            |
| Share of profit in associate   | 8       | (3,006)                 | (971)            | (1,249)          |
| Allowance for net realisable value of inventory  |         | 24,669                  | 1,156            | 1,677            |
| Increase/(decrease) in allowance for doubtful debts  |         | 6,873                   | (796)            | 1,573            |
| Increase/(decrease) in other provisions  |         | 4,995                   | (50)             | (1,125)          |
| Capitalization of previously expensed items  |         | -                       | -                | (1,697)          |
| <b>Operating cash flow before working capital changes</b>  |         | <b>1,047,236</b>        | <b>919,614</b>   | <b>789,983</b>   |
| <b>Working capital adjustments:</b>  |         |                         |                  |                  |
| Increase in inventories  |         | (178,665)               | (138,435)        | (78,873)         |
| Increase in trade and other receivables  |         | (156,557)               | (195,968)        | (95,167)         |
| Decrease/(increase) in prepayments   |         | 6,381                   | (21,933)         | (47,819)         |
| Increase/(decrease) in trade and other payables  |         | 401,560                 | (14,071)         | 23,667           |
| Increase/(decrease) in accrued liabilities   |         | (144,927)               | 4,573            | (31,590)         |
| Increase/(decrease) in advances from customers   |         | (8,945)                 | (19,793)         | 41,449           |
| <b>Cash generated from operations</b>  |         | <b>966,083</b>          | <b>533,987</b>   | <b>601,650</b>   |
| Income taxes paid  |         | (226,573)               | (212,503)        | (172,472)        |
| <b>Net cash flows from operating activities</b>  |         | <b>739,510</b>          | <b>321,484</b>   | <b>429,178</b>   |
| <b>Investing activities</b>  |         |                         |                  |                  |
| Purchase of property, plant and equipment and intangible assets  |         | (839,994)               | (661,730)        | (338,505)        |
| Proceeds from sale of property, plant and equipment  |         | 2,436                   | 5,497            | 3,003            |
| Purchase of available-for-sale investments   |         | -                       | (30,163)         | -                |
| Acquisition of subsidiaries, net of cash acquired  | 10      | (1,184,839)             | (72,410)         | (669)            |
| Acquisition of minority interest   |         | (5,149)                 | (2,683)          | (21,719)         |
| Issuance of loans  |         | (1,083)                 | (29,595)         | (169,967)        |
| Proceeds from repayment of loans issued  |         | 151                     | 209,795          | 166              |
| Loans granted to the controlling shareholder   |         | -                       | -                | (783,136)        |
| Proceeds from repayment of loans granted to the controlling shareholder  |         | -                       | -                | 779,695          |
| Interest received  |         | 2,968                   | 11,672           | 8,900            |
| Dividends received from associate  |         | 1,232                   | 996              | -                |
| <b>Net cash flows used in investing activities</b>   |         | <b>(2,024,278)</b>      | <b>(568,621)</b> | <b>(522,232)</b> |

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

# OAO TMK

## Consolidated Cash Flow Statement (continued)

*(All amounts in thousands of US dollars)*

|  |      | Year ended December 31, |                |                |
|--|------|-------------------------|----------------|----------------|
|  |      | 2008                    | 2007           | 2006           |
| <b>Financing activities</b>  |      |                         |                |                |
| Purchase of treasury shares  |      | (27,110)                | (28,291)       | -              |
| Purchase of warrants   | 28 x | (5,590)                 | -              | -              |
| Proceeds from exercise of options  |      | -                       | 15,913         | -              |
| Proceeds from borrowings   |      | 4,541,071               | 974,965        | 1,479,486      |
| Repayment of borrowings  |      | (2,760,583)             | (533,981)      | (1,148,646)    |
| Interest paid  |      | (182,576)               | (105,563)      | (61,570)       |
| Payment of finance lease liabilities   |      | (227)                   | (491)          | (1,406)        |
| Distributions to owners for acquisition of entity under common control                           |      | -                       | -              | (45,512)       |
| Capital contribution by minority owner to a subsidiary   |      | -                       | 2,224          | -              |
| Payments to entities under common control for the transfer of ownership interest in subsidiaries |      | -                       | -              | (20,000)       |
| Dividends paid to equity holders of the parent company   |      | (223,568)               | (144,950)      | (18,051)       |
| Dividends paid to minority shareholders  |      | (4,533)                 | (1,421)        | (2,612)        |
| <b>Net cash flows from financing activities</b>  |      | <b>1,336,884</b>        | <b>178,405</b> | <b>181,689</b> |
| Net increase/(decrease) in cash and cash equivalents   |      | 52,116                  | (68,732)       | 88,635         |
| Net foreign exchange difference  |      | 2,232                   | 13,767         | 7,453          |
| Cash and cash equivalents at January 1   |      | 89,045                  | 144,010        | 47,922         |
| <b>Cash and cash equivalents at December 31</b>  |      | <b>143,393</b>          | <b>89,045</b>  | <b>144,010</b> |

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

# 

## 

### 

###

## Notes to the Consolidated Financial Statements (continued)

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

### Corporate Information (continued)

#### *Deficit in Working Capital (continued)*

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

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

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

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

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

### Basis of Preparation of the Financial Statements

#### *Statement of Compliance*

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

#### *Basis of Accounting*

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



## Notes to the Consolidated Financial Statements (continued)

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

### Basis of Preparation of the Financial Statements (continued)

#### *Basis of Accounting (continued)*

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

#### *Functional and Presentation Currency*

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

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

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

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

## Notes to the Consolidated Financial Statements (continued)

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

### Significant Estimates and Assumptions

#### *Impairment of Property, Plant and Equipment*

The Group assesses at each reporting date whether there is any indication that an asset or a group of assets 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 amount and ultimately the amount of any property, plant and equipment impairment. In 2006 and 2007, no impairment losses were recognised or reversed. In 2008, the Group recognised impairment losses of 59,846 in respect of property, plant and equipment of SC TMK-ARTROM SA, SC TMK-RESITA SA and OA O Orsky Machine Building Plant (Note 18).

#### *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 2006, 2007 and 2008.

#### *Fair Value of Assets and Liabilities Acquired in Business Combinations*

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

#### *Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives*

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2008, 2007 and 2006 was 568,424, 101,858 and 46,944, respectively. In 2006 and 2007 the Group did not recognize impairment loss in respect of goodwill. In 2008 the Group recognised impairment losses of 3,512 in respect of goodwill (Note 19).

## Notes to the Consolidated Financial Statements (continued)

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

### Significant Estimates and Assumptions (continued)

#### *Post-Employment Benefits*

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

#### *Allowances*

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts, such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at December 31, 2008, 2007 and 2006, allowances for doubtful accounts have been made in the amount of 13,132, 9,632 and 9,738, respectively (Notes 14, 16, 29).

The Group makes allowances for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods, work in process and raw materials of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period. As at December 31, 2008, 2007 and 2006, allowances for write-down at net realisable value were 28,587, 9,450 and 8,357, respectively (Note 17).

#### *Litigation*

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

## Notes to the Consolidated Financial Statements (continued)

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

### Significant Estimates and Assumptions (continued)

#### *Current Taxes*

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

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

#### *Deferred Tax Assets*

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

#### *Share-Based Payments*

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

### Significant Judgments

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

#### *Consolidation of a Special Purpose Entity*

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

## Notes to the Consolidated Financial Statements (continued)

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

### Changes in Accounting Policies

#### *Application of new and amended IFRS and IFRIC*

The Group has applied the following new and amended IFRS and IFRIC in the consolidated financial statements for the annual period beginning on January 1, 2008:

- IAS 39 “*Financial Instruments: Recognition and Measurement*” (amended);
- IFRS 7 “*Financial Instruments: Disclosures*” (amended);
- IFRIC 11 “*IFRS 2 – Group and Treasury Share Transactions*”;
- IFRIC 12 “*Service Concession Arrangements*”;
- IFRIC 14 “*The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*”;
- IFRIC 16 “*Hedges of a Net Investment in a Foreign Operation*” (early adoption).

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

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

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

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

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

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

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Group didn’t take part in any service concession arrangements therefore the interpretation had no impact on the financial position or performance of the Group.

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

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

## Notes to the Consolidated Financial Statements (continued)

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

### Changes in Accounting Policies (continued)

#### *Application of new and amended IFRS and IFRIC (continued)*

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

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

#### *New accounting pronouncements*

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

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

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

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

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

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

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



## 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)*

##### IAS 32 “Financial instruments: Presentation” (amended), issued in February 2008

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

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

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

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

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

##### IFRS 2 “Share-based Payments” (amended), issued in January 2008

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

##### IFRS 3 “Business Combinations” (revised), issued in January 2008

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

## 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)*

##### IFRS 7 “Financial Instruments: Disclosures” (amended), issued in March 2009

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

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

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

##### Improvements to IFRSs, issued in May 2008

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

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

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

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

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

## 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)*

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

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

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

The interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfer of cash from customers. The interpretation shall be applied for annual periods beginning on or after July 1, 2009. The Group doesn't imply early adoption of the interpretation.

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

**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**

|    |  |    |
|----|--|----|
| A) | Principles of Consolidation .....                              | 21 |
| B) | Cash and Cash Equivalents .....                                | 22 |
| C) | Investments and Other Financial Assets .....                   | 23 |
| D) | Trade Receivables .....  | 24 |
| E) | Borrowings .....   | 24 |
| F) | Inventories .....  | 25 |
| G) | Property, Plant and Equipment .....                            | 25 |
| H) | Leases .....   | 26 |
| I) | Goodwill .....   | 26 |
| J) | Other Intangible Assets .....                                  | 27 |
| K) | Impairment of Non-Financial Assets (Other than Goodwill) ..... | 28 |
| L) | Provisions .....   | 29 |
| M) | Employee Benefits .....  | 29 |
| N) | Value Added Tax .....  | 30 |
| O) | Deferred Income Tax .....                                      | 30 |
| P) | Equity .....   | 30 |
| Q) | Revenue Recognition .....                                      | 31 |

## 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

##### *Subsidiaries*

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

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

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

##### *Acquisition of Subsidiaries*

The Group uses the purchase method to account for the acquisition of subsidiaries, except when the acquired entity is under common control with the Group.

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

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

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

## 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)

##### *Minority Interest*

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

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

##### *Increases in Ownership Interests in Subsidiaries*

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

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

##### *Acquisition of Subsidiaries from Entities under Common Control*

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

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

#### B) Cash and Cash Equivalents

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

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



## 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

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

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

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

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

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

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

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

## 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)

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

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

#### *Hedges of Net Investment in Foreign Operations*

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

#### D) Trade Receivables

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

#### E) Borrowings

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

## Notes to the Consolidated Financial Statements (continued)

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

### Significant Accounting Policies (continued)

#### E) Borrowings (continued)

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

#### F) Inventories

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

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

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

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

#### G) Property, Plant and Equipment

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

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

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

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

## 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)

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

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

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

The Group has made certain reclassifications in the consolidated balance sheet as of December 31, 2007 and 2006 to conform with current year presentation.

#### H) Leases

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

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

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

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

#### I) Goodwill

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

## Notes to the Consolidated Financial Statements (continued)

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

### Significant Accounting Policies (continued)

#### I) Goodwill (continued)

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

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

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

#### J) Other Intangible Assets

Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates

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

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

The amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

## Notes to the Consolidated Financial Statements (continued)

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

### Significant Accounting Policies (continued)

#### J) Other Intangible Assets (continued)

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash generating unit level.

##### *Research and Development*

Costs incurred on development (relating to the design and testing of new or improved products) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

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

An assessment is made at each balance sheet date to determine whether there is objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the recoverable amount assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of the net selling price and value in use.

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

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

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

An impairment loss is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Intangible assets not yet available for use are tested for impairment annually.



## Notes to the Consolidated Financial Statements (continued)

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

### Significant Accounting Policies (continued)

#### L) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to 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 the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### M) Employee Benefits

##### *Social and Pension Contributions*

In the normal course of business, the Group contributes to state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. These contributions are made in compliance with statutory requirements of those countries where the Group's subsidiaries are located. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

##### *Post-Employment Benefits*

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements.

The liability recognised in the balance sheet in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits would 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. The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested.

## Notes to the Consolidated Financial Statements (continued)

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

### Significant Accounting Policies (continued)

#### N) Value Added Tax

The Russian tax legislation partially permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

#### O) Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

#### P) Equity

##### *Share Capital*

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

##### *Treasury Shares*

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of treasury shares.

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

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

**Significant Accounting Policies (continued)**

**P) Equity (continued)**

*Dividends*

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed in the financial statements when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

**Q) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenues from sales of inventory are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenues arise from rendering of services recognised in the same period when the services are provided.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services provided.

**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**

|     |  |    |
|-----|--|----|
| 1)  | Segment Information.....   | 33 |
| 2)  | Cost of Sales.....   | 35 |
| 3)  | Selling and Distribution Expenses.....                           | 35 |
| 4)  | Advertising and Promotion Expenses.....                          | 35 |
| 5)  | General and Administrative Expenses.....                         | 36 |
| 6)  | Research and Development Expenses.....                           | 36 |
| 7)  | Other Operating Expenses.....                                    | 36 |
| 8)  | Share of Profit in Associate and Other Operating Income.....     | 36 |
| 9)  | Finance Costs and Finance Income.....                            | 37 |
| 10) | Acquisition of Subsidiaries.....                                 | 37 |
| 11) | Income Tax.....  | 45 |
| 12) | Earnings per Share.....  | 47 |
| 13) | Cash and Cash Equivalents.....                                   | 48 |
| 14) | Trade and Other Receivable.....                                  | 48 |
| 15) | Prepayments and Input VAT.....                                   | 49 |
| 16) | Available-for-Sale Investments and Other Non-Current Assets..... | 49 |
| 17) | Inventories.....   | 50 |
| 18) | Property, Plant and Equipment.....                               | 50 |
| 19) | Goodwill and Other Intangible Assets.....                        | 52 |
| 20) | Trade and Other Payables.....                                    | 55 |
| 21) | Accrued Liabilities.....   | 55 |
| 22) | Provisions.....  | 56 |
| 23) | Interest-Bearing Loans and Borrowings.....                       | 56 |
| 24) | Employee Benefit Liability.....                                  | 60 |
| 25) | Principal Subsidiaries.....                                      | 62 |
| 26) | Related Parties Disclosures.....                                 | 63 |
| 27) | Contingencies and Commitments.....                               | 65 |
| 28) | Equity.....  | 67 |
| 29) | Financial Risk Management Objectives and Policies.....           | 74 |
| 30) | Events after the Balance Sheet Date.....                         | 81 |

## Notes to the Consolidated Financial Statements (continued)

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

### 1) Segment Information

The consolidated financial statements of the Group are reported in two segment reporting formats: business and geographical.

There are no sales or other transactions between the business segments.

The Group's primary segment reporting format is the dominant source for disclosure of its operating activities in its financial statements. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Group discloses its sales revenue, gross profit, assets, liabilities and depreciation costs based on the main groups of products segregated into segments: seamless pipes, welded pipes, other operations, unallocated. Unallocated segment assets and liabilities include those assets and liabilities which can not be analysed by segments, such as cash, financial investments, goodwill, borrowings and deferred tax assets and liabilities. They also include assets of maintenance workshops servicing production processes of both seamless and welded pipes.

#### Primary reporting format – business segments

| Year ended December 31, 2008  | Welded pipes | Seamless pipes | Other operations | Unallocated | TOTAL     |
|---|--------------|----------------|------------------|-------------|-----------|
| Revenue   | 1,876,136    | 3,546,044      | 267,822          | -           | 5,690,002 |
| Segment result  | 328,081      | 1,088,691      | 20,778           | -           | 1,437,550 |
| Segment assets  | 1,511,974    | 3,412,551      | 250,978          | 1,895,604   | 7,071,107 |
| Segment liabilities   | 277,578      | 475,923        | 29,973           | 4,377,211   | 5,160,685 |
| Additions to property, plant and equipment  | 182,040      | 675,385        | 11,100           | 113,358     | 981,883   |
| Property, plant and equipment acquired in business combinations                   | 191,744      | 216,221        | 36,710           | 54          | 444,729   |
| Depreciation and amortisation   | 25,393       | 132,316        | 8,910            | 81,154      | 247,773   |
| Impairment of property, plant, equipment recognised in income statement (note 18) | -            | 57,859         | 1,987            | -           | 59,846    |
| Impairment of goodwill recognised in income statement (note 19):                  | -            | -              | 3,512            | -           | 3,512     |
| Year ended December 31, 2007  | Welded pipes | Seamless pipes | Other operations | Unallocated | TOTAL     |
| Revenue   | 1,118,540    | 2,849,399      | 210,705          | -           | 4,178,644 |
| Segment result  | 187,982      | 1,093,984      | 6,062            | -           | 1,288,028 |
| Segment assets  | 647,986      | 2,705,803      | 193,739          | 1,128,754   | 4,676,282 |
| Segment liabilities   | 41,080       | 302,718        | 15,804           | 2,210,071   | 2,569,673 |
| Additions to property, plant and equipment  | 35,008       | 513,147        | 2,287            | 83,191      | 633,633   |
| Property, plant and equipment acquired in business combinations                   | -            | -              | 41,021           | 20,302      | 61,323    |
| Depreciation and amortisation   | 9,764        | 106,228        | 3,320            | 20,947      | 140,259   |
| Year ended December 31, 2006  | Welded pipes | Seamless pipes | Other operations | Unallocated | TOTAL     |
| Revenue   | 948,955      | 2,213,385      | 239,973          | -           | 3,402,313 |
| Segment result  | 143,567      | 885,801        | 19,332           | -           | 1,048,700 |
| Segment assets  | 435,072      | 1,903,573      | 35,424           | 1,176,624   | 3,550,693 |
| Segment liabilities   | 48,437       | 204,131        | 18,422           | 1,526,494   | 1,797,484 |
| Additions to property, plant and equipment  | 5,942        | 271,477        | 1,936            | 95,209      | 374,564   |
| Property, plant and equipment acquired in business combinations                   | -            | -              | -                | 15          | 15        |
| Depreciation and amortisation   | 10,066       | 86,436         | 3,986            | 16,386      | 116,874   |

## Notes to the Consolidated Financial Statements (continued)

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

### 1) Segment Information (continued)

#### Secondary reporting format – geographical segments

A geographical segment is the Group's secondary segment reporting format for disclosure of its operating activities in its financial statements. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those components operating in other economic environments. The Group discloses its sales revenue, based on the location of the Group's customers. Segment assets and additions to property, plant and equipment are disclosed based on the location of the Group's assets.

| Year ended December 31, 2008                                       | Russia    | Europe  | Cent.Asia<br>& Caspian<br>Region       | Middle<br>East &<br>Gulf<br>Region | Africa | Americas  | Asia & Far<br>East | TOTAL     |
|--|-----------|---------|--|------------------------------------|--------|-----------|--------------------|-----------|
| Revenue  | 3,387,720 | 506,904 | 183,801                                | 181,384                            | 18,519 | 1,340,249 | 71,425             | 5,690,002 |
| Segment assets   | 4,709,914 | 441,809 | 31,863                                 | 425                                | -      | 1,887,096 | -                  | 7,071,107 |
| Additions to property, plant and<br>equipment                      | 915,419   | 24,653  | 283                                    | 24                                 | -      | 41,504    | -                  | 981,883   |
| Property, plant and equipment<br>acquired in business combinations | -         | -       | -                                      | -                                  | -      | 424,458   | 20,271             | 444,729   |
| Year ended December 31, 2007                                       | Russia    | Europe  | Cent.Asia<br>& Caspian<br>Region       | Middle<br>East &<br>Gulf<br>Region | Africa | Americas  | Asia & Far<br>East | TOTAL     |
| Revenue  | 2,993,743 | 451,212 | 142,295                                | 296,876                            | 17,034 | 87,631    | 189,853            | 4,178,644 |
| Segment assets   | 4,070,761 | 579,137 | 3,914                                  | 442                                | -      | 22,028    | -                  | 4,676,282 |
| Additions to property, plant and<br>equipment                      | 569,744   | 63,758  | 45                                     | 42                                 | -      | 44        | -                  | 633,633   |
| Property, plant and equipment<br>acquired in business combinations | 61,323    | -       | -                                      | -                                  | -      | -         | -                  | 61,323    |
| Year ended December 31, 2006                                       | Russia    | Europe  | Central<br>Asia &<br>Caspian<br>Region | Middle<br>East &<br>Gulf<br>Region | Africa | Americas  | Asia & Far<br>East | TOTAL     |
| Revenue  | 2,323,870 | 587,501 | 178,714                                | 183,167                            | 12,853 | 102,421   | 13,787             | 3,402,313 |
| Segment assets   | 3,060,692 | 465,566 | 4,494                                  | 454                                | -      | 19,487    | -                  | 3,550,693 |
| Additions to property, plant and<br>equipment                      | 336,049   | 38,194  | 37                                     | 73                                 | -      | 211       | -                  | 374,564   |
| Property, plant and equipment<br>acquired in business combinations | -         | 15      | -                                      | -                                  | -      | -         | -                  | 15        |



# 

## 

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

### 

|  | Year ended December 31, |                  |                  |
|--|-------------------------|------------------|------------------|
|  | 2008                    | 2007             | 2006             |
| Raw materials and consumables                            | 2,946,681               | 2,138,356        | 1,762,028        |
| Contracted manufacture                                   | 176,495                 | 6,892            | 11,701           |
| Energy and utilities                                     | 284,429                 | 235,383          | 179,019          |
| Depreciation and amortisation                            | 178,192                 | 129,933          | 107,594          |
| Repairs and maintenance                                  | 93,199                  | 53,322           | 24,991           |
| Freight  | 22,852                  | 8,082            | 5,822            |
| Rent   | 2,775                   | 733              | 310              |
| Insurance  | 1,104                   | 410              | 290              |
| Staff costs including social security                    | 511,234                 | 362,251          | 291,149          |
| Professional fees and services                           | 21,549                  | 14,662           | 7,639            |
| Travel   | 1,723                   | 1,859            | 1,385            |
| Communications   | 1,938                   | 604              | 695              |
| Taxes  | 26,607                  | 18,905           | 14,678           |
| Other  | 3,947                   | 316              | 684              |
| Less capitalised costs                                   | (13,360)                | (37,638)         | (14,652)         |
| <b>TOTAL PRODUCTION COST</b>                             | <b>4,259,365</b>        | <b>2,934,070</b> | <b>2,393,333</b> |
| <b>CHANGE IN OWN FINISHED GOODS AND WORK IN PROGRESS</b> | <b>(73,354)</b>         | <b>(75,533)</b>  | <b>(62,066)</b>  |
| <b>COST OF EXTERNALLY PURCHASED GOODS</b>                | <b>33,768</b>           | <b>31,976</b>    | <b>20,669</b>    |
| <b>OBSOLETE STOCK AND WRITE-OFFS</b>                     | <b>32,673</b>           | <b>103</b>       | <b>1,677</b>     |
| <b>COST OF SALES</b>                                     | <b>4,252,452</b>        | <b>2,890,616</b> | <b>2,353,613</b> |

### 

|  | Year ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2008                    | 2007           | 2006           |
| Freight  | 164,338                 | 138,154        | 104,604        |
| Rent   | 7,169                   | 5,639          | 4,614          |
| Insurance                                      | 1,372                   | 866            | 682            |
| Depreciation and amortisation                  | 1,668                   | 1,499          | 1,504          |
| Staff costs including social security          | 60,043                  | 44,247         | 33,490         |
| Professional fees and services                 | 20,031                  | 19,129         | 13,486         |
| Travel   | 4,855                   | 3,590          | 3,371          |
| Communications                                 | 1,645                   | 1,635          | 1,439          |
| Utilities and maintenance                      | 2,776                   | 945            | 505            |
| Taxes  | 2,557                   | 3,176          | 196            |
| Consumables                                    | 19,916                  | 18,162         | 12,970         |
| Bad debt expense / (reversal of expense)       | 7,212                   | (1,125)        | 1,573          |
| Other  | 1,628                   | 2,259          | 1,927          |
| <b>TOTAL SELLING AND DISTRIBUTION EXPENSES</b> | <b>295,210</b>          | <b>238,176</b> | <b>180,361</b> |

### 

|   | Year ended December 31, |              |              |
|---|-------------------------|--------------|--------------|
|   | 2008                    | 2007         | 2006         |
| Media   | 1,134                   | 2,272        | 1,183        |
| Exhibits and catalogues                         | 3,116                   | 2,259        | 3,094        |
| Outdoor advertising                             | 4,995                   | -            | -            |
| Other   | 877                     | 755          | 866          |
| <b>TOTAL ADVERTISING AND PROMOTION EXPENSES</b> | <b>10,122</b>           | <b>5,286</b> | <b>5,143</b> |

# 

## 

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

### 

|  | Year ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2008                    | 2007           | 2006           |
| Staff costs including social security            | 138,868                 | 131,705        | 95,807         |
| Professional fees and services                   | 54,071                  | 35,240         | 32,360         |
| Depreciation and amortisation                    | 66,790                  | 8,407          | 7,290          |
| Travel   | 11,833                  | 10,715         | 8,818          |
| Transportation                                   | 6,839                   | 4,186          | 1,104          |
| Rent   | 6,908                   | 5,019          | 3,029          |
| Communications                                   | 1,805                   | 1,206          | 1,094          |
| Insurance  | 1,228                   | 758            | 360            |
| Utilities and maintenance                        | 10,271                  | 8,124          | 6,308          |
| Taxes  | 5,382                   | 3,403          | 2,979          |
| Consumables                                      | 8,262                   | 8,066          | 6,213          |
| Other  | 4,491                   | 1,446          | 1,258          |
| <b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b> | <b>316,748</b>          | <b>218,275</b> | <b>166,620</b> |

### 

|  | Year ended December 31, |               |              |
|--|-------------------------|---------------|--------------|
|  | 2008                    | 2007          | 2006         |
| Staff costs including social security          | 9,192                   | 6,707         | 4,474        |
| Professional fees and services                 | 3,421                   | 1,769         | 1,021        |
| Depreciation and amortisation                  | 725                     | 431           | 296          |
| Travel   | 255                     | 150           | 100          |
| Transportation                                 | 171                     | 187           | 108          |
| Communications                                 | 63                      | 39            | 36           |
| Utilities and maintenance                      | 536                     | 402           | 264          |
| Consumables                                    | 546                     | 415           | 420          |
| Other  | 255                     | 39            | 6            |
| <b>TOTAL RESEARCH AND DEVELOPMENT EXPENSES</b> | <b>15,164</b>           | <b>10,139</b> | <b>6,725</b> |

### 

|   | Year ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2008                    | 2007          | 2006          |
| Loss on disposal of property, plant and equipment     | 1,555                   | 7,417         | 5,240         |
| Social and social infrastructure maintenance expenses | 20,991                  | 17,742        | 10,972        |
| Charitable donations                                  | 13,325                  | 19,176        | 11,754        |
| Other   | 16,172                  | 11,890        | 1,110         |
| <b>TOTAL OTHER OPERATING EXPENSES</b>                 | <b>52,043</b>           | <b>56,225</b> | <b>29,076</b> |

Other operating expenses include expenses and additional provisions related to tax issues, tax fines and other fines in the amount of 7,983, 6,824 and 1,100 for the years ended December 31, 2008, 2007 and 2006, respectively.

### 

#### *Share of Profit in Associate*

Share of profit in associate represents profit from the investment to North-Europe Pipe Project (3,006, 971 and 1,249 for the years ended December 31, 2008, 2007 and 2006, respectively) and consists of 20% share of profit of the associate.

## 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 Other Operating Income (continued)

#### Other Operating Income

|   | Year ended December 31, |              |              |
|---|-------------------------|--------------|--------------|
|   | 2008                    | 2007         | 2006         |
| Gain from reversal of litigation provision    | 910                     | 2,093        | -            |
| Income from current liabilities derecognition | 168                     | 1,303        | -            |
| Gain from penalties and fines                 | 1,742                   | 734          | 1,138        |
| Other   | 4,300                   | 838          | 3,495        |
| <b>TOTAL OTHER OPERATING INCOME</b>           | <b>7,120</b>            | <b>4,968</b> | <b>4,633</b> |

### 9) Finance Costs and Finance Income

|   | Year ended December 31, |                |               |
|---|-------------------------|----------------|---------------|
|   | 2008                    | 2007           | 2006          |
| <b>Finance Costs</b>  |                         |                |               |
| Amortisation of ancillary costs incurred in connection with the arrangement of borrowings                           | 29,500                  | 6,271          | 8,038         |
| Interest expense  | 242,675                 | 92,698         | 65,581        |
| Change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical plant | -                       | 3,428          | -             |
| <b>TOTAL FINANCE COSTS</b>  | <b>272,175</b>          | <b>102,397</b> | <b>73,619</b> |

|   | Year ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2008                    | 2007          | 2006          |
| <b>Finance Income</b>   |                         |               |               |
| Interest income - bank accounts and deposits  | 2,739                   | 12,485        | 9,669         |
| Change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical plant | 5,981                   | -             | 6,150         |
| Other finance income  | -                       | 123           | -             |
| <b>TOTAL FINANCE INCOME</b>   | <b>8,720</b>            | <b>12,608</b> | <b>15,819</b> |

Loss / gain on financial assets and liabilities represents change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical Plant. Starting from August 1, 2008 liability for put-call option expired and the Group recognised minority interest (Note 28 vii).

### 10) Acquisition of Subsidiaries

#### "Eurosinara S.r.l"

As at December 31, 2005, the Group had 50% interest in Eurosinara S.r.l, an entity registered in Italy, which is the Group's distributor of pipe products in Southern Europe. On May 16, 2006, the Group purchased the remaining 50% interest in Eurosinara S.r.l for cash consideration of 1,000 thousand Euro (1,290 at the exchange rate as at the date of transfer), increasing its interest to 100%.

Notes to the Consolidated Financial Statements (continued)

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

10) Acquisition of Subsidiaries (continued)

“Eurosinara S.r.l” (continued)

The table below sets forth the fair values of Eurosinara’s identifiable assets, liabilities and contingent liabilities at the date of acquisition:

|  | May 16, 2006   |
|--|----------------|
| Property, plant and equipment  | 15             |
| Deferred income tax assets   | 2,785          |
| Other non-current assets   | 2              |
| Inventories  | 4,087          |
| Accounts and notes receivable, net   | 14,642         |
| Cash   | 621            |
| Other current assets   | 87             |
| <b>Total assets</b>  | <b>22,239</b>  |
| Non-current liabilities  | 701            |
| Deferred income tax liabilities  | -              |
| Current liabilities  | 31,290         |
| <b>Total liabilities</b>   | <b>31,991</b>  |
| <b>NET LIABILITIES</b>   | <b>(9,752)</b> |
| Fair value of net liabilities attributable to 50% ownership interest additionally acquired on May 16, 2006 | (4,876)        |
| Goodwill arising on acquisition  | 6,166          |
| <b>TOTAL CONSIDERATION</b>   | <b>1,290</b>   |

Eurosinara S.r.l.’s net profit for the period from May 16, 2006 to December 31, 2006 amounted to 1,051.

If the combination had taken place on January 1, 2006, the net revenue and net profit of the Group for the year ended December 31, 2006 would have been 3,393,799 and 461,806, respectively.

Net liabilities of Eurosinara S.r.l. as at May 16, 2006 of 4,876 relating to the 50% interest owned by the Group before the business combination were recorded as a reduction in accumulated profits in the consolidated financial statements for the year ended December 31, 2006.

In 2006, cash flow on acquisition was as follows:

|                                       |         |
|---------------------------------------|---------|
| Net cash acquired with the subsidiary | 29      |
| Cash paid                             | (3,067) |
| Net cash outflow                      | (3,038) |

Notes to the Consolidated Financial Statements (continued)

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

10) Acquisition of Subsidiaries (continued)

*“Russian Research Institute of the Tube and Pipe Industries”*

On March 5, 2007, the Group purchased 76.34% ownership interest of Joint-Stock Company “Russian Research Institute of the Tube and Pipe Industries” (“RosNITI”) for cash consideration of 3,067. RosNITI is a scientific research institution engaged in the scientific and technological development of the Russian pipe industry.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of RosNITI at the date of acquisition:

|   | 5 March 2007 |
|---|--------------|
| Property, plant and equipment   | 8,417        |
| Inventories   | 10           |
| Accounts and notes receivable, net  | 137          |
| Cash  | 29           |
| <b>Total assets</b>   | <b>8,593</b> |
| Non-current liabilities   | 78           |
| Deferred income tax liabilities   | 1,727        |
| Current liabilities   | 224          |
| <b>Total liabilities</b>  | <b>2,029</b> |
| <b>NET ASSETS</b>   | <b>6,564</b> |
| Fair value of net assets attributable to 76.34% ownership interest  | 5,010        |
| <b>TOTAL CONSIDERATION</b>  | <b>3,067</b> |
| Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognized in the income statement | <b>1,943</b> |

RosNITI's net profit for the period from March 5, 2007 to December 31, 2007 amounted to 313.

In 2007, cash flow on acquisition was as follows:

|                                       |         |
|---------------------------------------|---------|
| Net cash acquired with the subsidiary | 29      |
| Cash paid                             | (3,067) |
| Net cash outflow                      | (3,038) |

In June-December 2007, the Company purchased additional 21.02% of ОАО “RosNITI” shares and the Group ownership in RosNITI achieved 97.36% as at December 31, 2007 (Note 28 v).

Notes to the Consolidated Financial Statements (continued)

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

10) Acquisition of Subsidiaries (continued)

ООО “Предприятие “Трубопласт”

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in ООО “Предприятие “Трубопласт” (“Трубопласт”) from an entity under common control with the Group for cash consideration of 23,986. The entity under common control with the Group acquired the controlling interest in Truboplast on July 19, 2007. As the pooling of interests method has been applied to this transfer under common control, the cost of this business combination was 17,374 which is the amount paid by the entity under common control with the Group to acquire the controlling ownership interest in Truboplast on July 19, 2007. The amount of 6,834, being the excess of the amount paid by the Group to acquire 100% interest in Truboplast from the entity under common control with the Group over the cost of the business combination, has been treated as a distribution to owners (Note 28 iv).

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of Truboplast at the date of acquisition:

|   | 19 July 2007  |
|---|---------------|
| Property, plant and equipment   | 11,610        |
| Inventories   | 2,214         |
| Accounts and notes receivable, net  | 2,548         |
| Cash  | 36            |
| <b>Total assets</b>   | <b>16,408</b> |
| Non-current liabilities   | -             |
| Deferred income tax liabilities   | 1,781         |
| Current liabilities   | 3,839         |
| <b>Total liabilities</b>  | <b>5,620</b>  |
| <b>NET ASSETS</b>   | <b>10,788</b> |
| Fair value of net assets attributable to 100% ownership interest            | 10,788        |
| <b>CONSIDERATION PAID BY THE ENTITY UNDER COMMON CONTROL WITH THE GROUP</b> | <b>17,374</b> |
| Goodwill arising on acquisition   | <b>6,586</b>  |

Net profit of Truboplast from July 19, 2007 to December 31, 2007 amounted to 777.

Goodwill arising from the acquisition of Truboplast relates to synergy from integration of the acquired subsidiary into the Group, as a new division “Neftegazservice” was formed.

In 2007 and 2008, the cash flow on acquisition was as follows:

|                                       | 2008     | 2007     |
|---------------------------------------|----------|----------|
| Net cash acquired with the subsidiary | -        | 36       |
| Cash paid                             | (10,446) | (14,021) |
| Net cash outflow                      | (10,446) | (13,985) |

In 2008, the Group paid 10,446 to the entity under common control with the Group for the purchase of 100% ownership interest in Truboplast. As at December 31, 2008, the Group had no liability in respect of this purchase.



Notes to the Consolidated Financial Statements (continued)

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

10) Acquisition of Subsidiaries (continued)

ZAO "Pipe Repair Department"

On December 20, 2007, the Group purchased 100% ownership interest in ZAO "Pipe Repair Department" for cash consideration of 73,327.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of ZAO "Pipe Repair Department" at the date of acquisition:

|  | 20 December 2007 |
|--|------------------|
| Property, plant and equipment                                    | 32,277           |
| Other non-current assets   | 94               |
| Inventories  | 1,216            |
| Accounts and notes receivable, net                               | 2,560            |
| Prepayments  | 422              |
| Cash   | 20               |
| <b>Total assets</b>  | <b>36,589</b>    |
| Non-current liabilities  | 827              |
| Deferred income tax liabilities                                  | 2,895            |
| Current liabilities  | 3,888            |
| <b>Total liabilities</b>   | <b>7,610</b>     |
| <b>NET ASSETS</b>  | <b>28,979</b>    |
| Fair value of net assets attributable to 100% ownership interest | 28,979           |
| <b>TOTAL CONSIDERATION</b>                                       | <b>73,327</b>    |
| Goodwill arising on acquisition                                  | <b>44,348</b>    |

Goodwill arising from the acquisition of Pipe Repair Department relates to synergy from integration of the acquired subsidiary into the Group, as a new division "Neftegazservice" was formed.

Pipe Repair Department's net profit/loss from December 20, 2007 to December 31, 2007 was not material.

In 2008 and 2007, the cash flow on acquisition was as follows:

|                                       | 2008     | 2007     |
|---------------------------------------|----------|----------|
| Net cash acquired with the subsidiary | -        | 20       |
| Cash paid                             | (16,620) | (55,197) |
| Net cash outflow                      | (16,620) | (55,177) |

As at December 31, 2008, the Group had a liability of 1,510 in respect of this purchase.

Notes to the Consolidated Financial Statements (continued)

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

10) Acquisition of Subsidiaries (continued)

OOO "Central Pipe Yard"

On December 27, 2007, the Group purchased 100% ownership interest in OOO "Central Pipe Yard" for cash consideration of 8,693.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of OOO "Central Pipe Yard" at the date of acquisition:

|   | 27 December 2007 |
|---|------------------|
| Property, plant and equipment   | 9,019            |
| Inventories   | 183              |
| Accounts and notes receivable, net  | 851              |
| Cash  | 45               |
| <b>Total assets</b>   | <b>10,098</b>    |
| Non-current liabilities   | -                |
| Deferred income tax liabilities   | 119              |
| Current liabilities   | 998              |
| <b>Total liabilities</b>  | <b>1,117</b>     |
| <b>NET ASSETS</b>   | <b>8,981</b>     |
| Fair value of net assets attributable to 100% ownership interest  | 8,981            |
| <b>TOTAL CONSIDERATION</b>  | <b>8,693</b>     |
| Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognized in the income statement | <b>288</b>       |

Central Pipe Yard's net loss from December 27, 2007 to December 31, 2007 was not material.

In 2008 and 2007, the cash flow on acquisition was as follows:

|                                       | 2008    | 2007  |
|---------------------------------------|---------|-------|
| Net cash acquired with the subsidiary | -       | 45    |
| Cash paid                             | (8,438) | (255) |
| Net cash outflow                      | (8,438) | (210) |

As at December 31, 2008, the Group had no liability in respect of this purchase.

TOO Kaztrubprom

On June 9, 2008, the Group purchased the 100% ownership interest in Kazakhstan-based TOO Kaztrubprom ("Kaztrubprom") for a cash consideration of 8,437. Kaztrubprom specializes in the threading and finishing of tubing and casing pipes.

Notes to the Consolidated Financial Statements (continued)

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

10) Acquisition of Subsidiaries (continued)

TOO Kaztrubprom (continued)

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of Kaztrubprom at the date of acquisition:

|   | 9 June 2008    |
|---|----------------|
| Property, plant and equipment   | 20,271         |
| Other non-current assets  | 123            |
| Inventories   | 724            |
| Accounts and notes receivable, net                                    | -              |
| Prepayments   | 1,197          |
| Cash  | 9              |
| <b>Total assets</b>   | <b>22,324</b>  |
| Non-current liabilities   | 28,197         |
| Deferred income tax liabilities                                       | 707            |
| Current liabilities   | 241            |
| <b>Total liabilities</b>  | <b>29,145</b>  |
| <b>NET LIABILITIES</b>  | <b>(6,821)</b> |
| Fair value of net liabilities attributable to 100% ownership interest | (6,821)        |
| <b>TOTAL CONSIDERATION</b>  | <b>8,437</b>   |
| Goodwill arising on acquisition                                       | <b>15,258</b>  |

Goodwill arising from the acquisition of Kaztrubprom relates to synergy from integration of the acquired subsidiary into the Group.

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

|                                       |         |
|---------------------------------------|---------|
| Net cash acquired with the subsidiary | 9       |
| Cash paid                             | (8,437) |
| Net cash outflow                      | (8,428) |

In 2008, the Group paid 8,437 for the purchase of TOO Kaztrubprom". As at December 31, 2008, the Group had no liability in respect of this purchase.

Kaztrubprom's net loss from June 9, 2008 to December 31, 2008 was 6,298.

NS Group Inc. and IPSCO Tubular Inc.

On March 14, 2008, the Group signed a back-to-back purchase agreement with Evraz Group S.A. ("Evraz") to acquire all of the outstanding shares in IPSCO Tubulars Inc. and 51% of outstanding shares in NS Group Inc., both registered and located in the United States, from Svenskt Stal AB ("SSAB"), a Swedish steel company.

## Notes to the Consolidated Financial Statements (continued)

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

### 10) Acquisition of Subsidiaries (continued)

#### *NS Group Inc. and IPSCO Tubular Inc. (continued)*

As a part of the transaction, on June 11, 2008, the Group entered into a call/put option agreement with Evraz, under which the Group has the right to purchase from Evraz and Evraz has the right to sell to the Group 49% of the outstanding shares in NS Group, Inc. for US\$510,625. Thus, in substance the Group acquired 100% ownership interest in NS Group Inc., because the Group gained an access to the economic benefits associated with that interest. The Group's call option became exercisable on June 12, 2008. The put option could be exercised by Evraz on or after October 22, 2009. The liability under the call/put option bore interest of 10% per annum.

IPSCO Tubulars Inc. and NS Group Inc. consist of ten production sites including steel-making and pipe-rolling mills, heat-treatment, threading and joints operations.

On June 12, 2008 the Group acquired control over NS Group Inc. and IPSCO Tubulars Inc. As a result, cost of the acquisition of all of the shares in IPSCO Tubulars Inc. and NS Group Inc. for the Group amounted to 1,645,012, including cash consideration of 1,114,177 (net of adjustment for closing working capital of 133,704), a liability in respect of the put option of 510,625, transactions costs of 20,210.

The financial position and results of operations of IPSCO Tubulars Inc. and NS Group Inc. were included in the Group's consolidated financial statements beginning June 12, 2008. As of the date of issuance of these consolidated financial statements, the Group has finalised the working capital adjustment of the acquired entities and completed its purchase price allocation in accordance with IFRS 3 Business Combinations.

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

|  | Initial estimation of<br>fair values | Final estimation of<br>fair values |
|--|--------------------------------------|------------------------------------|
| Property, plant and equipment                                    | 425,998                              | 424,458                            |
| Intangible assets  | 697,600                              | 705,165                            |
| Deferred Tax asset   | 1,557                                | 38,779                             |
| Inventories  | 377,341                              | 376,801                            |
| Accounts and notes receivable, net                               | 138,259                              | 139,705                            |
| Prepayments  | 892                                  | 892                                |
| <b>Total assets</b>  | <b>1,641,647</b>                     | <b>1,685,800</b>                   |
| Non-current liabilities  | 8,328                                | 19,922                             |
| Deferred income tax liabilities                                  | 224,919                              | 219,736                            |
| Current liabilities  | 276,846                              | 266,915                            |
| Overdraft  | 7,113                                | 7,183                              |
| <b>Total liabilities</b>   | <b>517,206</b>                       | <b>513,756</b>                     |
| <b>NET ASSETS</b>  | <b>1,124,441</b>                     | <b>1,172,044</b>                   |
| Fair value of net assets attributable to 100% ownership interest | 1,124,441                            | 1,172,044                          |
| <b>TOTAL CONSIDERATION</b>                                       | <b>1,643,939</b>                     | <b>1,645,012</b>                   |
| Goodwill arising on acquisition                                  | <b>519,498</b>                       | <b>472,968</b>                     |

## Notes to the Consolidated Financial Statements (continued)

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

### 10) Acquisition of Subsidiaries (continued)

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

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

|   |                    |
|---|--------------------|
| Overdrafts of the acquired subsidiaries | (7,183)            |
| Cash paid                               | (1,133,725)        |
| <b>NET CASH OUTFLOW</b>                 | <b>(1,140,908)</b> |

As at December 31, 2008, the Group had a liability of 510,625 in respect of the call/put option agreement and 662 in respect of transaction costs.

The net profit of IPSCO Tubular Inc. and NS Group Inc. for the period from June 12, 2008 to December 31, 2008 amounted to 166,601.

#### Disclosure of Other Information in Respect of Business Combinations

As the acquired subsidiaries did not prepare financial statements in accordance with IFRS before the business combinations, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

It is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

### 11) Income Tax

|   | Year ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2008                    | 2007           | 2006           |
| Current income tax  | 209,879                 | 200,485        | 177,930        |
| Current income tax benefit on hedges of net investment in foreign operations recognised directly in equity (Note 28 xi) | 53,577                  | -              | -              |
| Adjustments in respect of income tax of previous years  | 1,001                   | -              | -              |
| Deferred income tax benefit related to origination and reversal of temporary differences                                | (154,845)               | (8,043)        | (18,298)       |
| <b>TOTAL INCOME TAX EXPENSE</b>   | <b>109,612</b>          | <b>192,442</b> | <b>159,632</b> |

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

|  | 2008           | 2007           | 2006           |
|--|----------------|----------------|----------------|
| Income before taxation   | 308,084        | 698,751        | 621,880        |
| Theoretical tax charge at statutory rate in Russia of 24%  | 73,940         | 167,700        | 149,251        |
| Adjustment in respect of income tax of previous years  | 1,001          | -              | -              |
| Effect of items which are not deductible or assessable for taxation purposes   | 30,487         | 27,249         | 14,537         |
| Effect of different tax rates in countries other than Russia   | 35,627         | (2,182)        | (1,680)        |
| Effect of changes in tax legislation in Russia and Kazakhstan (in 2008) and Romania (in 2006)  | (31,853)       | -              | (2,312)        |
| Effect of currency translation   | 410            | 207            | (533)          |
| Effect of excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over the cost of acquisition (Note 10) | -              | (532)          | -              |
| Deferred income tax provided for undistributed earnings of the Group's subsidiaries  | -              | -              | 369            |
| <b>TOTAL INCOME TAX EXPENSE</b>  | <b>109,612</b> | <b>192,442</b> | <b>159,632</b> |

## Notes to the Consolidated Financial Statements (continued)

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

### 11) Income Tax (continued)

In November 2008, a reduction of income tax rate from 24% to 20% was announced by the Russian government. The new rate is effective from January 1, 2009. At December 31, 2008 respective deferred tax assets and liabilities were measured using the announced tax rate.

In December 2008, a reduction of income tax rate was announced by the Kazakhstan government from 30% to 20% for 2009, 17.5% for 2010 and 15% for 2011 and subsequent years. The new rate is effective from January 1, 2009. At December 31, 2008 respective deferred tax assets and liabilities were measured using the announced tax rates.

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

|   | 2008             | Change recognised in income statement | Change due to business combination | Foreign currency translation reserve | 2007             | Change recognised in income statement | Change due to business combination | Foreign currency translation reserve | 2006             |
|---|------------------|---------------------------------------|------------------------------------|--------------------------------------|------------------|---------------------------------------|------------------------------------|--------------------------------------|------------------|
| <b>Deferred income tax liability:</b>                       |                  |                                       |                                    |                                      |                  |                                       |                                    |                                      |                  |
| Valuation and depreciation of property, plant and equipment | (231,232)        | 53,214                                | (63,470)                           | 48,466                               | (269,442)        | 8,854                                 | (7,273)                            | (18,025)                             | (252,998)        |
| Valuation and amortisation of Intangible assets             | (104,767)        | (11,309)                              | (118,143)                          | 24,685                               | -                | -                                     | -                                  | -                                    | -                |
| Valuation of accounts receivable                            | (7,776)          | (755)                                 | -                                  | 1,522                                | (8,543)          | 462                                   | -                                  | (592)                                | (8,413)          |
| Valuation of inventory                                      | -                | 905                                   | -                                  | 11                                   | (916)            | 704                                   | 63                                 | (86)                                 | (1,597)          |
| Undistributed earnings of subsidiaries                      | -                | -                                     | -                                  | -                                    | -                | 685                                   | -                                  | (41)                                 | (644)            |
| Other   | (2,827)          | (2,654)                               | -                                  | 525                                  | (698)            | (431)                                 | 28                                 | 70                                   | (365)            |
|   | <b>(346,602)</b> | <b>39,401</b>                         | <b>(181,613)</b>                   | <b>75,209</b>                        | <b>(279,599)</b> | <b>10,274</b>                         | <b>(7,182)</b>                     | <b>(18,674)</b>                      | <b>(264,017)</b> |
| <b>Deferred income tax asset:</b>                           |                  |                                       |                                    |                                      |                  |                                       |                                    |                                      |                  |
| Tax losses available for offset                             | 66,707           | 72,981                                | -                                  | (10,689)                             | 4,415            | (219)                                 | -                                  | 305                                  | 4,329            |
| Accrued liabilities   | 7,397            | 1,776                                 | 4,880                              | (1,608)                              | 2,349            | 266                                   | -                                  | 151                                  | 1,932            |
| Impairment of accounts receivable                           | 5,407            | 1,695                                 | 1,185                              | (1,086)                              | 3,613            | (857)                                 | -                                  | 269                                  | 4,201            |
| Impairment of prepayments and other current assets          | 1,315            | (500)                                 | 1,334                              | (312)                                | 793              | 448                                   | -                                  | 41                                   | 304              |
| Valuation of inventory                                      | 20,893           | 31,792                                | (7,450)                            | (3,449)                              | -                | -                                     | -                                  | -                                    | -                |
| Provisions  | 5,734            | 182                                   | -                                  | (1,128)                              | 6,680            | (2,299)                               | 660                                | 474                                  | 7,845            |
| Finance lease obligations                                   | 1,042            | 1,232                                 | -                                  | (190)                                | -                | (3)                                   | -                                  | -                                    | 3                |
| Trade and other payable                                     | 6,253            | 6,286                                 | -                                  | (1,152)                              | 1,119            | 433                                   | -                                  | 64                                   | 622              |
|   | <b>114,748</b>   | <b>115,444</b>                        | <b>(51)</b>                        | <b>(19,614)</b>                      | <b>18,969</b>    | <b>(2,231)</b>                        | <b>660</b>                         | <b>1,304</b>                         | <b>19,236</b>    |
| Net tax effect of temporary differences                     | -                | 154,845                               |                                    |                                      | -                | 8,043                                 |                                    |                                      | -                |
| <b>Net deferred income tax liability</b>                    | <b>(370,561)</b> | <b>47,513</b>                         | <b>(220,443)</b>                   | <b>81,403</b>                        | <b>(279,034)</b> | <b>5,735</b>                          | <b>(6,522)</b>                     | <b>(18,551)</b>                      | <b>(259,696)</b> |
| <b>Net deferred income tax asset</b>                        | <b>138,707</b>   | <b>107,332</b>                        | <b>38,779</b>                      | <b>(25,808)</b>                      | <b>18,404</b>    | <b>2,308</b>                          | <b>-</b>                           | <b>1,181</b>                         | <b>14,915</b>    |



## Notes to the Consolidated Financial Statements (continued)

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

### 11) 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, 2008, 2007 and 2006 the deferred tax asset for 7,775, 5,413 and 5,045, respectively, has not been recorded, as it was not probable that sufficient taxable profit would be available to offset the deductible temporary differences to which the assets relate.

Deferred income tax assets not recognised represent the tax losses of the Group's subsidiaries incurred in transactions with securities. Such tax losses can be utilised only against future taxable profits generated in transactions with securities over a period of 6 years.

The Group recognised the deferred tax assets for the subsidiaries generated tax losses which can be carried forward and used against future taxable profits. The Group believes that it is probable that the Group will generate sufficient profits to utilise these tax losses. These loss carry-forwards expire after ten years.

As at December 31, 2008, 2007 and 2006 the Group has not recognised deferred tax liability in respect of 1,480,501, 2,062,644 and 1,736,041 temporary differences, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

From January 1, 2008, the change to the Tax Code in relation to dividends withholding tax became into force (the change # 76-FL is dated 16.05.2007). The major share of dividends distributions from Russian subsidiaries became tax free effective January 1, 2008.

### 12) Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of the parent entity by the weighted average number of ordinary shares in issue during the period.

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential shares which are the share options granted to employees.

|  | For the year ended December 31 |             |             |
|--|--------------------------------|-------------|-------------|
|  | 2008                           | 2007        | 2006        |
| Net profit attributable to the equity holders of the parent entity   | 199,408                        | 487,152     | 442,115     |
| Weighted average number of ordinary shares outstanding (excluding treasury shares)                                     | 870,182,985                    | 872,089,719 | 873,001,000 |
| Effect of dilution:  |                                |             |             |
| Share options  | -                              | 167,062     | -           |
| Weighted average number of ordinary shares outstanding (excluding treasury shares) adjusted for the effect of dilution | 870,182,985                    | 872,256,781 | 873,001,000 |
| Earnings per share attributable to equity holders of the parent entity:  |                                |             |             |
| Earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars):             | 0.23                           | 0.56        | 0.51        |
| Earnings per share attributable to equity holders of the parent entity, basic and diluted (in RUR):                    | 5.80                           | 14.29       | 13.77       |

# 

## 

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

### 

Share options under the TMK share options programme (Note 28 viii) were not included in the calculation of diluted earnings per share because they were antidilutive in 2008 and 2007.

There have been no transactions involving ordinary shares or potential ordinary shares between December 31, 2008 and the date of completion of these financial statements that would have changed significantly the number of ordinary shares or potential ordinary shares as at December 31, 2008 if those transactions had occurred before that date.

### 

Cash and cash equivalents were denominated in the following currencies:

|  | 2008           | 2007          | 2006           |
|--|----------------|---------------|----------------|
| Russian rouble                         | 60,036         | 70,876        | 128,098        |
| US dollar                              | 75,727         | 6,288         | 10,220         |
| Euro                                   | 6,286          | 9,990         | 3,955          |
| Romanian lei                           | 854            | 1,848         | 1,343          |
| Other currencies                       | 490            | 43            | 394            |
| <b>TOTAL CASH AND CASH EQUIVALENTS</b> | <b>143,393</b> | <b>89,045</b> | <b>144,010</b> |

The above cash and cash equivalents consist of the following:

|  | 2008           | 2007          | 2006           |
|--|----------------|---------------|----------------|
| Cash and cash equivalents              | 131,502        | 50,201        | 123,559        |
| Deposits                               | 11,891         | 38,844        | 20,451         |
| <b>TOTAL CASH AND CASH EQUIVALENTS</b> | <b>143,393</b> | <b>89,045</b> | <b>144,010</b> |

Cash deposits in the amount of 854, 1,974 and 2,118 have been pledged as security for borrowings at December 31, 2008, 2007 and 2006, respectively (Note 23).

### 

|                                  | 2008           | 2007           | 2006           |
|----------------------------------|----------------|----------------|----------------|
| Trade receivables                | 755,680        | 522,814        | 272,435        |
| Officers and employees           | 2,312          | 2,267          | 2,197          |
| Other accounts receivable        | 6,819          | 7,910          | 9,491          |
| <b>GROSS ACCOUNTS RECEIVABLE</b> | <b>764,811</b> | <b>532,991</b> | <b>284,123</b> |
| Allowance for doubtful debts     | (13,120)       | (9,466)        | (9,699)        |
| <b>NET ACCOUNTS RECEIVABLE</b>   | <b>751,691</b> | <b>523,525</b> | <b>274,424</b> |

Bank borrowings are secured by accounts receivable with the carrying value of 114, 2,115 and 1,745 as at December 31, 2008, 2007 and 2006, respectively (Note 23).

## Notes to the Consolidated Financial Statements (continued)

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

### 15) Prepayments and Input VAT

|                                      | 2008           | 2007           | 2006           |
|--------------------------------------|----------------|----------------|----------------|
| Prepayment for services, inventories | 36,666         | 49,479         | 59,015         |
| Prepayment for rent                  | 405            | 675            | 562            |
| Deferred charges                     | 3,129          | 1,973          | 629            |
| Prepayment for VAT, Input VAT        | 136,851        | 169,984        | 138,088        |
| Prepayment for property tax          | 168            | 197            | -              |
| Prepayment for other tax             | 920            | 724            | 1,215          |
| Prepayment for insurance             | 6,929          | 699            | 451            |
| <b>TOTAL PREPAYMENTS</b>             | <b>185,068</b> | <b>223,731</b> | <b>199,960</b> |

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or via direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is recoverable within one year.

### 16) Available-for-Sale Investments and Other Non-Current Assets

#### *Available-for-Sale Investments*

The amount of Available-for-sale investments as of December 31, 2008 and 2007 was 191,646 thousand roubles (6,520 at the exchange rate as at December 31, 2008) and 772,093 thousand roubles (29,417 at the exchange rate as at December 31, 2007) respectively. Available-for-sale investments are represented by the quoted ordinary shares of VTB Bank, a Russian state-owned bank. The fair value of these shares is determined by reference to published price quotations in an active market. On June 30, 2008 due to the significant and prolonged decline in fair value of VTB shares, the impairment loss of 13,043 representing cumulative loss previously recognised directly in equity was recorded in the income statement. In the second half of 2008, further decline in fair value of VTB shares amounting to 10,632 was recognised directly in the income statement.

#### *Other Non-Current Assets*

|  | 2008          | 2007           | 2006          |
|--|---------------|----------------|---------------|
| Prepayments for acquisition of property, plant and equipment | 52,179        | 100,865        | 37,113        |
| Loans to employees   | 5,112         | 5,022          | 4,032         |
| Long-term input VAT  | -             | -              | 3,882         |
| Prepaid debt issue costs                                     | 7,190         | 5,533          | 1,604         |
| Restricted cash deposits for fulfilment of guaranties        | 3,739         | 1,581          | 3,996         |
| Other  | 1,401         | 27,928         | 3,733         |
| <b>GROSS INVESTMENTS AND OTHER LONG-TERM RECEIVABLES</b>     | <b>69,621</b> | <b>140,929</b> | <b>54,360</b> |
| Allowance for doubtful debts                                 | (12)          | (166)          | (39)          |
| <b>NET INVESTMENTS AND OTHER LONG-TERM RECEIVABLES</b>       | <b>69,609</b> | <b>140,763</b> | <b>54,321</b> |

## Notes to the Consolidated Financial Statements (continued)

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

### 17) Inventories

|  | 2008             | 2007           | 2006           |
|--|------------------|----------------|----------------|
| Raw materials                                    | 254,043          | 226,642        | 180,683        |
| Work in process                                  | 298,538          | 237,063        | 159,503        |
| Finished goods and finished goods in transit     | 486,138          | 157,786        | 134,953        |
| Goods for resale                                 | 6,334            | 131            | -              |
| Supplies   | 159,470          | 170,201        | 126,652        |
| <b>GROSS INVENTORIES</b>                         | <b>1,204,523</b> | <b>791,823</b> | <b>601,791</b> |
| Allowance for write-down at net realisable value | (28,587)         | (9,450)        | (8,357)        |
| <b>NET INVENTORIES</b>                           | <b>1,175,936</b> | <b>782,373</b> | <b>593,434</b> |

Included in inventories as at December 31, 2008, 2007 and 2006 are inventories carried at net realisable value in the amount of 84,415, 41,542 and 29,584, respectively.

As at December 31, 2008, 2007 and 2006 certain items of inventory with a carrying amount of 64,002, 81,537 and 91,671, respectively, were pledged as security for borrowings (Note 23).

The following summarises the changes in the allowance for inventory:

|                                       | 2008          | 2007         | 2006         |
|---------------------------------------|---------------|--------------|--------------|
| Balance at the beginning of the year  | 9,450         | 8,357        | 6,020        |
| Utilised during the year              | (243)         | (680)        | -            |
| Additional increase in allowance      | 24,669        | 1,156        | 1,677        |
| Currency translation adjustments      | (5,289)       | 617          | 660          |
| <b>BALANCE AT THE END OF THE YEAR</b> | <b>28,587</b> | <b>9,450</b> | <b>8,357</b> |

### 18) Property, Plant and Equipment

The movement in property, plant and equipment for the year ended December 31, 2008 was as follows:

|   | Land and buildings | Machinery and equipment | Transport and motor vehicles | Furniture and fixtures | Leasehold improvements | Construction in progress | TOTAL            |
|---|--------------------|-------------------------|------------------------------|------------------------|------------------------|--------------------------|------------------|
| <b><u>COST</u></b>                                    |                    |                         |                              |                        |                        |                          |                  |
| Balance at January 1, 2008                            | 1,148,130          | 1,439,470               | 68,416                       | 32,025                 | 33                     | 586,031                  | <b>3,274,105</b> |
| Additions   | 2,570              | 19,873                  | 473                          | 900                    | -                      | 958,067                  | <b>981,883</b>   |
| Assets put into operation                             | 22,677             | 670,699                 | 6,438                        | 6,078                  | 1,194                  | (707,086)                | <b>-</b>         |
| Disposals   | (6,008)            | (26,231)                | (1,587)                      | (609)                  | -                      | (929)                    | <b>(35,364)</b>  |
| Assets acquired in business combinations (Note 10)    | 85,922             | 289,287                 | 60                           | 2,640                  | 1,826                  | 64,994                   | <b>444,729</b>   |
| Currency translation adjustments                      | (189,126)          | (333,360)               | (11,509)                     | (5,571)                | (490)                  | (134,733)                | <b>(674,789)</b> |
| <b>BALANCE AT DECEMBER 31, 2008</b>                   | <b>1,064,165</b>   | <b>2,059,738</b>        | <b>62,291</b>                | <b>35,463</b>          | <b>2,563</b>           | <b>766,344</b>           | <b>3,990,564</b> |
| <b><u>ACCUMULATED DEPRECIATION AND IMPAIRMENT</u></b> |                    |                         |                              |                        |                        |                          |                  |
| <b>Balance at January 1, 2008</b>                     | (114,043)          | (413,876)               | (19,560)                     | (14,283)               | -                      | -                        | <b>(561,762)</b> |
| Depreciation charge                                   | (33,076)           | (144,317)               | (5,427)                      | (5,688)                | (436)                  | -                        | <b>(188,944)</b> |
| Impairment  | (19,785)           | (33,363)                | (3,019)                      | (280)                  | -                      | (3,399)                  | <b>(59,846)</b>  |
| Disposals   | 352                | 21,542                  | 675                          | 502                    | -                      | -                        | <b>23,071</b>    |
| Currency translation adjustments                      | 26,105             | 87,079                  | 4,215                        | 2,830                  | 1                      | 523                      | <b>120,753</b>   |
| <b>BALANCE AT DECEMBER 31, 2008</b>                   | <b>(140,447)</b>   | <b>(482,935)</b>        | <b>(23,116)</b>              | <b>(16,919)</b>        | <b>(435)</b>           | <b>(2,876)</b>           | <b>(666,728)</b> |
| <b>NET BOOK VALUE AT DECEMBER 31, 2008</b>            | <b>923,718</b>     | <b>1,576,803</b>        | <b>39,175</b>                | <b>18,544</b>          | <b>2,128</b>           | <b>763,468</b>           | <b>3,323,836</b> |
| <b>NET BOOK VALUE AT JANUARY 1, 2008</b>              | <b>1,034,087</b>   | <b>1,025,594</b>        | <b>48,856</b>                | <b>17,742</b>          | <b>33</b>              | <b>586,031</b>           | <b>2,712,343</b> |

# 

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

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

### **18) Property, Plant and Equipment (continued)**

The movement in property, plant and equipment for the year ended December 31, 2007 was as follows:

|  | Land and buildings | Machinery and equipment | Transport and motor vehicles | Furniture and fixtures | Leasehold improvements | Construction in progress | TOTAL            |
|--|--------------------|-------------------------|------------------------------|------------------------|------------------------|--------------------------|------------------|
| <b><u>COST</u></b>                                 |                    |                         |                              |                        |                        |                          |                  |
| Balance at January 1, 2007                         | 880,347            | 1,140,296               | 45,987                       | 22,187                 | -                      | 321,541                  | 2,410,358        |
| Additions  | 3,871              | 8,046                   | 340                          | 789                    | -                      | 620,587                  | 633,633          |
| Assets put into operation                          | 165,500            | 201,894                 | 19,032                       | 7,601                  | 32                     | (394,059)                | -                |
| Disposals  | (6,899)            | (19,736)                | (1,075)                      | (684)                  | -                      | (2,122)                  | (30,516)         |
| Assets acquired in business combinations (Note 10) | 37,023             | 17,937                  | 82                           | 121                    | -                      | 6,160                    | 61,323           |
| Currency translation adjustments                   | 68,288             | 91,033                  | 4,050                        | 2,011                  | 1                      | 33,924                   | 199,307          |
| <b>BALANCE AT DECEMBER 31, 2007</b>                | <b>1,148,130</b>   | <b>1,439,470</b>        | <b>68,416</b>                | <b>32,025</b>          | <b>33</b>              | <b>586,031</b>           | <b>3,274,105</b> |
| <b><u>ACCUMULATED DEPRECIATION</u></b>             |                    |                         |                              |                        |                        |                          |                  |
| Balance at January 1, 2007                         | (84,665)           | (291,331)               | (14,085)                     | (9,526)                | -                      | -                        | (399,607)        |
| Depreciation charge                                | (24,753)           | (103,881)               | (4,766)                      | (4,287)                | -                      | -                        | (137,687)        |
| Disposals  | 775                | 9,013                   | 635                          | 457                    | -                      | -                        | 10,880           |
| Currency translation adjustments                   | (5,400)            | (27,677)                | (1,344)                      | (927)                  | -                      | -                        | (35,348)         |
| <b>BALANCE AT DECEMBER 31, 2007</b>                | <b>(114,043)</b>   | <b>(413,876)</b>        | <b>(19,560)</b>              | <b>(14,283)</b>        | <b>-</b>               | <b>-</b>                 | <b>(561,762)</b> |
| <b>NET BOOK VALUE</b>                              |                    |                         |                              |                        |                        |                          |                  |
| <b>AT DECEMBER 31, 2007</b>                        | <b>1,034,087</b>   | <b>1,025,594</b>        | <b>48,856</b>                | <b>17,742</b>          | <b>33</b>              | <b>586,031</b>           | <b>2,712,343</b> |
| <b>NET BOOK VALUE</b>                              |                    |                         |                              |                        |                        |                          |                  |
| <b>AT JANUARY 1, 2007</b>                          | <b>795,682</b>     | <b>848,965</b>          | <b>31,902</b>                | <b>12,661</b>          | <b>-</b>               | <b>321,541</b>           | <b>2,010,751</b> |

The movement in property, plant and equipment for the year ended December 31, 2006 was as follows:

|  | Land and buildings | Machinery and equipment | Transport and motor vehicles | Furniture and fixtures | Leasehold improvements | Construction in progress | TOTAL            |
|--|--------------------|-------------------------|------------------------------|------------------------|------------------------|--------------------------|------------------|
| <b><u>COST</u></b>                                 |                    |                         |                              |                        |                        |                          |                  |
| Balance at January 1, 2006                         | 780,400            | 873,368                 | 34,010                       | 14,589                 | -                      | 147,920                  | 1,850,287        |
| Additions  | 6                  | 2,145                   | 99                           | 283                    | -                      | 372,031                  | 374,564          |
| Assets put into operation                          | 21,523             | 186,224                 | 7,383                        | 6,398                  | -                      | (221,528)                | -                |
| Disposals  | (4,767)            | (15,788)                | (378)                        | (578)                  | -                      | (2,620)                  | (24,131)         |
| Assets acquired in business combinations (Note 10) | -                  | -                       | -                            | 15                     | -                      | -                        | 15               |
| Currency translation adjustments                   | 83,185             | 94,347                  | 4,873                        | 1,480                  | -                      | 25,738                   | 209,623          |
| <b>BALANCE AT DECEMBER 31, 2006</b>                | <b>880,347</b>     | <b>1,140,296</b>        | <b>45,987</b>                | <b>22,187</b>          | <b>-</b>               | <b>321,541</b>           | <b>2,410,358</b> |
| <b><u>ACCUMULATED DEPRECIATION</u></b>             |                    |                         |                              |                        |                        |                          |                  |
| Balance at January 1, 2006                         | (54,513)           | (194,490)               | (9,115)                      | (5,965)                | -                      | -                        | (264,083)        |
| Depreciation charge                                | (22,688)           | (84,399)                | (4,046)                      | (3,353)                | -                      | -                        | (114,486)        |
| Disposals  | 1,317              | 10,149                  | 286                          | 443                    | -                      | -                        | 12,195           |
| Currency translation adjustments                   | (8,781)            | (22,591)                | (1,210)                      | (651)                  | -                      | -                        | (33,233)         |
| <b>BALANCE AT DECEMBER 31, 2006</b>                | <b>(84,665)</b>    | <b>(291,331)</b>        | <b>(14,085)</b>              | <b>(9,526)</b>         | <b>-</b>               | <b>-</b>                 | <b>(399,607)</b> |
| <b>NET BOOK VALUE</b>                              |                    |                         |                              |                        |                        |                          |                  |
| <b>AT DECEMBER 31, 2006</b>                        | <b>795,682</b>     | <b>848,965</b>          | <b>31,902</b>                | <b>12,661</b>          | <b>-</b>               | <b>321,541</b>           | <b>2,010,751</b> |
| <b>NET BOOK VALUE</b>                              |                    |                         |                              |                        |                        |                          |                  |
| <b>AT JANUARY 1, 2006</b>                          | <b>725,887</b>     | <b>678,878</b>          | <b>24,895</b>                | <b>8,624</b>           | <b>-</b>               | <b>147,920</b>           | <b>1,586,204</b> |

Bank borrowings are secured by properties and equipment with the carrying value of 133,624, 180,616 and 155,962 as at December 31, 2008, 2007 and 2006, respectively (Note 23).

## Notes to the Consolidated Financial Statements (continued)

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

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

At December 31, 2008, the Group conducted an impairment test of property, plant and equipment and determined that carrying volume of property, plant and equipment of its Romanian subsidiaries and Orsk Plant exceeds their recoverable amount. The recoverable amount represents the value in use determined based on discounted future cash flow. The group used pre-tax discount rates of 16.94% and 17.47% for determining the value in use for Romanian subsidiaries and Orsk Plant, respectively. The entire amount of impairment loss was recognised in the income statement. No impairment losses were recognised in 2007 and 2006.

### 19) Goodwill and Other Intangible Assets

|  | Patents<br>and<br>trademarks | Goodwill       | Software       | Customer<br>relationships | Proprietary<br>technology | Backlog        | Other          | TOTAL            |
|--|------------------------------|----------------|----------------|---------------------------|---------------------------|----------------|----------------|------------------|
| <b><u>COST</u></b>                                   |                              |                |                |                           |                           |                |                |                  |
| Balance at January 1, 2008                           | 781                          | 101,858        | 17,133         | -                         | -                         | -              | 9,354          | <b>129,126</b>   |
| Additions  | 213                          | -              | 1,637          | -                         | -                         | -              | 284            | <b>2,134</b>     |
| Disposals  | (8)                          | -              | -              | -                         | -                         | -              | (1,725)        | <b>(1,733)</b>   |
| Assets acquired in business<br>combination (Note 10) | 208,700                      | 488,225        | -              | 472,300                   | 14,100                    | 8,500          | 1,565          | <b>1,193,390</b> |
| Currency translation adjustments                     | (156)                        | (18,689)       | (3,039)        | -                         | -                         | -              | (1,413)        | <b>(23,297)</b>  |
| <b>BALANCE AT DECEMBER 31,<br/>2008</b>              | <b>209,530</b>               | <b>571,394</b> | <b>15,731</b>  | <b>472,300</b>            | <b>14,100</b>             | <b>8,500</b>   | <b>8,065</b>   | <b>1,299,620</b> |
| <b><u>ACCUMULATED<br/>AMORTISATION</u></b>           |                              |                |                |                           |                           |                |                |                  |
| Balance at January 1, 2008                           | (160)                        | -              | (4,322)        | -                         | -                         | -              | (2,071)        | <b>(6,553)</b>   |
| Amortisation charge                                  | (54)                         | -              | (2,507)        | (48,851)                  | (974)                     | (4,332)        | (2,111)        | <b>(58,829)</b>  |
| Impairment   | -                            | (3,512)        | -              | -                         | -                         | -              | -              | <b>(3,512)</b>   |
| Disposals  | 1                            | -              | -              | -                         | -                         | -              | 1,095          | <b>1,096</b>     |
| Currency translation adjustments                     | 33                           | 542            | 1,089          | -                         | -                         | -              | 483            | <b>2,147</b>     |
| <b>BALANCE AT DECEMBER 31,<br/>2008</b>              | <b>(180)</b>                 | <b>(2,970)</b> | <b>(5,740)</b> | <b>(48,851)</b>           | <b>(974)</b>              | <b>(4,332)</b> | <b>(2,604)</b> | <b>(65,651)</b>  |
| <b>NET BOOK VALUE<br/>AT DECEMBER 31, 2008</b>       | <b>209,350</b>               | <b>568,424</b> | <b>9,991</b>   | <b>423,449</b>            | <b>13,126</b>             | <b>4,168</b>   | <b>5,461</b>   | <b>1,233,969</b> |
| <b>NET BOOK VALUE<br/>AT JANUARY 1, 2008</b>         | <b>621</b>                   | <b>101,858</b> | <b>12,811</b>  | <b>-</b>                  | <b>-</b>                  | <b>-</b>       | <b>7,283</b>   | <b>122,573</b>   |



Notes to the Consolidated Financial Statements (continued)

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

19) Goodwill and Other Intangible Assets (continued)

|  | Patents and<br>trademarks | Goodwill       | Software       | Other          | TOTAL          |
|--|---------------------------|----------------|----------------|----------------|----------------|
| <b><u>COST</u></b>                                   |                           |                |                |                |                |
| Balance at January 1, 2007                           | 403                       | 46,944         | 14,303         | 4,794          | 66,444         |
| Additions  | 351                       | -              | 1,710          | 4,571          | 6,632          |
| Disposals  | (15)                      | -              | -              | (510)          | (525)          |
| Assets acquired in business combination<br>(Note 10) | -                         | 50,934         | -              | -              | 50,934         |
| Currency translation adjustments                     | 42                        | 3,980          | 1,120          | 499            | 5,641          |
| <b>BALANCE AT DECEMBER 31, 2007</b>                  | <b>781</b>                | <b>101,858</b> | <b>17,133</b>  | <b>9,354</b>   | <b>129,126</b> |
| <b><u>ACCUMULATED AMORTISATION</u></b>               |                           |                |                |                |                |
| Balance at January 1, 2007                           | (130)                     | -              | (2,224)        | (1,446)        | (3,800)        |
| Amortisation charge                                  | (35)                      | -              | (1,858)        | (679)          | (2,572)        |
| Disposals  | 15                        | -              | -              | 174            | 189            |
| Currency translation adjustments                     | (10)                      | -              | (240)          | (120)          | (370)          |
| <b>BALANCE AT DECEMBER 31, 2007</b>                  | <b>(160)</b>              | <b>-</b>       | <b>(4,322)</b> | <b>(2,071)</b> | <b>(6,553)</b> |
| <b>NET BOOK VALUE<br/>AT DECEMBER 31, 2007</b>       | <b>621</b>                | <b>101,858</b> | <b>12,811</b>  | <b>7,283</b>   | <b>122,573</b> |
| <b>NET BOOK VALUE<br/>AT JANUARY 1, 2007</b>         | <b>273</b>                | <b>46,944</b>  | <b>12,079</b>  | <b>3,348</b>   | <b>62,644</b>  |
|  |                           |                |                |                |                |
|  | Patents and<br>trademarks | Goodwill       | Software       | Other          | TOTAL          |
| <b><u>COST</u></b>                                   |                           |                |                |                |                |
| Balance at January 1, 2006                           | 338                       | 37,180         | 11,210         | 2,754          | 51,482         |
| Additions  | 25                        | -              | 1,971          | 2,131          | 4,127          |
| Disposals  | (2)                       | -              | -              | (504)          | (506)          |
| Assets acquired in business combination<br>(Note 10) | -                         | 6,166          | -              | -              | 6,166          |
| Currency translation adjustments                     | 42                        | 3,598          | 1,122          | 413            | 5,175          |
| <b>BALANCE AT DECEMBER 31, 2006</b>                  | <b>403</b>                | <b>46,944</b>  | <b>14,303</b>  | <b>4,794</b>   | <b>66,444</b>  |
| <b><u>ACCUMULATED AMORTISATION</u></b>               |                           |                |                |                |                |
| Balance at January 1, 2006                           | (88)                      | -              | (381)          | (946)          | (1,415)        |
| Amortisation charge                                  | (30)                      | -              | (1,758)        | (600)          | (2,388)        |
| Disposals  | 1                         | -              | -              | 282            | 283            |
| Currency translation adjustments                     | (13)                      | -              | (85)           | (182)          | (280)          |
| <b>BALANCE AT DECEMBER 31, 2006</b>                  | <b>(130)</b>              | <b>-</b>       | <b>(2,224)</b> | <b>(1,446)</b> | <b>(3,800)</b> |
| <b>NET BOOK VALUE<br/>AT DECEMBER 31, 2006</b>       | <b>273</b>                | <b>46,944</b>  | <b>12,079</b>  | <b>3,348</b>   | <b>62,644</b>  |
| <b>NET BOOK VALUE<br/>AT JANUARY 1, 2006</b>         | <b>250</b>                | <b>37,180</b>  | <b>10,829</b>  | <b>1,808</b>   | <b>50,067</b>  |

Customer relationships represent a key intangible asset that has a separate and distinct value. Over time, as the Company has increased its name recognition, it has also cultivated relationships with its customers. Remaining amortisation period for customer relationships is 8-10 years.

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group.

## Notes to the Consolidated Financial Statements (continued)

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

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

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (2007, 2006: nil).

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

|  | 2008           | 2007           | 2006          |
|--|----------------|----------------|---------------|
| Cash generating units in North America, including: | 681,668        | -              | -             |
| <i>NS Group, Inc.</i>                              | 506,324        | -              | -             |
| <i>IPSCO Tubulars, Inc.</i>                        | 175,344        | -              | -             |
| Oilfield service cash generating unit              | 40,058         | 51,500         | -             |
| Other cash generating units                        | 55,398         | 50,358         | 46,944        |
| <b>TOTAL GOODWILL</b>                              | <b>777,124</b> | <b>101,858</b> | <b>46,944</b> |

Goodwill and intangible assets with indefinite useful lives were tested for impairment at December 31, 2008. As a result of the test, the Group determined that the carrying value of cash generating units in North America approximates their recoverable amounts and the carrying value of Oilfield service cash generating unit exceeds its recoverable amount. Consequently, the Group recognised impairment of Oilfield service cash generating unit's goodwill in the amount of 3,512. Events and circumstances that led to recognition of impairment are disclosed in Note 27. No impairment losses were recognised in 2007 and 2006.

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

|  | Period of forecast, years | Pre-tax discount rate, % | Commodity      | Average of commodity per ton |
|--|---------------------------|--------------------------|----------------|------------------------------|
| Group of cash generating units in North America, including |                           |                          |                |                              |
| <i>NS Group, Inc.</i>                                      | 5                         | 14.58                    | Welded pipes   | 1,225                        |
| <i>IPSCO Tubulars, Inc.</i>                                | 5                         | 14.25                    | Seamless pipes | 1,787                        |
| Oilfield service cash generating unit                      | 5                         | 16.17                    | Welded pipes   | 1,193                        |
| Other cash generating units                                | 5                         | 16.22-18.87              |                |                              |

The calculation of Oilfield service cash generating unit's value in use was most sensitive to the following assumptions:

#### Discount Rates

Discount rates reflect the current market assessment of the risks specific to cash generating unit. The discount rates have been determined using the CAPM concept and analysis of industry peers. Reasonable change in discount rate for Oilfield service cash generating unit could lead to further impairment of goodwill. A 10% increase in the discount rate would result in an additional impairment of 8,753.

## Notes to the Consolidated Financial Statements (continued)

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

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

#### *Volume of Production and Repair of Oilwell Pipes*

The management assumed that the volume of repaired oilwell pipes would decline by 17% during 2009 and would grow in 2010, 2011, 2012 and 2013 by 5%, 7%, 5% and 12%, respectively, to reach a normal asset capacity thereafter. The management also assumed that Oilfield service cash generating unit starts to produce oilwell pipes from semi-finished pipes produced by other cash generating units of the Group. In 2009, oilfield cash generating unit plans to produce 22,310 oilwell pipes, which then will grow in 2010 by 10% and by 12% thereafter. Reasonable changes in quantities of produced and sold and repaired oilwell pipes could lead to the additional impairment. If the quantities of the units of production sold and repaired were 10% lower than those assumed in the impairment test during 2009 and 2010, this would lead to an additional impairment of 26,840.

#### *Cost Control Measures*

The recoverable amounts of Oilfield service cash generating unit is based on the business plans approved by management. The reasonable deviation of cost from these plans could lead to an additional impairment. If the actual costs were 10% higher than those assumed in the impairment test during 2009-2013, the goodwill would be fully impaired.

### 20) Trade and Other Payables

|  | 2008           | 2007           | 2006           |
|--|----------------|----------------|----------------|
| Trade payables                                     | 578,749        | 192,344        | 179,646        |
| Accounts payable for property, plant and equipment | 144,585        | 98,627         | 66,982         |
| Notes issued to third parties                      | 869            | 929            | 342            |
| Sales rebate payable                               | 5,400          | -              | -              |
| Other payables                                     | 8,930          | 3,277          | 1,590          |
| <b>TOTAL ACCOUNTS PAYABLE</b>                      | <b>738,533</b> | <b>295,177</b> | <b>248,560</b> |

### 21) Accrued Liabilities

|  | 2008           | 2007           | 2006          |
|--|----------------|----------------|---------------|
| Payroll liabilities  | 38,512         | 27,374         | 28,209        |
| Accrued and withheld taxes on payroll                                  | 16,412         | 13,965         | 11,165        |
| Liabilities for VAT  | 19,298         | 11,883         | 9,032         |
| Liabilities for property tax   | 4,791          | 2,561          | 2,414         |
| Liabilities for other taxes  | 3,309          | 3,651          | 2,306         |
| Deferred VAT   | 99             | 399            | 442           |
| Current portion of employee-benefit liability                          | 1,869          | 2,284          | 706           |
| Accrual for long-service benefit                                       | 5,348          | 5,607          | 4,451         |
| Liabilities under put options of minority shareholders in subsidiaries | 552,989        | 39,481         | 21,387        |
| Liability for bonuses  | 17,028         | 8,806          | 3,894         |
| Accrued liability on acquisitions                                      | 1,510          | 26,693         | -             |
| Miscellaneous  | 4,287          | 4,480          | 1,094         |
| <b>TOTAL ACCRUED LIABILITIES</b>                                       | <b>665,452</b> | <b>147,184</b> | <b>85,100</b> |

## Notes to the Consolidated Financial Statements (continued)

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

### 22) Provisions

|   | 2008          | 2007          | 2006          |
|---|---------------|---------------|---------------|
| <b>Current</b>                                      |               |               |               |
| Provision for unused annual leaves, current portion | 8,813         | 3,130         | 2,365         |
| Accrual for tax fines                               | 1,270         | 1,456         | 659           |
| Environmental provision                             | 1,427         | 88            | -             |
| <b>TOTAL CURRENT PROVISIONS</b>                     | <b>11,510</b> | <b>4,674</b>  | <b>3,024</b>  |
| <b>Non-current</b>                                  |               |               |               |
| Environmental provision                             | 5,474         | -             | -             |
| Provisions for unused annual leave                  | 13,194        | 15,973        | 13,437        |
| <b>TOTAL NON-CURRENT PROVISIONS</b>                 | <b>18,668</b> | <b>15,973</b> | <b>13,437</b> |

### 23) Interest-Bearing Loans and Borrowings

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

|  | 2008             | 2007             | 2006           |
|--|------------------|------------------|----------------|
| <b>Current:</b>  |                  |                  |                |
| Bank loans   | 1,676,590        | 671,574          | 184,566        |
| Interest payable                                       | 46,651           | 17,397           | 16,439         |
| Current portion of non-current borrowings              | 92,463           | 141,805          | 71,106         |
| Current portion of bearer coupon debt securities       | 402,078          | 203,698          | 97,347         |
| Unamortised debt issue costs                           | (3,145)          | (1,454)          | (1,470)        |
|  | <b>2,214,637</b> | <b>1,033,020</b> | <b>367,988</b> |
| Finance lease liability - current                      | 1,822            | 302              | 187            |
| <b>TOTAL SHORT-TERM BORROWINGS</b>                     | <b>2,216,459</b> | <b>1,033,322</b> | <b>368,175</b> |
| <b>Non-current:</b>                                    |                  |                  |                |
| Bank loans   | 287,811          | 249,217          | 252,024        |
| Bearer coupon debt securities                          | 1,172,259        | 607,741          | 587,236        |
| Unamortised debt issue costs                           | (10,273)         | (5,882)          | (8,118)        |
| Less: current portion of non-current borrowings        | (92,463)         | (141,805)        | (71,106)       |
| Less: current portion of bearer coupon debt securities | (402,078)        | (203,698)        | (97,347)       |
|  | <b>955,256</b>   | <b>505,573</b>   | <b>662,689</b> |
| Finance lease liability - non-current                  | 38,969           | 404              | 244            |
| <b>TOTAL LONG-TERM BORROWINGS</b>                      | <b>994,225</b>   | <b>505,977</b>   | <b>662,933</b> |

Some of the loan agreements provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness, profitability and guarantees issued to other parties.

In addition to collaterals disclosed in Notes 13, 14, 17, 18 the Group pledged its rights under sales contracts in Romania totaling to 15,169, 220,144 and 68,072 as collateral under loan agreements as at December 31, 2008, 2007 and 2006, respectively. 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)

### 23) Interest-Bearing Loans and Borrowings

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

|                | Interest rates for period ended       | 2008             | Interest rates for period ended           | 2007             | Interest rates for period ended           | 2006             |
|----------------|---------------------------------------|------------------|---|------------------|---|------------------|
| Russian Rouble | Fixed 7.6% -17.55%                    | 1,206,957        | Fixed 6% -12%                             | 929,949          | Fixed 6% -12%                             | 438,338          |
|                | Fixed 8.5%                            | 305,451          | Fixed 8.5%                                | 303,380          | Fixed 8.5%                                | 301,911          |
| US Dollar      | Fixed 9.75%-14.7%                     | 733,701          | Fixed 20.94%                              | 151              | Fixed 20.94%                              | 743              |
|                | Variable:<br>Libor (1m) + 1.6% - 2.5% | 659,234          | Variable:<br>Libor (3m) + 1.5% - 1.7%     | 143,778          | Variable:<br>Libor (3m) + 1.5% - 1.7%     | 169,197          |
|                | Federal Funds Rate +1.6%              |                  | Federal Funds Rate +1.6%                  |                  | Federal Funds Rate +1.6%                  |                  |
|                | Fixed 5.11%-9.4%                      | 5,405            | Fixed 5.7%                                | 250              | Fixed 5.7%                                | 977              |
|                | Variable:<br>Euribor (1m) + 1.6%      | 258,734          | Variable:<br>Euribor (1m) + 0.23% - 4.95% | 159,905          | Variable:<br>Euribor (1m) + 0.23% - 4.95% | 119,511          |
| Euro           | Euribor (3m) + 2.75%                  |                  | Euribor (3m) + 2.25% - 2.75%              |                  | Euribor (3m) + 2.25% - 2.75%              |                  |
|                | Euribor (6m) + 0.23% - 2.4%           |                  | Euribor (6m) + 2.4% - 5%                  |                  | Euribor (6m) + 2.4% - 5%                  |                  |
|                |                                       |                  | Euribor (12m) + 0.23% - 4.95%             |                  | Euribor (12m) + 0.23% - 4.95%             |                  |
| Romanian Lei   | Fixed 16%                             | 411              | Bubor *(1m) + 0.75%                       | 1,180            | Bubor *(1m) + 0.75%                       | -                |
|                |                                       | <b>3,169,893</b> |   | <b>1,538,593</b> |   | <b>1,030,677</b> |

\* Bubor is the Bucharest bid offer rate

#### Bank Loans

In the second half of 2008, the Group entered into short-term loans with Sberbank in the principal amount of 9,765 million roubles. As of December 31, 2008, the principle outstanding balance was 9,765 million roubles (332,364 at the exchange rate at December 31, 2008).

In October – November 2008, the Group entered into short-term loans with VTB in the principal amount of 7,000 million roubles. As of December 31, 2008, the principle outstanding balance was 7,000 million roubles (238,254 at the exchange rate at December 31, 2008).

#### Syndicated Bridge Loan Facility

On May 30, 2008, TMK entered into the IPSCO Bridge Facility Agreement for 1,200,000 to finance the acquisition of a 51% interest in NS Group Inc. and the 100% interest in IPSCO Tubulars Inc. (Note 10). ABN AMRO Bank N.V., Bank of Tokyo Mitsubishi UFJ, Ltd., Barclays Bank PLC, BNP Paribas (Suisse) S.A., ING Bank N.V., Natixis, Nomura International plc. and Sumitomo Mitsui Finance Dublin Limited are arrangers of the facility. The facility had a term of 12 months with a 3-month extension option thereafter, subject to agreement of all parties. The facility bore interest at a rate ranging between one-month LIBOR plus 1.5% and one-month LIBOR plus 2.85%, with the rate increasing during the lifetime of the facility. As described below, in July 2008 the Group partly refinanced this bridge facility using the proceeds from issuance of 600,000 10% Loan Participation Notes due in 2011. As of December 31, 2008, the principle outstanding balance was 600,000. The facility was fully repaid on January 28, 2009 using the proceeds from the loan provided by Gazprombank (Note 30).

## Notes to the Consolidated Financial Statements (continued)

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

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

#### *Loan Participation Notes*

On September 29, 2006, the Group issued 3,000 8.5% loan participation notes with a nominal value of 100,000 US dollars each, due September 2009. On July 25, 2008 the Group issued 6,000 10% loan participation notes with a nominal value of 100,000 US dollars each, due July 2011. The notes were issued by TMK Capital S.A. ("TMK Capital"), a Luxemburg special purpose vehicle, for the sole purpose of funding a loan to the Company. The notes have been admitted to trading on the London Stock Exchange. The terms of the notes provide for certain restrictions on the Company's ability to incur financial indebtedness, liens, to engage in assets sales, to engage in transactions with affiliates and to engage in mergers and similar transactions. The proceeds of the loan were used for partial repayment of the IPSCO Bridge Facility for the amount of 1.2 billion.

#### *Bearer Coupon Debt Securities*

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 Russian roubles (35.95 US dollars at the exchange rate as at the date of issuance) each, with eight coupons periods of 182 days each. The bonds matured on March 24, 2009. The annual interest rate was 7.6%. As at December 31, 2008, an aggregate of 3 billion Russian roubles (102,109 at the exchange rate as at December 31, 2008) remained outstanding under these bonds series. On March 24, 2009, the Group repaid its liability under these bonds using the proceeds from the loan provided by VTB (Note 30).

On February 21, 2006, the Group issued 5,000,000 bonds with a nominal value of 1,000 Russian roubles (35.53 US dollars at the exchange rate as at the date of issuance) each, with ten coupon periods of 182 days each. The maturity date is February 15, 2011. The interest rate for the first, second, third and fourth semi-annual coupons was 7.95% per annum. The interest rate for the fifth, sixth, seventh and eighth semi-annual coupons is 9.6% per annum. The annual interest rate for the ninth and tenth semi-annual coupon periods is to be established and announced by the Company on any date before the last 10 days of the eighth coupon period. As at December 31, 2008, an aggregate of 5.0 billion Russian roubles (170,184 at the exchange rate as at December 31, 2008) remained outstanding under these bonds series.

#### *Liability to Raiffeisen Leasing*

The liability to Raiffeisen Leasing relates to a lease contract between the Group and Raiffeisen Leasing. The contract was a part of a sale-leaseback transaction executed in 2006 and 2007 years. Under the contract, the Group sold certain items of equipment to Raiffeisen Leasing and immediately leased them back. The substance of the transaction represented a borrowing by the Group from Raiffeisen Leasing and has been accounted for as such in the consolidated financial statements. In 2008, the Group fully repaid liability under the lease contract.

#### *Unamortised Debt Issue Costs*

Unamortised debt issue costs represent agent commission and arrangement costs paid by the Group in relation to the arrangement of loans and issue of notes.



## Notes to the Consolidated Financial Statements (continued)

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

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

#### Unutilised Borrowing Facilities

As at December 31, 2008, 2007 and 2006 the Group had unutilised borrowing facilities in the amount of 280,522, 491,854 and 314,501, respectively.

#### Finance Lease Liabilities

Starting from 2001, the Group entered into lease agreements under which it has a bargain option to acquire the leased assets at the end of lease term ranging from 1 to 20 years. The estimated average remaining useful life of leased assets varies from 4 to 20 years.

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

|                              | 2008          | 2007         | 2006       |
|------------------------------|---------------|--------------|------------|
| Machinery and equipment      | 34,578        | 330          | -          |
| Transport and motor vehicles | 863           | 883          | 657        |
|                              | <b>35,441</b> | <b>1,213</b> | <b>657</b> |

The leased assets are included in property, plant and equipment in the consolidated balance sheet (Note 18).

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows at December 31, 2008:

|   | Minimum payments | Present value of payments |
|---|------------------|---------------------------|
| 2009                                      | 3,050            | 1,822                     |
| 2010-2013                                 | 11,028           | 6,679                     |
| after 2013                                | 40,205           | 32,290                    |
| Total minimum lease payments              | <b>54,283</b>    | <b>40,791</b>             |
| Less amounts representing finance charges | (13,492)         |                           |
| Present value of minimum lease payments   | <b>40,791</b>    | <b>40,791</b>             |

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows at December 31, 2007:

|   | Minimum payments | Present value of payments |
|---|------------------|---------------------------|
| 2008                                      | 344              | 302                       |
| 2009 – 2010                               | 434              | 404                       |
| Total minimum lease payments              | <b>778</b>       | <b>706</b>                |
| Less amounts representing finance charges | (72)             |                           |
| Present value of minimum lease payments   | <b>706</b>       | <b>706</b>                |

## Notes to the Consolidated Financial Statements (continued)

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

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

#### Finance Lease Liabilities (continued)

Future minimum lease payments were as follows at December 31, 2006:

|   | Minimum payments | Present value of payments |
|---|------------------|---------------------------|
| 2007                                      | 205              | 187                       |
| 2008 - 2009                               | 249              | 244                       |
| Total minimum lease payments              | <b>454</b>       | <b>431</b>                |
| Less amounts representing finance charges | (23)             |                           |
| Present value of minimum lease payments   | <b>431</b>       | <b>431</b>                |

In the years ended December 31, 2008, 2007 and 2006, the average interest rates under the finance lease liabilities were 3%, 4% and 6%, respectively.

### 24) Employee Benefit Liability

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. Defined benefits consist of lump-sum amounts payable at the retirement date and certain regular post-retirement payments. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreement. The Group pays the benefits when they fall due for payment.

The following table summaries the components of net benefit expense recognised in the consolidated income statement and amounts recognised in consolidated balance sheets by country:

|  | Russia          |                 |                 | Romania        |                |                | Total           |                 |                 |
|--|-----------------|-----------------|-----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|
|  | 2008            | 2007            | 2006            | 2008           | 2007           | 2006           | 2008            | 2007            | 2006            |
| <i>Movement in the benefit liability:</i>  |                 |                 |                 |                |                |                |                 |                 |                 |
| At January 1   | (22,216)        | (19,731)        | (17,396)        | (1,931)        | (1,318)        | (613)          | (24,147)        | (21,049)        | (18,009)        |
| Benefit expense  | (365)           | (1,204)         | (1,396)         | 53             | (615)          | (587)          | (312)           | (1,819)         | (1,983)         |
| Benefit paid   | 1,568           | 1,179           | 694             | 119            | 92             | 61             | 1,687           | 1,271           | 755             |
| Change in liability due to business combinations   | -               | (957)           | -               | -              | -              | -              | -               | (957)           | -               |
| Currency translation adjustment  | 3,470           | (1,502)         | (1,633)         | 246            | (90)           | (179)          | 3,716           | (1,592)         | (1,812)         |
| <b>At December 31</b>  | <b>(17,543)</b> | <b>(22,215)</b> | <b>(19,731)</b> | <b>(1,513)</b> | <b>(1,931)</b> | <b>(1,318)</b> | <b>(19,056)</b> | <b>(24,146)</b> | <b>(21,049)</b> |
| <b>Short-term</b>  | <b>(1,869)</b>  | <b>(2,284)</b>  | <b>(706)</b>    | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>(1,869)</b>  | <b>(2,284)</b>  | <b>(706)</b>    |
| <b>Long-term</b>   | <b>(15,674)</b> | <b>(19,931)</b> | <b>(19,025)</b> | <b>(1,513)</b> | <b>(1,931)</b> | <b>(1,318)</b> | <b>(17,187)</b> | <b>(21,862)</b> | <b>(20,343)</b> |
| <i>Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses):</i> |                 |                 |                 |                |                |                |                 |                 |                 |
| Current service cost   | 1,127           | 932             | 1,044           | 250            | 285            | 306            | 1,377           | 1,217           | 1,350           |
| Interest cost on benefit obligation  | 967             | 1,828           | 1,441           | 168            | 99             | 66             | 1,135           | 1,927           | 1,507           |
| Net actuarial (gain) loss recognised in the period   | (1,913)         | (1,764)         | (1,279)         | (471)          | 231            | 215            | (2,384)         | (1,533)         | (1,064)         |
| Past service cost  | 184             | 208             | 190             | -              | -              | -              | 184             | 208             | 190             |
| <b>Net benefit expense / (income)</b>  | <b>365</b>      | <b>1,204</b>    | <b>1,396</b>    | <b>(53)</b>    | <b>615</b>     | <b>587</b>     | <b>312</b>      | <b>1,819</b>    | <b>1,983</b>    |

## Notes to the Consolidated Financial Statements (continued)

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

### 24) Employee Benefit Liability (continued)

The Group expects to contribute 1,892 to its defined post-employment benefit programme in 2009.

|   | 2008          | 2007          | 2006          |
|---|---------------|---------------|---------------|
| Present value of defined benefit obligation | 21,317        | 27,467        | 24,341        |
| Unrecognised past service cost              | (2,261)       | (3,321)       | (3,292)       |
| <b>Benefit liability as at December 31</b>  | <b>19,056</b> | <b>24,146</b> | <b>21,049</b> |

The Group had no plan assets and unrecognised actuarial gains or losses in the year ended December 31, 2008.

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

|   | 2008          | 2007          | 2006          |
|---|---------------|---------------|---------------|
| <b>Defined benefit obligation as at December 31</b> | <b>21,317</b> | <b>27,467</b> | <b>24,341</b> |
| Experience adjustments on plan liabilities          | 954           | (1,639)       | (2,199)       |

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

|   | Russia |       |       | Romania   |  |   |
|---|--------|-------|-------|---|--|---|
|   | 2008   | 2007  | 2006  | 2008  | 2007   | 2006  |
| Discount rate                                   | 8.85%  | 7.75% | 7.75% | current 9.51%, decreasing to 3.53% in the long-term | current 6.7%, decreasing to 3.53% in the long-term | current 7.25%, decreasing to 3.53% in the long-term |
| Average long-term rate of compensation increase | 6.25%  | 6.25% | 6.25% | current 6.0%, decreasing to 2.0% in the long-term   | current 14.0%, decreasing to 2.0% in the long-term | current 5.0%, decreasing to 2.0% in the long-term   |

# 

## 

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

### 

| Company                                      | Location    | Main activity  | Actual ownership interest | Effective ownership interest | Actual ownership interest | Effective ownership interest | Actual ownership interest | Effective ownership interest |
|--|-------------|--|---------------------------|------------------------------|---------------------------|------------------------------|---------------------------|------------------------------|
|  |             |  | December 31, 2008         | December 31, 2008            | December 31, 2007         | December 31, 2007            | December 31, 2006         | December 31, 2006            |
| IPSCO Tubulas Inc.                           | USA         | Manufacturing of seamless steel pipes, welded steel pipes and other products                                     | 100.00%                   | 100.00%                      | 0.00%                     | 0.00%                        | 0.00%                     | 0.00%                        |
| NS Group Inc. *                              | USA         | Manufacturing of seamless steel pipes, welded steel pipes and other products                                     | 51.00%                    | 51.00%                       | 0.00%                     | 0.00%                        | 0.00%                     | 0.00%                        |
| OAo “Sinarsky Pipe Plant”                    | Russia      | Manufacturing of seamless steel pipes, sale of electric and heating power and other services                     | 92.95%                    | 92.95%                       | 92.68%                    | 92.68%                       | 92.43%                    | 92.43%                       |
| OAo “Seversky Pipe Plant”                    | Russia      | Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services | 93.53%                    | 93.53%                       | 93.29%                    | 93.29%                       | 92.97%                    | 92.97%                       |
| OAo “Volzhsky Pipe Plant”                    | Russia      | Manufacturing of seamless steel pipes, welded steel pipes and other products                                     | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| OAo “Taganrog Metallurgical Plant”           | Russia      | Manufacturing of seamless steel pipes, welded steel pipes, sale of steel ingots and other products               | 95.94%                    | 95.94%                       | 95.94%                    | 100.00%                      | 95.74%                    | 100.00%                      |
| OAo “Orsky Machine Building Plant”           | Russia      | Manufacturing of drilling locks and other products   | 75.00%                    | 75.00%                       | 75.00%                    | 75.00%                       | 75.00%                    | 75.00%                       |
| ZAO “Trade House TMK”                        | Russia      | Sales & Distrubution, pipes  | 100.00%                   | 99.92%                       | 100.00%                   | 99.92%                       | 100.00%                   | 99.92%                       |
| OOO “Skladskoy Kompleks TMK”                 | Russia      | Sales & Distrubution,pipes   | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| TOO “TMK-Kazakhstan”                         | Kazakhstan  | Sales & Distribution, pipes  | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| TOO Kazrubprom                               | Kazakhstan  | Manufacturing of seamless steel pipes and other products   | 100.00%                   | 100.00%                      | 0.00%                     | 0.00%                        | 0.00%                     | 0.00%                        |
| OOO “TMK-Trans”                              | Russia      | Logistics  | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| OOO “Blagoustroystvo”                        | Russia      | Services   | 100.00%                   | 99.99%                       | 100.00%                   | 99.99%                       | 100.00%                   | 99.99%                       |
| OOO “Sinarsky Trubnik”                       | Russia      | Services   | 0.00%                     | 0.00%                        | 0.00%                     | 0.00%                        | 100.00%                   | 100.00%                      |
| OOO “SinaraTransAvto”                        | Russia      | Services   | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| OOO “Sinaproekt”                             | Russia      | Services   | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| TMK Global AG                                | Switzerland | Sales & Distribution, pipes  | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| TMK North America Inc.                       | USA         | Sales & Distribution,pipes   | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| TMK Italia s.r.l. (former Eurosinara s.r.l.) | Italy       | Sales & Distribution,pipes   | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| TMK Middle East FZCO                         | UAE         | Sales & Distribution, pipes  | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| OOO Pokrovka 40                              | Russia      | Assets holding   | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| TMK Europe GmbH (former Sinara Handel GmbH)  | Germany     | Sales & Distribution of pipes, raw materials and equipment procurement   | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      |
| SC TMK-ARTROM SA                             | Romania     | Manufacturing of seamless steel pipes  | 80.56%                    | 80.56%                       | 80.56%                    | 80.56%                       | 80.56%                    | 80.56%                       |
| SC TMK-RESITA SA                             | Romania     | Manufacturing of billets and other pipe-related goods  | 99.49%                    | 99.49%                       | 99.49%                    | 99.49%                       | 99.49%                    | 99.49%                       |
| TMK Eastern Europe SA                        | Romania     | Sale of pipes and other goods  | 0.00%                     | 0.00%                        | 0.00%                     | 0.00%                        | 95.00%                    | 95.00%                       |
| WRJ INWESTYCJE SP Z O.O.                     | Poland      | Investment company   | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 80.00%                    | 80.00%                       |

## Notes to the Consolidated Financial Statements (continued)

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

### 25) Principal Subsidiaries (continued)

| Company  | Location   | Main activity  | Actual ownership interest | Effective ownership interest | Actual ownership interest | Effective ownership interest | Actual ownership interest | Effective ownership interest |
|--|------------|--|---------------------------|------------------------------|---------------------------|------------------------------|---------------------------|------------------------------|
|  |            |  | December 31, 2008         | December 31, 2008            | December 31, 2007         | December 31, 2007            | December 31, 2006         | December 31, 2006            |
| TMK Capital S.A. (till January 15, 2007)   | Luxembourg | Financing (SPV)  | 0.00%                     | 0.00%                        | 0.00%                     | 0.00%                        | 0.00%                     | 0.00%                        |
| Joint-Stock Company "Russian Research Institute of the Tube and Pipe Industries" | Russia     | In-house R&D facility  | 97.36%                    | 97.36%                       | 97.36%                    | 100%                         | 0.00%                     | 0.00%                        |
| ООО "Predpriyatiye "Truboplast"  | Russia     | Laying of main piping, telecommunication and electricity                     | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 0.00%                     | 0.00%                        |
| ZAO "Pipe Repair Department"   | Russia     | Services for oil and gas industries  | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 0.00%                     | 0.00%                        |
| ООО "TMK-Premium Services"   | Russia     | Sales & Distribution, premium pipes  | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 0.00%                     | 0.00%                        |
| ООО "Central Pipe Yard"  | Russia     | Services for oil and gas industries  | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 0.00%                     | 0.00%                        |
| ООО "Accounting services center"   | Russia     | Accounting shared-services   | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 0.00%                     | 0.00%                        |
| Rockarrow Investments Limited  | Cyprus     | Stock option program servicing   | 100.00%                   | 100.00%                      | 100.00%                   | 100.00%                      | 0.00%                     | 0.00%                        |
| ZAO "TMK-CPW" **   | Russia     | Manufacturing of seamless steel pipes, welded steel pipes and other products | 54.00%                    | 50.51%                       | 51.00%                    | 47.58%                       | 0.00%                     | 0.00%                        |
| ООО ТМК –SMS Metallurgical Service   | Russia     | Maintenance and repair of equipment  | 51.00%                    | 47.58%                       | 51.00%                    | 47.58%                       | 0.00%                     | 0.00%                        |

\* The Group recorded a liability under that put/call option in the consolidated financial statements

\*\* The Group recorded a liability under that put option in the consolidated financial statements

Actual ownership interest in subsidiaries differs from the effective ownership interests due to the existence of minority interests in subsidiaries that hold ownership interest in other subsidiaries.

### 26) Related Parties Disclosures

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. In 2008, 2007 and 2006 transactions with related parties were on arm length basis.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2008, 2007 and 2006 are detailed below.

## Notes to the Consolidated Financial Statements (continued)

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

### 26) Related Parties Disclosures (continued)

In the year ended December 31, 2008, 2007 and 2006 transactions with related parties constituted approximately 0.2 %, 0.5 % and 0.9 % of the total volume of the Group's sales of goods, respectively.

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

|                                   | 2008    | 2007     | 2006    |
|-----------------------------------|---------|----------|---------|
| Cash and cash equivalents         | 6,062   | 41,335   | 50,673  |
| Accounts receivable – current     | 9,407   | 17,630   | 11,632  |
| Prepayments – current             | 2       | 2        | 15      |
| Accounts receivable – non-current | 68      | 221      | 2,270   |
| Borrowings from related parties   | -       | -        | (3,550) |
| Accounts payable – current        | (4,859) | (14,924) | (5,278) |
| Accounts payable – non-current    | -       | (5)      | -       |
| Interest payable                  | (131)   | -        | -       |

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

| Entities under common control with the Group  | 2008   | 2007   | 2006   |
|---|--------|--------|--------|
| Sales revenue                                 | 13,628 | 22,293 | 31,575 |
| Purchases of goods and services               | 8,283  | 3,750  | 14,223 |
| Interest income from loans and borrowings     | 841    | 2,013  | 2,113  |
| Interest expenses from loans and borrowings   | 155    | 61     | 778    |
| Loss on sale of treasury shares to management | 15     | -      | -      |

Sales revenues to related parties relate principally to sales of heat and power energy to Kamenskaya Kommunalnaya Kompaniya.

In the years ended December 31, 2008, 2007 and 2006, the Group paid dividends to the Parent company and entities under common control in the amounts of 163,861, 106,516 and 11,225, respectively.

On October 6, 2006, the Group granted loans to TMK Steel Limited in the aggregate principal amount of 780,000 for the term of up to five years. The loans bore interest of 8.51% per annum and were unsecured. In November 2006, TMK Steel Limited repaid the loans to the Group together with accrued interest of 5,473.

In addition to transactions with related parties disclosed in this note, other transactions with related parties are disclosed in Notes 10 and 28.

#### *Compensation of Key Management Personnel of the Group*

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 30, 33 and 33 persons as at December 31, 2008, 2007 and 2006, respectively. Total compensation to key management personnel included in general and administrative expenses in the income statement amounted to 22,875, 29,636 and 14,620 for the year ended December 31, 2008, 2007 and 2006, respectively. These amounts include 4,452 and 5,005 of share-based payments for the year ended December 31, 2008 and 2007, respectively.



## Notes to the Consolidated Financial Statements (continued)

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

### 26) Related Parties Disclosures (continued)

#### *Compensation of Key Management Personnel of the Group (continued)*

Compensation to key management personnel consists of contractual salary, performance bonus depending on operating results, share-based payments.

The Group guaranteed debts of key management personnel outstanding as at December 31, 2008 in the amount of 3,826 with maturity in 2009-2014.

### 27) Contingencies and Commitments

#### *Operating Environment of the Group*

Significant part of the Group's principal assets are located in the Russian Federation and therefore its significant operating risks are related to the activities of the Group in this country.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crises has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

The volatile global economic climate is having significant negative effects on the Group's business in Russia and North America.

#### *Taxation*

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

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

## Notes to the Consolidated Financial Statements (continued)

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

### 27) Contingencies and Commitments (continued)

#### *Taxation (continued)*

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

In 2007 and 2008, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 827,852 thousand Russian roubles (28,177 at the exchange rate as at December 31, 2008). The Group accepted the claims for the amount of 58,640 thousand Russian roubles (1,996 at the exchange rate as at December 31, 2008), of which 28,424 thousand Russian roubles and 30,216 were accrued as of December 31, 2007 and 2008, respectively. Other claims totaling to 769,212 thousand Russian roubles (26,181 at the exchange rate as at December 31, 2008) have been contested by the Group in the courts.

At the date these financial statements have been authorised for issue, the courts made decisions in favor of the Group for the total amount of 373,573 thousand Russian roubles (12,715 at the exchange rate as at December 31, 2008). The remaining claims for 395,639 thousand Russian roubles (13,466 at the exchange rate as at December 31, 2008) are continued to be contested in the courts. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Therefore, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2008.

#### *Contractual Commitments and Guarantees*

As at December 31, 2008, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 4,149,665 thousand Russian roubles (141,239 at the exchange rate as at December 31, 2008), 227,167 thousand euros (320,419 at the exchange rate as at December 31, 2008), 5,991 Romanian lei (2,143 at the exchange rate as at December 31, 2008) and 2,308 thousand US dollars for the total amount of 466,110 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 52,179, 76,223 and 32,299 with respect to such commitments as at December 31, 2008, 2007 and 2006, respectively.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 154,556, 285,852 and 47,301 as at December 31, 2008, 2007 and 2006, respectively.

#### *Insurance Policies*

For Russian subsidiaries the Group maintains obligatory insurance policies required by the Russian Law and insurance policies in respect of certain assets pledged under loan agreements. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

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

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

**27) Contingencies and Commitments (continued)**

*Legal Claims*

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these consolidated financial statements.

*Guarantees of Debts of Others*

The Group has guaranteed debts of others outstanding at December 31, 2008, 2007 and 2006 in the amount of 6,219, 4,889 and 4,562 respectively.

**28) Equity**

*i) Share Capital*

As at December 31, 2008, 2007 and 2006 the authorised number of ordinary shares of the Company was 873,001,000 with a nominal value per share of 10 Russian roubles. All these shares are issued and fully paid.

*ii) Reserve Capital*

According to Russian Law, the Company must create a reserve capital in the amount of 5% of the share capital per the Russian statutory accounts by annual appropriations that should be at least 5% of the annual net profit per the statutory financial statements. The reserve capital can be used only for covering losses and for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

Notes to the Consolidated Financial Statements (continued)

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

28) Equity (continued)

iii) Dividends

|  | in thousands of Russian rubles |                  |                | in thousands of US dollars* |                |               |
|--|--------------------------------|------------------|----------------|-----------------------------|----------------|---------------|
|  | 2008                           | 2007             | 2006           | 2008                        | 2007           | 2006          |
| Declared during the year   |                                |                  |                |                             |                |               |
| dividends on ordinary shares:  |                                |                  |                |                             |                |               |
| Final dividends for 2005,<br>(0.542 RUR per share) or<br>(0.020 US dollars per share)                          | -                              | -                | 473,359        | -                           | -              | 17,101        |
| Final dividends for 2006,<br>(4.3 RUR per share) or (0.17<br>US dollars per share)                             | -                              | 3,753,904        | -              | -                           | 145,624        | -             |
| Interim dividends for 2007,<br>including dividends related to<br>treasury shares in possession of<br>the Group | -                              | 3,168,994        | -              | -                           | 128,140        | -             |
| (3.63 RUR per share) or<br>(0.15 US dollars per share)   | -                              | (3,759)          | -              | -                           | (152)          | -             |
| Final dividends for 2007,<br>including dividends related to<br>treasury shares in possession of<br>the Group   | 899,191                        | -                | -              | 38,224                      | -              | -             |
| (1.03 RUR per share) or<br>(0.044 US dollars per share)  | (1,819)                        | -                | -              | (77)                        | -              | -             |
| Interim dividends for 2008,<br>including dividends related to<br>treasury shares in possession of<br>the Group | 1,527,752                      | -                | -              | 56,660                      | -              | -             |
| (1.75 RUR per share) or<br>(0.065 US dollars per share)  | (5,871)                        | -                | -              | (218)                       | -              | -             |
|  | <b>2,419,253</b>               | <b>6,919,139</b> | <b>473,359</b> | <b>94,589</b>               | <b>273,612</b> | <b>17,101</b> |

\*using exchange rate at the announcement date

In July 2006, the Company declared dividends in respect of 2005 in the amount of 473,359 thousand Russian rubles (17,101 at the exchange rate at the announcement date) or 0.542 Russian rubles per share (0.020 US dollars per share).

In June 2007, the Company declared dividends in respect of 2006 in the amount of 3,753,904 thousand Russian rubles (145,624 at the exchange rate at the announcement date) or 4.3 Russian rubles per share (0.17 US dollars per share). In December 2007, the Company declared interim dividends in respect of 2007 in the amount of 3,168,994 thousand Russian rubles (128,140 at the exchange rate at the announcement date) or 3.63 rubles per share (0.15 US dollars per share) from which 3,759 thousand Russian rubles (152 at the exchange rate at the transaction date) related to treasury shares in possession of the Group as at the date of dividends declaration.

In June 2008, the Company declared a final dividend in respect of 2007 in the amount of 899,191 thousand Russian rubles (38,224 at the exchange rate at the announcement date) or 1.03 Russian rubles per share (0.044 US dollars per share), from which 1,819 thousand Russian rubles (77 at the exchange rate at the transaction date) related to the treasury shares in possession of the Group as at the date of dividends declaration.

## Notes to the Consolidated Financial Statements (continued)

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

### 28) Equity (continued)

#### iii) Dividends (continued)

In November 2008, the Company declared an interim dividend in respect of 2008 in the amount of 1,527,752 thousand Russian roubles (56,660 at the exchange rate at the announcement date) or 1.75 Russian roubles per share (0.065 US dollars per share), from which 5,871 thousand Russian roubles (218 at the exchange rate at the transaction date) related to the treasury shares in possession of the Group as at the date of dividends declaration.

In accordance with Russian legislation, dividends may only be declared to the shareholders from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had 480,743, 1,007,906 and 457,583 of undistributed and unreserved earnings recognised in Russian statutory financial statements as at December 31, 2008, 2007 and 2006, respectively. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 1,905,095, 2,403,231 and 892,900 as at December 31, 2008, 2007 and 2006, respectively.

#### iv) Transfers of Controlling Interests in Subsidiaries

In 2007 and 2006, there were transfers of controlling interests in subsidiaries in transactions with entities under common control with the Group. The Group has applied the pooling of interests method of accounting with respect to these acquisitions and presented its consolidated financial statements as if the transfers of the controlling interest in subsidiaries had occurred from the beginning of the earliest period presented or, if later, the date of acquisition of the subsidiary by the transferring entity. Such transfers included the following:

- In June 2005, the Group signed an agreement with an entity under common control with the Group for the purchase of 100% ownership interest in Sinara Handel GmbH, an entity registered in Germany, for the consideration of 40,000. The title to the 100% ownership interest in Sinara Handel GmbH was transferred to the Group on March 1, 2006. An amount of 20,000 was paid by the Group prior to December 31, 2005 and an amount of 20,000 was paid by the Group on March 3, 2006. This payment was included in distribution to owners as a change to retained earnings.
- On August 25, 2006, the Group signed an agreement on the purchase of 75% ownership interest in ОАО "Orsky Machine Building Plant" for 45,512 from an entity under common control with the Group. Title transferred to the Group and control over ОАО "Orsky Machine Building Plant" was obtained by the Group on January 31, 2007. Payment for 75% ownership interest for 45,512 was made on November 9, 2006 and is included in distributions to owners as a reduction in additional paid-in capital in the consolidated financial statements. In 2006, ОАО "Orsky Machine Building Plant" paid dividends in the amount of 950 for 2005 and for the six months ended June 30, 2006 to its former owner.
- On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in ООО "Предприятие "Трубопласт" for 23,986 from entities under common control with the Group. The entity under common control with the Group acquired the controlling interest in Трубопласт on July 19, 2007. The difference of 6,834 between the acquisition value for entities under common control and the amount paid by Group was included in distributions to owners as a reduction in additional paid-in capital in the consolidated financial statements (Note 10).

## Notes to the Consolidated Financial Statements (continued)

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

### 28) Equity (continued)

#### v) *Acquisition of Minority Interests in Subsidiaries*

In the year ended December 31, 2006, the Company purchased additional 1.31% of OAO “Sinarsky Pipe Plant” shares, 1.37% of OAO “Seversky Pipe Plant” shares and 0.42% of OAO “Taganrog Metallurgical Plant” shares. The total amount paid for the shares was 21,423. The excess in the amount of 10,812 of the carrying values of net assets attributable to interest in the subsidiary acquired over the consideration given for such increase is charged to accumulated profits.

In the year ended December 31, 2007, the Company purchased additional 0.32% of OAO “Seversky Pipe Plant” shares, 0.25% of OAO “Sinarsky Pipe Plant” shares and 21.02% of OAO “RosNITI”. The total cash consideration for the shares amounted to 4,955. The excess in the amount of 1,675 of the consideration given for the shares over the carrying values of net assets attributable to interest in the subsidiary acquired was charged to accumulated profits. The excess in the amount of 531 of the carrying values of net assets attributable to interest in ROSNITI over the consideration paid for such minority interest is recorded in additional paid-in capital.

In the year ended December 31, 2008, the Company purchased additional 0.24% of OAO “Seversky Pipe Plant” shares, 0.27% of OAO “Sinarsky Pipe Plant” shares. The total cash consideration for the shares amounted to 2,547. The excess in the amount of 191 of the consideration given for the shares over the carrying values of net assets attributable to interest in OAO “Seversky Pipe Plant” was charged to accumulative profit. The excess in the amount of 178 of the carrying values of net assets attributable to interest in OAO “Sinarsky Pipe Plant” over the consideration paid for such minority interest is recorded in additional paid-in capital.

#### vi) *Dividends by Subsidiaries of the Group to the Minority Owners in Subsidiaries*

Dividends declared by subsidiaries of the Group to the minority owners in subsidiaries were recorded as a reduction in minority interests of 4,752, 117 and 788 in the consolidated financial statements for the years ended December 31, 2008, 2007 and 2006, respectively.

#### vii) *Minority Put Options*

In 2006, new regulations were introduced in the Russian Federation in respect of joint stock companies in which a controlling shareholder owns not less than 95% of the share capital as at July 1, 2006. These amendments oblige a controlling shareholder to acquire the company’s shares in the case when the minority shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can initiate a forced disposal of the shares held by minority shareholders. The put and call options under this legislation expired in August 1, 2008.

On July 1, 2006, the Group had a 95.74% ownership interest in OAO “Taganrog Metallurgical Plant”. At this date, the Group derecognised minority interests of 14,443 and accrued a liability to minority shareholders for 27,106. The liability was measured based on the highest purchase price of these shares by the Group. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounted to 12,663 for year 2006.

## Notes to the Consolidated Financial Statements (continued)

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

### 28) Equity (continued)

#### vii) *Minority Put Options (continued)*

In the year ended December 31, 2007, the Company purchased additional 0.2% of OAO “Taganrog Metallurgical Plant” shares for 1,298 and recorded a decrease in the liability under put options by that amount.

On August 1, 2008, after expiration of minority puts, the Group recognised minority interests in OAO “Taganrog Metallurgical Plant” for 21,443 and de-recognised liability for 20,077. The excess of the amount of the recognised minority interests over the carrying value of the liability amounted to 1,366 and was charged to retained earnings.

At July 2, 2007, the Group had a 95.11% ownership interest in OAO “RosNITI”. At this date, the Group derecognised minority interests of 389 and accrued a liability to minority shareholders for 389.

As at August 1, 2008 the Group recognised minority interests in OAO “RosNITI” for 200 and de-recognised a liability to minority shareholders for 200.

In 2007, the Group established ZAO TMK-CPW, a new subsidiary with 51% ownership. Under the shareholders’ agreement, the minority shareholder in TMK-CPW owning 49% shares in the subsidiary has a put option to sell its shares to the Group under certain circumstances beyond the Group’s control. The Group recorded a liability under that put option in the consolidated financial statements. The excess of that liability over the fair value of assets contributed by the minority shareholder in the capital of TMK-CPW of 536 was charged to retained earnings in the consolidated financial statements of the Group for the year ended December 31, 2007.

In 2008 the share capital of the subsidiary was reduced to the actually paid amount of 714,601,000 Russian roubles. The decision was made by the Shareholder’s meeting as at September 30, 2008. The ownership of the Group amounted to 54%. Under the shareholders’ agreement, the minority shareholder in TMK-CPW owning 46% (2007: 49%) shares in the subsidiary had a put option to sell its shares to the Group under certain circumstances beyond the Group’s control. The Group recorded a liability under that put option in the consolidated financial statements.

#### viii) *Share-Based Payments*

On March 2, 2007, the Group adopted a share options programme (the “Programme”). Under the Programme, the members of the Board of Directors, senior executives and certain employees (the “Participants”) are granted options to acquire shares in the Company. The Programme provides for the grants of options to acquire up to 9,603,011 shares, representing 1.1% of the Company’s shares outstanding as at December 31, 2006. All the options were granted to the Participants in March 2007.

The options are exercisable in three phases in June 2007, June 2008 and June 2009, representing 25%, 35% and 40%, respectively, of the total amount of shares subject to the Programme.



## Notes to the Consolidated Financial Statements (continued)

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

### 28) Equity (continued)

#### viii) Share-Based Payments (continued)

The exercise price for options under the first phase was fixed at 217.6 Russian roubles per share (7.41 US dollars per share at the exchange rate as at December 31, 2008). The exercise price for options under the second phase was fixed at 226.68 Russian roubles per share (7.72 US dollars per share at the exchange rate as at December 31, 2008). The exercise price for options under the third phase was fixed at 228.60 Russian roubles per share (7.78 US dollars per share at the exchange rate as at December 31, 2008).

The weighted average fair value of options granted during 2007 was 1.32 US dollars per share. The fair value of the options granted is estimated at the date of grant using the Black Scholes pricing model, taking into account the terms and conditions upon which options were granted. The fair value of options granted during the year ended December 31, 2007 was estimated on the date of grant using the following assumptions:

|   |             |
|---|-------------|
| Dividend yield (%)                            | 1.62 – 2.07 |
| Expected volatility (%)                       | 14.54       |
| Risk-free interest rate (%)                   | 4.62 - 4.93 |
| Expected life (years)                         | 0.58 – 2.59 |
| Share price on the date of grant (US dollars) | 7.78        |

The historical volatility has been used for valuation of the share options granted in 2007. The expected volatility reflected the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

|                               | 2008             |      | 2007             |      |
|-------------------------------|------------------|------|------------------|------|
|                               | Number of shares | WAEP | Number of shares | WAEP |
| Outstanding as at January 1   | 7,202,258        | 9.40 | -                | -    |
| Granted during the year       | -                | -    | 9,603,011        | 8.70 |
| Exercised during the year     | -                | -    | (1,873,457)      | 8.56 |
| Expired during the year       | (3,361,054)      | 8.93 | (527,296)        | 8.72 |
| Outstanding as at December 31 | 3,841,204        | 7.78 | 7,202,258        | 9.40 |
| Exercisable as at December 31 | -                | -    | -                | -    |

#### viii) Share-Based Payments (continued)

The weighted average share price at the dates of exercise of these options was 10.07 US dollars in 2007.

The weighted average remaining contractual life for the share options outstanding as at December 31, 2008 was 0.75 year.

Notes to the Consolidated Financial Statements (continued)

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

28) Equity (continued)

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

|  | 2008             |        | 2007             |          |
|--|------------------|--------|------------------|----------|
|  | Number of shares | Cost   | Number of shares | Cost     |
| Outstanding as at January 1                    | 1,081,967        | 10,752 | -                | -        |
| Purchased during the year                      | 6,089,182        | 27,110 | 2,425,631        | 22,433   |
| Sold during the year                           | (4,100)          | (35)   | (1,873,457)      | (17,674) |
| Purchased back from the Programme participants | -                | -      | 529,793          | 5,993    |
| Outstanding as at December 31, 2008            | 7,167,049        | 37,827 | 1,081,967        | 10,752   |

In the year ended December 31, 2008, the Group purchased 6,089,182 shares of the Company of the total amount of 27,110 (at the exchange rates at the transaction dates), including 3,050 shares purchased from an entity under common control with the Group for 35. The Group purchased back from the Programme participants 43,532 shares of the Company for the amount of 383. There were no sales of shares to the Programme participants in 2008.

In the year ended December 31, 2007, the Group purchased 2,425,631 shares of the Company for the total amount of 22,433 (at the exchange rate at the transaction date), including 571,631 shares purchased from the entity under common control with the Group for 5,151, for the purpose of realisation of the Programme. Cost of 1,873,457 shares sold to the Programme participants comprised 17,674. The excess of the purchase cost of treasury shares over the proceeds from their sale amounting to 1,631 was charged to additional paid-in capital. The Group purchased back from the Programme participants 529,793 shares of the Company for the amount of 5,993.

x) Warrants

On March 5, 2008, the Group purchased 1,200,000 warrants for the total amount of 5,590. Each warrant grants the Group a right to acquire the Company's shares at a strike price of 4.51 US dollars. The warrants become exercisable and expire on October 10, 2009.

xi) Hedge in Net Investment in Foreign Operations

At the date of acquisition of controlling interests in NS Group, Inc. and IPSCO Tubulars, Inc. (Note 10) the Group hedged its net investment in these operations against foreign currency risk using US dollar denominated liabilities incurred in connection with this acquisition. As at December 31, 2008, such liabilities included 600,000 bridge loan facility, 600,000 10% loan participation notes issued on July 25, 2008 and put option liability to Evraz Group S.A. amounting to 510,625 (Note 10). The aim of the hedging was to eliminate foreign currency risk associated with the repayment of the liabilities resulting from changes in US dollar/Russian rouble spot rates.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the year ended December 31, 2008, the effective portion of net losses from spot rate changes of the above mentioned liabilities of 8,391,090 thousand roubles (328,340 at historical exchange rate), net of income tax benefit of 1,369,226 thousand roubles (approximately 53,577 at historical exchange rate), was recognised directly in equity (foreign currency translation reserve).

## Notes to the Consolidated Financial Statements (continued)

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

### 28) Equity (continued)

#### *xii) Excess of the Fair Value of Ordinary Shares Sold to the Group's Employees over the Offer Price of Ordinary Shares*

In the year ended December 31, 2006, TMK Steel Limited sold 2,650,000 ordinary shares, amounting to approximately 0.3% of the issued and outstanding ordinary shares, to the Group's employees at a price of 123 Russian roubles (approximately 4.67 US dollars as at December 31, 2006) per ordinary share in the employee offering.

The excess of the fair value of ordinary shares sold to the Group's employees over the offer price of ordinary shares in the total amount of 2,142 was recorded as an increase in additional paid-in capital and as salaries and wages in general and administrative expenses in the consolidated financial statements for the year ended December 31, 2006.

### 29) Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise bank loans, bonds issued, trade payables, liabilities under put options of minority shareholders in subsidiaries and finance leases. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The presented information shows susceptibility of the Group concerning each of these risks. The Board of Directors reviews and establishes policies for managing each of these risks which are summarised below.

#### *Market Risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of its financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on the risk.

#### *Interest Rate Risk*

Changes in interest rates affect the market value of financial assets and liabilities of the Group and level of finance charges. Group's interest rate risk management policy is to minimise risk with the aim to achieve financial structure objectives defined and approved in the management's plans. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and the funding of portfolio developments consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and variable rate basis. EURIBOR and LIBOR served as the basis for the calculation of interest rates on loans with variable rate. As these loans accounted for only 28%, 19% and 28% of the total loan portfolio at the end of 2008, 2007 and 2006, respectively, 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.

## Notes to the Consolidated Financial Statements (continued)

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

### 29) Financial Risk Management Objectives and Policies (continued)

#### *Interest Rate Risk (continued)*

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 |
|--------------------------------|--------------|-----------------------------|
| <b>As at December 31, 2008</b> |              |                             |
| Increase in LIBOR              | 55           | (3,481)                     |
| Decrease in LIBOR              | (55)         | 3,481                       |
| Increase in EURIBOR            | 30           | (776)                       |
| Decrease in EURIBOR            | (30)         | 776                         |
| <b>As at December 31, 2007</b> |              |                             |
| Increase in LIBOR              | 50           | (655)                       |
| Decrease in LIBOR              | (125)        | 1,637                       |
| Increase in EURIBOR            | 75           | (1,206)                     |
| Decrease in EURIBOR            | (150)        | 2,412                       |
| <b>As at December 31, 2006</b> |              |                             |
| Increase in LIBOR              | 50           | (777)                       |
| Decrease in LIBOR              | (100)        | 1,554                       |
| Increase in EURIBOR            | 150          | (1,810)                     |
| Decrease in EURIBOR            | (50)         | 603                         |

#### *Foreign Currency Risk*

The Group is exposed to currency risk on sales and purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily denominated are euro and US dollars.

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. In recent years the effect of the Russian rouble appreciation versus the US dollar has been more than offset by increased prices for the Group's tubular goods, both domestically and internationally. However, from the end of 2008 the Russian rouble was devaluated due to major circumstances.

As there can be no assurance that such a trend will continue in the future, the Group is considering the use of derivative instruments, including forward contracts and currency swaps, to manage its foreign exchange risks with respect to currency fluctuations of the US dollar versus the Russian rouble. The Group can provide no assurance, however, that such instruments will be available to the Group or that the use of such instruments will mitigate the Group's currency exposures.

## Notes to the Consolidated Financial Statements (continued)

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

### 29) Financial Risk Management Objectives and Policies (continued)

#### Foreign Currency Risk (continued)

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

|         | 2008   |             |             | 2007   |        |           | 2006   |        |           |
|---------|--|-------------|-------------|--|--------|-----------|--|--------|-----------|
|         | Resulting exchange differences reflected in: |             |             | Resulting exchange differences reflected in: |        |           | Resulting exchange differences reflected in: |        |           |
|         | Income statement                             | Equity      | Total       | Income statement                             | Equity | Total     | Income statement                             | Equity | Total     |
| USD/RUR | (182,743)                                    | (1,710,625) | (1,893,368) | (315,391)                                    | -      | (315,391) | (457,690)                                    | -      | (457,690) |
| EUR/RUR | (259,737)                                    | -           | (259,737)   | (54,521)                                     | -      | (54,521)  | (12,810)                                     | -      | (12,810)  |
| EUR/USD | 24,247                                       | -           | 24,247      | (40,988)                                     | -      | (40,988)  | 3,096  | -      | 3,096     |
| USD/RON | (133,809)                                    | -           | (133,809)   | (106,859)                                    | -      | (106,859) | 2,372  | -      | 2,372     |
| EUR/RON | (66,892)                                     | -           | (66,892)    | (91,791)                                     | -      | (91,791)  | (68,084)                                     | -      | (68,084)  |

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax and equity. In estimating reasonably possible changes for 2007 and 2006 the Group assessed the volatility of foreign exchange rates during the three years preceding the balance sheet dates. In 2008, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during 2008.

|         | As at December 31, 2008 |         |                            |         |                  |         |
|---------|-------------------------|---------|----------------------------|---------|------------------|---------|
|         | Volatility range        |         | Effect on income statement |         | Effect on equity |         |
|         | Low                     | High    | Low                        | High    | Low              | High    |
| USD/RUR | 9.02%                   | -9.02%  | (16,483)                   | 16,483  | (154,298)        | 154,298 |
| EUR/RUR | 8.67%                   | -8.67%  | (22,519)                   | 22,519  | -                | -       |
| EUR/USD | 14.32%                  | -14.32% | 3,472                      | (3,472) | -                | -       |
| USD/RON | 19.50%                  | -19.50% | (26,093)                   | 26,093  | -                | -       |
| EUR/RON | 11.35%                  | -11.35% | (7,592)                    | 7,592   | -                | -       |

|         | As at December 31, 2007 |         |                            |        |                  |      |
|---------|-------------------------|---------|----------------------------|--------|------------------|------|
|         | Volatility range        |         | Effect on income statement |        | Effect on equity |      |
|         | Low                     | High    | Low                        | High   | Low              | High |
| USD/RUR | 4.20%                   | -5.80%  | (13,246)                   | 18,293 | -                | -    |
| EUR/RUR | 3.25%                   | -5.45%  | (1,772)                    | 2,971  | -                | -    |
| EUR/USD | 7.35%                   | -7.35%  | (3,013)                    | 3,013  | -                | -    |
| USD/RON | 11.02%                  | -11.02% | (11,776)                   | 11,776 | -                | -    |
| EUR/RON | 8.00%                   | -8.00%  | (7,343)                    | 7,343  | -                | -    |

|         | As at December 31, 2006 |         |                            |        |                  |      |
|---------|-------------------------|---------|----------------------------|--------|------------------|------|
|         | Volatility range        |         | Effect on income statement |        | Effect on equity |      |
|         | Low                     | High    | Low                        | High   | Low              | High |
| USD/RUR | 4.50%                   | -6.10%  | (20,596)                   | 27,919 | -                | -    |
| EUR/RUR | 4.70%                   | -7.00%  | (602)                      | 897    | -                | -    |
| EUR/USD | 9.25%                   | -9.25%  | 286                        | (286)  | -                | -    |
| USD/RON | 11.51%                  | -11.51% | 273                        | (273)  | -                | -    |
| EUR/RON | 8.27%                   | -8.27%  | (5,631)                    | 5,631  | -                | -    |

## Notes to the Consolidated Financial Statements (continued)

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

### 29) Financial Risk Management Objectives and Policies (continued)

#### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

| As at December 31, 2008   | Less than<br>3 months | 3 to 12<br>month | 1 to 2<br>years | 2 to 3<br>years | 3 to 4<br>years | > 4 years     | Total            |
|---|-----------------------|------------------|-----------------|-----------------|-----------------|---------------|------------------|
| Trade and other payables  | 535,996               | 202,537          | -               | -               | -               | -             | 738,533          |
| Accounts payable to<br>related parties  | 1,427                 | 3,432            | -               | -               | -               | -             | 4,859            |
| Interest-bearing loans and<br>borrowings:                                       | -                     | -                | -               | -               | -               | -             | -                |
| Principal   | 458,603               | 1,714,350        | 82,337          | 820,778         | 46,549          | 54,834        | 3,177,451        |
| Interest  | 101,004               | 113,997          | 85,553          | 73,017          | 2,818           | 9,460         | 385,849          |
| Dividends payable   | 248                   | 113              | -               | -               | -               | -             | 361              |
| Liabilities under put<br>options of minority<br>shareholders in<br>subsidiaries | 552,989               | -                | -               | -               | -               | -             | 552,989          |
| Other non-current<br>liabilities  | -                     | -                | 2,966           | 67              | 4               | -             | 3,037            |
| Income tax payable  | 39,823                | -                | -               | -               | -               | -             | 39,823           |
|   | <b>1,690,090</b>      | <b>2,034,429</b> | <b>170,856</b>  | <b>893,862</b>  | <b>49,371</b>   | <b>64,294</b> | <b>4,902,902</b> |

## Notes to the Consolidated Financial Statements (continued)

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

### 29) Financial Risk Management Objectives and Policies (continued)

#### Liquidity Risk (continued)

| As at December 31, 2007  | Less than<br>3 months | 3 to 12<br>month | 1 to 2<br>years | 2 to 3<br>years | 3 to 4<br>years | > 4 years | Total     |
|--|-----------------------|------------------|-----------------|-----------------|-----------------|-----------|-----------|
| Trade and other payables   | 251,774               | 43,403           | -               | -               | -               | -         | 295,177   |
| Accounts payable to related parties                                    | 14,924                | -                | -               | -               | -               | -         | 14,924    |
| Interest-bearing loans and borrowings:                                 |                       |                  |                 |                 |                 |           | -         |
| Principal  | 477,939               | 539,138          | 447,675         | 39,532          | 9,303           | 14,945    | 1,528,532 |
| Interest   | 39,925                | 46,039           | 55,853          | 24,822          | 12,239          | 7,111     | 185,989   |
| Dividends payable  | 129,116               | -                | -               | -               | -               | -         | 129,116   |
| Liabilities under put options of minority shareholders in subsidiaries | 39,481                | -                | -               | -               | -               | -         | 39,481    |
| Other non-current liabilities  | -                     | 1,535            | 2,829           | 2,829           | 2,829           | 46,671    | 56,693    |
| Income tax payable   | 4,059                 | -                | -               | -               | -               | -         | 4,059     |
|  | 957,218               | 630,115          | 506,357         | 67,183          | 24,371          | 68,727    | 2,253,971 |

| As at December 31, 2006  | Less than<br>3 months | 3 to 12<br>month | 1 to 2<br>years | 2 to 3<br>years | 3 to 4<br>years | > 4 years | Total     |
|--|-----------------------|------------------|-----------------|-----------------|-----------------|-----------|-----------|
| Trade and other payables   | 236,626               | 11,934           | -               | -               | -               | -         | 248,560   |
| Accounts payable to related parties                                    | 3,379                 | 1,899            | -               | -               | -               | -         | 5,278     |
| Interest-bearing loans and borrowings:                                 |                       |                  |                 |                 |                 |           | -         |
| Principal  | 182,874               | 170,145          | 22,427          | 428,665         | 13,043          | 206,672   | 1,023,826 |
| Interest   | 28,028                | 43,096           | 58,602          | 48,353          | 18,395          | 9,760     | 206,234   |
| Dividends payable  | 1,383                 | -                | -               | -               | -               | -         | 1,383     |
| Liabilities under put options of minority shareholders in subsidiaries | 21,387                | -                | -               | -               | -               | -         | 21,387    |
| Other non-current liabilities  | -                     | -                | 1,414           | 2,829           | 2,829           | 49,500    | 56,572    |
| Income tax payable   | 17,976                | -                | -               | -               | -               | -         | 17,976    |
|  | 491,653               | 227,074          | 82,443          | 479,847         | 34,267          | 265,932   | 1,581,216 |

#### 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.



# 

## 

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

### 

#### *Credit Risk (continued)*

As at December 31, 2008, accounts receivable from the three biggest debtors of the Group amounted to 153,092. As at December 31, 2007, accounts receivable from the three biggest debtors of the Group amounted to 249,440. As at December 31, 2006, accounts receivable from the two biggest debtors of the Group amounted to 103,459. Management determines concentration by reference to receivables from particular customers as percentage of total accounts receivable.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below:

|  | 2008           | 2007           | 2006           |
|--|----------------|----------------|----------------|
| Cash and cash equivalents                | 143,393        | 89,045         | 144,010        |
| Financial investments                    | 3,885          | 116            | 174,543        |
| Trade and other receivables              | 751,715        | 523,787        | 274,451        |
| Accounts receivable from related parties | 9,475          | 17,853         | 11,647         |
| Other                                    | 8,851          | 6,603          | 8,028          |
|  | <b>917,319</b> | <b>637,404</b> | <b>612,679</b> |

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

|   | 2008           |                 | 2007           |                | 2006           |                |
|---|----------------|-----------------|----------------|----------------|----------------|----------------|
|   | Gross amount   | Impairment      | Gross amount   | Impairment     | Gross amount   | Impairment     |
| Current Trade and other receivables - not past due      | 575,467        | (20)            | 466,398        | -              | 235,405        | -              |
|   | -              | -               | -              | -              | -              | -              |
| Current Trade and other receivables - past due          | -              | -               | -              | -              | -              | -              |
| less than 30 days                                       | 66,300         | (82)            | 31,671         | -              | 32,939         | -              |
| between 30 and 90 days                                  | 98,010         | (2,855)         | 15,150         | -              | 5,078          | -              |
| over 90 days  | 25,034         | (10,163)        | 19,772         | (9,466)        | 10,701         | (9,699)        |
| Accounts receivable from related parties - not past due | 9,475          | -               | 17,853         | -              | 11,647         | -              |
| Non-current Trade and other receivables - not past due  | 36             | (12)            | 428            | (166)          | 66             | (39)           |
| Other - not past due                                    | 8,851          | -               | 6,603          | -              | 8,028          | -              |
|   | <b>783,173</b> | <b>(13,132)</b> | <b>557,875</b> | <b>(9,632)</b> | <b>303,864</b> | <b>(9,738)</b> |

The movement in allowance for doubtful accounts was as follows:

|   | 2008          | 2007         | 2006         |
|---|---------------|--------------|--------------|
| Balance at the beginning of the year        | 9,632         | 9,738        | 8,686        |
| Utilized during the year                    | (1,565)       | (1,029)      | (1,413)      |
| Additional increase/(decrease) in allowance | 7,212         | (1,125)      | 1,573        |
| Currency translation adjustment             | (2,147)       | 2,048        | 892          |
| <b>BALANCE AT THE END OF THE YEAR</b>       | <b>13,132</b> | <b>9,632</b> | <b>9,738</b> |

## Notes to the Consolidated Financial Statements (continued)

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

### 29) Financial Risk Management Objectives and Policies (continued)

#### *Capital Management*

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators.

Capital includes equity attributable to the equity holders of the parent entity.

The Group manages its capital structure and adjusts it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments.

#### *Fair Value of Financial Instruments*

The carrying amounts of financial instruments, such as cash and cash equivalents, short-term and long-term investments and short-term accounts receivable approximate their fair value.

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

|  | December 31, 2008   |            | December 31, 2007   |            | December 31, 2006   |            |
|--|---------------------|------------|---------------------|------------|---------------------|------------|
|  | Net carrying amount | Fair Value | Net carrying amount | Fair Value | Net carrying amount | Fair Value |
| <b>Financial Liabilities</b>                   |                     |            |                     |            |                     |            |
| Fixed rate bank loans                          | 1,039,956           | 1,012,526  | 614,388             | 614,388    | 147,882             | 147,828    |
| Variable rate bank loans                       | 924,445             | 853,353    | 306,403             | 306,403    | 288,708             | 288,708    |
| Bonds due 2009                                 | 102,109             | 102,109    | 104,043             | 104,053    | 97,346              | 98,028     |
| Bonds due 2011                                 | 170,181             | 144,229    | 203,698             | 203,962    | 189,890             | 190,649    |
| 8.5 per cent loan participation notes due 2009 | 300,000             | 235,500    | 300,000             | 305,616    | 300,000             | 311,162    |
| 10 per cent loan participation notes due 2011  | 600,000             | 324,000    | -                   | -          | -                   | -          |

The fair value of the bonds and notes was determined based on market quotations. The fair value of fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at prevailing interest rates of 17.5%, 15% and 14% per annum for loans denominated in Russian rouble, US dollar and Euro, respectively, as at December 31, 2008.

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

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

**30) Events after the Balance Sheet Date**

From December 31, 2008 to the date these financial statements have been authorised for issue, the Group has refinanced 1,387,499 of its short-term borrowings and obligations with facilities due not earlier than 2010:

- in January 2009, the Group entered into agreement with Gazprombank for 2.5 year term borrowing facilities of 1,107,542 to refinance the remaining part of the IPSCO Bridge Facility and acquire 49% of NS Group Inc. from Evraz in accordance with a call/put option concluded between TMK and Evraz in June 2008;
- in March 2009, TMK entered into one year loan agreement with VTB for 90,185. Using these proceeds, on March 24, 2009, the bearer coupon debt securities for the amount of 3,000,000 thousand Russian Roubles (102,109 at the exchange rate as of December 31, 2008) were redeemed;
- in January-March 2009 the Group refinanced other short-term loans for the total amount of 177,848.

On January 22, 2009, the Group and Evraz amended the option agreement to reduce the option price from 510,625 to 507,542. In addition, interest clause was removed from the option agreement. On January 30, 2009, TMK exercised its option for a 49% ownership interest in NS Group.

In the beginning of 2009, the Russian Rouble was devalued to major currencies. At the date these financial statements have been authorised for issue, the official exchange rate of the Russian Rouble to US Dollar as set by the Central Bank of Russia comprised 33.5533, which constitutes a 14.2% reduction in the value of the Russian Rouble to the US Dollar since December 31, 2008.

**REGISTERED OFFICE OF THE ISSUER**

**TMK Bonds SA**  
2, boulevard Konrad Adenauer  
L-1115 Luxembourg

**REGISTERED OFFICE OF TMK**

**OAo TMK**  
40 Pokrovka Street, Building 2A  
105062 Moscow, Russian Federation

**JOINT LEAD MANAGERS AND JOINT BOOKRUNNERS**

**Morgan Stanley & Co. International  
plc**  
25 Cabot Square  
London E14 4QA  
United Kingdom

**UBS Limited**  
1 Finsbury Avenue  
London EC2M 2PP  
United Kingdom

**VTB Capital plc**  
14 Cornhill  
London EC3V 3ND  
United Kingdom

**TRUSTEE**

**Deutsche Trustee Company Limited**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**PRINCIPAL PAYING, TRANSFER AND  
CONVERSION AGENT**

**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**REGISTRAR**

**Deutsche Bank Luxembourg S.A.**  
2 Boulevard Konrad Adenauer  
L-1115 Luxembourg

**LEGAL ADVISERS TO TMK**

*As to English law*

**White & Case LLP**  
5 Old Broad Street  
London, EC2N 1DW  
United Kingdom

*As to Russian law*

**White & Case LLC**  
4 Romanov Pereulok  
125009 Moscow  
Russian Federation

**LEGAL ADVISERS TO THE JOINT LEAD MANAGERS AND THE TRUSTEE**

*As to English law*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

*As to Russian law*

**Linklaters CIS**  
2/2 Paveletskaya Square  
Moscow 115054  
Russian Federation

**LEGAL ADVISERS TO THE ISSUER AS TO LUXEMBOURG LAW**

**Allen & Overy Luxembourg**  
33 avenue J.F. Kennedy  
L-1855 Luxembourg  
PO Box 5017  
L-1050 Luxembourg

**TAX ADVISERS TO TMK**

*As to Russian and Luxembourg tax law*

**Ernst & Young (CIS) B.V.**  
77/1 Sadovnicheskaya Nabersezhnaya  
Moscow 115035  
Russian Federation

**AUDITORS TO TMK**

**Ernst & Young LLC**  
77/1 Sadovnicheskaya Nabersezhnaya  
Moscow 115035  
Russian Federation

