U.S.$500,000,000 7.75% LOAN PARTICIPATION NOTES DUE 2018

issued by, but with limited recourse to,

TMK Capital S.A.

for the sole purpose of financing a loan to

OAO TMK

such loan initially unconditionally and irrevocably guaranteed by

OAO Volzhsky Pipe Plant and ZAO TMK Trade House,

and to be additionally unconditionally and irrevocably guaranteed by

OAO Seversky Pipe Plant, OAO Sinarsky Pipe Plant, OAO Taganrog Metallurgical Works and IPSCO Tubulars Inc.

Issue Price: 100%

TMK Capital S.A., a company incorporated as a société anonyme under the laws of the Grand Duchy of Luxembourg (the "**Issuer**"), with its registered office at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under the number B-119.081, is issuing an aggregate principal amount of U.S.$500,000,000 7.75% Loan Participation Notes due 2018 (the "**Notes**") for the sole purpose of financing a loan (the "**Loan**") to OAO TMK, an open joint stock company organised under the laws of the Russian Federation (the "**Borrower**"), pursuant to a loan agreement dated 25 January 2011 (the "**Loan Agreement**") between the Issuer and the Borrower. The Loan shall be initially unconditionally and irrevocably guaranteed (the "**Initial Loan Guarantee**") by the Borrower's subsidiaries OAO Volzhsky Pipe Plant and ZAO TMK Trade House (the "**Initial Loan Guarantors**"), and the Borrower has agreed in the Loan Agreement to procure that each of the Borrower's subsidiaries OAO Seversky Pipe Plant, OAO Sinarsky Pipe Plant, OAO Taganrog Metallurgical Works and IPSCO Tubulars Inc. (the "**Additional Loan Guarantors**" and, together with the Initial Loan Guarantors, the "**Loan Guarantors**") shall also provide an unconditional and irrevocable guarantee of the Loan (the "**Additional Loan Guarantee**", and together with the Initial Loan Guarantee, the "**Loan Guarantees**") within 90 days of 27 January 2011 (the "**Issue Date**"). In addition, in certain circumstances set out in the Loan Agreement, the Borrower may be obligated to procure certain further guarantees. **Failure of the Borrower to procure any such guarantees shall entitle the holders of the Notes** (the "**Noteholders**") **to request that the Issuer repurchase the Notes, as set out in the Terms and Conditions.**

Pursuant to the trust deed (the "**Trust Deed**") relating to the Notes between the Issuer and Deutsche Trustee Company Limited, as trustee (the "**Trustee**"), the Issuer will provide certain security for all payment obligations in respect of the Notes for the benefit of the Noteholders, including a first fixed charge in favour of the Trustee of all amounts paid and payable to it under the Loan Agreement and the Loan Guarantees and an assignment to the Trustee of the Issuer's rights and interests under the Loan Agreement and the Loan Guarantees, in each case other than in respect of certain reserved rights (as more fully described in *"Description of the Transaction and the Security*"). Interest on the Loan, and consequently the Notes, will be payable semi-annually in arrear on the interest payment date falling on 27 January and 27 July in each year, commencing on 27 July 2011 and the Loan will bear interest from, and including, 27 January 2011 at a rate of 7.75% per annum.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest, premium and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest, premium and additional amounts (if any) are due, for an amount equivalent to the principal, interest, premium, increased amounts of principal, interest, premium and any other payment due under the Loan Agreement and additional amounts (if any) actually received by or for the account of the Issuer from the Borrower or the Loan Guarantors pursuant to the Loan Agreement or the Loan Guarantees. The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Borrower and the Loan Guarantors in respect of the obligations of the Borrower and the Loan Guarantors under the Loan Agreement and the Loan Guarantees, respectively.**

Except as set forth herein, payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of any relevant jurisdiction.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 14.

The Notes, the Loan and the Loan Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes are being offered outside the United States in reliance on Regulation S under the Securities Act ("Regulation S") and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

This Prospectus has been approved by the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom (the "**U.K. Listing Authority**") as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Application has been made to admit the Notes to listing on the Official List of the U.K. Listing Authority and to trading on the Regulated Market (the "**Regulated Market**") of the London Stock Exchange plc (the "**London Stock Exchange**"). The Regulated Market is a regulated market for the purpose of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

It is expected that the Notes will be rated B1 by Moody's Investor Services ("**Moody's**") and B by Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("**Standard and Poor's**"). Credit ratings included or referred to in this Prospectus have been issued by Moody's and Standard and Poor's, each of which is established in the European Union and has applied to be registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. 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 Notes will be offered and sold in minimum denominations of U.S.$200,000 and higher denominations of U.S.$1,000 thereafter. The Notes will be represented by a global registered certificate (the "**Global Note Certificate**") registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about the Issue Date. Definitive registered certificates ("**Definitive Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form*".

JOINT LEAD MANAGERS

Barclays Capital **Deutsche Bank** **UBS Investment Bank**

The date of this Prospectus is 25 January 2011

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus (the "**Prospectus**") constitutes a prospectus for the purposes of the Prospectus Directive and for the purposes of giving information with respect to the Issuer, OAO TMK together with its consolidated subsidiaries ("**TMK**" or the "**TMK Group**"), the Loan Guarantors, the Loan Guarantees, the Loan and the Notes and which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, OAO TMK, the Loan Guarantors and the TMK Group. Each of the Issuer, OAO TMK and each of the Loan Guarantors accepts responsibility for the information contained in this document. To the best of the knowledge and belief of each of the Issuer, OAO TMK and each of the Loan Guarantors, each of which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

OAO TMK and each of the Loan Guarantors confirms that (i) this Prospectus contains all information with respect to TMK, each of the Loan Guarantors and their respective subsidiaries, the Loan, the Loan Guarantees and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to TMK, each of the Loan Guarantors and their respective subsidiaries are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to TMK, each of the Loan Guarantors and their respective subsidiaries 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 TMK, each of the Loan Guarantors and their respective subsidiaries, the Loan, the Loan Guarantees or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by TMK and each of the Loan Guarantors to ascertain such facts and to verify the accuracy of all such information and statements.

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

No person is authorised to provide any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, TMK, the Loan Guarantors, the Trustee or the Joint Lead 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 Prospectus.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note 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 Loan Guarantors since the date of this Prospectus.

None of the Issuer, TMK, the Loan Guarantors, the Joint Lead Managers, the Trustee or any of its or their respective representatives or affiliates makes any representation to any offeree or purchaser of the Notes 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 Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer, TMK, the Loan Guarantors, the Trustee and the Joint Lead Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which the Notes 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 Notes, Barclays Bank PLC (the "**Stabilising Manager**") (or any person acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes 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 Notes 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 Notes and 60 days after the date of the allotment of the Notes.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE JOINT LEAD 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 JOINT LEAD MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE JOINT LEAD 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 PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE JOINT LEAD 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 NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF TMK AND THE LOAN GUARANTORS 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.

NOTICE TO UNITED KINGDOM RESIDENTS

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

TABLE OF CONTENTS

	Page
FORWARD-LOOKING STATEMENTS	v
ENFORCEABILITY OF JUDGEMENTS	vi
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	vii
OVERVIEW OF THE GROUP	1
SUMMARY CONSOLIDATED HISTORICAL FINANCIAL DATA	7
TERMS OF THE OFFERING	10
RISK FACTORS	14
DESCRIPTION OF THE TRANSACTION AND THE SECURITY	45
CONCURRENT CONSENT SOLICITATION	47
USE OF PROCEEDS	48
CAPITALISATION	49
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	50
BUSINESS	92
RELATED PARTY TRANSACTIONS	133
PRINCIPAL SHAREHOLDERS	134
DIRECTORS AND MANAGEMENT	135
CERTAIN REGULATORY MATTERS	144
THE ISSUER	152
THE LOAN GUARANTORS	153
THE LOAN AGREEMENT	159
FORM OF DEED OF LOAN GUARANTEE	195
TERMS AND CONDITIONS OF THE NOTES	211
SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM	223
LEGAL MATTERS	225
INDEPENDENT AUDITORS	226
SUBSCRIPTION AND SALE	227
TAXATION OF THE NOTES, LOAN AND GUARANTEES	230
GENERAL INFORMATION	238
GLOSSARY OF SELECTED TERMS	241
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

FORWARD-LOOKING STATEMENTS

This Prospectus 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,*" "*Management's Discussion and Analysis of Financial Condition and Results of Operations,*" "*Risk Factors,*" "*Business*" and elsewhere in this Prospectus. These forward looking statements speak only as at the date of this Prospectus. 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 the Listing Rules of the Financial Services and Markets Act 2000 ("**FSMA**") or other applicable laws.

ENFORCEABILITY OF JUDGEMENTS

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

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

In addition, it may be difficult for the holders of Notes 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 Loan Agreement and the Loan Guarantees 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 UNCITRAL Arbitration Rules (the "**Rules**"). 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 Loan Agreement and the Loan Guarantees 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 2009 and 2008, as set forth on pages F-30 — F-110 in this Prospectus (the "**Annual Consolidated Financial Statements**"), and our unaudited interim condensed consolidated financial statements as at and for the six-month period ended 30 June 2010, as set forth on pages F-2 to F-29 in this Prospectus (the "**2010 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 2010 Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 (*Interim Financial Reporting*).

Presentation of Certain Terminology

In this Prospectus, 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;
- "**Blagoustroystvo**" are to OOO Blagoustroystvo;
- "**CAS**" are to OOO Center of Accounting Services;
- "**Central Pipe Yard**" are to OOO Central Pipe Yard;
- "**Corinth Pipeworks**" are to Corinth Pipeworks S.A.;
- "**Evraz**" are to Evraz Group S.A.;
- "**IPSCO Tubulars**" are to IPSCO Tubulars Inc.;
- "**Orsky Machine Building Plant**" are to OAO Orsky Machine Building Plant;
- "**Pipe Maintenance Department**" are to ZAO Pipe Maintenance Department;
- "**Pokrovka, 40**" are to OOO Pokrovka, 40;
- "**ProLime**" are to OOO ProLime;
- "**Rockarrow**" are to Rockarrow Investments Limited;
- "**RosNITI**" are to OAO RosNITI;
- "**RusNano**" are to the Russian Corporation of Nanotechnologies;
- "**Seversky**" are to OAO Seversky Pipe Plant;
- "**SinaraTransAvto**" are to OOO SinaraTransAvto;
- "**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 Hydroenergy Power**" are to TMK Hydroenergy Power S.R.L.;
- "**TMK Italia**" are to TMK Italia S.r.L.;
- "**TMK-INOX**" are to OOO TMK-INOX.;
- "**TMK IPSCO**" are to IPSCO Tubulars and its 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 NSG**" are to TMK NSG, LLC;
- "**TMK Oilfield Services**" are to OOO TMK Oilfield Services;
- "**TMK-Premium Service**" are to OOO TMK-Premium Service;
- "**TMK-Resita**" are to SC TMK-Resita S.A.;
- "**TMK-SMS**" are to OOO TMK-SMS Metallurgical Service;
- "**TMK Steel**" are to TMK Steel Limited;
- "**TMK Trade House**" are to ZAO TMK Trade House;
- "**TMK-Trans**" are to OOO TMK-Trans;
- "**ULTRA Premium Oilfield Services**" are to ULTRA Premium Oilfield Services, Ltd.;
- "**Truboplast**" are to OOO Predpriyatiye "Truboplast"; and
- "**Volzhsky**" are to OAO Volzhsky Pipe Plant.

Volume Measurement

In this Prospectus 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 Prospectus, 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; and
- "**USD**", "**U.S. dollar**" and "**U.S.$**" are to the currency of the United States of America.

Certain Jurisdictions

In this Prospectus, 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 Prospectus: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. In this Prospectus, 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.**" , "**United States**" and the "**Americas**" are to the United States of America.

Market, Other Statistical Data and Information Derived from Third Parties

Market data used in this Prospectus, including without limitation under the captions "*Overview of the Group,*" "*Management's Discussion and Analysis of Financial Condition 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. The Issuer, TMK and each of the Loan Guarantors confirm that such information has been accurately reproduced and that, so far as the Issuer, TMK and each of the Loan Guarantors are aware and are able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Where information has been sourced from a third party, this information has been accurately reproduced and so far as the Issuer, TMK and each of the Loan 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 Prospectus, 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*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting Our Results of Operations*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Disclosures about Market Risk*", "*Business — Competitive Strengths*" and "*Business — Production Facilities*".

Throughout this Prospectus, we have set forth certain statistical information sourced from third parties which has been accurately reproduced and so far as the Issuer, TMK and the Loan 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 and our estimated share of the worldwide seamless and seamless OCTG pipe market is based upon steel pipe production data for the first half of 2010 made publicly available by World Steel Association (former IISI) and upon data 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 (ii) data relating to our share of the steel pipe market in Russia is based upon Russian steel pipe production data for the first half of 2010 contained in monthly Metal Courier Reports, a compilation of statistical data from the Russian Ministry of Economics as well as Russian statistical 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 Prospectus 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 Prospectus 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 Prospectus, 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 Prospectus 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 Prospectus is the U.S. dollar. See the Notes to our Consolidated Financial Statements included elsewhere in this Prospectus 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 Prospectus.

	RUB per U.S.$1.00			
	High	Low	Period average[1]	Period end
Year ended 31 December				
2010	31.78	21.93	30.37	30.48
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 Condition and Results of Operations*", or as otherwise stated, this Prospectus contains translations of some rouble amounts into U.S. dollars at the rate of RUB 30.48 to U.S.$1.00, which was the rate published by the CBR on 31 December, 2010. From 1 January 2011 to 11 January 2011 the exchange rate between the Russian rouble and the U.S. dollar was RUB 30.35 to U.S.$1.00.

OVERVIEW OF THE GROUP

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

Information in this Prospectus is presented on the basis of certain conventions that are set forth under "Presentation of Financial and Other Information" and definitions of certain terms related to our business and industry are set forth under "Glossary of Selected Terms".

Our Business

We believe that we are among the world's largest steel pipe producers, with approximately a 7% worldwide market share for seamless pipes and a 12% worldwide market share for seamless OCTG by sales volume in the first half of 2010, according to our estimates. We also believe that we are Russia's largest manufacturer and supplier of steel pipes. We estimate that we had a 27% market share for steel pipes, a 54% market share for seamless pipes and a 60% market share for seamless OCTG in Russia by sales volume in the first half of 2010.

In June 2008, we acquired IPSCO Tubulars and NS Group, Inc. (subsequently renamed to TMK NSG), two significant manufacturers and suppliers of steel pipes and value-added products, including principally premium connections, in the United States. We estimate that we had an approximate 17% and 10% market share for OCTG in the United States based on sales volumes in the first half of 2010 and in the year ended 31 December, 2009, respectively.

In the first six months of 2010 we sold 1,886 thousand tonnes of pipe products, including 1,075 thousand tonnes of seamless pipes, and 746 thousand tonnes of OCTG. In 2009, we sold 2,769 thousand tonnes of pipe products, including 1,649 thousand tonnes of seamless pipes and 1,037 thousand tonnes of OCTG. Pipes for the oil and gas industry accounted for approximately 75% and 67% of our total sales volume in the first half of 2010 and the year ended 31 December 2009, 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 55% and 34% of the volume of all steel pipe exports from Russia in the first six months of 2010 and in the year ended 31 December 2009, respectively.

We produce both seamless and welded pipes. 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 large diameter welded pipe business and welded OCTG business. We have significantly enhanced our production capacity for large diameter welded pipes used for oil and gas transportation as a result of the completion of an advanced longitudinal large diameter welded pipe mill at our Volzhsky plant in late 2008, which we believe provides us with a strong platform to expand our share in the important Russian large diameter pipe market. Since our acquisition of IPSCO Tubulars and TMK NSG 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 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 in-field short-distance 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;
- *welded line pipes,* which are used for in-field short-distance 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 basic infrastructure and industrial applications.

As at 30 June, 2010, our nominal annual production capacity for steel pipes was approximately 6.3 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 2010 and in the year ended 31 December, 2009, we produced 1,272 thousand tonnes and 1,804 thousand tonnes of steel, respectively, which satisfied approximately 95% and 85%, respectively, of our steel billet requirements for our seamless pipe production. We are almost entirely self-sufficient in our production of steel billets, which lowers our seamless pipe production costs. 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 coils and plates for use in our welded pipe production.

We currently deliver our products to customers in more than 65 countries. Our principal customers include major Russian oil and gas and service companies, such as the Rosneft Group ("**Rosneft**"), OAO TNK-BP ("**TNK-BP**"), the Surgutneftegas Group ("**Surgutneftegas**"), the Gazprom Group ("**Gazprom**"), the LUKOIL Group ("**LUKOIL**"), OAO Transneft ("**Transneft**"), OAO Russneft ("**Russneft**"), OAO Gazprom Neft ("**Gazprom Neft**"), OAO Tatneft ("**Tatneft**") and OAO Bashneft ("**Bashneft**"). We cooperate on an ongoing basis with major multinational oil and gas companies, such as Royal Dutch Shell, Total and ExxonMobil. We also supply significant amounts of our pipe products to national oil companies, such as Saudi Aramco and ONGC. In the United States, TMK IPSCO benefits from longstanding relationships with a diverse end user base, including, among others, Chevron, ExxonMobil/XTO, Marathon, Anadarko, Devon, Chesapeake Energy, EnCana, EOG Resources, Williams Production and BP. In addition, we have participated and are participating as a supplier of pipes in major national and international projects, including, among others:

- the Pochinki-Gryazovets gas pipeline;
- the Central Asia-China gas pipeline ("**CAC Pipeline**"), which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to China;
- the onshore section of the Nord Stream gas pipeline, which, upon completion, will connect Russia to Germany via the Baltic Sea;
- the Bovanenkovo-Ukhta gas pipeline, which is a part of the Yamal-Europe gas pipeline;
- the Sakhalin-Khabarovsk-Vladivostok gas pipeline;
- 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;
- 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; and
- the Purpe-Samotlor oil pipeline, which will connect new oil fields being developed in the Yamal and Krasnoyarsk regions to oil refinery facilities, and connect Eastern and Western parts of the Russian oil transportation system.

We are a global company and operate through three operating segments:

- Russia, represented by our principal production subsidiaries Volzhsky, Seversky, Tagmet, Sinarsky, TMK-CPW and TMK-INOX as well as oil and gas services division and trading companies in Russia, Kazakhstan, Switzerland, the United Arab Emirates and South Africa;
- the Americas, represented by our TMK IPSCO division, which is comprised of 11 production facilities in the United States, and a trading company located in North America; and
- Europe, represented by production subsidiaries TMK-Artrom and TMK-Resita, both located in Romania, and trading companies located in Europe (excluding Switzerland).

We have an extensive sales network with trading subsidiaries and representative offices in Russia, the United States, the United Arab Emirates, South Africa, Germany, Italy, Switzerland, China, Singapore, Azerbaijan, Turkmenistan and Kazakhstan.

In June 2008 we acquired IPSCO Tubulars and TMK NSG, 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 focus on 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**"). TMK NSG 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 Condition 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 certain types of services for oil companies such as the repair of tubing pipes, piston rods and pipe coatings, and provide transportation services, 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 subsidiaries 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 and welded pipe operations. In light of the recent global financial crisis and uncertain economic situation, we postponed certain additional planned capital investment projects under the programme, and relaunched the programme in 2010. To maintain our cost competitiveness, we continue to make significant capital expenditures to upgrade our facilities to increase productivity and quality. Our Volzhsky plant features technologically sophisticated steel-making, pipe-rolling and pipe finishing equipment and we believe is among the most efficient pipe-making plants in Russia. The remaining key projects that we intend to complete in the next several years, if markets and our financial position allow, include the replacement of open hearth furnaces with EAF steelmaking facilities at Tagmet and the construction of a new Fine Quality Mill ("**FQM**") at Seversky. See "— *Strategic Capital Expenditure Programme*".

In the first half of 2010, we had total consolidated revenue of U.S.$2,566.2 million and recorded a profit before tax of U.S.$101.7 million, compared to total consolidated revenue of U.S.$1,478.6 million and loss before tax of U.S.$266.1 million in the first half of 2009. In 2009, we had total consolidated revenue of U.S.$3,461.0 million and loss before tax of U.S.$426.8 million.

Competitive Strengths

We believe the following competitive strengths distinguish our past operational and financial performance and our future growth prospects from other global steel pipe producers for the oil and gas industry:

- We are an important participant in the oil and gas services industry;
- 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 assets and our recent completion of key projects of our strategic capital expenditure programme in Russia.

See "*Business — Competitive Strengths*".

Strategy

Our strategy is to enhance our position as one of the world's leading producers of steel pipes. Though, given the recent global financial and economic crisis, 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 Northern American assets and the completion of most of the key projects under our strategic capital investment programme has provided us with a strong platform from which to enhance our position as a global leader in OCTG and oil and gas pipe products.

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 supply 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 existing production practices from our Russian facilities to TMK IPSCO and the existing know how and business practices 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 intend to focus principally on welded and seamless OCTG and line pipe. As part of this strategy, we plan on further developing our premium connections business, which concentrates on developing and marketing all of our existing and new premium connection products, particularly through TMK IPSCO and its ULTRA premium connections products. In addition, in August 2010, TMK IPSCO opened a sales office in Calgary, Alberta, Canada. This new office functions as a head office for sales in Canada and supports conventional and unconventional hydrocarbon exploration and development programs in Canada. We believe the success of ULTRA premium connections will serve as a platform for the supply of tubular goods to Canadian oil sands development. 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, the commissioning and ramp-up of the new 650,000 tonne longitudinal welded pipe mill at our Volzhsky plant in late 2008 enhanced our leading role in this important product segment.

In spite of the recent global financial and economic crisis, we are still pursuing growth through the effective integration of our acquisitions and leveraging the capacity enhancements and modernisation of our production processes already achieved to date by our strategic capital expenditure programme. We are continuing to implement the remainder of the programme, including the addition of an EAF at Tagmet in 2013 and a continuous FQM rolling mill at Seversky in 2013-2014, 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.

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. Since late 2008, a combination of factors related to the global financial crisis and economic slowdown has adversely affected our operating performance. As a result, our Adjusted EBITDA (as defined in "*Summary Consolidated Financial Information*") decreased from U.S.$1,047.2 million in 2008 to U.S.$328.1 million in 2009. At the same time, our net debt increased significantly primarily as a result of borrowing undertaken in connection with our acquisition of TMK IPSCO, as well as a result of our continued capital expenditure programme. Since the onset of the recent global economic crisis, we have embarked upon a programme designed to improve our working capital position 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. Such actions have included, among other things, an issuance of

convertible bonds in February 2010 to refinance existing short-term debt, and refinancing several short-term debt facilities with longer term debt. These actions have, among other things, enabled us to improve our working capital position significantly. As of 31 December, 2008, we recorded a working capital deficit of U.S.$1,446.4 million, whereas as of 30 June, 2010, we had positive working capital of U.S.$146.7 million. Our overall leverage levels also decreased as of 30 June, 2010, as compared to 31 December, 2008 and 2009. 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. See "*Management's Discussion and Analysis of Financial Conditions and Results of Operations — Certain Factors Affecting Our Results of Operations — Leverage Level and Ongoing Efforts to Improve Our Liquidity Profile*".

Trading Update

During 2010, our shipment volumes increased by 42.2% to 3,969 thousand tonnes as compared to 2,792 thousand tonnes in 2009.

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

Product	4th quarter ended 31 December 2010	3rd quarter ended 30 September 2010	% change	2010	2009	% change
	(thousands of tonnes, except percentages)					
Seamless Pipes	595	507	17.4%	2,161	1,670	29.4%
Welded Pipes	514	489	5.1%	1,808	1,122	61.1%
Total Pipes	1,109	996	11.3%	3,969	2,792	42.2%
Total OCTG Pipes	368	347	6.0%	1,444	1,046	38.1%

In the fourth quarter of 2010, market conditions for our products maintained the positive trends established in recent periods as shipment volumes grew by 11.3% over the previous quarter.

In the fourth quarter of 2010, we experienced increased demand for OCTG pipes principally related to seasonal purchases of pipes used in oil and gas production by energy companies as well as the completion of the steel-making and pipe-rolling modernization project in October 2010 at one of the Volzhsky Plant's mill which produces seamless pipes for the energy sector. Shipment volumes for OCTG pipes increased by 6.0% in the fourth quarter of 2010 as compared to the third quarter. Our overall shipments of OCTG pipes increased by 38.1% to 1,444 thousand tonnes in 2010 from 1,046 thousand tonnes in 2009.

Large-diameter pipe shipments in the fourth quarter of 2010 grew by approximately 40% as compared to the third quarter of 2010. Increases in our large-diameter pipe shipment volumes in 2010 were principally due to the continuation of the large-scale investment programs of Gazprom and Transneft. Overall, our shipment volumes increased by 117% to 671 thousand tonnes in 2010 from 309 thousand tonnes in 2009.

We also observed growth in the industrial pipe market in the fourth quarter of 2010, driven by growth in demand from Russia's machine-building industries, in particular the automotive industry. Our shipment volumes of seamless industrial pipes grew by 18% in the fourth quarter of 2010 as compared to the third quarter of 2010.

Our shipments of seamless industrial pipes in the fourth quarter of 2010 increased by approximately 26% as compared to the third quarter of 2010.

In 2010, we recorded shipment volumes of approximately 397,000 premium connections developed by our Russian and U.S. divisions, an increase of approximately 27% as compared to 2009. In particular, demand for our ULTRA premium connections continued to increase. In 2010, TMK IPSCO recorded shipments of approximately 295 thousand ULTRA premium connections, an increase of 36.5% as compared to 2009.

TMK IPSCO recorded shipments of 212 thousand tonnes of tubular products in the fourth quarter of 2010, a 7.4% decrease as compared to the third quarter. TMK IPSCO's shipment volumes of seamless pipes and seamless OCTG pipes, however, increased by 7.2% and 17.8% in the fourth quarter of 2010 as compared to the third quarter of 2010, respectively. The principal decrease was observed in shipments of seamless and welded industrial pipes. In total, TMK IPSCO shipped 862 thousand tonnes in 2010, an increase of 140.9% as compared to shipments in 2009. Based on our estimates, drilling activity in the United States continued to be strong in the fourth quarter of 2010. According to Baker Hughes, a U.S. oilfield service company, the number of active rigs in the United States increased by 2.1%, from 1,659 as of 1 October 2010 to 1,694 as of 30 December 2010. According to Baker Hughes, the active rig growth resulted from higher drilling activity at oil fields, while drilling at gas fields continued to decline.

Risk Factors

An investment in the Notes 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 Notes and the markets upon which they are expected to be traded, including risks associated with the following matters:

- Our significant leverage and our requirements to meet certain financial and other restrictive covenants under the terms of our indebtedness;
- The potential reemergence of 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 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 Notes, investors should carefully consider the information set forth under the heading "Risk Factors".

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 2010 and for the six months ended 30 June 2009 and as at and for the years ended 31 December 2009 and 2008. The summary consolidated financial information set forth below as at and for the six months ended 30 June 2010 and as at and for the years ended 31 December 2009 and 2008 has been extracted without material adjustment from, and should be read in conjunction with, the Consolidated Financial Statements included elsewhere in this Prospectus. The summary consolidated financial information should also be read in conjunction with "*Management's Discussion and Analysis of Financial Condition 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	
	2010	2009	2009	2008
	(millions of U.S. dollars, except per share data)			
CONSOLIDATED INCOME STATEMENT DATA				
Revenue	2,566.2	1,478.6	3,461.0	5,690.0
Cost of sales	(1,980.4)	(1,254.7)	(2,904.6)	(4,252.5)
Gross profit	**585.8**	**223.9**	**556.4**	**1,437.5**
Selling and distribution expenses	(198.9)	(146.4)	(312.6)	(344.1)
Advertising and promotion expenses	(4.8)	(2.3)	(4.6)	(10.1)
General and administrative expenses	(110.0)	(98.5)	(203.7)	(267.9)
Research and development expenses	(6.3)	(4.8)	(10.2)	(15.2)
Other operating expenses	(23.4)	(13.8)	(33.2)	(52.0)
Other operating income	4.2	4.1	16.0	7.2
Impairment of goodwill	—	(9.6)	(10.1)	(3.5)
Impairment of property, plant and equipment	—	(28.1)	(39.7)	(59.8)
Reversal of impairment of property, plant and equipment	—	—	2.5	—
Impairment of financial assets	—	—	—	(23.7)
Foreign exchange gain/(loss)/, net	13.8	(11.7)	14.2	(99.8)
Finance costs	(199.1)	(211.7)	(446.9)	(272.2)
Finance income	8.6	32.0	43.3	8.7
Gain on changes in fair value of derivative financial instrument	31.8	—	—	—
Share of profit in associate	—	0.8	1.4	3.0
Gain on disposal of associate	—	—	0.4	—
Profit/(loss) before tax	**101.7**	**(266.1)**	**(426.8)**	**308.1**
Income tax (expense)/benefit	**(34.4)**	**62.3**	**103.1**	**(109.6)**
Net profit/(loss)	**67.3**	**(203.8)**	**(323.7)**	**198.5**
Attributable to:				
Equity holders of the parent entity	69.0	(198.8)	(315.7)	199.4
Non-controlling interests	(1.7)	(5.0)	(8.0)	(0.9)
	67.3	(203.8)	(323.7)	198.5
Earnings/(loss) per share attributable to equity holders of the parent entity, (in U.S. dollars):				
basic	0.08	(0.23)	(0.36)	0.23
diluted	0.06	(0.23)	(0.36)	0.23

	As at 30 June	As at 31 December	
	2010	2009	2008
	(millions of U.S. dollars)		
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA			
Cash and cash equivalents	85.0	243.8	143.4
Total assets	6,432.3	6,681.1	7,067.7
Total interest bearing loans and borrowings	3,643.9	3,751.6	3,210.7
Total equity	1,529.6	1,519.3	1,910.4

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(millions of U.S. dollars)			
CONSOLIDATED CASH FLOW DATA				
Net cash flows from operating activities	196.8	286.0	852.3	739.5
Net cash flows used in investing activities	(161.7)	(668.0)	(899.9)	(2,024.3)
Net cash flows (used in)/from financing activities	(190.7)	324.3	143.8	1,336.9

	As at and for the six months ended 30 June		As at and for the year ended 31 December	
	2010	2009	2009	2008
	(millions of U.S. dollars, except percentages)			
Non-IFRS Measures				
Adjusted EBITDA[(1)]	414.7	145.8	328.1	1,047.2
Adjusted EBITDA margin[(2)]	16.2%	9.9%	9.5%	18.4%
Gross profit margin[(2)]	22.8%	15.1%	16.1%	25.3%
Net profit margin[(2)]	2.6%	(13.8)%	(9.4)%	3.5%
Net Debt[(3)]	3,554.9	3,559.9	3,503.7	3,063.4
Net profit/(loss) adjusted for gain on changes in fair value of derivative financial instruments	35.5	(203.8)	(323.7)	198.5

(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 gain/loss, impairment of assets, gain/loss on disposal of property, plant and equipment, inventory and doubtful debts allowances, movement in other provisions and embedded financial instrument gain/loss. 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 Prospectus.

(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 financial investments. Net Debt is not a financial position 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 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	
	2010	2009	2009	2008
	(millions of U.S. dollars)			
Profit before tax	**101.7**	**(266.1)**	**(426.8)**	**308.1**
Depreciation and amortisation	150.3	150.7	313.1	247.8
Impairment of financial assets	—	—	—	23.7
Impairment of goodwill	—	9.6	10.1	3.5
Impairment of property, plant and equipment	—	28.1	39.7	59.8
Reversal of impairment of property, plant and equipment	—	—	(2.5)	—
Finance costs	199.1	211.7	446.9	272.2
Finance income	(8.6)	(32.0)	(43.3)	(8.7)
Gain on changes in fair value of derivative financial instrument	(31.8)	—	—	—
Share of profit in associate	—	(0.8)	(1.4)	(3.0)
Gain on disposal of associate	—	—	(0.4)	—
Foreign exchange (gain)/loss, net	(13.8)	11.7	(14.2)	99.8
Adjusted EBITDA, including certain non-cash items	**396.9**	**112.9**	**321.2**	**1,003.2**
Loss on disposal of property, plant and equipment	7.3	1.7	4.0	1.6
Share based payments	—	—	—	6.0
Allowance for net realisable value of inventory	0.1	23.2	(4.6)	24.7
Allowance for doubtful debts	0.4	2.6	4.2	7.2
Movement in other provisions	10.0	5.4	3.3	4.5
Adjusted EBITDA, excluding non-cash items	**414.7**	**145.8**	**328.1**	**1,047.2**

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

	As at 30 June	As at 31 December	
	2010	2009	2008
	(millions of U.S. dollars)		
Net Debt calculation			
Add:			
Current interest-bearing loans and borrowings	828.6	1,537.4	2,216.5
Non-current interest-bearing loans and borrowings	2,815.3	2,214.2	994.2
Less:			
Cash and cash equivalents	(85.0)	(243.8)	(143.4)
Short term investments	(4.0)	(4.1)	(3.9)
Net Debt	**3,554.9**	**3,503.7**	**3,063.4**

Net profit/(loss) adjusted for gain on changes in fair value of derivative financial instruments has been calculated as follows:

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(millions of U.S. dollars)			
Net profit/(loss)	67.3	(203.8)	(323.7)	198.5
Gain on changes in fair value of derivative financial instrument	(31.8)	—	—	—
Net profit/(loss) adjusted for gain on changes in fair value of derivative financial instruments	**35.5**	**(203.8)**	**(323.7)**	**198.5**

TERMS OF THE OFFERING

The Notes

Issuer	TMK Capital S.A.
Joint Lead Managers	Barclays Bank PLC, Deutsche Bank AG, London Branch and UBS Limited.
Issue Amount	U.S.$500,000,000 7.75% Loan Participation Notes due 2018.
Issue Price	100% of the principal amount of the Notes.
Issue Date	27 January 2011
Maturity Date	27 January 2018
Trustee	Deutsche Trustee Company Limited.
Principal Paying Agent	Deutsche Bank AG, London Branch.
Registrar	Deutsche Bank Luxembourg S.A.
Interest	Subject to the receipt of funds pursuant to the Loan, the Notes will accrue interest from and including 27 January 2011 at a rate of 7.75% per annum payable semi-annually in arrear on 27 January and 27 July in each year, commencing on 27 July 2011.
Form and Denomination	The Notes will be issued in registered form, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by a Global Note Certificate which will be exchangeable for individual certificates in definitive form in the limited circumstances described under "*Summary of Provisions of the Notes While in Global Form*".
Initial Delivery of Notes	On or before the Issue Date, the Global Note Certificate will be registered in the name of, and will be deposited with, Deutsche Bank AG, London Branch as common depositary for Euroclear and Clearstream, Luxembourg.
Status of the Notes	The Notes are direct, unconditional and secured obligations of the Issuer.
Redemption at the Option of the Noteholders	Upon a failure of the Borrower to procure Additional Loan Guarantees or Further Loan Guarantees (each as defined in the Loan Agreement), within 90 days of the Issue Date the Issuer will make an offer to purchase all of the Notes duly tendered at a price per Note equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon plus any additional amounts or other amounts that may be due thereon, if any, up to but excluding the date of repurchase. In the event the Issuer makes such an offer, each Noteholder may tender all or any of the Notes held by it. In this case, the Borrower is required to prepay the Loan in an amount sufficient to provide the funds to enable the Issuer to repurchase the Notes.
Mandatory Redemption by the Issuer	The Notes shall be redeemed by the Issuer, in whole but not in part, at any time, upon giving notice to the Trustee, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of redemption, in the event that (i) it becomes unlawful for the Issuer to fund the Loan or allow the Loan to remain outstanding under the Loan Agreement or allow the Notes to remain outstanding and, in such case, the Issuer requires the Loan to be repaid in full, (ii) the Borrower elects to repay the Loan in the event it is required to pay Additional Amounts (as defined in the Loan

	Agreement) or increased amounts of principal, interest or any other payment due thereunder on account of Russian or Luxembourg withholding taxes or (iii) the Borrower elects to repay the Loan in the event it is required to pay additional amounts on account of certain costs incurred by the Issuer pursuant to the Loan Agreement.
Withholding Tax	Subject to certain exceptions, all payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future tax, duty, levy, impost, assessment, or other governmental charge imposed or levied by Luxembourg or Russia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. See "*Terms and Conditions of the Notes — Taxation*".
Relevant Event.	Upon the occurrence of a Relevant Event (as defined in "**Terms and Conditions of the Notes**"), the Trustee may, subject as provided in the Trust Deed and subject to being indemnified and/or secured to its satisfaction, enforce the security created in its favour pursuant to the Trust Deed.
Ratings.	It is expected that the Notes will be rated B1 by Moody's and B by Standard and Poor's. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment for an investor. 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. 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 Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Borrower could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Listing	Application has been made to the U.K. Listing Authority for the Notes to be admitted to the Official List of the U.K. Listing Authority and to trading on the Regulated Market of the London Stock Exchange.
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including, without limitation, the United Kingdom and the Russian Federation) only in compliance with applicable laws and regulations. See "*Subscription and Sale*".
Governing Law and Arbitration	The Notes, the Trust Deed and the Agency Agreement (as defined below) and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with English law and contain provisions for arbitration in London, England. The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August, 1915, as amended, on commercial companies are excluded.

Use of Proceeds	The gross proceeds to the Issuer from the Offering of the Notes are expected to be U.S.$500,000,000, which the Issuer intends to use for the sole purpose of financing the Loan to the Borrower.
Security Codes	The Common Code reference number is 058521159 and the International Security Identification Number ("**ISIN**") is XS0585211591.
Clearing	Euroclear and Clearstream, Luxembourg.
Yield	The annual yield of the Notes when issued is 7.75%. The annual yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
Risk Factors	An investment in the Notes involves a high degree of risk. See "**Risk Factors**".
The Loan	
Borrower	OAO TMK.
Initial Loan Guarantors	Volzhsky and TMK Trade House.
Additional Loan Guarantors	Seversky, Sinarsky, Tagmet and IPSCO Tubulars. The Borrower has agreed in the Loan Agreement to procure that each of the Additional Loan Guarantors shall provide an unconditional and irrevocable guarantee of the Loan not later than 90 days after the Issue Date. Failure of the Borrower to procure the guarantee of its obligations under the Loan by the Additional Loan Guarantors by such date or failure to procure any Further Loan Guarantees (as defined in the Loan Agreement) (if required) shall be deemed an "**Additional Loan Guarantee Event**" under the Notes and, in such case, the Borrower shall prepay the Loan in an amount sufficient to provide the funds to enable the Issuer to repurchase the Notes at their principal amount and interest accrued thereon. See "*Description of the Transaction and the Security.*" See also "*Risk Factors — Risks Relating to the Notes and the Trading Market — Our Russian Subsidiaries May Not Approve the Issuance of Additional Guarantees*".
Loan Guarantees	The Loan will be initially unconditionally, irrevocably, jointly and severally guaranteed by the Initial Loan Guarantors, and is intended to be further unconditionally and irrevocably guaranteed by the Additional Loan Guarantors. The Loan Guarantees will rank equal in right of payment with other outstanding and unsecured indebtedness of the Loan Guarantors. In certain circumstances set out in the Loan Agreement, the Borrower may be obligated to procure certain further guarantees.
Certain Covenants	The Loan Agreement and the Loan Guarantees will, among other things, restrict, with certain exceptions, the ability of the Borrower, each Loan Guarantor and their respective subsidiaries to: (i) create or incur liens; (ii) incur indebtedness; (iii) sell assets; (iv) engage in transactions with affiliates and related persons; (v) undertake certain mergers and similar transactions; and (vi) change the core or related business conducted by any of them.
Events of Default	Upon the occurrence of an Event of Default (as defined in the Loan Agreement), the Trustee may, subject as provided in the Trust Deed

	and subject to being indemnified and/or secured to its satisfaction by the Borrower, require the Issuer to declare all amounts payable under the Loan to be due and payable, and require the Issuer to enforce its rights against the Borrower and the Loan Guarantors under the Loan Agreement and the Loan Guarantees.
Withholding Tax	All payments made by the Borrower under the Loan will be made free and clear of, and without withholding or deduction for, or on account of any present or future tax, duty, levy, impost, assessment, or other governmental charge imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or agency therein or thereof having the power to tax within Russia or Luxembourg unless the Borrower is required to withhold or deduct such taxes and duties by law or by the interpretation or administration thereof. In such event the sum payable by the Borrower shall be increased to such amount as may be necessary to ensure that the Issuer receives the sum equal to the full amount which it would have received had payment not been made subject to such taxes.
Prepayment	The Loan may be prepaid by the Borrower, in the event that (i) it becomes unlawful for the Issuer to fund the Loan or allow the Loan to remain outstanding under the Loan Agreement or allow the Notes to remain outstanding and, in such case, the Issuer requires the Loan to be repaid in full, (ii) if the Borrower elects to repay the Loan in the event it is required to pay Additional Amounts (as defined in the Loan Agreement) or increased amounts of interest, principal or any other payment due under the Loan on account of Russian or Luxembourg withholding taxes, (iii) if the Borrower elects to repay the Loan in the event it is required to pay additional amounts on account of certain costs incurred by the Issuer pursuant to the Loan Agreement, (iv) the relevant Notes having an aggregate principal value of at least U.S.$1,000,000 (or its equivalent in a Specified Currency) are surrendered to the Issuer for cancellation (as described in Clause 7.3 (*Reduction of a Loan Upon Cancellation of corresponding Notes*) of the Loan Agreement), or (v) if and to the extent the Noteholder Put (as described in Clause 7.4 (*Noteholder Put*) of the Loan Agreement) is exercised.
Use of Proceeds	The Borrower intends to use the net proceeds of the Loan to refinance existing indebtedness. Total commissions and expenses payable by TMK in relation to the offering and the listing to admission and trading of the Notes are expected to be approximately U.S.$3,350,000. See "*Use of Proceeds*".

RISK FACTORS

An investment in the Notes 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 Notes. 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 Borrower and the Loan Guarantors to service payment obligations under the Loan Agreement and the Loan Guarantees and, as a result, the debt service on the Notes. In addition, the value of the Notes could decline if any of these risks materialise, and the Noteholders 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, 2010, our total interest-bearing loans and borrowings amounted to U.S.$3,643.9 million, including U.S.$828.6 million of short-term interest bearing borrowings. As at 31 December, 2010, the nominal principal value of our total interest-bearing loans and borrowings amounted to U.S.$3,863.5 million, including U.S.$675.3 million of nominal principal amount of short-term interest bearing borrowings. Additionally, as at 31 December, 2010, 35.9% of our total nominal principal amount interest-bearing loans and borrowings were secured by pledges over assets of the TMK Group, of which 21.6% was secured by pledges of shares in subsidiaries of OAO TMK and 78.4% 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 Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness*".

Certain of our material loan agreements and debt securities currently include financial covenants. For example, some covenants are set in relation to leverage, total indebtedness and tangible 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 to some extent. As at the date hereof, our debt-to-EBITDA ratio contained in our outstanding 2008 LPNs 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 relevant loan agreement. As a result, we are currently unable to increase our financial indebtedness except in certain limited circumstances and are subject to significant restrictions on our ability to borrow and our overall financial flexibility. Because TMK will use the proceeds of the Loan described herein to refinance existing indebtedness, the Loan will constitute "*Permitted Indebtedness*" for the purpose of our outstanding 2008 LPNs. See "*Use of Proceeds*".

Our 30 June 2009 interim condensed consolidated financial statements included a going concern footnote disclosure which indicated existence of a material uncertainty at the date of issuance of those financial statements that cast significant doubts about our ability to continue as a going concern. The uncertainty related to our poor operating performance in 2009 resulting from the global financial crisis and economic recession and our ability to meet financial covenants at 31 December, 2009. In the second half of 2009 we renegotiated the financial covenants with our lenders and reset the covenants in a way we can comply with the new covenants. In addition, our operating performance and liquidity have improved significantly since 30 June, 2009, which removed the uncertainty. As such, our Annual Consolidated Financial Statements and our 2010 Interim Consolidated Financial Statements disclose no any material uncertainty relating to our ability to continue as a going concern. 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 the adverse financial circumstances that we faced in 2009, we were required to take a number of steps to improve our working capital position, debt profile and reduce our leverage. These included, 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. Furthermore, in August 2010, we and Gazprombank implemented further amendments to the loan facilities, resulting in further reductions in the interest rate and extending the amortization periods of the loans from January 2011 to January 2012. Between June and September 2009, we also entered into several seven-year loan agreements with the Savings Bank of the Russian Federation ("**Sberbank**") under which we borrowed an aggregate of RUB 5.7 billion, (of which RUB 5.0 billion is outstanding as of 31 December 2010), 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 loans underlying 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 loans underlying 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 OAO Bank VTB ("**VTB**") 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 of the date hereof, all of these credit facilities with state guarantees were repaid using the proceeds from other borrowings. In 2010, we took a further series of measures including the issuance of U.S.$412.5 million guaranteed convertible bonds to refinance short term debt. In October 2010, we issued RUB 5 billion bonds in maturing in October 2013 and bearing annual interest of 8.85%, the proceeds of which were used to repay short-term indebtedness. In December 2010, we refinanced a maturing U.S.$450 million VTB loan and a loan from Gazprombank in the amount of RUB 5 billion with loans provided by U.S. and Russian financial institutions with longer maturity dates. As at the date hereof, we continue to look for ways 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 Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness*".

Since the second half of 2008, the global debt capital markets have experienced financial periods of extreme volatility, including periods during which emerging markets issuers have been effectively shut out of the market. More recently, the adverse financial situation in Greece in the second quarter of 2010, and the further spread of the adverse financial situation to other members of the euro zone countries, including Ireland in the fourth quarter of 2010, and the risk of further contagion to other regional economies has resulted in a restricted funding market. Financial markets have been characterized by periods of 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 had and in the future may 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.

In addition, we rely to a significant extent, on Russian state-owned banks for both our short and long-term debt financing. Russian state-owned banks are collectively in a strong position to control loan pricing and terms and potentially obtain more favourable pricing and terms than those under the Notes for both existing and potential future additional loans. Our ability to secure debt financing in amounts sufficient to meet our financial needs could be materially adversely affected by many factors beyond our control, including but not limited to, economic conditions in Russia and the health of the Russian banking sector.

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

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 Loan described herein. The Loan as well as 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. Much of our existing indebtedness, including the Loan 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 Loan. 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, historically, we have successfully secured from the relevant lenders all necessary waivers or

standstill letters to address possible breaches of our financial covenants in the past, we cannot be certain that we would be able to secure such necessary waivers or standstill letters during future reporting periods if we were not in compliance with our financial covenants in the future. Although we do not expect the occurrence of such events in the near future, an inability to do so could result in a default under the Loan 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 potential reemergence of turmoil in the global financial and credit markets and deterioration of economic and financial conditions in Russia could have a material adverse effect on our revenue, profitability and financial position.

The recent financial and credit crisis 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, contributed heavily to the worldwide economic recession. The slowdown in economic activity reduced worldwide demand for energy and resulted in extreme volatility in the prices of oil and natural gas and raw materials in the second half of 2008 through the first half of 2009. 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, had and may continue to have a negative impact on our business, revenues, profitability and financial position. While our business has seen sharp improvement since the second half of 2009, largely as a result of the improved world economic situation, the economic conditions in many of our markets remain uncertain, and there can be no assurance that our markets will not experience further turmoil in the near future.

The disruptions in the global markets 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. According to Rosstat, Russia recorded negative GDP growth of 7.9% in 2009, which was the first year of negative GDP growth in Russia since 1998. Although inflation in Russia decreased from 13.3% in 2008 to 8.8% in 2009 and to 4.4% in the first half of 2010, (Rosstat), inflation may increase in the future. From mid-2008 to mid-2009, industrial production and exports decreased and the number of officially registered unemployed increased. According to the Bank of Russia, Russia's official international reserves fell from a peak of approximately U.S.$597 billion in August 2008 to approximately U.S.$440 billion in January 2010, before increasing to U.S.$461 billion as of 1 July, 2010, and further increasing to U.S.$482 billion as of 1 December, 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 crude oil prices worldwide following their 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. In 2009 and 2010, oil prices recovered to a sustained level, but remain and are expected to remain below the extreme highs reached in 2008. Natural gas prices on certain markets, particularly in the U.S., also fell sharply 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 a decline in international prices of oil and natural gas and other factors affecting the oil and gas industry in Russia and globally has affected, and in future periods could adversely affect our business, financial position and results of operations*".

Our business is substantially dependent on the oil and gas industry, and a decline in international prices of oil and natural gas and other factors affecting the oil and gas industry in Russia and globally has affected, and in future periods could adversely affect our business, financial position and results of operations.

The oil and gas industry, which was significantly adversely affected by the recent global credit and 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 2010 and in the years ended 31 December, 2009 and 2008, approximately 75%, 67% and 69% respectively, of our sales volumes of pipes were sold to the oil and gas industry, including approximately 7%, 5% and 9%, 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 industry specific 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 recent global credit and economic crisis reduced worldwide demand for energy and resulted in significantly lower crude oil and natural gas prices.

In particular, there was a significant decrease in crude oil prices worldwide following their peak in the summer of 2008. In 2009 and 2010 oil prices recovered to a sustained level, but remain and are expected to remain below the extreme highs reached in 2008. Following the rapid increase, and subsequent collapse, of U.S. natural gas prices in 2008, the North American natural gas environment remains weak and has been reshaped by structural changes in the marketplace. While demand remains affected by the recent global economic downturn, supply has been transformed by recent advancements in horizontal drilling and the inflow from unconventional production areas such as gas shales. As a consequence, we faced lower demand and pricing pressure on our products in 2009 as compared to 2008. While our business improved sharply starting at the end of 2009, with pricing and capacity utilization showing significant improvement, there can be no assurance that we will not face such a difficult market environment in the future.

A substantial or extended decline in oil and natural gas prices can reduce our customers' activities and their spending on our products. If global economic conditions and the restrictions of credit experienced in late 2008/2009 resurface, 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 2010 and in the years ended 31 December 2009 and 2008, sales to customers located in Russia accounted for 60.6%, 62.7% and 59.7%, respectively, of our consolidated revenue. 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.

In spite of the significant recovery in demand and production late in 2009 and 2010 there is still an uncertainity in respect of change in demand in the future which may adversely affect our business, financial position and results of operations. Despite recent improvement, 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.

In the first six months of 2010 and in the years ended December 31, 2009 and 2008, the costs of raw materials and consumables, including costs relating to supplies of raw materials and consumables, accounted for approximately 66%, 63% and 69%, respectively, of our cost of production.

After a considerable decline in prices on the back of decreased industry demand in 2009, the cost of principal raw materials increased during the first six months of 2010, as compared to the first six months of 2009. In the first half of 2010, as compared to the first half of 2009, the average purchase cost of metal scrap in Russia increased by approximately 10-22%. On average, prices for coils in Russia increased by 35-40% in the first half of 2010 as compared to the first half of 2009 and prices for pig iron increased by 52-65% over the same period, depending on the region in Russia. In addition, TMK IPSCO's average purchase prices for its raw materials also increased in the first six months of 2010 as compared to the first six months of 2009. Steel represents the largest cost component of TMK IPSCO's production. Increases in the market price of scrap metal and steel coil would escalate steel production costs, which TMK IPSCO may not be able to fully pass on to customers.

As a result of both increases in prices for raw materials and increased sales volumes, our costs of raw materials increased by U.S.$626.4 million, or 87.0%, from U.S.$720.4 million in the six months ended 30 June 2009 to U.S.$1,346.8 million in the six months ended 30 June 2010.

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 recent global credit and economic crisis, the cost of raw materials, including scrap metal and semi-finished steel products (primarily coil and plate), 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 recent global credit and 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 recent global credit and 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 and then rebounded strongly in the first half of 2010.

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 decline in prices resulting from the recent economic downturn, will continue to have, a significant impact on our cost of production. Because we have 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 in a timely fashion, 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 7%, 5% and 9%, respectively, of our sales volumes in first six months of 2010 and in the years ended 31 December 2009 and 2008, respectively, including approximately 53%, 41% and 60%, 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 ("**OMK**"), currently the second largest pipe producer in Russia, started production of 1,420 mm diameter welded pipe and since July 2006, OAO Severstal ("**Severstal**"), Russia's third largest steelmaker, has been engaged in the production of large diameter welded pipes. In addition, we expect to face competition in the supply of large-diameter pipes from ChTPZ Group ("**ChTPZ**") once the ramp up of their new longitudinal welded pipe mill is complete. 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 large-diameter 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. Since 2008, we have supplied pipes and/or are currently supplying pipes to pipeline projects including, among others:

- the Pochinki-Gryazovets gas pipeline;
- the CAC Pipeline, which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to China;
- the onshore portion of the Nord Stream gas pipeline, which, upon completion, will connect Russia to Germany via the Baltic Sea;
- the Bovanenkovo-Ukhta gas pipeline, which is a part of the Yamal-Europe gas pipeline;
- the Sakhalin-Khabarovsk-Vladivostok gas pipeline;
- the BPS-2, which connects oil fields in Western Siberia to a Russian port on the Gulf of Finland;
- phase two of the ESPO Pipeline, which will run from Eastern Siberia to the Amur region near the border with China; and
- the Purpe-Samotlor oil pipeline, which will connect new oil fields being developed in the Yamal and Krasnoyarsk regions to oil refinery facilities, and connect Eastern and Western parts of the Russian oil transportation system.

The delay, cancellation or other changes in the scale or scope of these and other significant pipeline 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.

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

In 2009, our five largest customers by pipe sales volumes were Surgutneftegas, TNK-BP, Gazprom, Rosneft and LUKOIL, accounting for 30% of our total pipe sales. In the first six months of 2010, Transneft replaced LUKOIL as one of our top 5 customers, together with Surgutneftegas, TNK-BP, Gazprom and Rosneft, accounting for 29% of our total pipe sales. In the first six months of 2010, TNK-BP, Surgutneftegas and Rosneft, our largest customers of seamless pipes, together accounted for approximately 28% of our sales of seamless pipes, while Gazprom and Transneft accounted for approximately 30% of our sales of welded pipes in the same period.

We expect this concentration of customers to continue for the foreseeable future. In the event that our relationship with any of these major customers deteriorated, or these customers terminated or downsized their relationship or tightened their terms of trade with TMK, our business, financial position and results of operations may be materially adversely affected. In addition, some of our major customers may be similarly affected by changes in industry specific conditions given their focus on the oil & gas industry. Furthermore, given the customer concentration we are potentially exposed to large individual credit risk losses in the event one or more of our major customers experience a deterioration in financial performance or financial position and are unable to meet their obligations to us, which may have a material adverse effect on our business, results of operation and financial position and prospects

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 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, TMK IPSCO has significant operations, assets and employees in the United States, which are subject to U.S. federal and state laws and regulations. Our TMK-Artrom and TMK-Resita plants also have significant operations, assets and employees in Romania which are subject to EU laws and regulations. Our international businesses have experienced operational difficulties recently. Before global pipe markets recovered to a certain degree, our U.S. and European operations had recorded operating losses of U.S.$173.4 million and U.S.$5.7 million, respectively, in 2009. In addition, we recorded an impairment charge with respect to our Romanian plants in each of 2008 and 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.

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, such as seen by Chinese producers in 2008 to 2009, could reduce the volume sold by domestic pipe 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 Spears & Associates (Pipe Logix Key Market Factors), in the first nine months of 2010, U.S. domestic production of OCTG accounted for 52% of shipments, while imports into the United States accounted for the remainder. Imports are principally from Korean and other Asian producers, which typically sell at lower prices and produce lower grade products. 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;
- country specific production costs;
- 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.

Although trade restrictions have been introduced against Chinese pipe producers, anti- dumping and countervailing duty orders could be modified or revoked. *See* "*Business — Legal Proceedings — Anti-dumping Proceedings*" and "*Risk Factors — We rely on 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*". These orders, which impose special duties designed to offset unfair pricing and foreign government subsidization, 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". 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.

Industry-wide inventory levels of OCTG products can change significantly from period to period. Above-normal industry-wide inventory levels in the United States may have the effect of reducing demand for our products and an adverse impact on our earnings, as has been seen in prior periods, and especially during the recent periods of global economic crisis. 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.

Increased competition in the Northern American markets may reduce our sales and lead to pricing pressures, which could adversely affect our business, financial position, results of operations and prospects.

The Northern American market for steel products is highly competitive. In the United States, our TMK IPSCO division faces competition primarily from local producers: Tenaris S.A. ("**Tenaris**"), U.S. Steel Corporation ("**U.S. Steel**") and V&M Star, a subsidiary of Vallourec S.A. ("**Vallourec**"), as well as from imported OCTG and line pipe products. Several key competitors announced capacity additions in late 2010. We compete with certain foreign steel pipe producers in the market for lower grade welded and seamless industrial pipe. Price is the main differentiating factor for these lower grade products, and certain foreign producers are often able to offer lower prices than us.

In particular, shale gas, a form of natural gas embedded in highly impervious shale, is becoming increasingly important for the United States. The increase of shale gas production has contributed to the general price decrease in the U.S. market as production (or supply) has outpaced demand growth over the past several years. If prices continue to deteoriate, this could cause a retrenchment in the development of shale gas, if other local producers began to focus more on the North American natural gas market which, in turn, could result in greater competition both for transportation capacity and domestic sales to end-customers and traders, which could adversely affect our business, financial position, results of operations and prospects.

In addition, given the recent growth in U.S. drilling activity, the development of natural gas exploration/development activity in the United States, and the current U.S. sanctions against Chinese OCTG imports, other U.S. or international steel producers could begin to focus more on the Northern American oil and gas market which in turn could result in greater competition for our U.S. sales and production, which could adversely affect our business, financial position, results of operations and prospects.

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 from our traditional competitors, we have begun to face increasing competition from Chinese pipe producers in the Russian, U.S. and other 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 continue to increase their seamless and welded pipe output, and that the Chinese pipe industry may further consolidate, over the next several years. Trade restrictions against Chinese seamless pipe producers were introduced in the U.S. in the first half of 2010 and effectively closed off the market to pipe originating from China. However favorable this situation might be for TMK IPSCO and other U.S. domestic producers, it has somewhat intensified competition for TMK on other markets, as Chinese production was redirected to these regions. We also compete with certain Korean and other Asian steel pipe producers in the market for lower grade welded and seamless industrial pipe. Price is the main differentiating factor for these lower grade products, and certain foreign producers are often able to offer lower prices than us.

In the Russian and CIS markets, we face competition primarily from ChTPZ, which produces both welded and seamless pipe, OMK, 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 one of our largest customers, 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, Vallourec, Sumitomo and a limited number of Chinese producers, including Baosteel and TPCO. In the commodity industrial pipe segments on international markets we face competition from companies such as Interpipe Limited ("**Interpipe**"), Arcelor Mittal S.A. ("**ArcelorMittal**") and Chinese pipe producers. In the United States, our subsidiary TMK IPSCO faces competition principally from Tenaris, U.S. Steel and V&M Star, a subsidiary of Vallourec, as well as from imported OCTG and line pipe products, principally from Asia, Canada and Mexico.

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 Asian producers typically offer lower prices than we do. Additionally, other 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 economic downturns more effectively. 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.

The Russian government may impose export tarrifs on Russian steel producers, which could adversely effect the demand for their products.

Historically, the Russian government considered the adoption of export tariffs on certain steel products, potentially including products produced by TMK. Certain of our major customers, as well as other major customers of steel products, have presented, and may in the future present, to the Russian Government initiatives to introduce such duties in order to affect the pricing of steel products in the domestic market. However, no decision has been made to this effect and, therefore, the impact of any such export tariffs as may be adopted on our business, results of operations and prospects is uncertain.

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 European Commission has also recently conducted a review of the anti-dumping measures applicable to TMK. On 22 June 2007 the European Commission, on its own initiative, but following information provided by TMK, opened a review of the level of the anti-dumping measures applicable to TMK. The purpose of the review was to establish whether the circumstances which led to the establishment of the measure in force had changed and whether these changes were of a lasting nature. In August 2008, the European Commission concluded its review and decided to decrease the level of the duty applicable to TMK to 27.2%. It should also be noted that the anti-dumping measures applicable to imports of seamless pipes from Russia are due to expire on 30 June 2011 (i.e., five years after their imposition). However, European Union companies operating in the steel pipe sector nevertheless have an opportunity to request an extension of the anti-dumping measures. 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 rely on 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 currently has in place import tariffs of up to 20% with respect to steel pipes imported from foreign countries (including China and European countries) other than CIS member states. 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 two anti-dumping investigations carried out by the Ministry of Industry and Trade of Russia, revised levels of duties for 2011 in the range of 18.9% to 37.8% for imports of certain types of pipes from Ukraine were announced. Furthermore, Russia currently has in place safeguard duties against imports of stainless steel pipes (28.1%) from all countries (except for Belarus and other countries included in the preferential treatment list). From 27 January 2011, the rate of this duty will be 9.9%, but not less than U.S. $1,500 per tonne. Russia also has in place anti-dumping duty against imports of bearing pipes (19.4%) from China. These measures limit the competitiveness of foreign pipe suppliers 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. 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 duties on imports of pipe products into Russia could materially adversely affect our business, financial position and results of operations.

Since 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 particular, since 2010, U.S. anti-dumping and countervailing duties in relation to OCTG pipes from China are set at rates of 29.94% to 99.14% and of 10.49% to 15.78%, respectively. After anti-dumping investigations in relation to drill pipes from China, in June-August 2010 preliminary anti-dumping and countervailing duties against imports of drill pipes from China to the United States were set at rates of 0% to 429.29% and of 15.72%, respectively. However, there can be no assurance that such decision and accompanying measures will not be reversed, that preliminary duties will not be reduced, 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 recent global credit and economic crisis and the general unavailability of funding for our capital projects, beginning in 2009, we put on hold our capital expenditure programme and relaunched it again in 2010. See "*Business — Capital Expenditures — Strategic Capital Expenditure Programme*".

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 adversely impacted the ability of companies such as ours to borrow in the bank or capital markets and continued turmoil in the financial markets may in the future increase the cost of such borrowing. If economic growth continues to stagnate, 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. Such reasons may include 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 and the CIS.

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. In October 2010, the majority of rolling stock operations in Russia were transferred to private operators, with the effect that tariffs for using the rolling stock for transport became non-regulated. Thus, the Russian government currently sets rail tariffs with respect to infrastructure and carriage costs, while tariffs for using the rolling stock are set by private operators. According to current Russian government policy, annual tariff increases should be in line with inflation, although in certain years the annual increase in tariffs has been higher than inflation. In 2009, rail tariffs for metallurgical raw materials and pipe products increased by 12.8% as compared to 2008, and by 12.5% in 2010 as compared to 2009. Despite an increase in freight tariffs in 2009, our freight costs, which are comprised primarily of railway transportation costs, decreased by 24% during 2009 as compared to 2008, primarily as a result of fewer products having been transported in light of the recent global economic downturn. Our freight costs increased by 113% in the first six months of 2010 as compared to the same period in 2009, due to both significantly increased sales volumes and higher tariff levels. Increased railway transportation costs could 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 private rolling stock operators to upgrade its rolling stock within the next few years could result in a shortage of available working rolling stock and consequently lead to a disruption in transportation of our raw materials and products, as well as cause an increase of rail tariffs. 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 the first six months of 2010 and in the years ended 31 December 2009 and 2008, energy and utility costs comprised approximately 8%, 8% and 7% of our total cost of production, respectively. In the first six months of 2010 and in the years ended 31 December 2009 and 2008, our Russian operations purchased approximately 1.23 billion, 2.24 billion and 2.24 billion kilowatt hours (kWh) of electricity, respectively, from certain local electricity suppliers. The Russian electricity market has been the subject of reforms, the primary purposes of which are to introduce liberalisation to the wholesale electricity market. During the period 2007 to 2010, the proportion of planned output that electricity generators had to sell at regulated tariffs was reduced semi-annually. As from the beginning of 2011, the Russian energy sector has been fully liberalised and electricity is sold on the basis of market-based pricing. As a result of such deregulation, electricity tariffs for industrial users are expected to rise. Our production subsidiaries in Russia purchase electricity primarily on the open market. Our average cost of electricity

in Russia was RUB 1.81, RUB 1.60 and RUB 1.26 per kWh in the first six months of 2010, in 2009 and in 2008, respectively. 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 subsidiaries of Gazprom, primarily for steel production in open hearth furnaces at Tagmet, for heat treatment of pipes and for the production of 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 2009, average natural gas tariffs in Russia increased by approximately 7% as compared to 2008. 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 United States 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. In 2011 we expect natural gas and electricity prices in respect of our Romanian operations to further increase.

In addition, Romania's admission into the European Union (which occurred in January 2007) resulted in increased environmental liabilities, labour costs and other expenditures for our Romanian operations. Romania's entrance into the European Union 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, we have made substantial investments toward our Romanian subsidiaries, TMK-Resita and TMK-Artrom. There can be no assurance that the European Union will not impose new environmental regulations or that Romanian state authorities will not change national environmental laws in the future. In addition, our Romanian subsidiaries may be required to adopt and implement more stringent environmental and labour laws in the future. The costs of complying with more stringent environmental and labour law requirements of the European Union, including the increased obligations of the European Union in respect of CO2 emissions, may be substantial and could materially adversely affect our Romanian operations. Moreover, 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. 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. In addition, TMK IPSCO has significant transportation expenses related to transporting the raw materials required for its production and work in process. Any increase in the cost of diesel fuel would also increase TMK IPSCO production costs.

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 reached a rate of 84.4% in 1998. Although inflation in Russia decreased from 13.3% in 2008 to 8.8% in 2009 and to 4.4% in the first half of 2010, (Rosstat), inflation may increase in the future. 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 adversely affect our results of operations.

TMK products are typically priced in roubles for Russian sales and in U.S. dollars and euros for CIS, U.S. and other international sales. Our direct costs, including raw materials, labour and transportation costs, are largely incurred in roubles, and, with the acquisition of TMK IPSCO, in U.S. dollars. Other costs, such as interest expense, are currently incurred largely in U.S. dollars and roubles, and capital expenditures are incurred principally in roubles, euros and U.S. dollars.

On an average basis, the Russian rouble depreciated by 3.3% and 6.5% against the U.S. dollar in the first half of 2010 and 2009 respectively. Though the rouble has recovered somewhat from its February 2009 lows, standing at RUB 30.16 to U.S.$1.00 as at 12 January 2011, 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.$481.7 million, including U.S.$99.8 million recognised in the income statement and U.S.$381.9 million recognised as other comprehensive loss in the statement of comprehensive income relating to the effective portion of foreign exchange losses incurred on the hedged financial instruments. In 2009, we reported losses from spot rate changes of U.S.$109.9 million, including a U.S.$14.2 million gain recognised in the income statement and a U.S.$124.1 million loss recognised as other comprehensive loss in the statement of comprehensive income, representing the effective portion of foreign exchange losses incurred on the hedged financial instruments. These losses were due principally to the revaluation into roubles (the functional currency of OAO TMK and principal production subsidiaries in Russia) of U.S. dollar and euro denominated loans and eurobonds. In the first six months of 2010 we incurred losses from spot rate changes in the amount of U.S.$22.2 million, including gains in the amount of U.S.$13.8 million recognised in the income statement and losses of U.S.$36.0 million recognised in the statement of comprehensive income. Gains in the income statement were primarily attributable to the fact that in the first half of 2010 the euro exchange rate significantly decreased and the income arose from euro denominated loans. Losses from foreign exchange difference relating to hedged financial instruments, arose from the revaluation of dollar denominated loans attracted for the acquisition of TMK IPSCO. 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 applicable laws and regulations. The expenditures necessary to remain in compliance with 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. While fees imposed for pollution within the statutory limits tend to be quite low, fees for pollution exceeding such limits are significantly higher. Moreover, the payment of fees for exceeding these limits does not relieve us from our responsibility to take environmental protection measures and to compensate for environmental damage.

Environmental legislation in Russia is currently undergoing significant change. The imposition of a new environmental law and regulation system may require further expenditures to modernize production operations, install pollution control equipment, perform site clean-ups and reclamation, pay fees and fines or make other payments if we do not comply with such new environmental laws and regulations. See also "— *Our United States*

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.

On April 20, 2010 an explosion on a BP offshore oil rig killed 11 workers and injured 17 others, becoming the worst and largest accidental marine oil spill in the history of the petroleum industry. After a series of failed attempts, BP sealed the well in September 2010, but could not prevent environmental damage on a massive scale as many millions of liters of crude oil spewed into the Gulf of Mexico sea. In response to the BP oil spill, in April 2010, the U.S. President, imposed a moratorium on offshore drilling and exploration. The U.S. President lifted the moratorium in October 2010, allowing oil and gas exploration companies to resume offshore production. U.S. environmental groups continue to challenge the safety of deep-sea oil drilling after the BP oil spill and, prior to the moratorium being lifted, certain actions had been filed with regulatory authorities seeking to severely restrict the use of environmental waivers for oil and gas companies seeking deepwater drilling permits. U.S. environmental groups had lobbied for the moratorium to be extended, claiming the risk of another environmental disaster remained high because oil and gas companies had been breaching regulations and the U.S. government was not scrutinising their operations properly. If U.S. federal lawmakers drafted measures, in response to U.S. environmental groups, that would prohibit or restrict oil and gas exploration companies from obtaining new drilling permits, or if a future offshore oil spill were to occur and another moratorium on offshore drilling was enacted, it would increase competition among pipe producers for onshore drilling activities, creating downward pressure on prices and lowering sales volumes and could adversely affect our business, financial position and results of operations. In addition, TMK IPSCO's premium connections and pipe business is strongly focused on the horizontal drilling and fractionization in the shale gas markets. Restrictions on the development of shale gas would have a negative impact on both our ULTRA Connections product line and pipe sales.

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 recoveries under this insurance coverage that we obtain in the future, if any, may not fully offset our costs in the event of a claim.

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. 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, 2009, our current trade and other receivables that were over 90 days overdue amounted to U.S.$35.8 million and we recorded an impairment charge of U.S.$15.0 million with respect to such

receivables. Any significant further increase could adversely affect our business, financial position and results of operations.

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 notes.

As at 11 January 2011, approximately 69.68% 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 Notes, 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 Notes 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 notes.

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. 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 AG ("**SAP**") at Volzhsky and in January 2008 all of our other major plants in Russia were provided with the ERP system supplied by SAP. During 2009 to 2010, we put into operation an ERP system supplied by SAP at TMK Trade House and at TMK and implemented an ERP system (Axiom) at TMK IPSCO and ERP system (Axapta) at TMK Europe.

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 notes.

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 recent global credit and 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 board of directors and 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 the Russian federation are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. It should also be noted that emerging markets such as Russia are subject to rapid change and that the information set out in this Prospectus may become outdated within a relatively short period. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable developed markets. 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. During such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could adversely affect our business, financial position, results of operations, prospects and the value of the Notes.

Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who are familiar with and fully appreciate the significance of the risks involved in investing in emerging markets and prospective investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Political and Social Risks

Political and governmental instability could materially adversely affect our business, financial position, results of operations, prospects or the value of the notes.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a pluralist democracy with a market-oriented economy. The Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, and to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Government, including the prime minister and the other heads of federal ministries, has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000.

Vladimir Putin was elected President of the Russian Federation in March 2000. Since that time, Russia has generally experienced a higher degree of governmental stability. On 2 March, 2008, Dmitry Medvedev was elected as President of Russia and appointed Mr. Putin as Prime Minister shortly thereafter.

Future presidential elections, changes in the Government, the creation, abolishment or reform of government bodies regulating the oil and gas industry, major policy shifts or a lack of consensus between the president, the Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investment in Russia generally and the Notes in particular.

Selective or arbitrary government action could materially adversely affect our business, financial position and results of operations and on the value of the notes.

We operate in an uncertain regulatory environment. Governmental authorities in Russia have a high degree of discretion and at times exercise their discretion arbitrarily, without hearing or prior notice, or influenced by political or commercial considerations. Selective or arbitrary governmental actions have included unscheduled inspections by regulators, suspension or withdrawal of licenses and permissions, unexpected tax audits, criminal prosecutions and civil actions. Whilst we have not previously been affected by such government actions, any of such actions could have a material adverse effect on our business, financial position and results of operations.

Domestic conflicts could create an uncertain operating environment hindering our long term planning ability and could materially adversely affect the value of investments in Russia, including the value of the notes.

The Russian Federation is a federation of sub federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with applicable laws. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. In practice, the division of authority and uncertainty could hinder our long term planning efforts and may create uncertainties in our operating environment, which may prevent us from effectively carrying out our business strategy.

In addition, the political and economic changes in Russia in recent years have resulted in significant dislocations of authority. The local and international press have reported that significant criminal activity in Russia, including organised, has arisen, particularly in large metropolitan centres. In addition, the local press and international press have reported high levels of official corruption, including bribery and using investigative or procedural powers for corrupt purposes. Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions among the population and, in certain cases, have led to military conflict, such as the conflict in Chechnya. In recent years, Russia has suffered a number of terrorist attacks, including suicide bombings, bombings of two domestic passenger flights and hostage-taking at a school in Beslan, resulting in significant loss of life and damage to property. In March 2010 two explosions in the Moscow underground led to the death of 40 people and injured more than 80 people. Following the explosions in Moscow two suicide bombings in Kizlyar, Russia, killed 12 people and injured 27 people. In early April 2010 two policemen were killed and four policemen were injured as the result of two explosions in Karabulak, Russia. In May 2010 an explosion in the centre of Stavropol, killed seven people and injured over 40. A further intensification of criminal activity and violence in Russia, including terrorist attacks and suicide bombings, could cause disruptions to domestic commerce and exports from Russia and have a materially adverse effect on our business, financial position, results of operations and the value of investments in Russia, including the value of the Notes.

In addition, the military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in criticism of Russia by a number of Western European countries and countries in North America, which were considering political and economic sanctions and other actions against Russia. Political disturbances or

hostilities involving the Russian Federation may undermine investor confidence, increase investors' perception of risk and increase the overall cost of capital for Russian issuers. If existing conflicts remain unresolved, or new disturbances or hostilities arise, we may be unable to access capital, or access capital on terms reasonably acceptable us, which may have a material adverse effect on our business, financial position, results of operations and prospects.

Economic Risks

Instability in the Russian economy could materially adversely affect our business.

Since the dissolution of the Soviet Union, the Russian economy has been subject to abrupt downturns and has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels 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;
- extensive capital flight;
- corruption and increased organised crime;
- significant increases in unemployment and underemployment;
- significant poverty levels amongst the Russian population;
- unstable credit conditions; and
- a weakly diversified economy which depends significantly on global prices for raw materials.

The recent global financial turmoil has also adversely affected the Russian economy. In the past few years, the Russian economy has been characterized by extreme volatility in the debt and equity markets (which experienced significant declines in the second half of 2008), causing market regulators to temporarily suspend trading multiple times on the Moscow Interbank Currency Exchange and Russian Trading System stock exchanges. The Russian economy has also been characterized by significant reductions in foreign investment and sharp decreases in gross domestic product. In light of these recent developments, two international rating agencies downgraded Russia's sovereign credit rating in 2008 and 2009 (Standard & Poor's from BBB+/A-2 to BBB/A-3 and Fitch from BBB+ to BBB) which reflects an assessment by such agencies that there is an increased credit risk that Russia may default on its obligations. This may lead to a further reduction of foreign investment and an increased cost of borrowing for the Russian Government.

In late 2008, the Russian Government announced plans to make available more than U.S.$200 billion in emergency financial assistance measures in order to ease taxes, refinance foreign debt and encourage lending. There can be no assurance that these measures will result in a short term recovery of the Russian economy. As Russia produces and exports large quantities of crude oil and natural gas, the Russian economy is also particularly vulnerable to fluctuations in the prices of crude oil and natural gas on the world markets. According to U.S. Energy Information Administration statistics, oil prices reached record high levels of approximately U.S.$145 per barrel in July 2008 and then fell to approximately U.S.$70 per barrel in October 2008 and U.S.$34 per barrel in January 2009, and have since continued to experience significant fluctuations, with increases to approximately U.S.$70 per barrel in August 2009 and approximately U.S.$83 per barrel in April 2010. As of 30 November 2010, the price of West Texas Intermediate, Brent Crude and Urals crude oil was U.S.$84 per barrel, U.S.$85 per barrel and U.S.$84 per barrel, respectively. Any further deterioration or a renewed economic downturn in Russia and the markets in which we operate could have a material adverse effect on our business, financial condition and results of operations and may also inhibit our ability to obtain financing.

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 recent global credit 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 another banking crisis in Russia could place severe liquidity constraints on our business, materially adversely affecting its business, financial position and results of operations.

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 interpretations and inconsistent applications. There are currently a limited number of creditworthy Russian banks, most of which are headquartered in Moscow. Although the CBR has the mandate and authority to suspend banking licenses of insolvent banks, many insolvent banks still operate. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet internationally accepted norms.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to the current worldwide credit market downturn and economic slowdown. The credit crisis that began in the United States in the autumn of 2008 has resulted in decreased liquidity in the Russian credit market and weakened the Russian financial system. Efforts by the Government to increase liquidity have been stymied by the unwillingness or inability of major banks to transfer money to the economy in the form of loans. The current lack of liquidity and economic slowdown have raised the possibility of Russian corporate defaults and led to bank failures and downgrades of Russian banks by credit rating agencies. More bank failures and credit downgrades may result in a crisis throughout the Russian banking sector. Starting from the fourth quarter of 2008, the majority of Russian banks experienced difficulties with funding on domestic and international markets and interest rates increased significantly. Some of the banks were unable to service their obligations and were sold to larger banks. Credit ratings of several banks have been lowered. A prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could materially adversely affect our business and our ability to complete banking transactions in Russia.

Russia's physical infrastructure is in poor condition, which could disrupt or impair our normal business activity, and efforts by the Russian government to improve the country's infrastructure may result in increased costs in our plans.

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the road networks, power generation and transmission systems, communication systems and building stock. For example, in August 2009, an accident at the Sayano-Shushenskaya hydroelectric power plant resulted in a significant portion of the supply to the local power grid being lost, which led to widespread power failure in the region and forced all major users such as aluminum smelters to switch to generators. In January 2006, electricity supplies to certain industrial customers in Moscow were reduced as a result of extreme cold weather in Moscow. Other parts of the country may face similar problems.

Road conditions in many areas of Russia are also poor, with many roads not meeting minimum requirements for usability and safety. The Russian Government is actively considering plans to strengthen and enhance the nation's rail, electricity and telephone systems. Any such effort, while supporting and enhancing our commercial operations, would also likely result in increased charges and tariffs. On the other hand, in the event the recent economic downturn delayed or reduced those expansion plans, this could lead to a further deterioration in Russia's infrastructure network. These factors could have a material adverse effect on our business, financial position and results of operations.

Legal and Legislative Risks

Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and business activity.

Russia is still developing the legal framework required by a market economy. Several fundamental Russian laws have only recently become effective. The relatively recent nature of much of Russian legislation and the rapid evolution of the Russian legal system impact the enforceability of laws and can result in ambiguities and

inconsistencies in legal interpretations and other anomalies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. Among the risks of the current Russian legal system are:

- inconsistencies between and among the Constitution, federal and regional laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- the lack of an independent judiciary;
- limited court personnel with the ability to interpret new principles of Russian legislation, particularly business and corporate law;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions;
- problematic and time consuming enforcement of both Russian and non-Russian judicial orders and international arbitration awards; and
- poorly developed bankruptcy procedures and certain violations in bankruptcy proceedings.

All of these weaknesses could affect our ability to enforce our legal rights under our contracts, or to defend ourselves against claims by others in Russia. We can give no assurance that regulators, judicial authorities or third parties will not challenge our internal procedures and by-laws or our compliance with applicable laws, decrees and regulations.

Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available and are subject to different and changing interpretations and administrative applications. Russian laws also often provide general statements of principles rather than a specific guide to implementation and government officials may be delegated or exercise broad authority in determining matters of significance. Such authority may be exercised in an unpredictable way, and effective appeal processes may not be available. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

In addition, amendments to several Russian laws (including those relating to the tax regime, corporations and licensing) have only recently become effective and there is little practice of their enforcement. The recent nature of much Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not coincide with market developments may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis and ultimately in investment risks that do not exist in countries with more developed legal systems. We can give no assurance that the development or implementation or application of legislation (including government resolutions or presidential decrees) will not adversely affect foreign investors (or private investors generally).

The judiciary's lack of independence and relative inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or you, as an investor in the notes from obtaining effective redress in a court proceeding.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remain largely untested. The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Under Russian legislation, judicial precedents generally have no binding effect on subsequent decisions and are not recognized as a source of law. However, in practice, courts usually consider judicial precedents in their decisions. In addition, most court decisions are not readily available to the public or organised in a manner that facilitates understanding. Enforcement of court judgments can in practice be very difficult in Russia. Additionally, court judgments are not always enforced or followed by law enforcement agencies. All of these factors make judicial decisions in Russia difficult to predict and make effective redress uncertain.

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalization. In the event that our property is expropriated or nationalised, legislation provides for fair compensation. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections may not be enforced in the event of an attempted expropriation or nationalization. This uncertainty is due to several factors, including the lack of state budgetary resources, an

independent judiciary or sufficient mechanisms to enforce judgments and curb corruption among state officials. As a result, we may not be able to obtain proper redress in the courts, and may not receive adequate compensation if, in the future, the state decided to nationalise or expropriate some or all of our assets. Expropriation or nationalization of any of our entities or their assets or portions thereof, potentially with little or no compensation, could have a material adverse effect on our business, financial position and results of operations.

The judiciary's corruption and occasional abuse of discretion can lead to unjustified and abusive court decisions. For example, it is not uncommon for excessive injunctive remedies to be sought by claimants and granted by courts in commercial disputes. We have experienced situations in connection with some commercial disputes where courts have granted broad injunctions preventing us and our subsidiaries from accessing transportation facilities or prohibiting the FAS from approving transactions based on unsubstantiated claims by parties not related to the transactions. While in the past we have always been successful in having such injunctions lifted and claims dismissed, we cannot assure you that will always be the case.

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, insider trading restrictions 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 legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code and the Federal Law on Joint Stock Companies, or the Joint Stock Companies Law, generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock 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 person or entity. The person or entity capable of determining such decisions is deemed an "effective parent". The person whose decisions are capable of being so determined is deemed an "effective subsidiary." Under the Joint Stock Companies Law, an 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 resulting from 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, 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 which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action

would result in losses. Accordingly, we could be liable in some cases for the debts of our subsidiaries. This liability could have a material adverse effect on our business, results of operations and financial position. The total interest-bearing loans and borrowings of our consolidated Russian subsidiaries (excluding intercompany indebtedness) as at 31 December, 2008 and 2009 and for the six months ended 30 June 2010 were U.S.$ 1,222 million, U.S.$1,564 million and U.S.$1,392 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 our charter in a manner that limits shareholder rights.

Our (or, as the case may be, our subsidiaries') obligation to purchase shares in these circumstances, which is limited to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial position, results of operations and prospects.

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 notes.

We are subject to a broad range of taxes and other compulsory payments and levies imposed at the federal, regional and local levels, including, but not limited to, excise duty, export duties, corporate income tax, VAT, property tax, social duties and other taxes.

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 Notes.

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.

Historically, the system of tax collection has been relatively ineffective, resulting in continual changes in the interpretation of the existing laws by the various authorities. Furthermore, the tax environment in Russia has been complicated by the fact that various authorities have often interpreted tax legislation inconsistently. Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. The possibility exists that the Government may impose arbitrary or onerous taxes, fines and penalties in the future, which could adversely affect our business.

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 have been subject to frequent change and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Taxpayers and the Russian tax authorities often interpret tax laws differently. During the past several years the tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments made by them as a result of tax audits of companies operating in various industries. In some instances, Russian tax authorities have applied new interpretations of tax laws retroactively. It is therefore possible that our transactions and activities that have not been challenged in the past may be challenged in future.

Also, differing interpretations of tax regulations exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to the inconsistent enforcement of these regulations in practice. In practice, taxpayers often have to resort to court proceedings to defend their position against the tax authorities. In absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory. 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**") which introduced a concept of "unjustified tax benefit" defined mainly by reference to specific examples of such tax benefits (for example, tax benefits obtained as a result of a transaction that has no reasonable business purpose) which may lead to disallowance of their application. 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. Importantly, we are aware of cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date, however, in many cases where this concept has been applied, the courts have ruled in favour of taxpayers, but there is no assurance that the courts will follow these precedents in the future.

Tax declarations, together with related documentation are subject to review and investigation by a number of authorities, which are empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax declarations remain open and subject to inspection by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent any tax declarations relating to that year, from further review during the three-year limitation period. In particular, a tax authority higher than that which carried out the initial tax audit may re-audit the same period. Therefore, previous tax audits may not preclude subsequent claims relating to the audited period.

Also the Russian Tax Code provides for the possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer has actively obstructed the performance of the tax audit and this has become an insurmountable obstacle for the tax audit. As the terms "obstructed", "hindered" or "insurmountable obstacles" are not specifically defined in Russian tax law or any other branches of Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year period. Therefore, the statute of limitations is not entirely effective with respect to liability for tax in Russia.

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 its application. 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. Based on the available practice the tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavorable to taxpayers.

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 Russian 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 TMK 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.

Furthermore, Russian tax legislation in effect as of the date of this Prospectus does not contain a concept of the corporate tax residency. Russian companies are taxed on their worldwide income, whilst foreign entities are taxed in Russia on income attributable to a permanent establishment and on a Russian source income. The Russian Government 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 non-Russian companies of the TMK Group. We may not 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.

In May 2009 the Russian President included in his budget message regarding the Government's budget policy for 2010 to 2012 a proposal for legislative changes to introduce an anti-avoidance mechanism with respect to double tax treaty benefits in cases where ultimate beneficiaries of income do not reside in the relevant tax treaty jurisdictions.

A draft law has become publicly available envisaging the introduction of the concept of an "actual recipient of income" to the Russian Tax Code, prepared by the Finance Ministry. 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 tax 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 tax treaties where the beneficiary of income resides in a jurisdiction which does not have double tax treaty with Russia. The draft law, if enacted in its current form, would add uncertainty and instability in the application of double tax treaties in Russia. It may result in the inability for foreign entities to claim benefits under a double tax treaty benefits in structures which historically were subject to double tax treaty protection in Russia. It is currently uncertain if and when the draft law may be introduced, if at all, how it will be interpreted and applied by the tax authorities and/or courts in practice and what effect it may have on the companies of the TMK Group.

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 "*— Risks Relating to the Russian Federation — Selective or arbitrary government action could materially adversely affect our business, financial position and results of operations and on the value of the notes*". 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 Notes.

Russian transfer pricing rules may affect our results of operations.

Transfer pricing legislation in Russia allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "**controlled**" transactions (except for those conducted at state regulated prices and tariffs), if the transaction price differs upwards or downwards from the market price by more than 20%. "**Controlled**" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties characterized by significant price fluctuations (i.e., if the price applied under these transactions differs from the prices applied under similar transactions by more than 20%. within a short period of time). Special transfer pricing rules apply to transactions with securities or derivatives. Transfer pricing rules as currently in effect are vaguely drafted, generally leaving wide scope for their interpretation by the tax authorities and courts in practice. Moreover, in the event that the tax authorities assess a transfer pricing adjustment, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction.

There is a plan to introduce substantial amendments to the Russian transfer pricing legislation. A new draft law introducing a wholesale reform to the transfer pricing legislation was approved by the Russian Parliament in the first

reading on February 19, 2010 with the second and third readings expected in January to February 2011. The law is expected to come into force during 2011 or 1 January 2012. The proposed amendments, if adopted, would result in stricter transfer pricing rules. Imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on TMK's business, financial position and results of operations, and the value of the Notes.

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 position 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 notes*".

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 Notes and the Trading Market

Our obligations to make payments under the Loan Agreement are effectively subordinated to all the liabilities of our subsidiaries other than those of the Loan Guarantors.

We are a holding company with no direct operations other than certain functions for our group. Our ability to make payments to the Issuer under the Loan Agreement depends upon the receipt of proceeds from rendering of services, dividends, distributions, intercompany loan repayments and other payments from our subsidiaries, or our issuance of debt or equity securities. Our subsidiaries are separate and distinct legal entities. With the exception of the Loan Guarantors, from time to time, pursuant to the terms of the Loan Guarantee, and any other subsidiaries which may become Loan Guarantors pursuant to the terms of the Loan Guarantee, our subsidiaries have no obligation in respect of any amounts due under the Loan Agreement. In the event of a bankruptcy, liquidation or reorganisation of a subsidiary, holders of that subsidiary's indebtedness and trade and other creditors of that subsidiary will have a claim to the assets of that subsidiary that is senior to your interest in those assets (except that the Loan Guarantee shall rank pari passu with the other senior unsecured obligations of the Loan Guarantors, from time to time, and to the extent that we are recognised as a creditor through intercompany claims or loans). Therefore, in most circumstances, obligations under the Loan Agreement will effectively rank junior to all liabilities of our subsidiaries other than those of the Loan Guarantors, including, but not limited to, trade payables.

In addition, our subsidiaries may be subject to legal, contractual or other restrictions that would prevent them from paying dividends or otherwise distributing cash to us. There can be no assurance that any of our subsidiaries will be able to make distributions to us to enable us to make payments under the Loan Agreement. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness*" for a discussion of our borrowings.

Our Russian subsidiaries may not approve the issuance of guarantees securing the Borrower's obligations under the Loan.

We have agreed in the Loan Agreement to procure, not more than 90 days after the Issue Date of the Notes, that Seversky, Sinarsky, Tagmet and IPSCO Tubulars as the Additional Loan Guarantors, will issue the Additional Loan Guarantee in favour of the Issuer, pursuant to which they will jointly and severally guarantee the payment of all the amounts due by the Borrower under the Loan. In addition, under certain circumstances we may also be required to procure that further subsidiaries guarantee our obligations under the Loan. 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 guarantees. In addition, if any Further Loan Guarantor (as defined in the Loan Agreement) fails to provide the required guarantee in a timely manner, the Issuer will make an offer to purchase the Notes and the Borrower will prepay the Loan to the extent and in the amount that the Issuer is required to repurchase the Notes. See "*Description of the Transaction and the Security.*" There can be no assurance that, if required to prepay the Loan in whole or in part, the Borrower or the other Loan Guarantors will have, or be able to obtain, the funds required to make such payments and that the Issuer will be able to repurchase any Notes.

Our obligations to make payments under the Loan Agreement are subordinated to our secured obligations and the obligations of any Loan Guarantor to make payments under the Loan Guarantee are subordinated to secured obligations of the Loan Guarantors.

Some of our indebtedness, as well as some of the indebtedness of the Loan Guarantors, is secured by property, plant and equipment and/or inventory. Upon the occurrence of an event of default under any of any Loan Guarantor's secured loans, or if we default on the Loan and this default triggers an event of default under any of our or any Loan Guarantor's secured loans or other debt, or in the event of our or any Loan Guarantor's bankruptcy, liquidation or reorganisation, the relevant entity's secured creditors will have a claim that will have priority over your interest in the assets that serve as the security for such creditor's indebtedness. Therefore, our obligations under the Loan Agreement and the obligations of any Loan Guarantor under the Loan Guarantees, respectively, will rank junior to our and each Loan Guarantor's respective secured obligations.

As at 30 June 2010, approximately U.S.$1,109 million of the principal amount of our total consolidated debt was secured by property, plant and equipment, inventories and receivables, and the Loan Guarantors had outstanding secured indebtedness in the principal amount of approximately U.S.$1,079 million.

Covenants in our debt agreements, including the Loan Agreement, restrict our ability to borrow and invest, which could impair our ability to expand or finance our future operations.

Certain of our short-term and long-term debt agreements, including the Loan Agreement, contain covenants that impose operating and financial restrictions on us and our subsidiaries. These restrictions significantly limit, and in some cases prohibit, among other things, our and certain of our subsidiaries' (including the Loan Guarantors') ability to incur additional debt, provide guarantees, create liens on assets or enter into business combinations. Failure to comply with these restrictions would constitute a default under our debt agreements, including the Loan Agreement, and the Loan or any of our other debt containing cross default provisions could become immediately due and payable. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness*" for a discussion of these limitations.

The ability of investors to receive payment on the notes is limited to payments received by the Issuer under the Loan Agreement and/or the Loan Guarantees.

The obligations of the Issuer are limited recourse in nature and it is only obliged to make payments under the Notes to Noteholders in an amount equivalent to sums of principal, interest, increased amounts of principal, interest and any other payment due under the Loan Agreement and any Additional Amounts (as defined in the Loan Agreement) actually received by or for the account of the Issuer under the Loan Agreement and/or the Loan Guarantees, less any amount in respect of Reserved Rights (as defined in "*Terms and Conditions of the Notes*"). Consequently, if we fail to meet fully our obligations under the Loan Agreement and/or any Loan Guarantor fails to meet fully its obligations under the Loan Guarantees, investors will receive less than the scheduled amount of principal, interest, increased amounts of principal, interest and any other payment due under the Loan Agreement (if any) and/or Additional Amounts (if any) on the relevant due date. The Issuer's assets solely consist of the Loan Agreement and its liabilities solely consist of its obligations to make payments under the Notes. As an orphan special purpose vehicle incorporated for the sole purpose of issuing notes, it has no other material assets or liabilities.

Noteholders have no direct recourse against the Issuer.

Except as otherwise disclosed in "*Terms and Conditions of the Notes*" and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement and/or the Loan Guarantees exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement and/or the Loan Guarantees or have direct recourse against the TMK Group, except through action by the Trustee under the Security Interest (as defined in "*Terms and Conditions of the Notes*"). Neither the Issuer nor the Trustee under the Assigned Rights (as defined in "*Terms and Conditions of the Notes*") shall be required to enter into proceedings to enforce payment under the Loan Agreement and/or the Loan Guarantees.

The lack of a public market for the Notes could reduce the value of an investment in the Notes.

There may not be an existing market for the Notes at the time they are issued. The Notes are expected to be listed and admitted to trading on the Regulated Market. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

Payments we make under the Loan or the Loan Guarantees may be subject to Russian withholding tax.

In general, interest payments on borrowed funds made by a Russian entity to a non-Russian legal entity or organization having no registered presence or permanent establishment in Russia are subject to Russian withholding tax at the rate of 20%., unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty. We believe that payments of interest on the Loan to the Issuer should not be subject to Russian 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 capital signed 28 June 1993 (the "**Russian-Luxembourg double tax treaty**"). However, there can be no assurance that such relief will be available in practice or will continue to be available throughout the term of the Loan.

Payments by the Loan Guarantors under the Loan Guarantees that cover interest on the Loan may also be characterised as Russian source income subject to withholding income tax at the rate of 20%. Based on professional advice we have received, we believe that payments of interest on the Loan by the Borrower or the Loan Guarantors should not be subject to withholding tax under the terms of the double tax treaty between Russia and Luxembourg, subject to timely receipt by the Borrower or the relevant Loan Guarantor, as the case may be, of the treaty residence confirmation for the Issuer. However, there is no assurance that such relief will be obtained.

If interest and other amounts due under the Loan become payable to the Trustee pursuant to the Trust Deed, any benefit of the Russia-Luxembourg double tax treaty will cease and payments of interest made to the Trustee under the Loan could be subject to Russian withholding tax at the rate of 20%. If payments under the Loan Guarantee become due to the Trustee pursuant to the Trust Deed, any payments (whether of interest or, less likely, of principal) made by a Loan Guarantor under the Loan Guarantees may be subject to Russian withholding tax at a rate of 20% or such other rate as may be in force at the time of payments. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In addition, whilst some Noteholders may be eligible to an exemption from, or a reduction in, Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available to them in practice under such circumstances.

Russian thin capitalisation rules will be applicable to interest payable on the Loan by TMK since the Russian affiliated entities of a non-Russian legal entity that directly owns more than 20% of TMK, act as the Loan Guarantors for TMK's debt obligations under the Deed of Loan Guarantee. Under Russian thin capitalisation rules, the deductibility of interest payable on the Loan is subject to certain limitations if the TMK's outstanding debt to the non-Russian legal entity that directly or indirectly owns more than 20% of the Borrower or to such legal entity's affiliated Russian entities, or guaranteed by such entity or by such entity's affiliated Russian entities, jointly qualified as "controlled debt" of TMK under the Russian thin capitalisation rules, exceeds 300% of TMK's own capital. Any interest expense paid by TMK in excess of such limitations (on a pro- rata basis corresponding to the share of investment by the particular non-Russian legal entity into the charter capital of TMK) will be reclassified as a dividend for TMK for the purposes of Russian profit tax and will be subject to a Russian withholding income tax at a rate of 15% unless such withholding tax is reduced or eliminated pursuant to the terms of the applicable double tax treaty.

Payments in respect of the Notes will be made, except in certain limited circumstances, without a deduction or withholding for or on account of Luxembourg taxes. As provided in "*Taxation of the Notes, Loan and Guarantees — Luxembourg Taxation*", pursuant to a European Directive regarding the taxation of savings income in the form of interest payments within the European Community ("**EU Savings Directive**"), interest on the Notes paid to individuals who are beneficial owners of interest and residents in European Union Member States as well as certain residual entities may be subject to withholding tax in Luxembourg. For further information on this legislation and the applicability of withholding tax to interest payments, see "*Taxation of the Notes, Loan and Guarantees — Luxembourg Taxation*". If any payments to non-resident Noteholders in respect of the Notes become subject to deduction or withholding for or on account of Luxembourg taxes (other than pursuant to the EU Savings Directive), we will, subject to certain limitations, be obliged under the terms of the Loan Agreement to increase interest payments or to make additional payments, respectively as may be necessary so that the net payments received by the Noteholders will not be less than the amounts they would have received in the absence of such withholding.

If payments under the Loan are subject to any withholding of Russian or Luxembourg tax as a result of which the Issuer would reduce payments under the Notes by the amount of such withholding, we are obliged to increase payments as may be necessary so that the net payments received by holders of the Notes will not be less than the amounts they would have received in the absence of such withholding tax. It is currently unclear whether the provisions obliging us to gross up interest payments will be enforceable under Russian law. There is a risk that gross up for withholding tax will not take place and that interest payments made by us will be reduced by the amount of

the Russian income tax withheld by us at the rate of 20%, or such other rate as may be in force at the time of payment. If we are obliged to increase payments or to make additional payments, we may, subject to certain conditions, prepay the Loan in full. In such a case, all outstanding Notes would be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of repayment. See "*Terms and Conditions of the Notes*".

Tax might be withheld on dispositions of the Notes in Russia, reducing their value.

If a non-resident Noteholder that is a legal entity or organization sells any Notes other than through its permanent establishment in Russia and receives sales proceeds from a source within Russia, there is a risk that the portion of the sales proceeds, if any, representing accrued interest may be subject to a 20%. Russian withholding tax, which may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities. However, no assurance can be provided that such relief will be available in practice.

Where proceeds from disposition of Notes are received from a source within Russia by a non-resident Noteholder, who is an individual, a personal income tax at the rate of 30% would apply to the gross amount of sales proceeds realized upon disposition of the Notes decreased by any available duly documented cost deduction (including the acquisition cost of the Notes). The tax authorities could argue that the portion of sales proceeds attributable to accrued interest income provided that these sales proceeds are derived from Russian sources, should be subject to Russian personal income tax at the rate of 30%, even if disposition of the Notes results in a capital loss. Although this tax rate may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities, in practice individuals would not be able to obtain advance treaty relief in relation to sales proceeds received from a source within Russia, whilst obtaining a refund of taxes withheld can be extremely difficult, if not impossible. Furthermore, even though the Tax Code is typically interpreted such that only a Russian professional asset manager or broker, or another person (including a foreign company with a permanent establishment or a registered presence in Russia or an individual entrepreneur located in Russia) acting in a similar capacity should withhold the tax from payment associated with disposition of securities made to a non-Russian individual, there is no guarantee that other Russian companies or foreign companies with a registered presence in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax under these circumstances. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes.

In addition, while some Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax or personal income tax, as appropriate, under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under such circumstances.

There is no active trading market for the Notes.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes 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 and the financial position of the Issuer and TMK. Although applications have been made for the Notes 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 Notes.

The Notes may be redeemed prior to maturity.

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes 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 Notes in accordance with the Conditions, unless the Noteholders' tax option under Condition 8 is exercised.

In addition the Conditions provide that the Notes are redeemable at the Issuer's option in certain other limited circumstances and accordingly the Issuer may choose to redeem the outstanding Notes 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 Notes.

Because the Global Notes 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 Loan Guarantors.

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

The Issuer and the Loan Guarantors will discharge their payment obligations under the Notes 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 Note Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer and the Loan Guarantors have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

Modification, waivers and substitution.

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

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders 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 Notes in place of the Issuer, in the circumstances described in Condition 12 of the Terms and Conditions of the Notes.

The market price of the Notes may be highly volatile.

The market price of the Notes 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 Notes or TMK given by the rating agencies;
- General economic conditions in emerging markets generally, in the CIS, Europe, the United States 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.

Credit ratings of the Notes may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to the Notes. Credit ratings assigned to the Notes 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 Notes. 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 Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes 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.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Risk Factors Relating to Luxembourg law

Insolvency laws in Luxembourg could negatively affect the ability of Noteholders to enforce their rights.

Any insolvency proceedings with regard to the Issuer would most likely be based on and governed by the insolvency laws of Luxembourg, the jurisdiction under which the Issuer is organised. As a result, in the event of the Issuer's insolvency, a Noteholder's claim against the Issuer will most likely be subject to insolvency laws of Luxembourg. The insolvency laws of Luxembourg may not be as favourable to the interest of Noteholders as the laws in other jurisdictions. In the event that the Issuer experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or how these proceedings would be resolved. In addition, there can be no assurance as to how the insolvency laws of Luxembourg will be applied in insolvency proceedings relating to several jurisdictions.

DESCRIPTION OF THE TRANSACTION AND THE SECURITY

The following summary description should be read in conjunction with, and is qualified in its entirety by "Terms and Conditions of the Notes," "Summary of Provisions of the Notes While in Global Form" and the forms of the Loan Agreement and the Loan Guarantee set out herein.

The transaction will be structured as a loan to the Borrower as borrower from the Issuer as lender.

The Issuer will issue the Notes for the sole purpose of funding the Loan to the Borrower. The Initial Loan Guarantors will initially provide an unconditional and irrevocable guarantee in respect of the obligations of the Borrower under the Loan. In addition, the Loan Agreement provides that the Borrower must procure the Additional Loan Guarantors each to provide a further unconditional and irrevocable guarantee in respect of the obligations of the Borrower under the Loan by 27 April 2011, and any failure to do so will be deemed an Additional Loan Guarantee Event (as defined in the Terms and Conditions of the Notes). Upon an Additional Loan Guarantee Event, the Issuer will make an offer to purchase all of the Notes duly tendered at a price per Note of 101% of the principal amount thereof, plus accrued but unpaid interest and plus any additional amounts or other amounts that may be due thereon, up to but excluding the date of repurchase. Each Noteholder may tender all or any of the Notes held by it. Concurrently, the Borrower will prepay the Loan to the extent and in the amount that the Lender is required to repurchase the Notes. See "*Risk Factors — Risks Relating to the Notes and the Trading Market — Our Russian Subsidiaries May Not Approve the Issuance of Additional Guarantees*". In certain circumstances set out in the Loan Agreement, the Loan Guarantees in respect of any or all Loan Guarantors may be terminated or Further Loan Guarantors may be added to the Loan Guarantees.

The Notes will have the benefit of, be subject to, and be constituted by the Trust Deed. The Issuer will not have any obligations to the Noteholders, other than the obligation to account to the Noteholders in respect of the payments of principal, interest and any increased amounts of principal interest or any other payment due under the Loan (as defined in the Loan Agreement) and any Additional Amounts (as defined in the Loan Agreement) under the Loan and the Loan Guarantees if, and only to the extent, received from the Borrower or any Loan Guarantor, less any amounts in respect of Reserved Rights (as defined in Terms and Conditions of the Notes). Accordingly, the assets backing the issue, namely the obligations of the Borrower pursuant to the Loan Agreement and the Loan Guarantors pursuant to the Loan Guarantees, have characteristics that demonstrate the capacity to produce funds to service any payments due and payable under the Notes.

As provided in the Trust Deed, the Issuer will:

- charge by way of security to the Trustee all of its rights, title, interests and benefits in and to principal, interest and other amounts now and in the future paid and payable to it under the Loan Agreement and the Loan Guarantees and its right to receive amounts paid and payable to it under any claim, award or judgment relating to the Loan Agreement and the Loan Guarantees (in each case other than its right to amounts in respect of certain Reserved Rights);
- charge by way of security to the Trustee its rights, title, interest and benefit to sums held on deposit from time to time, in an account in London in the name of the Issuer with the Principal Paying Agent (as defined in the Trust Deed), account number 28013402, together with the debt represented thereby (other than interest from time to time earned thereon and the Reserved Rights); and
- assign absolutely to the Trustee all of its rights, title, interest and benefit to and under the Loan Agreement (save for those rights charged or excluded above) to the Trustee upon the closing of the offering of the Notes.

The Borrower or a Loan Guarantor, as applicable, will be obliged to make payments under the Loan or the Loan Guarantees, as the case may be, to the Issuer's account in accordance with the terms of the Loan Agreement and the Loan Guarantees, respectively. The Issuer will agree in the Trust Deed not to agree to any amendments to, or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement or the Loan Guarantees unless the Trustee has given its prior written consent or unless authorised to do so by an Extraordinary Resolution (as defined in the Trust Deed) or Written Resolution (as defined in the Trust Deed) of the Noteholders (except in relation to Reserved Rights). The Issuer will further agree to act at all times in accordance with the instructions of the Trustee from time to time with respect to the Loan Agreement and the Loan Guarantees (subject to being indemnified and/or secured to its satisfaction), other than as provided in the Trust Deed and except in relation to Reserved Rights. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be binding on the Noteholders. The Issuer will also agree in the Agency Agreement to require that all payments made by the Borrower under the Loan Agreement or the Loan Guarantors under the Loan Guarantees, as the case may be, be directed to the Issuer's account. Formal notice of the security interests created by the Trust Deed will be given to the Borrower and each of the Loan Guarantors, who will each be required to acknowledge the same.

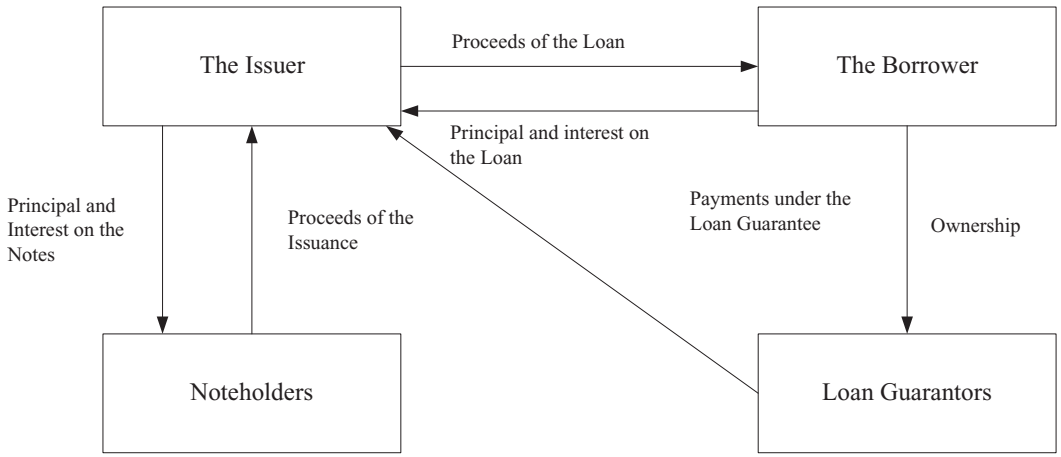
The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of the Loan.

In the event that the Trustee enforces the security interests granted to it, the Trustee will apply the proceeds of enforcement in accordance with the provisions of the Trust Deed. The Trustee is not obliged to enforce the security interests granted to it unless it has been indemnified and/or secured to its satisfaction and instructed to do so by the Noteholders.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of Luxembourg taxes, except as required by law. See "*Terms and Conditions of the Notes — Taxation*". In the event that any deduction or withholding is required by law, the Issuer will be required, except in certain limited circumstances, to pay increased amounts of principal, interest or any other payment due thereon or Additional Amounts to the extent that it receives corresponding amounts from the Borrower or a Loan Guarantor under the Loan Agreement or Loan Guarantees, as the case may be. In addition, payments under the Loan Agreement and the Loan Guarantees shall, except in certain limited circumstances, be made without deduction or withholding for or on account of Russian or Luxembourg taxes, except as required by law. In the event that any deduction or withholding is required by law with respect to payments under the Notes or the Loan Agreement, the Borrower and the Loan Guarantors will be obliged, except in certain limited circumstances, to increase the amounts payable under the Loan Agreement and the Loan Guarantees, respectively, by an amount equivalent to the required tax payment. "*Risk Factors — Risks Relating to the Notes and the Trading Market — Payments We Make under the Loan or the Loan Guarantees May be Subject to Russian Withholding Tax*" and "*Risk Factors — Risks Relating to the Notes and the Trading Market — Tax Might be Withheld on Dispositions of the Notes in Russia, Reducing Their Value*".

In certain circumstances, the Loan may be prepaid at its principal amount, together with accrued interest, at the Borrower's option, upon the Borrower being required to increase the amount payable or to pay increased amounts of principal, interest or any other payment due thereon on account of Russian or Luxembourg taxes under the Loan Agreement or required to pay additional amounts on account of certain costs incurred by the Issuer. The Issuer may, in its own discretion, require the Loan to be prepaid if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. In the event the Loan is repaid due to any of these circumstances, the Issuer will redeem the Notes in whole, but not in part, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of redemption.

The following is a diagram setting forth the transaction structure:



CONCURRENT CONSENT SOLICITATION

On 13 January 2011, we announced an invitation to the holders of TMK Capital S.A.'s U.S.$600 million 10.00% Loan Participation Notes due 2011 (the "**2008 LPNs**") (of which U.S.$186.7 million was outstanding as at 13 January 2011) to vote in respect of an extraordinary resolution in respect of the 2008 LPNs (the "**Consent Solicitation**") to amend the definition of "**Permitted Indebtedness**" and "**Refinancing Indebtedness**" in the loan agreement with respect to the 2008 LPNs that would, among other things, enhance our flexibility to implement our refinancing plans with respect to our existing indebtedness.

The Consent Solicitation is being made solely by means of a Consent Solicitation Memorandum dated 13 January 2011.

USE OF PROCEEDS

The gross proceeds of the issue of the Notes will be on-lent from the Issuer to TMK. TMK will subsequently use such proceeds in their entirety to refinance existing indebtedness. Total commissions and expenses payable by TMK in relation to the Offering and the listing to admission and trading of the Notes are expected to be approximately U.S.$3,350,000.

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, 2010 as derived from the 2010 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 Condition and Results of Operations*" and the Consolidated Financial Statements and the related notes thereto included elsewhere in this Prospectus. See also "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	As at 30 June 2010 (millions of U.S. dollars)
Cash and cash equivalents	85.0
Current interest-bearing loans and borrowings	828.6
Non-current interest-bearing loans and borrowings	2,815.3
Shareholder's equity:	
Issued Capital	305.4
Treasury Shares	(318.4)
Additional paid-in capital	383.9
Reserve capital	15.4
Retained earnings	1,088.2
Foreign currency translation reserve	(15.5)
Total shareholders' equity	**1,459.0**
Non-controlling interests	70.6
Total equity	**1,529.6**
Total capitalisation[(1)]	**4,344.9**

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

Since 30 June, 2010, a number of transactions have taken place which affect our capitalisation. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Other than as described above, there has been no material change in our capitalization since 30 June 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Certain information contained in this section and presented elsewhere in this Prospectus, 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 7% worldwide market share for seamless pipes and a 12% worldwide market share for seamless OCTG by sales volume in the first half of 2010, according to our estimates. We believe that we are also Russia's largest manufacturer and supplier of steel pipes. We estimate that we had a 27% market share for steel pipes, a 54% market share for seamless pipes and a 60% market share for seamless OCTG in Russia by sales volume in the first half of 2010.

We produce both seamless and welded pipes. 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 large diameter welded pipe and welded OCTG business. We have 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 in late 2008, which we believe provides us with a strong platform to expand our share of the Russian large diameter pipe market. Since our acquisition of IPSCO Tubulars and TMK NSG in 2008, we are also focusing on our welded OCTG and higher value-added products operations in the United States where we believe 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.

Our primary production facilities are geographically diversified with locations in Russia, the United States, and Romania. We operate primarily through our principal production subsidiaries, four of which — Volzhsky, Seversky, Tagmet and Sinarsky — are located in Russia, four of which — IPSCO Tubulars, IPSCO Koppel Tubulars, L.L.C., IPSCO Tubulars (KY) Inc. and IPSCO Tubulars (OK) Incorporated are located in the United States, and two of which — TMK-Artrom and TMK-Resita — are located in Romania.

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.

In the first half of 2010, we had total consolidated revenue of U.S.$2,566.2 million and profit before tax of U.S.$101.7 million, as compared to total consolidated revenue of U.S.$1,478.6 million and a loss before tax of U.S.$266.1 million in the first half of 2009. In 2009, we had total consolidated revenue of U.S.$3,461.0 million and incurred a loss before tax of U.S.$426.8 million, as compared to total consolidated revenue of U.S.$5,690.0 million and profit before tax of U.S.$308.1 million in 2008.

Recent Developments

In February 2010, our Board of Directors authorized an increase of our share capital by 86,166,871 shares with par value of RUB 10 per each share. In June 2010, we received RUB 8,589.8 million, or U.S.$279.4 million, from shareholders as consideration for the issuance of 64,585,094 shares, representing approximately 7.4% of our issued and fully paid share capital before additional issue. In July 2010, we finalized the increase of our share capital by means of an open subscription at the price of RUB 133 per share. As a result of the share capital increase, the total number of our issued and fully paid shares amounts to 937,586,094. Furthermore, during the six months ended 30 June 2010, we purchased 64,478,432 of our shares from TMK Steel for U.S.$281 million to guarantee the fulfillment of our obligations to bondholders in respect of our convertible bonds. The net effect of these two transactions has not materially altered our total equity.

Since 30 June 2010, we have been engaged in the following financing and refinancing transactions:

- 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. On 26 October 2010, we placed the first tranche of the bonds under the Russian bond programme in the aggregate principal amount of RUB 5,000 million due on 22 October 2013. The bonds bear interest semiannually at an annual rate of 8.85%. As of 31 December 2010, RUB 5,000 million remained outstanding under this bond issue. As of the date hereof, we have made no decision with respect to the timing of issue of the remaining three bond series under the programme.

- In July 2010, TMK Trade House entered into credit line facilities with MDM Bank in the principal amount of RUB 1,850 million that mature in April 2011 for the purpose of working capital financing. These credit facilities are guaranteed by Volzhsky and OAO TMK. As at 31 December 2010, these loans had been fully repaid.

- In August 2010, Volzhsky entered into a new credit facility agreement with Gazprombank in the principal amount of RUB 5,000 million with a three-year maturity. The facility is secured by a pledge of Volzhsky's real estate and goods in circulation. We used proceeds of this credit agreement to repay RUB5,000 million under a RUB5,000 million credit facility we entered into with Gazprombank in September 2009, which was guaranteed by the Russian Federation with respect to 50% of the principal. In December 2010 this credit facility with Gazprombank entered into in September 2009 was fully repaid.

- In August 2010, we fully repaid the November 2008 VTB Facility (as defined below).

- In August 2010, we amended the terms of the aggregate U.S.$1,107.5 million GPB Facilities (defined below), originally entered into in January 2009, as part of the financing of our purchase of TMK IPSCO, by extending the repayment schedule and reducing the interest rate on the loans. In December 2010, we amended the terms of the GPB Facilities by extending the term of the loan from 5 to 8 years and amending the repayment schedule. Furthermore, a security in the form of a pledge of 25% plus 1 share of OAO TMK was cancelled in relation to the GPB Facilities. As of 31 December 2010, U.S.$1,107.5 million was outstanding under these credit facilities. See "*— Certain Factors Affecting Our Results of Operations — Increased Leverage and Ongoing Efforts to Improve Our Liquidity Profile*" and "*— Liquidity and Capital Resources — Indebtedness*".

- In September 2010, Volzhsky entered into credit line facilities with MDM Bank in the principal amount of RUB 2,000 million with a 15-months maturity for the purpose of working capital financing. The loan is guaranteed by OAO TMK. As of 31 December 2010, the loans had been fully repaid.

- In September 2010, Seversky, Sinarsky and Tagmet entered into three five-year credit line agreements with Sberbank in the aggregate amount of RUB 10,000 million. We used the proceeds of these loans to repay our indebtedness under facilities in the aggregate amount of RUB 10,000 million entered into with VTB in October 2009, which were guaranteed by the Russian Federation with respect to up to 50% of the principal. With the repayment of these facilities, we completed the repayment of all our outstanding debt that was guaranteed by the Russian Federation. The Sberbank loans are secured by a pledge of Seversky's equipment, Sinarsky's real estate, Tagmet's real estate, and cross-guarantees from Seversky, Sinarsky, Tagmet, Volzhsky and OAO TMK. As at 31 December 2010, RUB 10,000 million was outstanding under these credit lines.

- In November 2010, OAO TMK entered into a loan agreement with Alfa-Bank in the amount of RUB 10,200 million which matures in November 2016. The proceeds of the loan were used for the purpose of repaying certain of our indebtedness, including the August 2009 VTB facility (as defined below). The loan is guaranteed by Volzhsky. As at 31 December 2010, RUB 10,200 million was outstanding under this loan agreement.

- In November 2010, TMK Trade House entered into a revolving credit line facility agreement with OAO AKB Uralsib ("**Uralsib**") in the principal amount of U.S.$133.3 million, or RUB 4,000 million, that matures in May 2012. The proceeds of the loan were used for the purpose of financing working capital. The loan is guaranteed by Seversky, Sinarsky, Tagmet, Volzhsky and OAO TMK. As at 31 December 2010, RUB 1,300 million was outstanding under this credit line facility.

- In November 2010, OAO TMK entered into credit line facilities with Gazprombank in the principal amount of RUB 5,000 million that mature in November 2012 for the purpose of repaying indebtedness. The loan is guaranteed by Volzhsky and Seversky. As of 31 December 2010, the loans had not been drawn.

- In December 2010, Volzhsky entered into credit line facilities with Gazprombank in the principal amount of RUB 2,000 million that mature in December 2015 for the purpose of repaying indebtedness. As at 31 December 2010, RUB 2,000 million was outstanding under these credit facilities.

- In December 2010, OAO TMK entered into a credit line agreement with Sberbank in the amount of RUB 4,000 million that matures in June 2015. The proceeds of the loan were used to refinance certain of our indebtedness. The loan is guaranteed by Volzhsky. As at 31 December 2010, RUB 4,000 million was outstanding under this credit line.
- In December 2010, we fully repaid the August 2009 VTB Facility (as defined below).

In December 2010, IPSCO Tubulars entered into a four-year U.S.100 million senior secured credit facility with Wells Fargo Capital Finance. The facility is guaranteed by IPSCO Tubulars's principal subsidiaries and is secured by, among other things, a first priority security interest on all of the personal property of IPSCO Tubulars and its principal subsidiaries. Loans drawn under the facility are subject to repayment if the amount of such outstanding loans should exceed the funding base, calculated based on a percentage of the IPSCO Tubulars's eligible accounts receivable and inventory, in an amount necessary to eliminate such excess. As at 31 December 2010, U.S.$100 million was outstanding under this credit facility.

In January 2011, we launched a consent solicitation pursuant to which we have requested noteholders to amend the terms of our 2008 LPNs to (i) permit us to incur higher levels of permitted indebtedness and (ii) broaden the definition of "Refinancing Indebtedness" by extending the amount of time allowable between the incurrence of new indebtedness and the repayment of existing debt for it still to come within the definition of "Refinancing Indebtedness" and, in turn, the definition of permitted indebtedness. We believe that these amendments will further enhance our financing and refinancing flexibility.

Trading Update

During 2010, our shipment volumes increased by 42.2% to 3,969 thousand tonnes as compared to 2,792 thousand tonnes in 2009.

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

Product	4th quarter ended 31 December 2010	3rd quarter ended 30 September 2010	% change	2010	2009	% change
		(thousands of tonnes, except percentages)				
Seamless Pipes	595	507	17.4%	2,161	1,670	29.4%
Welded Pipes	514	489	5.1%	1,808	1,122	61.1%
Total Pipes	1,109	996	11.3%	3,969	2,792	42.2%
Total OCTG Pipes	368	347	6.0%	1,444	1,046	38.1%

In the fourth quarter of 2010, market conditions for our products maintained the positive trends established in recent periods as shipment volumes grew by 11.3% over the previous quarter.

In the fourth quarter of 2010, we experienced increased demand for OCTG pipes principally related to seasonal purchases of pipes used in oil and gas production by energy companies as well as the completion of the steel-making and pipe-rolling modernization project in October 2010 at one of the Volzhsky Plant's mill which produces seamless pipes for the energy sector. Shipment volumes for OCTG pipes increased by 6.0% in the fourth quarter of 2010 as compared to the third quarter. Our overall shipments of OCTG pipes increased by 38.1% to 1,444 thousand tonnes in 2010 from 1,046 thousand tonnes in 2009.

Large-diameter pipe shipments in the fourth quarter of 2010 grew by approximately 40% as compared to the third quarter of 2010. Increases in our large-diameter pipe shipment volumes in 2010 were principally due to the continuation of the large-scale investment programs of Gazprom and Transneft. Overall, our shipment volumes increased by 117% to 671 thousand tonnes in 2010 from 309 thousand tonnes in 2009.

We also observed growth in the industrial pipe market in the fourth quarter of 2010, driven by growth in demand from Russia's machine-building industries, in particular the automotive industry. Our shipment volumes of seamless industrial pipes grew by 18% in the fourth quarter of 2010 as compared to the third quarter of 2010.

Our shipments of seamless line pipes in the fourth quarter of 2010 increased by approximately 26% as compared to the third quarter of 2010.

In 2010, we recorded shipment volumes of approximately 397,000 premium connections developed by our Russian and U.S. divisions, an increase of approximately 27% as compared to 2009. In particular, demand for our ULTRA premium connections continued to increase. In 2010, TMK IPSCO recorded shipments of approximately 295 thousand ULTRA premium connections, an increase of 36.5% as compared to 2009.

TMK IPSCO's recorded shipments of 212 thousand tonnes of tubular products in the fourth quarter of 2010, a 7.4% decrease as compared to the third quarter. TMK IPSCO's shipment volumes of seamless pipes and seamless OCTG pipes, however, increased by 7.2% and 17.8% in the fourth quarter of 2010 as compared to the third quarter of 2010, respectively. The principal decrease was observed in shipments of seamless and welded industrial pipes. In total, TMK IPSCO shipped 862 thousand tonnes in 2010, an increase of 140.9% as compared to shipments in 2009. Based on our estimates, drilling activity in the United States continued to be strong in the fourth quarter of 2010. According to Baker Hughes, a U.S. oilfield service company, the number of active rigs in the United States increased by 2.1%, from 1,659 as of 1 October 2010 to 1,694 as of 30 December 2010. According to Baker Hughes, the active rig growth resulted from higher drilling activity at oil fields, while drilling at gas fields continued to decline.

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 TMK NSG, 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 TMK NSG to us in the amount of U.S.$510.6 million, and transaction costs of U.S.$20.2 million. Through the acquisition we believe that 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. TMK NSG 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. TMK NSG 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.$1,200 million 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 TMK NSG. On 30 January 2009, we exercised our option to purchase the remaining 49% ownership interest in TMK NSG for U.S.$507.5 million, as a result of which we acquired a 100% interest in both IPSCO Tubulars and TMK NSG. We used a portion of the proceeds of GPB Facilities (defined below) to finance our acquisition of the remaining 49% interest in TMK NSG.

The financial position and results of operations of IPSCO Tubulars and TMK NSG 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 2010 amounted to 412,338 tonnes (including 294,071 tonnes of seamless and welded OCTG), or 22% of our total sales during the period.

Leverage Level and Ongoing Efforts to Improve Our Liquidity Profile

The following table sets forth certain information regarding our indebtedness, working capital, leverage and certain key related financial measures as of and for the dates/periods indicated the liquidity profile and the key financial measures for the periods indicated:

	June 30, 2010	December 31, 2009	June 30, 2009	December 31, 2008
		(in millions of US dollars)		
Interest bearing loans and borrowings, including:	3,643.9	3,751.6	3,650.3	3,210.7
short-term interest bearing loans and borrowings	828.6	1,537.4	1,968.5	2,216.5
Share of short-term interest bearing loans and borrowings, %	23%	41%	54%	69%
Working capital excess/(deficit)	146.7	(645.0)	(951.7)	(1,446.4)
Net debt*	3,554.9	3,503.7	3,559.9	3,063.4
Adjusted EBITDA**	597.0	328.1	776.3	1,047.2
Net-Debt-to-EBITDA ratio***	6.0	10.7	4.6	2.9

* Net debt calculation — See "Summary Consolidated Historical Financial Data".

** Calculated on a rolling 12-months basis. Adjusted EBITDA — See "Summary Consolidated Historical Financial Data".

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

As at 31 December 2010, the nominal principal value of our total interest-bearing loans and borrowings amounted to U.S.$3,863.5 million, including U.S.$675.3 million of the nominal principal amount of short-term interest bearing borrowings. Additionally, as at 31 December 2010, 35.9% of our total nominal principal amount of interest-bearing loans and borrowings were secured by pledges over assets of the TMK Group, of which 21.6% was secured by pledges of shares in subsidiaries of OAO TMK and 78.4% was secured by pledges over property, plant and equipment, inventories, deposits, cash and accounts receivable of subsidiaries of OAO TMK.

Since late 2008, a combination of factors related to the global financial crisis and economic slowdown has adversely affected our operating performance. As a result, our Adjusted EBITDA decreased from U.S.$1,047.2 million in 2008 to U.S.$328.1 million in 2009. On the other hand, our net debt increased significantly primarily as a result of borrowing undertaken in connection with our acquisition of TMK IPSCO in 2008 and the further exercise of our option to purchase the remaining 49% interest in TMK NSG, as well as a result of our continued capital investment programme. Our Net-Debt-to-EBITDA ratio, which is defined as our Net Debt at the end of the given measurement date to our EBITDA for 12 months immediately preceding the given measurement date, reached a historical high of 10.7 as at 31 December 2009.

Historically, we have relied on cash provided by operations and short-term debt to finance our working capital and other capital requirements. As a result of the recent economic slowdown and the fact that our debt financing was largely short-term, our working capital position significantly worsened in 2008. As at 31 December 2008, we had a working capital deficit of U.S.$1,446.4 million.

Since the onset of the global economic crisis, we have been actively implementing certain cost-optimising measures as part of our programme to manage the economic crisis, and concentrated on reducing our operating costs and optimizing our working capital and operating performance. At the same time, we have been negotiating extensions of credit terms and refinancing our short-term indebtedness in order to improve our overall debt maturity profile.

Additionally we have negotiated lower interest rates on certain of our borrowings. As a result, our weighted average nominal interest rate as at 30 June 2010 decreased to 9.0% as compared to 12.3% as at 30 June 2009.

Some of the key actions that we took in 2010 to improve our working capital position included:

- In February 2010, we, through TMK Bonds S.A., issued U.S.$412.5 million 5.25% guaranteed convertible bonds due in 2015. The proceeds from the offering were used to refinance our existing short-term indebtedness, including:
  - a U.S.$ 300 million VTB facility due in September 2010;
  - a U.S.$ 55 million loan from OAO Khanty-Mansiyskiy Bank due in December 2010;
  - loans provided by Sberbank in the amount of RUB 1.0 billion and RUB 660 million due in 2010.
- In July 2010, TMK Trade House entered into credit line facilities with MDM Bank in the principal amount of RUB 1,850 due in April 2011 for the purpose of financing the working capital.

- In August 2010, we amended GPB Facilities (as defined below) in the aggregate amount of U.S.$1,107 million entered into in January 2009 by reducing interest rates. In December 2010, we amended the terms of the GPB Facilities by extending the term of the loan from 5 to 8 years and amending the repayment schedule. Furthermore, a security in the form of a pledge of 25% plus 1 share of OAO TMK was cancelled in relation to the GPB Facilities.
- In September 2010, Volzhsky entered into credit line facilities with MDM Bank in the principal amount of RUB 2,000 million with a 15-month maturity for the purpose of working capital financing.
- In September 2010, Seversky, Sinarsky and Tagmet entered into three five-year credit line agreements with Sberbank in the aggregate amount of RUB 10,000 million. We used the proceeds of these loans to repay our indebtedness under facilities in the aggregate amount of RUB 10,000 million entered into with VTB in October 2009.
- In October 2010, OAO TMK placed the first tranche of the bonds under the Russian bond programme established in December 2009 in the aggregate principal amount of RUB 5,000 million due on 22 October 2013 to refinance certain of our short-term indebtedness.
- In November 2010, TMK Trade House entered into a revolving credit line facilities agreement with Uralsib in the principal amount of U.S.$133 million, or RUB 4,000 million, maturing in May 2012 for the purpose of financing working capital.
- In November 2010, OAO TMK entered into credit line facilities with Gazprombank in the principal amount of RUB 5,000 million maturing in November 2012 for the purpose repaying indebtedness.
- In November 2010, OAO TMK entered into a loan agreement with Alfa-Bank in the amount of RUB 10,200 million and in December 2010 OAO TMK entered into a loan agreement with Sberbank in the amount of RUB 4,000 million. The loans mature in November 2016 and June 2015, respectively. The proceeds of the loans were used to repay indebtedness, including prepaying the U.S.$450 million VTB Facility.
- In December 2010, IPSCO Tubulars Inc. entered into a four-year U.S.$ 100 million senior secured credit facility with Wells Fargo Capital Finance for the purpose of refinancing certain of our short-term indebtedness.

Our actions relating to our loan portfolio and cost optimization programme over the last two years have enabled us to significantly improve our working capital position and reduce our leverage ratio. Thus, as at 30 June 2010, we had total current assets of U.S.$1,902.8 million, which exceeded our total current liabilities by U.S.$146.7 million. Our Net-Debt-to-EBITDA ratio decreased to 6.0 as at 30 June 2010 from a historical high of 10.7 as at 31 December 2009. Our debt maturity profile has improved substantially as we have refinanced our short-term debt and increased the share of long-term facilities in our credit portfolio. We recorded Adjusted EBITDA of U.S.$597 million for the 12-month period ended 30 June 2010, an 82% increase as compared to the 12-month period ended 31 December 2009.

We are continuing to carry out a series of measures to maintain sufficient liquidity and improve our loan portfolio structure. 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*".

Issuance of Convertible Eurobonds and Capital Increase. In February 2010, we, through TMK Bonds S.A., issued U.S.$412.5 million 5.25% guaranteed convertible bonds due 2015 convertible into our Global Depository Receipts (**"GDRs"**). The bonds are convertible at the option of bondholders on any date starting from 24 March 2010 until 2 February 2015, or, if earlier, on the seventh London business day prior to any earlier date fixed for redemption of the convertible bonds. The bonds are convertible into GDRs at a conversion price of U.S.$23.075 per GDR.

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

As disclosed in Note 18 of our Interim Consolidated Financial Statements, we determined that the convertible bonds represent a combined financial instrument containing two components: (i) a bond liability and (ii) an embedded derivative representing a conversion option in foreign currency combined with an issuer call ("**embedded**

conversion option"). Generally, conversion options are recognized as a part of equity, however, IFRS requires that in the specific case, when the conversion option is denominated in currency other than issuing entity's functional currency, no equity component can be recognized prior the conversion of the bond. As a result, in accordance with IFRS, we recognised a bond liability of U.S.$368.1 million (net of transaction costs of U.S.$8.9 million) and the liability under embedded conversion option of U.S.$35.5 million at the initial recognition date.

The liability component is subsequently carried at amortised cost using the effective interest rate method. The derivative component is subsequently remeasured at fair value at each reporting date. As of 30 June 2010, the bond liability and the liability under the embedded conversion option were U.S.$374.0 million and U.S.$ 3.6 million, respectively. We recorded a gain on changes in the fair value of the derivative financial instrument in the first half of 2010 of U.S.$31.8 million.

Our management, however, would note that the conversion option, whether exercised or expired, will not result in cash outflows from TMK. In the event of the bond not being converted, the liability under the conversion option will be recognized as a gain in our income statement. In the event of the exercise of the option, the liability will be transferred to equity (together with the carrying value of the converted bonds); no gain or loss will be recognized on the transaction. Additionally, the accounting treatment of the conversion option requires us to recognize changes in the fair value of the embedded instrument in our income statement. The price and volatility of our GDRs have significant impact on fair value of the embedded derivative. In the event our GDRs perform well, our liability under the conversion option will increase and result in losses in our income statement. The changes in fair value may be material in comparison to our net profit and may cause distortions in our income statement. See "*Summary Consolidated Historical Financial Data — Non-IFRS Measures*" for information regarding net profit (loss) as adjusted so that it does not reflect gains or losses on the changes in fair value with respect to the embedded derivative component of our convertible bond.

On 5 February 2010, our Board of Directors authorized an increase of share capital by 86,166,871 shares with par value of RUB 10 each. In June 2010, we received RUB 8,589.8 million or U.S.$279.4 million from shareholders as consideration for the issuance of 64,585,094 shares, representing approximately 7.4% of our issued and fully paid share capital before additional issue. In July 2010, we finalized the increase of share capital by means of an open subscription at the price of RUB 133 per share. After completion of the share capital increase, the total number of our issued and fully paid shares amounts to 937,586,094. Furthermore, during the six months ended 30 June 2010, we purchased 64,478,432 of our shares from TMK Steel for U.S.$281 million to guarantee the fulfillment of our obligation to bondholders in respect of our convertible bonds. The net effect of these two transactions has not altered materially our total equity.

The Recent and 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. The first half of 2009 saw further deterioration in our markets, though they appeared to recover somewhat in the second half of 2009. The first half of 2010 witnessed a strong improvement in our markets, and in particular, our North American market.

The adverse financial situation in Greece in the second quarter of 2010, and the further spread of the adverse financial situation to other members of the euro zone countries, including Ireland in the fourth quarter of 2010, and the risk of further contagion to other regional economies resulted in a tight funding market and a potential prolongation of the economic downturn in the euro area during the period. While the euro area member states and the IMF have sought stabilize the euro zone financial markets through, among other things, the establishment of the European Financial Stability Facility, that would be available to guarantee the sovereign debt of euro area member states, several euro area member states have recently experienced significant yield pressure on their sovereign bonds, and this situation may continue to negatively affect all borrowers by limiting access to capital markets.

In the United States, while the recession ended in mid-2009, real GDP growth has been slow and unemployment remains at historically high levels. The U.S. Federal Reserve has continued to inject liquidity into the markets through various means, including purchases of financial assets, but such stimulus measures have had only a modest impact upon demand to date. Should the U.S. market continue to stagnate, this could have a negative effect upon on us and, in particular, our U.S. operations.

Thus, overall, the recovery from the global financial crisis appears to be slow and uncertain, and currency, commodities and equity markets remain volatile. 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.

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 and averaged U.S.$62/bbl in 2009. Brent crude oil prices further strengthened in the first nine months of 2010, averaging approximately U.S.$77/bbl during the period.

The global financial crisis, coupled with lower oil and gas prices, contributed to a significant decrease in drilling activity in the second half of 2008 to 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. The increase of shale gas production has contributed to the general price weakness in the U.S. market as production (or supply) has outpaced recent demand growth.

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. In the second half of 2009 and 2010, exploration and production ("**E&P**") expenditures again increased in Russia, 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 and we expect this trend to continue in the near term. 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 beginning in the second quarter of 2009 as work on several large pipeline construction projects in Russia, including the ESPO, BPS-2 and Purpe-Samotor oil pipelines, the Sakhalin-Khabarovsk-Vladivostok, Bovanenkovo-Gryazovets and Pochinki-Gryazovets gas pipelines and the Nord Stream gas pipeline, and commenced and/or continued apace.

Russian Macroeconomic Trends

With most of our operations based in Russia, we generated 60.6%, 62.7% and 59.7% of our total revenue in Russia (based on the customer's location) in the first half of 2010 and in the years 2009 and 2008, 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.

	Six months ended 30 June 2010	Year ended 31 December 2009	2008
		(%)	
GDP growth	4.2	(7.9)	5.2
Industrial producer's price index	9.8	13.9	(7.0)
Consumer price index	5.8	8.8	13.3
Unemployment rate	6.8	8.2	7.7

Source: RBC

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. While these factors resulted in an increase in the consumption of pipes in Russia through mid-2008, 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 reversed, resulting in lower demand in Russia and globally for pipe products, particularly in the oil and gas sector. The recent global credit and economic crisis 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 sharp decrease in the consumption of pipes in Russia in 2009 as compared to 2008, 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 gradually in 2009 and strengthened further in the first half of 2010, 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 with demand improving in the first half of 2010 primarily as a result of increased demand from the automobile sector. 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, a very small amount 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 through 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. In the second half of 2009 raw materials prices increased from their lows, and in the first half of 2010, raw materials prices witnessed a significant increase. 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 put largely on hold from the end of 2008 during the 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.$1,635 million between 2005 and 30 June 2010 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 Consolidated Statement of Financial Position, 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 reporting period 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 ended 30 June	Year ended 31 December	
	2010	2009	2008
Nominal exchange rate (roubles per U.S. dollar)[1]	30.06	31.68	24.81
Real rouble appreciation/(depreciation) against U.S. dollar[2]	14.8%	(12.2)%	13.3%
Nominal exchange rate (roubles per euro)[1]	39.95	44.13	36.41
Real rouble appreciation/(depreciation) against euro[2]	16.3%	(8.3)%	6.4%

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, whereas in 2009 it depreciated by 2.9%. On an average basis, the Russian rouble depreciated by 3.3% and 6.5 % against the U.S. dollar in the first half of 2010 and 2009 respectively. Against the euro, the rouble depreciated by 15.3% in 2008, whereas in 2009 it depreciated by 4.7%. In the fist six months of 2010, the rouble appreciated against euro by 12.1% whereas in the first six months of 2009 the rouble depreciated against euro by 5.8%. Though the rouble has recovered somewhat from its February 2009 lows, standing at RUB 30.63 to U.S.$1.00 as at 12 January 2011, it remains considerably volatile and relatively weak vis-à-vis the U.S. dollar/euro basket.

In the first half of 2010, we recognized in our income statement a foreign exchange gain in the amount of U.S.$13.8 million as compared to foreign exchange losses of U.S.$11.7 million in the corresponding period of 2009. We also recognised foreign exchange losses of U.S.$36.0 million and U.S.$164.9 million in the first half of 2010 and 2009, respectively, in the statement of comprehensive income, which represents the effective portion of foreign exchanges losses on our hedged financial instruments. We also recognized a corresponding income tax benefit in the amount of U.S.$7.2 million and U.S.$15.9 million in the first half of 2010 and 2009, respectively. These losses were due principally to the revaluation into roubles (TMK's functional currency) of U.S. dollar and euro denominated loans and eurobonds.

In 2009, we recognized in our income statement a foreign exchange gain in the amount of U.S.$14.2 million as compared to foreign exchange losses of U.S.$99.8 million in 2008. In addition, we recognised foreign exchange losses of U.S.$124.1 million and U.S.$381.9 million in 2009 and 2008, respectively, in the statement of comprehensive income, which represents the effective portion of foreign exchanges losses on our hedged financial instruments. We also recognized a corresponding income tax benefit in the amount of U.S.$7.7 million and U.S.$53.6 million in 2009 and 2008, respectively. These losses were due principally to the revaluation into roubles 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 business is divided 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, Switzerland and South Africa that are engaged in the sale of their pipe production;
- *Americas* represents the results of operations and financial position of plants 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 (excluding Switzerland) that are engaged in the sale of their pipe production and steel billets.

Our comparative results for 2008 were revised to correspond to segments as presented in 2009.

Prior to 2009, our consolidated financial statements were presented in two segment reporting formats: business and geographical.

- *Business segments:* This was our primary segment reporting format. A business segment comprised a distinguishable component of TMK that was engaged in providing an individual product or service or a group of related products or services and that was subject to risks and returns that were 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 could not be allocated by segments, such as cash, short-term investments, goodwill, borrowings and deferred tax assets and liabilities. They also included 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 was a distinguishable component of TMK that was engaged in providing products or services within a particular economic environment and that was subject to risks and returns that were 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. We presented segment assets and long-term investments based on the location of our assets.

Results of Operations

Comparison of six-month periods ended 30 June 2010 and 30 June 2009

The following discussion is based on, and should be read in conjunction with, our Interim Consolidated Financial Statements (page F-2 — F-29 of this Prospectus).

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

	Six months ended 30 June			
	2010		2009	
	millions of U.S. dollars	% of revenue	millions of U.S. dollars	% of revenue
Revenue	2,566.2	100.0	1,478.6	100.0
Cost of sales	(1,980.4)	(77.2)	(1,254.7)	(84.9)
Gross profit	**585.8**	**22.8**	**223.9**	**15.1**
Selling and distribution expenses	(198.9)	(7.8)	(146.4)	(9.9)
Advertising and promotion expenses	(4.8)	(0.2)	(2.3)	(0.2)
General and administrative expenses	(110.0)	(4.3)	(98.5)	(6.7)
Research and development expenses	(6.3)	(0.2)	(4.8)	(0.3)
Other operating expenses	(23.4)	(0.9)	(13.8)	(0.9)
Other operating income	4.2	0.2	4.1	0.3
Impairment of goodwill	—	—	(9.6)	(0.6)
Impairment of property, plant and equipment	—	—	(28.1)	(1.9)
Foreign exchange gain/(loss), net	13.8	0.5	(11.7)	(0.8)
Finance costs	(199.1)	(7.7)	(211.7)	(14.3)
Finance income	8.6	0.4	32.0	2.1
Gain on changes in fair value of derivative financial instrument	31.8	1.2	—	—
Share of profit in associate	—	—	0.8	0.1
Profit/(loss) before tax	**101.7**	**4.0**	**(266.1)**	**(18.0)**
Income tax (expense)/benefit	(34.4)	(1.4)	62.3	4.2
Profit/(loss) for the period	**67.3**	**2.6**	**(203.8)**	**(13.8)**
Attributable to:				
Equity holders of the parent entity	69.0	2.7	(198.8)	(13.5)
Non-controlling interests	(1.7)	(0.1)	(5.0)	(0.3)
	67.3	**2.6**	**(203.8)**	**(13.8)**

Revenue

Revenue represents our total sales to customers net of value added tax and product returns.

Sales volumes

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

	Six months ended 30 June 2010	Six months ended 30 June 2009	% change between periods ended 30 June 2010 and 2009
	(thousands of tonnes except percentages)		
Russia	1,385.2	1,007.5	37.5%
Americas	412.3	132.9	210.2%
Europe	88.5	55.4	59.7%
Total Pipes	**1,886.0**	**1,195.8**	**57.7%**

Globally, our overall pipe sales volumes increased by 57.7% in the six months ended 30 June 2010 compared to the six months ended 30 June 2009. This increase was primarily due to the increased demand for oil and gas pipe products as a result of the market-driven recovery of energy demand.

Russia. Our pipe sales volumes in Russia increased by 37.5% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was primarily due to an increase in pipes supplied to the oil and gas market, in particular line pipes and large diameter pipes as a result of the revival of previously postponed major pipeline projects by oil and gas companies in Russia and the overall recovery in drilling activity in the oil and gas sector. We also recorded an increase in our sales volumes of industrial pipes principally due to the market-driven

recovery of demand in the automotive, engineering and power generation industries in Russia in the first half of 2010.

Americas. Our sales volumes in the Americas increased by 210.2% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. Following a severe market downturn in the U.S. pipe market in the first half of 2009, our U.S. operations experienced increased demand in the first half of 2010 in all pipe product groups. This increase principally resulted from both the increased on-shore oil and gas drilling activity and the increase in unconventional drilling activity, principally in the shale gas sector. The increase in our sales volumes in the Americas was also partly due to certain measures implemented by the government of the United States including trade restrictions against low-cost Chinese pipe products in the second half of 2009 and the first half of 2010 which resulted in a reduction in volumes of imported pipes.

Europe. Our sales volumes in Europe increased by 59.7% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was principally attributable to a 76.9% increase in our sales volumes of industrial pipes as a result of the market-driven recovery of demand in the automotive and engineering industry in Europe in the first half of 2010.

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			
	2010		2009	
	millions of U.S. dollars	% of total revenue	millions of U.S. dollars	% of total revenue
Russia	1,830.1	71.3	1,110.8	75.1
Americas	620.2	24.2	286.5	19.4
Europe	115.9	4.5	81.3	5.5
Total revenue	**2,566.2**	**100.0**	**1,478.6**	**100.0**

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

	Total change	Change in prices and product mix[(1)]	Change in volumes	Change in prices and product mix[(1)] in %	Change in volumes
	(millions of U.S. dollars)				
Six months ended 30 June 2010 as compared to six months ended 30 June 2009					
Russia	719.3	302.9	416.4	27.3%	37.5
Americas	333.7	(268.4)	602.1	(93.7)%	210.2
Europe	34.6	(14.1)	48.7	(17.3)%	59.9
Total change in revenue	**1,087.6**	**20.4**	**1,067.2**	**1.4%**	**72.2**

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

Our consolidated revenue increased by 73.6% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was primarily due to the growth in the sales volumes of our pipe products. The impact of price levels for our products was mixed, as we experienced price increases in our Russian operations that were largely offset by decreases in the price levels of our U.S. and European operations. For the six months ended 30 June 2010, the portion of our increase in revenue attributable to changes in sales volumes was 98.0% whereas the portion of our increase in revenue attributable to changes in sales price and product mix was 2.0%.

Russia

Revenue from sales in Russia increased by 64.8% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was due to an increase in sales volumes and an increase in average sales price and product mix in the Russian market as a result of the market-driven recovery in the Russian oil and gas industry. The portion of our increase in revenue in Russia attributable to changes in sales volumes accounted for 37.5% of our overall Russian revenue increase of 64.8%. In the first half of 2009, prices for pipe products in Russia decreased significantly as a result of the market-driven decline in the oil and gas sectors as a result of the global

financial crisis. In the first half of 2010, prices for pipe products experienced significant growth. The portion of our increase in revenue in Russia attributable to sales price and product mix accounted for 27.3% of our overall Russian revenue increase of 64.8%. Our Russia segment accounted for 71.3% of our total revenues for the first six months of 2010 as compared to 75.1% for the first six months of 2009.

Americas

Revenues generated by our Americas segment increased by 116.5% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was due to an increase in our sales volumes in the Americas as a result of the market-driven recovery of the overall drilling activity. The portion of our increase in revenue in Americas attributable to changes in sales volumes accounted for 210.2% of our overall revenue increase in the Americas segment. This increase was partially offset by a decrease in prices and product mix in the Americas as a result of the prevailing market conditions. In the first half of 2009, we benefitted from higher prices for our pipe products that were agreed with our customers under term contracts in the second half of 2008. Prices for our pipe products decreased sharply in the second part of 2009 due to the prevailing market conditions. Our average revenue per tonne decreased by approximately 30.2% in the first half of 2010 as compared to the first half of 2009. Our Americas segment accounted for 24.2% of our total revenues for the first six months of 2010 as compared to 19.4% for the first six months of 2009.

Europe

Revenues from our European operations increased by 42.6% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was primarily due to an increase in our sales volumes as a result of the market-driven recovery of demand in the automotive and engineering industry in Europe. This increase was partially offset by a decrease in our prices and product mix in Europe. In the first half of 2009, we benefited from higher prices for our pipe products that were agreed with our customers under term contracts in the second half of 2008. Prices for our pipe products decreased sharply in the second part of 2009 due to the prevailing market conditions. In Europe, our average revenue per tonne decreased by approximately 10.8% in the first half of 2010 as compared to the first half of 2009. Our European segment accounted for 4.5% of our total revenues for the first six months of 2010 as compared to 5.5% for the first six months of 2009.

Cost of Sales and Gross Profit

Cost of Sales

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

	Six months ended 30 June			
	2010		2009	
	millions of U.S. dollars	% of total cost of production	millions of U.S. dollars	% of total cost of production
Raw materials and consumables	1,346.8	66.1	720.4	60.6
Contracted manufacture	34.8	1.7	10.7	0.9
Energy and utilities	164.3	8.1	102.3	8.6
Depreciation and amortisation	115.1	5.6	92.7	7.8
Repairs and maintenance	50.8	2.5	39.5	3.3
Freight	26.6	1.3	12.4	1.0
Rent	4.2	0.2	3.8	0.3
Insurance	0.4	—	0.4	—
Staff costs including social security	263.1	12.9	180.2	15.2
Professional fees and services	9.0	0.4	7.2	0.6
Travel	0.8	—	0.6	0.1
Communications	0.4	—	0.6	0.1
Taxes	21.5	1.1	14.8	1.2
Other	3.0	0.1	3.0	0.3
Total production cost	**2,040.8**	**100.0**	**1,188.6**	**100.0**
Change in own finished goods and work in process	(71.9)	(3.6)	19.9	1.7
Cost of externally purchased goods	11.6	0.6	15.4	1.3
Obsolete stock and write offs	(0.1)	—	30.8	2.6
Cost of sales	**1.980.4**	**97.0**	**1,254.7**	**105.6**

Our cost of sales increased by 57.8% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was primarily due to a U.S.$626.4 million increase in raw materials costs, a U.S.$82.9 million increase in labour costs and a U.S.$62.0 million increase in energy and utilities costs. These increases were primarily due to the increase in production volumes as the result of the market recovery in the six months ended 30 June 2010 compared to the six months ended 30 June 2009.

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. Our costs of raw materials and consumables increased by 87.0% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was primarily due to a significant increase in prices for raw materials in the first half of 2010 as compared to the first half of 2009, as well as the increase in our production volumes, and particularly the increase in our production volumes of large diameter pipes where the cost of raw materials is generally higher than the cost of raw materials used in production of other pipe products. In the first half of 2010, as compared to the first half of 2009, the average purchase cost of metal scrap increased by approximately 10-22%. The average purchase cost of steel billets increased by 19% in the first half of 2010 as compared to the first half of 2009. On average, prices for coils increased by 35-40% in the first half of 2010 as compared to the first half of 2009 and prices for pig iron increased by 52-65% over the same period, depending on the region in Russia. TMK IPSCO's average purchase prices for metal scrap increased by approximately 6% whereas TMK IPSCO's average purchase price for coil decreased by approximately 17% in the first six months of 2010 as compared to the first six months of 2009.

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 compulsory insurance payment rates in force (a rate ranging in the first six-months of 2010 from 1.1% to 26% 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 recognize 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 amounts 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.

Our staff costs increased by 46.0% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was primarily due to higher levels of hours worked by our employees in line with higher production levels at our plants as a result of the increase in demand for our products and increases in the average benefits of employees compared to the six months ended 30 June 2009. This increase was also due to the increase in the social security payments.

Our staff costs in Russia increased by 28.3% in the first half of 2010 as compared to the first half of 2009. Our staff costs in the Americas segment increased by 109.4% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. Our staff costs in Europe increased by 36.4%.

Energy and utilities costs

Energy and utilities costs mainly comprise costs for electricity, gas and water. Our energy and utilities costs increased by 60.6% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was primarily due to the increase in our production volumes.

Our energy and utilities costs in Russia increased by 51.6% from U.S.$85.8 million in the six months ended 30 June 2009 to U.S.$130.1 million in the six months ended 30 June 2010. This increase was primarily due to the increase in our production volumes. This increase was also due to the increase in our use of electricity and the increase in energy tariffs and fuel prices in some regions of our operations in Russia. Electricity and natural gas prices differ depending on the region in Russia. In the first six months of 2010, our effective average electricity prices increased by approximately 14.3% in Russia and our natural gas prices increased by approximately 33.1% as compared to the first six months in 2009. The increase in our energy and utilities costs in Russia is also partly attributable to the

currency translation effect in that the average exchange rate of the rouble against the U.S. dollar decreased during the six months ended 30 June 2010 as compared to the six months ended 30 June 2009.

Our energy and utilities costs in the Americas segment increased by 128.4% from U.S.$8.8 million in the six months ended 30 June 2009 to U.S.$20.1 million in the six months ended 30 June 2010. This increase was due to the increase in our production volumes in North America. This increase was partially offset by a decline in electricity and natural gas prices in North America. In the first six months of 2010, average electricity prices paid by TMK IPSCO decreased by approximately by 11.5% and natural gas prices decreased by approximately 38.7% as compared to the average purchase prices paid in the same period in 2009.

Our energy and utilities costs in Europe increased by 83.1% from U.S.$ 7.7 million in the six months ended 30 June 2009 to U.S.$ 14.1 million in the six months ended 30 June 2010. In the first six months of 2010, our effective average electricity prices decreased by approximately 3.3% and natural gas prices decreased by approximately 2.6% in Romania as compared to the first six months of 2009.

Depreciation and amortisation

Our depreciation and amortisation costs increased by U.S.$22.4 million, or 24.2%, from U.S.$92.7 million in the six months ended 30 June 2009 to U.S.$115.1 million in the six months ended 30 June 2010. This increase was principally a result of the overall growth in our assets attributable to new equipment put into operation during the first half of 2010 as part of our capital expenditure programme. See "— *Capital Expenditures*".

Gross profit

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

	Six months ended 30 June			
	2010		2009	
	Gross Profit	Gross Margin in %	Gross Profit	Gross Margin in %
	(in millions of U.S. dollars)			
Russia	423.6	23.1%	217.8	19.6%
Americas	136.8	22.1%	(12.6)	(4.4)%
Europe	25.4	21.9%	18.7	23.0%
Total	**585.8**	**22.8%**	**223.9**	**15.1%**

Our gross profit, which represents our revenues less our cost of sales, increased by U.S.$361.9 million, or 161.6%, from U.S.$223.9 million in the six months ended 30 June 2009 to U.S.$585.8 million in the six months ended 30 June 2010. The increase in gross profit in the first half of 2010 was principally attributable to the growth in sales volumes of our pipe products. Our gross margin increased by 7.7% from 15.1% in the six months ended 30 June 2009 to 22.8% in the six months ended 30 June 2010. This increase is largely due to the increase in our sales volumes and the improvement in our product mix.

Russia

Gross profit generated by our operations in Russia increased by U.S.$205.8 million, or 94.5%, from U.S.$217.8 million in the six months ended 30 June 2009 to U.S.$423.6 million in the six months ended 30 June 2010. This significant increase was primarily attributable to the growth in sales volumes of our pipe products in Russia as a result of the revival of major pipeline projects by oil and gas companies in Russia and the overall recovery in drilling activity in the oil and gas sector. This increase was also partly attributable to the increase in sales price of our pipe products as a result of the market-driven recovery of demand in oil and gas industry. Gross margin generated by our operations in Russia increased by 3.5%, from 19.6% in the six months ended 30 June 2009 to 23.1% in the six months ended 30 June 2010.

Americas

Gross profit generated by our Americas segment increased from a loss of U.S.$12.6 million in the six months ended 30 June 2009 to a profit of U.S.$136.8 million in the six months ended 30 June 2010. This significant increase was primarily due to the growth in our sales volumes as a result of the increased on-shore oil and gas drilling activity and the increase in unconventional drilling activity in connection with the shale gas sector, in particular. Gross margin generated by our Americas segment increased to 22.1% from negative 4.4%. This increase was principally due to higher capacity utilization rates which on average amounted to 80% in the first half of 2010 as compared to 15% in

the first half of 2009. The negative gross margin in our Americas segment in the six months ended 30 June 2009 resulted primarily from a decrease in our sales volumes and in prices for pipe products in the United States. Furthermore, in our production of pipe products in the first half of 2009 we used raw materials purchased in the second half 2008 at higher prices than the prices that prevailed for raw materials in 2009, which also contributed to the negative gross margin recorded in our Americas segment.

Europe

Gross profit generated by our operations in Europe increased by U.S.$6.7 million, or 35.8%, from U.S.$18.7 million in the six months ended 30 June 2009 to U.S.$25.4 million in the six months ended 30 June 2010. This increase was principally due to an increase in our sales volumes in Europe as a result of the market-driven recovery of demand in automotive and engineering industry. Our gross margin generated by our operations in Europe decreased by 1.1% from 23.0% in the six months ended 30 June 2009 to 21.9% in the six months ended 30 June 2010. The decrease in our gross margin in Europe in the second half of 2009 was principally due to the fulfillment of certain term contracts for sale of our pipe products that were concluded under term contracts in the second half of 2008 at lower prices than those available in the second half of 2009.

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			
	2010		2009	
	millions of U.S. dollars	% of revenue	millions of U.S. dollars	% of revenue
Freight	103.1	4.1	48.5	3.3
Rent	3.2	0.1	3.1	0.2
Insurance	0.8	—	0.7	—
Depreciation and amortisation	40.6	1.7	50.0	3.4
Staff costs including social security	26.1	1.0	22.2	1.5
Professional fees and services	10.9	0.5	8.4	0.6
Travel	2.1	0.1	1.2	0.1
Communications	0.6	—	0.6	—
Utilities and maintenance	1.1	—	1.1	0.1
Taxes	0.8	—	1.8	0.1
Consumables	7.8	0.3	5.2	0.4
Bad debt expense/(reversal of expense)	1.0	—	2.6	0.1
Other	0.8	—	1.0	0.1
Total selling and distribution expenses	**198.9**	**7.8**	**146.4**	**9.9**

Our selling and distribution expenses consist principally of depreciation and amortization, freight costs and staff costs including social security payments. Our selling and distribution expenses increased by 35.9% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was primarily due to a U.S.$54.6 million increase in freight expenses, primarily reflecting the increase in transporation expenses of large diameter pipes and the overall increase in our sales volumes.

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			
	2010		2009	
	millions of U.S. dollars	% of revenue	millions of U.S. dollars	% of revenue
Staff costs including social security	59.5	2.3	50.1	3.5
Professional fees and services	22.1	0.9	20.1	1.4
Depreciation and amortisation	6.2	0.2	7.2	0.5
Travel	4.0	0.2	3.2	0.2
Transportation	2.5	0.1	2.1	0.1
Rent	2.9	0.1	3.0	0.2
Communications	1.8	0.1	2.6	0.2
Insurance	1.9	0.1	2.1	0.1
Utilities and maintenance	4.1	0.2	3.3	0.2
Taxes	2.9	0.1	2.2	0.1
Consumables	1.1	—	1.3	0.1
Other	1.0	—	1.3	0.1
Total general and administrative expenses	**110.0**	**4.3**	**98.5**	**6.7**

Our 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. Our general and administrative expenses increased by 11.7% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was primarily attributable to an increase in average salaries and related social security payments to employees.

Foreign exchange gain/(loss)

In the first six months of 2010, we recognized gains from exchange rate fluctuations in the amount of U.S.$13.8 million as compared to losses from exchange rate fluctuations of U.S.$11.7 million in the first six months of 2009. This was primarily due to the appreciation of the U.S. dollar against the rouble and euro in the first six months of 2010. In the first six months of 2010, the rouble depreciated against the U.S. dollar by 3.3% as compared to 6.5% in the first half of 2009. In the fist six months of 2010, the rouble appreciated against euro by 12.1% whereas in the first six months of 2009 the rouble depreciated against euro by 5.8%.

In June 2008, we acquired TMK IPSCO for a total consideration of U.S.$1,645.0 million, including cash consideration of approximately U.S.$1,114.2 million for a controlling interest, a liability with respect to an option for the remaining 49% interest in TMK NSG in the amount of U.S.$510.6 million, and transaction-related costs of U.S.$20.2 million. At the date of the acquisition of the controlling interest we hedged our net investment in these operations against foreign currency risk using U.S. dollar denominated liabilities incurred in connection with this acquisition. As at 30 June 2010, we designated U.S.$186.7 million of our outstanding 2008 LPNs, a liability of U.S.$600 million to Gazprombank and a liability of U.S.$371.9 million to VTB as hedging instruments. In the first six months of 2010, we recognized the effective portion of net losses from spot rate changes in the exchange rate of the Russian rouble against the U.S. dollar in the amount of U.S.$36.0 million in the statement of comprehensive income (foreign currency translation reserve). In the first six months of 2009, our loss from exchange rate fluctuations relating to our hedged financial instruments amounted to U.S.$164.9 million. We also recognized a corresponding income tax benefit in the amount of U.S.$7.2 million and U.S.$15.9 million in the first half of 2010 and 2009, respectively.

Gain on changes in fair value of derivative financial instrument

In February 2010, we, through TMK Bonds S.A., issued U.S.$412.5 million 5.25% convertible bonds due 2015 convertible into our GDRs. The bonds are convertible at the option of the holders of the bonds on any date starting from 24 March 2010 until 2 February 2015, or, if earlier, on the seventh London business day prior to any earlier date fixed for redemption of the convertible bonds. The bonds are convertible into GDRs at a conversion price of U.S.$23.075 per GDR.

We, through TMK Bonds, can make an early redemption of all outstanding bonds, in whole but not in part, at any time on or after 4 March, 2013 at their principal amount plus accrued interest, if the volume weighted average price of our GDRs traded on the London Stock Exchange during 30 consecutive dealing days exceeds 130% of the

conversion price. In addition, we have the option to redeem the bonds at the principal amount plus accrued interest if 15% or less of the bonds remain outstanding. Bondholders also have the right to request redemption of the bonds on the third anniversary following the issue date at the principal amount plus accrued interest.

As disclosed in Note 18 of our Interim Consolidated Financial Statements, we determined that the convertible bonds represent a combined financial instrument containing two components: (i) a bond liability and (ii) an embedded derivative representing a conversion option in foreign currency combined with an issuer call. Generally, conversion options are recognized as a part of equity, however, IFRS requires that in the specific case when the conversion option is denominated in currency other than issuing entity's functional currency, no equity component can be recognized prior the conversion of the bond. As a result, in accordance with IFRS, we recognised a bond liability of U.S.$368.1 million (net of transaction costs of U.S.$8.9 million) and the liability under embedded conversion option of U.S.$35.5 million at the initial recognition date

The liability component is subsequently carried at amortised cost using the effective interest rate method. The derivative component is subsequently remeasured at fair value at each reporting date. As of 30 June 2010, the bond liability and the liability under the embedded conversion option were U.S.$ 374.0 million and U.S.$ 3.6 million, respectively. We recorded a gain on changes in the fair value of the derivative financial instrument in the first half of 2010 of U.S.$ 31.8 million.

Our management, however, would note that the conversion option, whether exercised or expired, will not result in cash outflows from the TMK. In the event of the bond not being converted, the liability under the conversion option will be recognized as a gain in our income statement. In the event of the exercise of the option, the liability will be transferred to equity (together with the carrying value of the converted bonds); no gain or loss will be recognized on the transaction. Additionally, the accounting treatment of the conversion option requires us to recognize changes in the fair value of the embedded instrument in our income statement. The price and volatility of our GDRs have significant impact on fair value of the embedded derivative. In the event our GDRs perform well, our liability under the conversion option will increase and result in losses in our income statement. The changes in fair value may be material in comparison to our net profit and may cause distortions in our income statement. See "*Summary Consolidated Historical Financial Data — Non-IFRS Measures*" for information regarding net profit (loss) as adjusted so that it does not reflect gains or losses on the changes in fair value with respect to the embedded derivative component of our convertible bond.

Finance costs

Our finance costs include interest expense and the amortization of costs of our advisers, including management consultants, investment banking, accounting and legal advisers, incurred in connection with our financing activities. Our finance costs decreased by U.S.$12.6 million, or 6.0%, from U.S.$211.7 million in the six months ended 30 June 2009 to U.S.$199.1 million in the six months ended 30 June 2010. The decrease was principally due to a 8.5% decrease in interest expense. The decrease in interest expense was primarily due to lower interest rates during the six months ended 30 June 2010 compared to the six months ended 30 June 2009 as a result of our negotiations to reduce interest rates on certain of our borrowings as part of the measures to improve the structure of our loan portfolio. As of 30 June 2010, our weighted average nominal interest rate amounted to 9% as compared to 12.3% as of 30 June 2009.

Income tax (expense)/benefit

Our income tax expense increased by U.S.$96.7 million from an income tax benefit of U.S.$62.3 million in the six months ended 30 June 2009 to an income tax expense of U.S.$34.4 million in the six months ended 30 June 2010. In the first half of 2010, we reported a U.S.$101.7 million profit before income tax as compared to a loss before income tax of U.S.$266.1 million in the first half of 2009. In the six months ended 30 June 2010, our effective tax rate increased to 33.8% from 23.4% in the six months ended 30 June 2009. This increase was primarily due to the increase in income generated by our subsidiaries in the United States (which were taxed at a higher rate during the period than our Russian operations) and the increase in our non-deductible expenses.

Profit/(loss) for the period

For the reasons set forth in the discussion above, we recorded a net profit of U.S.$67.3 million in the six months ended 30 June 2010 as compared to a net loss of U.S.$203.8 million in the six months ended 30 June 2009.

Comparison of years ended 31 December 2009 and 31 December 2008

The following discussion is based on, and should be read in conjunction with, our Annual Consolidated Financial Statements (pages F-30 — F-110 of this Prospectus).

In our Consolidated Financial Statements for the year ended 31 December 2009 we disclose our revenue based on the location in which the products were produced and the services originated.

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.

	Year ended 31 December			
	2009		2008	
	millions of U.S. dollars	% of revenue	millions of U.S. dollars	% of revenue
Revenue	3,461.0	100.0	5,690.0	100.0
Cost of sales	(2,904.6)	(83.9)	(4,252.5)	(74.7)
Gross profit	**556.4**	**16.1**	**1,437.5**	**25.3**
Selling and distribution expenses	(312.6)	(9.0)	(344.1)	(6.0)
Advertising and promotion expenses	(4.6)	(0.1)	(10.1)	(0.2)
General and administrative expenses	(203.7)	(5.9)	(267.9)	(4.7)
Research and development expenses	(10.2)	(0.3)	(15.2)	(0.3)
Other operating expenses	(33.2)	(1.0)	(52.0)	(0.9)
Other operating income	16.0	0.5	7.2	0.1
Impairment of goodwill	(10.1)	(0.3)	(3.5)	(0.1)
Impairment of property, plant and equipment	(39.7)	(1.2)	(59.8)	(1.1)
Reversal of impairment of property, plant and equipment	2.5	0.1	—	—
Impairment of financial assets	—		(23.7)	(0.4)
Foreign exchange gain/(loss), net	14.2	0.4	(99.8)	(1.8)
Finance costs	(446.9)	(12.9)	(272.2)	(4.8)
Finance income	43.3	1.3	8.7	0.2
Share of profit in associate	1.4	—	3.0	0.1
Gain on disposal of associate	0.4	—	—	—
(Loss)/Profit before tax	**(426.8)**	**(12.3)**	**308.1**	**5.4**
Income tax benefit/(expense)	103.1	2.9	(109.6)	(1.9)
(Loss)/profit for the year	**(323.7)**	**(9.4)**	**198.5**	**3.5**
Attributable to:				
Equity holders of the parent entity	(315.7)	(9.2)	199.4	3.5
Non-controlling interests	(8.0)	(0.2)	(0.9)	—
	(323.7)	**(9.4)**	**198.5**	**3.5**

Revenue

Revenue represents our total sales to customers net of value added tax and product returns.

Our consolidated revenue decreased by 39.2% in the year ended 31 December 2009 as compared to 2008. This decrease was due to both a decrease in sales prices and a decrease in sales volumes of our pipe products as a result of the market-driven decline of demand for pipe products in the oil and gas, automotive, construction and engineering sectors of the economy due to the global financial crisis. For the year ended 31 December 2009, the portion of our decrease in revenue attributable to changes in prices and product mix was U.S.$1,367.8 million, or 24.0%. The portion of our decrease in revenue attributable to changes in sales volumes was U.S.$861.2 million, or 15.1%.

Sales volumes

The following table shows our pipe sales volumes for the years ended 31 December 2008 and 2009.

	Year ended 31 December 2009	Year ended 31 December 2008	% change between periods ended 31 December 2009 and 2008
	(thousands of tonnes except percentages)		
Russia	2,296.5	2,573.7	(10.8)%
Americas[(1)]	358.0	488.3	(26.7)%
Europe	114.7	164.5	(30.3)%
Total Pipes	**2,769.2**	**3,226.5**	**(14.2)%**

(1) Sales volumes for 2008 include the period from the date of the acquisition of TMK IPSCO on 12 June 2008 to 31 December 2008.

In 2009, the Russian, the 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 and OCTG 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.

Globally, our sales volumes decreased by 14.2% in 2009 as compared to 2008. This decrease was primarily due to the market-driven decline of demand for pipe products across all economic sectors, the postponement of major pipeline projects by oil and gas companies and the overall decline in the drilling activity in the oil and gas sector as a result of the global financial crisis. These decreases in sales volumes occurred despite the fact that in 2009 we recorded sales volumes generated by TMK IPSCO, which we acquired effective 12 June 2008 for the full year, but only recorded the sales volumes generated by TMK IPSCO starting from 12 June 2008 in 2008.

Russia. Our pipe sales volumes in Russia decreased by 10.8% in 2009 as compared to 2008. This decrease was primarily due to the market-driven decline in demand for oil and gas pipes, the curtailment of major investment projects and developments of new fields by oil and gas companies and the overall decrease in the drilling activity as a result of the global financial crisis. The decline in sales volumes of our industrial pipes was primarily due to the market-driven decline in demand in automotive and engineering industries in Russia as a result of the global economic downturn. Although the overall demand for pipe products in Russia started to revive in the second half of 2009, it was not enough to offset the severe first half decrease in demand for pipes used in the engineering, automotive, construction and power generation industries. The decrease in our overall pipe sales volumes in Russia was partially offset by the increase in our large diameter sales volumes. In 2009, our large diameter sales volumes increased by 19.8% as a result of our securing supply agreements for a series of Gazprom, Transneft and Turkmenistan projects. The implementation of large-scale pipeline projects by Gazprom and Transneft increased large-diameter pipe consumption in Russia in 2009 by 3.9% as compared to 2008.

Americas. Our sales volumes in the Americas decreased by 26.7% in 2009 as compared to 2008. This decrease was primarily due to a decrease in natural gas prices that led to a decline in drilling, exploration and the development of new fields in 2009. This decrease was also exacerbated due to a high level low-cost pipe products imported from China in 2008 and the first half of 2009 which resulted in a significant build-up of inventories. The market conditions in North America deteriorated substantially as a result of the economic crisis, as demand for all types of pipe products decreased significantly. Our sales volumes in the Americas segment for the year ended 31 December 2008 include the period from the date of TMK IPSCO acquisition on 12 June 2008 to 31 December 2008. Sales volumes attributable to TMK IPSCO decreased by 26.7% in 2009 to 358,038 tonnes, as compared to 488,267 tonnes in 2008.

Europe. Our sales volumes in Europe decreased by 30.3% in 2009 as compared to 2008. This decrease was principally a result of a decrease in demand within the automotive and engineering industry as a result of the global economic downturn. This decrease was partially offset by a 26.1% increase in sales volumes of our line pipes in Europe.

Revenue by operating segment

The following table shows our revenue by operating segment as a percentage of total revenue for the years ended 31 December 2009 and 2008.

	Year ended 31 December			
	2009		2008	
	millions of U.S. dollars	% of total revenue	millions of U.S. dollars	% of total revenue
Russia	2,639.2	76.3	4,194.8	73.7
Americas	655.2	18.9	1,203.3	21.2
Europe	166.6	4.8	291.9	5.1
Total revenue	**3,461.0**	**100.0**	**5,690.0**	**100.0**

The following table provides an analysis of our revenue attributable to changes in prices and sales volumes for the years ended 31 December 2009 and 2008.

	Total change	Change in prices and product mix[1]	Change in volumes	Change in prices and product mix[1] in %	Change in Volumes %
	(millions of U.S. dollars, except percentages)				
Year ended 31 December 2009 as compared to year ended 31 December 2008					
Russia	(1,555.6)	(1,103.7)	(451.9)	(26.3)%	(10.8)%
Americas	(548.1)	(227.2)	(320.9)	(18.9)%	(26.7)%
Europe	(125.3)	(36.9)	(88.4)	(12.6)%	(30.3)%
Total change in revenue	**(2,229.0)**	**(1,367.8)**	**(861.2)**	**(24.0)%**	**(15.1)%**

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

Russia

Revenue from sales in Russia decreased by 37.1% in 2009 as compared to 2008. This decrease was due to both lower sales prices and lower sales volumes for pipe products in Russia. Our average revenue per tonne in Russia decreased by approximately 29.5% in 2009 as compared to 2008. The portion of our decrease in revenue in Russia attributable to changes in sales prices and product mix accounted for U.S.$1,103.7 million, or 26.3%. The portion of our decrease in revenue in Russia attributable to changes in sales volumes accounted for U.S.$451.9 million, or 10.8% decline. Our Russian segment accounted for 76.3% of our total revenues for the year ended 31 December 2009 as compared to 73.7% for the year ended 31 December 2008.

Americas

Revenues generated by our Americas segment decreased by 45.5% in 2009 as compared to 2008. This decrease was primarily due to a decline in sales volumes and sales prices for our pipe products in the region. Market conditions deteriorated substantially in the Americas in 2009 as compared to 2008 as a result of the economic crisis. Both welded and seamless pipe sales prices decreased considerably over the period and sales volumes suffered heavily from the weak market environment. Average sales price in the Americas segment decreased by approximately 25.7% in 2009 as compared to 2008. The portion of our decrease in revenue in the Americas attributable to changes in sales prices and product mix accounted for U.S.$227.2 million, or 18.9%. The portion of our decrease in revenue in the Americas segment attributable to changes in sales volumes accounted for U.S.$320.9 million, or 26.7%. Our revenue for the year ended 31 December 2008 is calculated from the date of TMK IPSCO acquisition on 12 June 2008 to 31 December 2008. Our Americas segment accounted for 18.9% of our total revenues for the year ended 31 December 2009 as compared to 21.2% for the year ended 31 December 2008.

Europe

Revenues from our European operations decreased by 42.9% in 2009 as compared to 2008. This decrease was primarily due to decreases in sales prices and lower sales volumes for industrial seamless pipes as a result of the market-driven decline in demand for industrial pipes in construction and automotive industry in Europe due to the global economic crisis. The portion of our decrease in revenue in Europe attributable to changes in sales prices and product mix accounted for U.S.$36.9 million, or 12.6%. The portion of our decrease in revenue in Europe attributable to changes in sales volumes accounted for U.S.$88.4 million, or 30.3%. Our European segment accounted for 4.8% of our total revenues for the year ended 31 December 2008 as compared to 5.1% for the year ended 31 December 2009.

Cost of Sales and Gross Profit

Cost of Sales

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

	Year ended 31 December			
	2009		2008	
	millions of U.S. dollars	% of total cost of production	millions of U.S. dollars	% of total cost of production
Raw materials and consumables	1,662.8	63.3	2,946.7	69.2
Contracted manufacture	17.7	0.7	176.5	4.1
Energy and utilities	216.9	8.3	284.4	6.7
Depreciation and amortisation	192.7	7.3	178.2	4.2
Repairs and maintenance	70.7	2.7	93.2	2.2
Freight	24.9	0.9	22.9	0.5
Rent	4.1	0.2	2.8	0.1
Insurance	0.7	—	1.1	—
Staff costs including social security	393.1	15.0	511.2	12.0
Professional fees and services	12.3	0.5	21.6	0.5
Travel	1.0	—	1.7	—
Communications	0.9	—	1.9	—
Taxes	32.2	1.2	26.6	0.6
Other	6.0	0.2	3.9	0.1
Less capitalised costs	(9.0)	(0.3)	(13.3)	(0.2)
Total production cost	**2,627.0**	**100.0**	**4,259.4**	**100.0**
Change in own finished goods and work in progress	244.4	9.3	(73.4)	(1.8)
Cost of externally purchased goods	26.7	1.0	33.8	0.8
Obsolete stock and write offs	6.5	0.3	32.7	0.8
Cost of sales	**2,904.6**	**110.6**	**4,252.5**	**99.8**

Our cost of sales decreased by 31.7% in 2009 as compared to 2008. This decrease was primarily due to a decrease in our sales volumes and a decline in prices for raw materials. Our cost of sales as a percentage of revenue increased from 74.7% in 2008 to 83.9% in 2009. This increase was primarily due to the fact that for the production of our pipe products in 2009 we utilised raw materials that were purchased in 2008 at higher prices than the prices for raw materials in 2009. This increase was also due to the increase in depreciation as a result of the installation of new equipment in 2008 and 2009. Excluding TMK IPSCO, our cost of sales decreased by 41.4% in 2009 as compared to 2008.

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

Raw materials and consumables

Our costs of raw materials and consumables decreased by 43.6% in 2009 as compared to 2008. The decrease was due principally to a sharp decrease in prices for raw materials in 2009 as compared to 2008, during which prices had reached unprecedentedly high levels. In 2009, as compared to 2008, the average purchase cost of metal scrap decreased by approximately 13 — 16%. On average, prices for coil decreased by 22 — 40% in 2009 as compared to 2008 and prices for pig iron decreased by 40 — 49% over the same period, depending on the region in Russia. TMK IPSCO's average purchase prices for both coil and scrap decreased by approximately 37% and 39%, respectively in 2009 as compared to 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 31.3% in 2009 as compared to 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.

Staff costs including social security

Our staff costs decreased by 23.1% in 2009 as compared to 2008 and amounted to 15.0% of our total production costs in 2009 as compared to 12.0% in 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 in the wake of the global financial crisis 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 31.6% in the year ended 31 December 2009 as compared to the year ended 31 December 2008.

Energy and utilities costs

Energy and utilities costs mainly comprise costs for electricity, gas and water. Our energy and utilities costs decreased by 23.7% in 2009 as compared to 2008. Our energy and utilities costs amounted to 8.3% of our total production costs in 2009 as compared to 6.7% in 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 29.0% in 2009 as compared to 2008. Electricity and natural gas prices differ depending on the region. In 2009, our effective average electricity prices increased in roubles by approximately 27.5% in Russia, depending on the region, and natural gas prices increased in roubles by approximately 6.7% as compared to 2008. In 2009, our effective average electricity prices increased by approximately 3.2% and natural gas prices decreased by approximately 4.1% in Romania as compared to 2008. In 2009, average electricity prices paid by TMK IPSCO decreased by approximately 20.4% and natural gas prices decreased by approximately 23.7% as compared to the average purchase prices paid in 2008.

Depreciation and amortisation

Depreciation and amortisation costs increased by 8.1% in 2009 as compared to 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.

Gross profit

Our gross profit, which represents our revenues less our cost of sales, decreased by 61.3% in 2009 as compared to 2008. This significant decrease in gross profit in 2009 was attributable to a sharp decline in sales volumes and a decline in sales prices that outpaced concurrent decreases in our costs of sales, particularly in prices for raw materials. In addition, we recorded somewhat higher depreciation in 2009 as compared to 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 2009 as the declining prices for raw materials in 2009 were not fully reflected in our cost of goods sold, as a significant portion of our sales in 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*".

The table below illustrates our gross profit and gross margin percentages by operating segment for the years ended 31 December 2009 and 2008.

	Years ended 31 December			
	2009		2008	
	Gross Profit/(loss)	Gross Margin in %	Gross Profit	Gross Margin[(1)] in %
	(in millions of U.S. dollars)			
Russia	538.3	20.4%	1,031.6	24.6%
Americas	(12.7)	(1.9)%	345.8	28.7%
Europe	30.8	18.5%	60.1	20.6%
Total	**556.4**	**16.1%**	**1,437.5**	**25.3%**

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

Russia

Gross profit generated by our Russia segment decreased by 47.8% in 2009 as compared to 2008. Gross margins for our Russian operations decreased to 20.4% in 2009 from 24.6% in 2008, primarily as a result of declines in sales volumes and sales prices, despite lower production costs attributable primarily to lower prices for raw materials.

Americas

Our Americas segment recorded a gross loss of U.S.$12.7 million in 2009 due to sharply lower volumes and sales prices for our pipe products. Our operations in the region were also adversely affected by the fact that for the production of our pipe products we partially utilized raw materials that were purchased at higher prices in 2008. In 2008, we recorded a gross profit of U.S.$345.8 million. Our gross profit for the year ended 31 December 2008 is calculated from the date of TMK IPSCO acquisition on 12 June 2008 to 31 December 2008.

Europe

In Europe our gross profit decreased by 48.8% in 2009 as compared to 2008. Gross margins for our European operations decreased to 18.5% in 2009 from 20.6% in 2008. The decrease in gross profit during the period was attributable to declines in sales volumes and sales price.

Selling and Distribution Expenses

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

	Year ended 31 December			
	2009		2008	
	millions of U.S. dollars	% of revenue	millions of U.S. dollars	% of revenue
Freight	117.6	3.4	164.3	2.9
Rent	6.4	0.2	7.2	0.1
Insurance	1.4	—	1.4	—
Depreciation and amortisation	100.0	2.9	50.5	0.9
Staff costs including social security	45.1	1.3	60.0	1.1
Professional fees and services	15.6	0.5	20.0	0.4
Travel	2.6	0.1	4.9	0.1
Communications	1.2	—	1.6	—
Utilities and maintenance	2.1	0.1	2.8	0.1
Taxes	1.7	—	2.6	—
Consumables	13.0	0.4	19.9	0.3
Bad debt expense	4.2	0.1	7.2	0.1
Other	1.7	—	1.7	—
Total selling and distribution expenses	**312.6**	**9.0**	**344.1**	**6.0**

Depreciation and amortization, freight costs and staff costs including social security payments attributable to our sales activities account for most of our selling expenses.

Depreciation and amortisation

Depreciation and amortisation increased by 98.0% in 2009 as compared to 2008. This increase was attributable to the amortisation of TMK IPSCO's intangible assets, in particular its customer relationship intangible assets, recognized from the date of TMK IPSCO acquisition on 12 June 2008 to 31 December 2008, and in 2009. 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, 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. In 2009, 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 in 2009 including social security payments was due principally to steps taken as part of our programme of cost-cutting measures instituted in response to the global economic crisis.

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			
	2009		2008	
	millions of U.S. dollars	% of revenue	millions of U.S. dollars	% of revenue
Staff costs including social security	100.8	2.9	138.9	2.4
Professional fees and services	44.8	1.3	54.1	1.0
Depreciation and amortisation	15.7	0.5	17.9	0.3
Travel	6.4	0.2	11.8	0.2
Transportation	4.7	0.1	6.8	0.1
Rent	6.0	0.2	6.9	0.1
Communications	4.1	0.1	1.8	—
Insurance	5.0	0.1	1.2	—
Utilities and maintenance	6.7	0.2	10.3	0.2
Taxes	5.1	0.1	5.4	0.1
Consumables	2.5	0.1	8.3	0.2
Other	1.9	0.1	4.5	0.1
Total general and administrative expenses	**203.7**	**5.9**	**267.9**	**4.7**

General and administrative expenses decreased by 24.0% in 2009 as compared to 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 24.2% of our total general and administrative expenses in 2009.

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

At 31 December 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 exceeded their recoverable amount. As a result, in 2009, we recognised impairment of property, plant and equipment in the amount of U.S.$39.7 million and impairment of goodwill in the amount of U.S.$10.1 million. At 31 December 2009, as a result of improvement of our cash flow projections, we determined that the recoverable value of our Orsky Machine Building Plant exceeded its carrying value. As a result, we reversed the impairment loss in the amount of U.S.$2.5 million, which we previously recognized in the six months ended 30 June 2009 in respect of property, plant and equipment at Orsky Machine Building Plant.

Foreign exchange gain/(loss), net

In 2009, we recognized a gain from exchange rate fluctuations amounting to U.S.$14.2 million as compared to foreign exchange loss of U.S.$99.8 million in 2008. This was primarily due to revaluation into roubles of U.S. dollar and euro-denominated loans and Eurobonds as a result of the lower exchange rate of the rouble against the U.S. dollar and euro.

In the year ended 31 December 2009, we incurred losses from exchange rate fluctuations relating to our hedges on net investments in foreign operations. In the year ended 31 December 2009, our loss from exchange rate fluctuaions relating to our hedging instruments amounted to U.S.$124.1 million as compared to a loss of U.S.$381.9 million in the year ended 31 December 2008. We recognized these losses in the statement of comprehensive income (foreign currency translation reserve). We also recognized a corresponding income tax benefit in the statement of comprehensive income in the amount of U.S.$7.7 million and U.S.$53.6 million in 2009 and 2008, respectively.

Finance costs

Finance costs include interest expense and the amortization of costs of our advisers, including management consultants, investment banking, accounting and legal advisers, retained in connection with planned financing activities. Our finance costs increased by 64.2% in 2009 as compared to 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. As of 30 June 2009, our weighted average nominal interest rate amounted to 12.3% as a result of higher interest rates due to the global economic crisis. Weighted average interest rates were 10.7% and 9.1% as at 31 December 2009 and 2008, respectively. Additionally, amortisation of arrangement fees paid in connection with borrowings increased by 15.5% from U.S.$29.5 million in 2008 to U.S.$34.1 million in 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 TMK NSG, which was exercised by us in January 2009.

Income tax benefit

We recorded income tax benefit of U.S.$103.1 million in the year ended 31 December 2009 as compared to an expense of U.S.$109.6 million in the year ended 31 December 2008, primarily as a result of recording a loss before taxes of U.S.$426.8 million in 2009 as compared to a profit before taxes of U.S.$308.1 million in 2008. Our effective income tax rate in 2009 declined to 24.2% from 35.6% in 2008. This decrease is primarily due to loss incurred by our Americas segment.

(Loss)/profit for the year

For the reasons set forth in the discussion above, we recorded a net loss of U.S.$323.7 million in the year ended 31 December 2009 as compared to a net profit of U.S.$198.5 million in the year ended 31 December 2008.

Liquidity and Capital Resources

Capital Requirements

Our current planning, budgeting and strategy has been significantly affected by the global economic crisis, forcing us to put on hold 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. More recently, however, we have adjusted our target debt structure and our current debt portfolio is comprised of a more diversified portfolio of instruments, including bonds, convertible bonds, bank loans and other debt instruments. In view of the challenging economic environment, we have also shifted our focus to increasing the share of long-term debt in our credit portfolio. 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*". We do not make use of off-balance sheet financing arrangements.

Capital Expenditures

Given the difficult financial and economic situation that began in late 2008, we adjusted our strategic capital expenditure programme and, accordingly, put on hold significant spending under the programme beginning in late 2008 and in 2009. Subject to market conditions and our ability to obtain appropriate financing, we continue to implement the remainder of our capital expenditure programme, including the addition of an EAF at Tagmet, which we expect will be completed in 2013, and a continuous FQM rolling mill at Seversky, which we expect will be completed in 2013-2014, to further enhance our seamless pipe production and efficiency in Russia in the near future.

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 2010 and 30 June 2009 are set forth below.

	Six months ended 30 June		% change between six months ended 30 June 2010 and 2009
	2010	2009	
	(millions of U.S. dollars, except percentages)		
Russia	113.3	180.6	(37.3)%
Americas	15.6	14.9	4.7%
Europe	1.3	4.3	(69.8)%
Total capital expenditures[1]	**130.2**	**199.8**	**(34.8)%**

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

In the six months ended 30 June 2010, our capital expenditures on fixed assets decreased by 34.8% as compared to the six months ended 30 June 2009. This decrease was primarily a result of our decision to put on hold our strategic capital expenditures programme in light of the global economic downturn. Nevertheless, during the first six months of 2010, we completed, among other things, a modernization of a seamless hot-rolling mill as well as a continuous casting machine at our Volzhsky plant; we installed a degassing facility and completed a modernization of the scrap processing mill at our Seversky plant; we installed a cold drawing line for carbon steel pipes at our Sinarsky plant and we installed a degassing mill at our Tagmet plant. We are in the process of constructing a cold drawing line for stainless steel pipes at our Sinarsky plant and an electric arc furnace at our Tagmet plant. We have also acquired and assembled ancillary lines for the mill's full ramp-up at our Volzhsky and Tagmet plants.

Our total capital expenditures by operating segment for the years ended 2009 and 2008 are set forth below.

	Years ended 31 December		% change between years ended 31 December 2009 and 2008
	2009	2008	
	(millions of U.S. dollars, except percentages)		
Russia	371.0	916.5	(59.5)%
Americas	27.4	39.8	(31.2)%
Europe	13.9	23.9	(41.8)%
Total capital expenditures[1]	**412.3**	**980.2**	**(57.9)%**

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

In the year ended 31 December 2009, our capital expenditures on fixed assets decreased by 57.9% in 2009 as compared to 2008. This decrease was primarily a result of our decision to put on hold our strategic capital expenditures programme in light of the global economic downturn. Nevertheless, during 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. In 2009, we also commissioned the construction of the 100 thousand tonnes capacity heat treatment facilities at our Baytown and Blytheville plants in the United States, we commissioned the construction of a waste water treatment facility at Sinarsky plant and installed scrap processing line at Seversky.

Cash flows

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

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(millions of U.S. dollars)			
Profit/(loss) before tax	**101.7**	**(266.1)**	**(426.8)**	**308.1**
Non-cash and other adjustments	313.0	411.9	754.8	739.2
Changes in operating assets and liabilities	(227.4)	181.9	557.7	(81.2)
Income taxes paid	9.5	(41.7)	(33.4)	(226.6)
Net cash flows from operating activities	**196.8**	**286.0**	**852.3**	**739.5**
Net cash flows used in investing activities	**(161.7)**	**(668.0)**	**(899.9)**	**(2,024.3)**
Net cash flows (used in)/from financing activities	**(190.7)**	**324.3**	**143.9**	**1,336.9**
Net foreign exchange difference	**(3.2)**	**0.5**	**4.1**	**2.2**
Net (decrease)/increase in cash and cash equivalents	**(155.6)**	**(57.7)**	**96.3**	**52.1**

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 decreased by 31.2% million in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This decrease was primarily due to cash outflow of U.S.$227.4 million in the first six months of 2010 as opposed to cash inflow of U.S.$181.9 million in the corresponding period of 2009 related to changes in working capital. The increase in cash outflow related to changes in operating assets and liabilities was a result of an increase in inventory balances as a result of increased production volumes, as well as an increase in trade and other receivables due to increased sales of our pipe products. Our operating cash flow before working capital changes increased by 184.4% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was mainly attributable to our having reported a profit of U.S.$101.7 million in the first half of 2010 as compared to a loss of U.S.$266.1 million in the first half of 2009.

Net cash flows from operating activities increased by 15.3% in 2009 as compared to 2008. This increase was primarily due to a cash inflow of U.S.$ 557.7 million related to changes in operating assets and liabilities. Our operating cash flow before working capital changes decreased by 68.7% in 2009 as compared to 2008. The decrease in our operating cash flow before working capital changes was principally attributable to our having reported a loss before tax of U.S.$426.8 million in the year ended 31 December 2009 as compared to a profit before tax of U.S.$308.1 million in the year ended 31 December 2008 as a result of decreased revenues and gross profit.

Investing activities

Net cash flows used in investing activities decreased by 75.8% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. The decrease in net cash flows used in investing activities was principally attributable to a U.S.$507.5 million acquisition in the first six months ended 30 June 2009 through the exercise of our option of the remaining 49% of TMK NSG in accordance with a call/put option agreement concluded with Evraz in June 2008.

Net cash flows used in investing activities decreased by 55.5% in 2009 as compared to 2008. This decrease was due to a significant reduction in our strategic capital expenditure programme as a result of a decrease of U.S.$444.7 million in capital spending (as part of our measures implemented in the wake of the global economic crisis) and a decrease of U.S.$675.1 million in expenses related to the acquisitions of subsidiaries. We spent a total of U.S.$1,184.8 million for acquisitions of subsidiaries in the year ended 31 December 2008, including (i) IPSCO Tubulars and a 51% interest in TMK NSG in June 2008, (ii) TMK-Kaztrubprom in mid-2008 and (iii) Pipe Maintenance Department in the first half of 2008. In the year ended 31 December 2009, our expenses related to acquisitions of subsidiaries amounted to U.S.$509.7 million, which mostly represented the exercise of our option of the remaining 49% of TMK NSG in accordance with a call/put option agreement concluded with Evraz in June 2008.

Financing activities

Net cash from financing activities decreased by U.S.$515.0 million, from a cash inflow of U.S.$324.3 million in the six months ended 30 June 2009 to a cash outflow of U.S.$190.7 million in the six months ended 30 June 2010. This decrease was principally due to a net repayment of borrowings in the amount of U.S.$7.9 million in the six months ended 30 June 2010 as compared to a net increase in borrowings of U.S.$530.5 million in the six months ended 30 June 2009. Interest paid on loans in the six months ended 30 June 2010 amounted to U.S.$182.0 million as compared to U.S.$199.7 million in the six months ended 30 June 2009. In the six months ended 30 June 2010 our expense related to acquisitions of subsidiaries amounted to U.S.$0.3 million as compared to U.S.$7.9 million in the six months ended 30 June 2009.

Net cash from financing activities decreased by U.S.$1,193.0 million from U.S.$1,336.9 million in the year ended 31 December 2008 to U.S.$143.9 million in the year ended 31 December 2009. This decrease was principally attributable to a significant reduction in our requirements to finance our capital expenditure as a result of the global financial crisis. This decrease was also attributable to repayment of borrowings in the amount of U.S.$3,608.3 million in 2009 as compared to U.S.$2,760.6 million in 2008. Interest paid on loans in the year ended 31 December 2009 amounted to U.S.$444.1 million as compared to U.S.$184.3 million in the year ended 31 December 2008.

Dividends

In the first six months of 2010, we made no dividend payments for 2009. In 2009, we did not make any dividend payments to shareholders of OAO TMK based on the decision of our shareholders at the annual shareholders meeting in June 2009. We paid dividends to non-controlling shareholders of our subsidiaries in the amount of U.S.$2.1 million. 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 non-controlling shareholders of our subsidiaries.

Indebtedness

The following table summarises our outstanding interest bearing debt, including loans and other borrowings, by currency and interest rate as at 30 June 2010:

	U.S. dollar-denominated	rouble-denominated	euro-denominated	Romanian	Total
		(millions of U.S. dollars)			
Total debt, of which[1]	**2,254.9**	**1,131.1**	**255.9**	**2.0**	**3,643.9**
Fixed rate debt	2,198.4	1,131.1	81.4	2.0	3,412.9
Variable rate debt	19.2	—	174.3	—	193.5
Total loans and borrowings	2,217.6	1,131.1	255.7	2.0	3,606.4
Finance lease liability	37.3	—	0.2	—	37.5

(1) Including interest payable and unamortized debt issue costs

Our outstanding loans and borrowings (excluding finance lease liability) decreased by 2.9%, from U.S.$3,713.2 million as at 31 December 2009 to U.S.$3,606.4 million in the six months ended 30 June 2010. In the first half of 2010, we managed to improve the structure of our credit portfolio by extending its maturity profile. Our short-term borrowings (excluding finance lease liability) accounted for 22.9% of out total borrowings as at 30 June 2010 as compared to 41.4% as at 31 December 2009.

The following table summarises the key terms of our interest-bearing loans and borrowings (nominal values of principal amounts) as at 30 June 2010:

Lender	Currency	Scheduled repayment date: 2011	Through 30 June 2012	Through 30 June 2013	2014+	Total outstanding[4]	Security provided by TMK Group entity[3]
		(in millions of U.S. dollars)					
Variable rate debt:							
Banca Comerciala Romana[1]	EUR	25.4	—	—	—	25.4	Guarantee/Pledge (equipment, accounts mortgage)
HypoVereinsbank[1]	EUR	22.5	—	—	56.2	78.7	Guarantee/Pledge (equipment)
Société Générale[1]	EUR	1.0	—	—	1.4	2.4	Guarantee
UBS	USD	2.8	—	—	—	2.8	Cession of rights
Unicredit[1][2]	EUR/USD	20.6	—	36.7	—	57.3	Guarantee/Pledge (equipment, accounts receivables)
VTB	EUR	26.4	4.0	—	—	30.4	none
Deutsche bank	EUR	0.3	—	—	—	0.3	Pledge (accounts receivable)
UGF Banca	EUR	0.5	—	—	—	0.5	Pledge (accounts receivable)
BancaNazionale del LavoroSpA	EUR	0.6	—	—	—	0.6	Pledge (accounts receivable)
Total variable rate debt		**100.1**	**4.0**	**36.7**	**57.6**	**198.4**	
Fixed rate debt:							
LPNs (TMK Capital)	USD	—	186.7	—	—	186.7	Guarantee
Bondholders	RUB	160.3	—	—	—	160.3	Guarantee
Convertible bonds	USD	—	379.3	—	—	379.3	none
Gazprombank[1][2]	RUB/USD/EUR	117.1	—	160.3	996.8	1,274.2	Guarantee/Guarantee of Russian Federation[5]/ Pledge (shares of TMK, goods)/none
Credit Europe bank	RON	0.7	—	—	—	0.7	None
Sberbank[1]	RUB	235.0	—	—	167.5	402.5	Guarantee/Pledge (equipment, mortgage)/none
Société Générale	EUR	15.3	—	—	61.3	76.6	Guarantee
VTB Deutschland	EUR	8.1	—	—	—	8.1	Guarantee
UniCredit	USD	—	38.0	—	—	38.0	Guarantee/Pledge (equipment)
Uralsib	RUB	26.3	—	—	—	26.3	Guarantee
VTB[1][2]	RUB/USD	142.1	—	450.0	320.6	912.7	Guarantee/Guarantee of Russian Federation[5]/Pledge (shares of TMK, equipment)/none
Bank Transilvania	RON	1.3	—	—	—	1.3	none
Total fixed rate debt		**706.2**	**604.0**	**610.3**	**1,546.2**	**3,466.7**	
Total debt		**806.3**	**608.0**	**647.0**	**1,603.8**	**3,665.1**	

(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.

As at 30 June 2010, approximately U.S.$1,308.1 million of our fixed rate debt and U.S.$149.3 million of our variable rate debt was secured.

As of 31 December 2010, the total nominal principal amount of our outstanding debt of US$3,863.5 million, of which (i) 82.5% comprised long-term debt and 17.5% comprised short-term debt, (ii) 50.7% was U.S. dollar denominated, 42.3% was rouble denominated and 7.0% was euro denominated and (iii) 64.1% was unsecured and 35.9% was secured.

Our most significant borrowings as at 30 June 2010

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 with a maturity of three years bearing interest at a fixed rate. The obligations under this credit line agreement are guaranteed by the Russian Federation with respect to up to 50% of the principal. The loan was secured by a pledge of Volzhsky's equipment and real estate. As at 30 June 2010, RUB 5,000 million was outstanding under the credit line. In August 2010, we fully repaid this facility. See also "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments*".

On 27 January 2009, OAO TMK entered into two facility agreements and Volzhsky entered into one facility agreement with GPB in the aggregate amount of U.S.$1,107 million (the "**GPB Facilities**") with 2.5-year maturities bearing interest at a fixed rate. The facilities were amended in August 2009 to extend the term of the loans to 5 years. The facilities are scheduled to be repaid in 12 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. 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 TMK NSG 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. As at 30 June 2010, U.S.$1,107 million was outstanding under the GPB Facilities. As at 31 December 2010, U.S.$1,107 million was outstanding under the GPB Facilities.

Loans from VTB. In March 2010, OAO TMK entered into a loan agreement with VTB in the amount of U.S.$94.0 million with a maturity of one year with an option to extend the maturity by up to five years, bearing interest at a fixed rate. The loan is unsecured. The loan agreement contains a covenant requiring us to maintain a ratio of debt-to-EBITDA that does not exceed a certain level. Furthermore, under this loan agreement we are subject to restrictive covenants that limit our ability, in particular, to pay dividends and incur additional indebtedness. We used the proceeds of the loan to repay the March 2009 VTB facility. As at 30 June 2010, U.S.$94.0 million was outstanding under this facility. As at 31 December 2010, U.S.$94.0 million was outstanding under this facility.

In October 2009, Seversky entered into a credit line agreement with VTB in the amount of RUB 3,000 million with a maturity of five years bearing interest at a fixed rate. The obligations under the credit line agreement 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 30 June 2010, RUB 3,000 million was outstanding under this credit line. In October 2010, we fully repaid this VTB facility.

In October 2009, Sinarsky entered into a credit line agreement with VTB in the amount of RUB 4,000 million with a maturity of five years bearing interest at a fixed rate. The obligations under this credit line agreement 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 30 June 2010, RUB 4,000 million was outstanding under this credit line. In October 2010, we fully repaid this VTB facility.

In October 2009, Tagmet entered into a credit line agreement with VTB in the amount of RUB 3,000 million with a maturity of five years bearing interest at a fixed rate. The obligations under the credit line agreement 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 30 June 2010, RUB 3,000 million was outstanding under this credit line. In October 2010, we fully repaid this VTB facility.

On 18 August 2009, OAO TMK entered into a loan with VTB in the amount of U.S.$450 million with an initial maturity of one year, with an option to extend the maturity by up to five years (the "**August 2009 VTB Facility**") bearing interest at a fixed rate. In March 2010, we amended 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 facility contains a covenant requiring us to maintain a ratio of debt-to-EBITDA that does not exceed a certain level. We used the proceeds of the loan to redeem a portion of our 2008 LPNs. As at 30 June 2010, U.S.$450 million was outstanding under the August 2009 VTB Facility. In December 2010, we fully

repaid the August 2009 VTB Facility. See also "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments*"

On 21 November 2008, OAO TMK entered into a credit line agreement with VTB in the amount of RUB 1,500 million maturing in August 2010 (the "**November 2008 VTB Facility**") bearing interest at a fixed rate. 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 proceeds of the loan were used for the purposes of financing working capital. As at 30 June 2010, RUB 1,500 million was outstanding under the November 2008 VTB Facility. In August 2010, we fully repaid the November 2008 VTB Facility.

Loan from Sberbank. In July and September 2009, Seversky and Sinarsky entered into three loan agreements with Sberbank in the aggregate principle amount of RUB 5,700 million. Seversky entered into a RUB 4,700 million credit facility agreement and a RUB 300 million credit facility agreement. Sinarsky entered into a RUB 700 million credit facility agreement. The facilities mature in 2016 and bear interest at a fixed rate. Seversky and Sinarsky are required to repay the loans in twelve semi-annual installments commencing in January 2011 and March 2011, respectively. The loans are secured by a pledge of Seversky's movable and immovable assets and cross guaranteed by Seversky and Sinarsky. As at 30 June 2010, the loans were fully drawn. In October 2010, we fully repaid the RUB 700 million credit facility. As at 31 December 2010, RUB 4,700 million and RUB 300 million were outstanding under these facilities.

In October and December 2009, Seversky entered into two credit line agreements with Sberbank in the amount of RUB 600 million and RUB 525 million with an 18-month maturity and bearing interest at a fixed rate. The proceeds of the loans were used for the purpose of repaying certain of our short-term indebtedness. The obligations under the credit line agreements were secured by a pledge of Seversky's equipment. As at 30 June 2010, RUB 600 million and RUB 525 million were outstanding under these credit lines. In November 2010, we amended these agreements to extend the maturity to three years. As at 31 December 2010, RUB 600 million and RUB 525 million were outstanding under these credit lines.

From September through December of 2009, Sinarsky entered into three credit line agreements with Sberbank in the amount of RUB 880 million, RUB 610 million and RUB 320 million with an 18-month maturity and bearing interest at a fixed rate. The proceeds of the loans were used for the purpose of repaying certain of our short-term indebtedness. The obligations under the credit line agreements were secured by a pledge of Sinarsky's equipment. As at 30 June 2010, RUB 880 million, RUB 610 million and RUB320 million were outstanding under these credit line agreements. In November 2010, we amended these agreements to extend the maturity to three years. In December 2010, we fully repaid RUB 320 million. As at 31 December 2010, RUB 880 million and RUB 610 million were outstanding under these credit line agreements.

In September 2009, Volzhsky entered into two credit line agreements with Sberbank in the aggregate principal amount of RUB 2,800 million with an 18-month maturity and bearing interest at a fixed rate. The proceeds of the loans were used for the purposes of financing working capital. The obligations under the credit line agreements were secured by a pledge of Volzhsky's equipment and real estate. As at 30 June 2010, RUB 2,800 million was outstanding under these credit facilities. In November 2010, we amended these agreements to extend the maturity to three years. As at 31 December 2010, RUB 2,800 million was outstanding under the credit lines.

In August and October 2009, Tagmet entered into two credit line agreements with Sberbank, in the amount of RUB 320 million and RUB 800 million, with 18-month maturities and bearing interest at a fixed rate. The proceeds of the loans were used for the purpose of financing working capital. 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 30 June 2010, RUB 320 million and RUB 800 million were outstanding under these credit lines. In November 2010, these agreements were amended to extend the maturity to three years. As at 31 December 2010, RUB 320 million and RUB 800 million were outstanding under these credit lines.

In April 2010, TMK Trade House entered into two revolving credit line facilities in the aggregate principal amount of U.S.$93.3 million maturing on 30 October 2011 for the purpose of financing working capital and bearing interest at a fixed rate. The loans are guaranteed by Seversky, Sinarsky, Tagmet, Volzhsky and OAO TMK. As at 31 December 2010, RUB 820 million was outstanding under these credit lines.

Loans from Uralsib. In April 2010, TMK Trade House entered into revolving credit line facilities in the aggregate principal amount of U.S.$93.3 million, or RUB 2,800 million, maturing in October 2011 and bearing interest at a fixed rate. The proceeds of the facilities were used to finance our working capital. The loans are guaranteed by Seversky, Sinarsky, Tagmet, Volzhsky and OAO TMK. As at 30 June 2010, RUB 820 million was outstanding under these credit facilities. As at 31 December 2010, no amount was outstanding under these credit line facilities.

*Loans from UniCredit Bank, Moscow ("**UniCredit**").* In April 2010, Volzhsky entered into a loan agreement with UniCredit for U.S.$22 million with a 2-year maturity and bearing interest at a fixed rate. The proceeds of the loan were used for the purpose of financing working capital. The loans are secured by a pledge of Volzhsky's inventory. As at 30 June 2010, U.S.$22 million was outstanding under this loan. As at 31 December 2010, U.S.$22 million was outstanding under this loan.

In April 2010, Sinarsky entered into a loan agreement with UniCredit for U.S.$16 million with a maturity of two years bearing interest at a fixed rate. The proceeds of the loan were used for the purpose of financing working capital. The loan is secured by a pledge of Sinarsky's inventory and guaranteed by Volzhsky. As at 30 June 2010, U.S.$16 million was outstanding under this loan. As at 31 December 2010, U.S.$16 million was outstanding under this loan.

On 11 May 2007, Volzhsky entered into a EUR 58.4 million revolving credit line with UniCredit bearing interest at a floating rate of one month EURIBOR plus margin 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 line 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 30 June 2010, EUR 33.1 million was outstanding under this loan. As at 31 December 2010, EUR 26.0 million was outstanding under this loan.

*Loans from Unicredit Bank AG (former HypoVereinsbank ("**HVB**")).* In September 2006, Seversky and Tagmet entered into an 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 floating rate of 6 month EURIBOR plus margin per annum and the outstanding principal amounts under the loans are to be repaid in ten semi-annual instalments commencing March 2009 for Seversky and February 2009 for Tagmet. The loans are secured by a pledge of equipment delivered by SMS Siemag AG and SMS Meer GmbH and guaranteed by OAO TMK. As at 30 June 2010, EUR 64.4 million was outstanding under these loans. As at 31 December 2010, EUR 57.0 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 matures in March 2015. Seversky is obligated to repay the facility in ten semi-annual instalments commencing in September 2010. 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. Amounts due under the facility are guaranteed by OAO TMK and secured by a pledge of equipment delivered under the import contract. The facility contains covenants requiring us to maintain ratios of debt-to-tangible net worth, debt-to-EBITDA, cash-flow available-to-debt service that do not exceed certain levels. As at 30 June 2010, EUR 62.6 million was outstanding under this credit facility. As at 31 December 2010, EUR 66.4 million was outstanding under this credit facility.

For the discussion of our significant borrowings for the period after 30 June 2010 see "— *Recent Developments*".

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 was 9.6%. In February 2010, our option to buy back the outstanding bonds has expired and an aggregate of RUB 5,000 million remained outstanding. The annual rate for the ninth and tenth semi-annual coupons was set at 9.8%. Our obligations under the bonds are guaranteed by TMK Trade House. As at 30 June 2010, an aggregate of RUB 5,000 million remained outstanding under these bond series. As at 31 December 2010, RUB 5,000 million was 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. As of 31 December 2010, RUB 5,000 million remained outstanding under these bond series. As of the date hereof, we have made no decision with respect to the timing of the remaining three bond series under the programme. See also "*Management's Discussion and Analysis of Financial condition and Results of Operations — Recent Developments*"

Loan Participation Notes

On 25 July 2008, we completed an offering of 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 terms and conditions under 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*". As at 30 June 2010, the aggregate principal amount of notes outstanding was U.S.$186.7 million. As at 31 December 2010, 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 2008 LPNs 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.

In January 2011, we launched a consent solicitation pursuant to which we have requested noteholders to amend the terms of our 2008 LPNs to (i) permit us to incur higher levels of permitted indebtedness and (ii) broaden the definition of "refinancing indebtedness" by extending the amount of time allowable between the incurrence of new indebtedness and the repayment of existing debt for it still to come within the definition of "refinancing indebtedness" and, in turn, the definition of permitted indebtedness. We believe that these amendments will further enhance our financing and refinancing flexibility.

Convertible Bonds

On 11 February 2010, we completed an offering of U.S.412.5 million 5.25% guaranteed convertible bonds due February 2015. As at 31 December 2010, there were no conversions of these bonds. See "— *Issuance of Convertible Eurobonds and Capital Increase*".

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, cash flow available-to-debt service, limitations on total debt and debt-to-net worth in respect of TMK and/or its subsidiaries. Other covenants impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness.

As at the date hereof, our debt-to-EBITDA ratio contained in our outstanding 2008 LPNs exceeded a threshold of 3.5:1, as a result of which we are only allowed to incur further indebtedness if it is "*Permitted Indebtedness*" as defined in terms and conditions under the Notes. As a result, we are currently unable to increase our financial indebtedness except in certain limited circumstances are subject to significant restrictions on our ability to borrow and our overall financial flexibility. Because TMK will use the proceeds of the Notes described herein to refinance existing indebtedness, the Notes will constitute "*Permitted Indebtedness*" for the purpose of our outstanding 2008 LPNs. In light of the adverse financial circumstances that we faced in 2009, we were required to take a number of steps to improve our working capital position, debt profile and reduce our leverage. These included, among other things, negotiating extensions of credit terms and lower interest rates, refinancing of existing short-term debt to improve our debt maturity profile, amending credit agreements 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. 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".*

Debt Refinancing

As at 30 June 2010, the nominal value of our total interest bearing loans and borrowings amounted to U.S.$3,643.9 million, of which 77.3% was long term debt and 22.7% short term debt.

In the first half of 2010, while actively refinancing short-term indebtedness, we improved the structure of our loan portfolio. Our short-term borrowings accounted for 22.7% of our total borrowings as at 30 June 2010 as compared to 41.0% as at 31 December 2009.

As a result of our refinancing activities, our loan portfolio repayment schedule is now evenly distributed over the next 5 years. Furthermore, we managed to negotiate a reduction in our interest rates on most of our significant borrowings. As a result, the average weighted interest rate for our rouble-denominated borrowings reduced from 13.4% as of 31 December 2009 to 9.5% as of 31 December 2010. Our average weighted interest rate for the U.S. dollar-denominated borrowings reduced from 10.3% as of 31 December 2009 to 7.3% as of 31 December 2010. Our average weighted interest rate for the euro-denominated borrowings slightly increased from 3.3% as of 31 December 2009 to 3.4% as of 31 December 2010.

Background to Financing of Acquisition of TMK IPSCO

In June 2008, we acquired TMK IPSCO, which comprises IPSCO Tubulars and TMK NSG, 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 a call/put option granted to Evraz, which enabled Evraz to put its remaining 49% interest in TMK NSG 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 TMK NSG 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**").

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 "*— Liquidity and Capital Resources — Our most significant borrowings as at 30 June 2010 — Loan Participation Notes*". 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.

Contractual Commitments

As at 30 June 2010, we had contractual commitments for the acquisition of property, plant and equipment from third parties for the total amount of U.S.$89.6 million (net of VAT), the majority of which relates to the continuation of our capital expenditure plan. As at 30 June 2010, we had paid advances of U.S.$22.8 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.$9.7 million as at 30 June 2010.

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 30 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 us to maintain an appropriate level of liquidity and financial capacity, 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 2009 and 2008:

As at 31 December 2009	Less than 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
			(in millions of U.S. dollars)				
Trade and other payables	542.1	31.4	—	—	—	—	573.5
Accounts payable to related parties	6.0	15.8	—	—	—	—	21.8
Interest — bearing loans and borrowings:							
Principal	459.3	1,065.1	730.1	383.9	293.7	869.9	3,802.0
Interest	113,0	229,8	207.9	143.8	109.1	69.5	873.1
Dividends payable	0.4	0.1	—	—	—	—	0.5
Liabilities under put options of minority shareholders in subsidiaries	15.8		—	—	—	—	15.8
Other non — current liabilities	—	—	—	0.1	—	13.6	13.7
	1,136.6	**1,342.2**	**938.0**	**527.8**	**402.8**	**953.0**	**5,300.4**
As at 31 December 2008							
Trade and other payables	507.4	202.5	—	—	—	—	709.7
Accounts payable to related parties	1.5	—	—	—	—	—	1.5
Interest — bearing loans and borrowings:							
Principal	458.5	1,714.5	82.4	820.8	46.6	54.7	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 shareholders in subsidiaries	553.0	—	—	—	—	—	553.0
Other non — current liabilities	—	—	3.4	0.1	—	11.7	15.2
	1,621.7	**2,031.0**	**171.4**	**893.9**	**49.4**	**75.9**	**4,843.3**

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 2010 to 899 days as compared to 744 days as at 31 December 2009. As a result of our efforts to refinance our short-term indebtedness, our short-term borrowings accounted for 22.7% of our total amount of interest-bearing loans and borrowings as at 30 June 2010, as compared to 41.0% as at 31 December 2009.

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 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 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 29 to our Annual Consolidated Financial Statements. See Also Note 21 to our Unaudited Interim 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 in our statement of financial position 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 2010, approximately U.S.$193.5 million, or 5.4%, of our total interest bearing loans and borrowings consisted of variable interest rate debt, while approximately U.S.$3,412.9 million, or 94.6%, of our interest bearing loans and borrowings (excluding finance lease liability) consisted of fixed interest rate debt. As at 31 December 2009, approximately U.S.$228.1 million, or 6%, of our total interest-bearing loans and borrowings consisted of variable interest rate debt, while approximately U.S.$3,485.1 million, or 94%, of our total interest-bearing loans and borrowings consisted of fixed interest rate debt. As at 31 December 2008, approximately U.S.$918.0 million, or 29%, of our total interest-bearing loans and borrowings consisted of variable interest rate debt, while approximately U.S.$2,251.9 million, or 71%, of our total interest-bearing loans and borrowings consisted of 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 fair value of our share of identifiable net assets of the subsidiary acquired exceeds the cost of the acquisition, 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. 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 2010, we did not recognize any loss in respect of impairment of property, plant and equipment. In the year ended 31 December 2009, we recognised losses in respect of impairment of property, plant and equipment in the amount of U.S.$39.7 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. At 31 December 2009, as a result of improvement of our cash flow projections, we determined that the recoverable value of our Orsky Machine Building Plant exceeded its carrying value. As a result, we reversed the impairment loss in the amount of U.S.$2.5 million, which we recognized in the six months ended 30 June 2009 in respect of property, plant and equipment of Orsky Machine Building Plant.

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 2010, and the years ended 2009 and 2008.

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 and when circumstances indicate the carrying value may be impaired. 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 31 December 2009 for all cash generating units. On 30 June 2010, we performed impairment tests on the carrying value of our goodwill for TMK-Kaztubprom due to the fact that there were some indications of impairment of TMK-Kaztubprom as at 30 June 2010. In the year ended 31 December 2009, we recorded impairment loss of U.S.$10.1 million related to our oilfield service unit and TMK-Kaztrubprom unit. We did not recognize any impairment loss of goodwill in the first six months of 2010.

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 statement of financial position in respect of post-employment benefits is the present value of the defined benefit obligation at the end of the reporting period 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 the six months ended 30 June 2010, we recognized net benefit expense of U.S.$4.6 million. In each of the years ended 31 December 2009 and 2008, we recognised net benefit expense of U.S.$2.5 million and U.S.$0.3 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 2010, 31 December 2009 and 31 December 2008, we recorded allowances for doubtful accounts of U.S.$14.8 million, U.S.$15.2 million and U.S.$13.1 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 end of the reporting period date to the extent that such events confirm conditions existing at the end of the period. As at 30 June 2010, 31 December 2009 and 31 December 2008, we recorded an allowance for write-downs to net realisable values of U.S.$21.6 million, U.S.$22.1 million and U.S.$28.6 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 statement of financial position. 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.

Overview

We believe that we are among the world's largest steel pipe producers, with approximately a 7% worldwide market share for seamless pipes and a 12% worldwide market share for seamless OCTG by sales volume in the first half of 2010, according to our estimates. We also believe that we are Russia's largest manufacturer and supplier of steel pipes. We estimate that we had an approximate 27% market share for steel pipes, a 54% market share for seamless pipes and a 60% market share for seamless OCTG in Russia by sales volume in the first half of 2010.

In June 2008, we acquired IPSCO Tubulars and TMK NSG, two significant manufacturers and suppliers of steel pipes and value-added products, including high-performance premium connections, in the United States. We estimate that we had an approximate 17% and 10% market share for OCTG in the United States based on sales volumes in the first half of 2010 and in the year ended 31 December, 2009, respectively.

In the first six months of 2010 we sold 1,886 thousand tonnes of pipe products, including 1,075 thousand tonnes of seamless pipes, and 746 thousand tonnes of OCTG. In 2009, we sold 2,769 thousand tonnes of pipe products, including 1,649 thousand tonnes of seamless pipes and 1,037 thousand tonnes of OCTG. Pipes for the oil and gas industry accounted for approximately 75% and 67% of our total sales volume in the first half of 2010 and the year ended 31 December 2009, 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 accounted for 55% and 34% of the volume of all steel pipe exports from Russia in the first six months of 2010 and in the year ended 31 December 2009, respectively

We produce both seamless and welded pipes. 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 large diameter welded pipe business and welded OCTG business. We have significantly enhanced our production capacity for large diameter welded pipes used for oil and gas transportation as a result of the completion of an advanced longitudinal large diameter welded pipe mill at our Volzhsky plant in late 2008, which we believe provides us with a strong platform to expand our share in the important Russian large diameter pipe market. Since our acquisition of IPSCO Tubulars and TMK NSG 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 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 in-field short-distance 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;
- *welded line pipes,* which are used for in-field short-distance 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, 2010, our nominal annual production capacity for steel pipes was approximately 6.3 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 2010 and in the year ended 31 December, 2009, we produced 1,272 thousand tonnes and 1,804 thousand tonnes of steel, respectively, which satisfied approximately 95% and 85%, respectively, of our steel billet requirements for our seamless pipe production. We are almost entirely self-sufficient in our production of steel billets, which lowers our seamless pipe production costs. 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 coils and plates for use in our welded pipe production.

We currently supply our products to customers in more than 65 countries. Our principal customers include major Russian oil and gas and service companies, such as Rosneft, TNK BP, Surgutneftegas, Gazprom, LUKOIL,

Transneft, Russneft, Gazprom Neft, Tatneft and Bashneft. We cooperate on an ongoing basis with major multinational oil and gas companies, such as Royal Dutch Shell, Total and ExxonMobil. We also ship significant amounts of our pipe products to national oil companies, such as Saudi Aramco and ONGC. In the United States, TMK IPSCO benefits from longstanding relationships with a diverse end user base, including, among others, Chevron, ExxonMobil/XTO, Marathon, Anadarko, Devon, Chesapeake Energy, EnCana, EOG Resources, Williams Production and BP. In addition, we have participated and are participating as a supplier of pipes in major national and international projects, including, among others:

- the Pochinki-Gryazovets gas pipeline;
- the CAC Pipeline, which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to China;
- the onshore section of the Nord Stream gas pipeline, which, upon completion, will connect Russia to Germany via the Baltic Sea;
- the Bovanenkovo-Ukhta gas pipeline, which is a part of the Yamal-Europe gas pipeline;
- the Sakhalin-Khabarovsk-Vladivostok gas pipeline;
- the BPS-2, which connects oil fields in Western Siberia to a Russian port on the Gulf of Finland;
- phase two of the ESPO Pipeline, which will run from Eastern Siberia to the Amur region near the border with China; and
- the Purpe-Samotlor oil pipeline, which will connect new oil fields being developed in the Yamal and Krasnoyarsk regions to oil refinery facilities, and connect Eastern and Western parts of the Russian oil transportation system.

We are a global company and operate through three operating segments:

- Russia, represented by our principal production subsidiaries Volzhsky, Seversky, Tagmet, Sinarsky, TMK-CPW and TMK-INOX as well as oil and gas services division and trading companies in Russia, Kazakhstan, Switzerland, the United Arab Emirates and South Africa;
- the Americas, represented by our TMK IPSCO division, which is comprised of 11 production facilities in the United States, and a trading company located in North America; and
- Europe, represented by production subsidiaries TMK-Artrom and TMK-Resita, both located in Romania, and trading companies located in Europe (excluding Switzerland).

We have an extensive sales network with trading subsidiaries and representative offices in Russia, the United States, the United Arab Emirates, South Africa, Germany, Italy, Switzerland, China, Singapore, Azerbaijan, Turkmenistan and Kazakhstan.

In June 2008 we acquired IPSCO Tubulars and TMK NSG, 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 focus on 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. TMK NSG 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 Condition 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 certain types of services for oil companies such as the repair of tubing pipes, piston rods and pipe coatings, and provide transportation services, 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 subsidiaries 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 and welded pipe operations. In light of the recent global financial crisis and uncertain economic situation, we postponed

certain additional planned capital investment projects under the programme, and relaunched the programme in 2010. To maintain our cost competitiveness, we continue to make significant capital expenditures to upgrade our facilities to increase productivity and quality. Our Volzhsky plant features technologically sophisticated steel-making, pipe-rolling and pipe finishing equipment and we believe is among the most efficient pipe-making plants in Russia. The remaining key projects that we intend to complete in the next several years, if markets and our financial position allow, include the replacement of open hearth furnaces with EAF steelmaking facilities at Tagmet and the construction of a new FQM at Seversky. See "— *Strategic Capital Expenditure Programme*".

In the first half of 2010, we had total consolidated revenue of U.S.$2,566.2 million and recorded a profit before tax of U.S.$101.7 million, compared to total consolidated revenue of U.S.$1,478.6 million and loss before tax of U.S.$266.1 million in the first half of 2009. In 2009, we had total consolidated revenue of U.S.$3,461.0 million and incurred a loss before tax of U.S.$426.8 million.

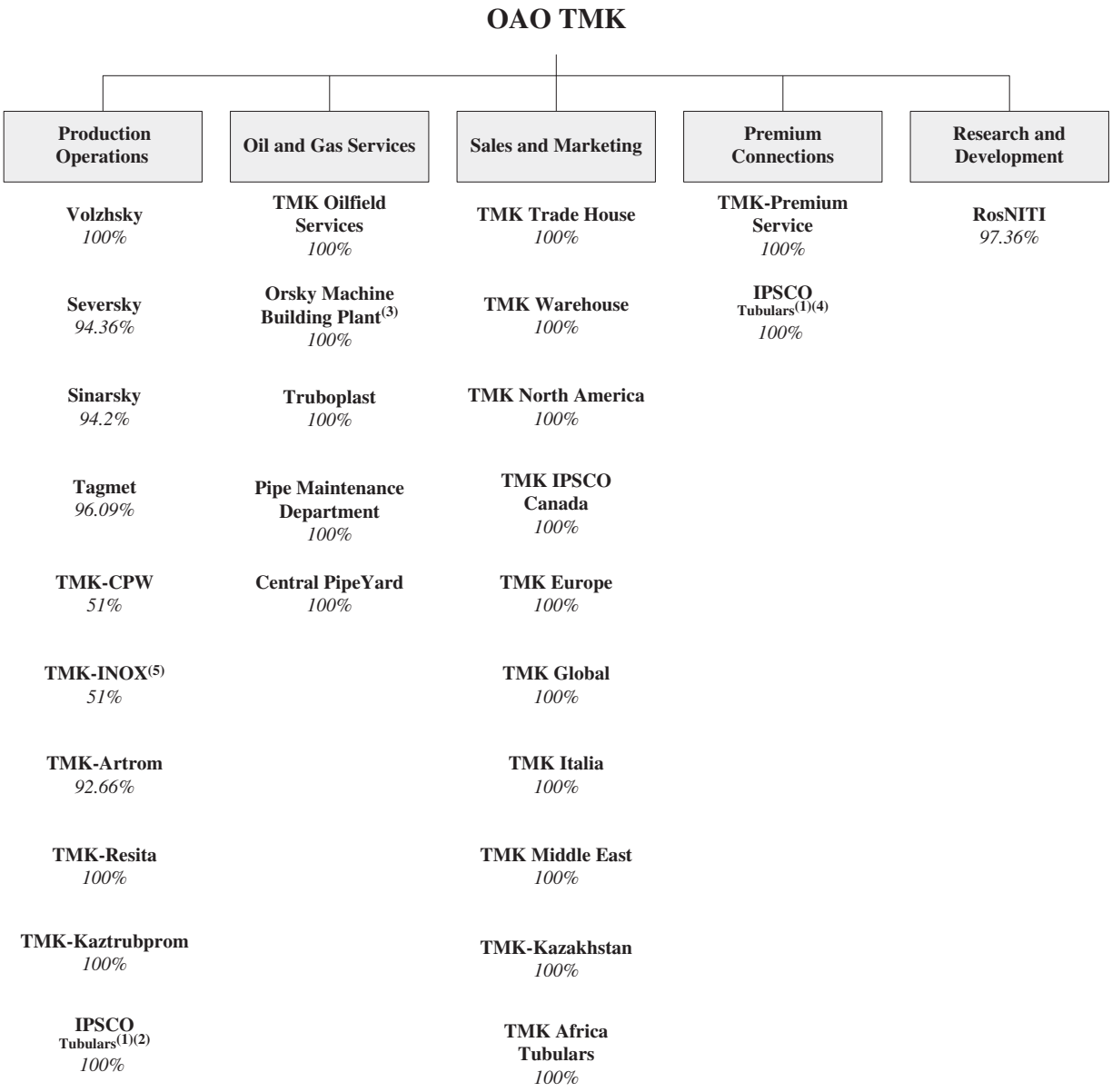
Corporate Organisation

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

Our business is globally represented in three operating segments consisting of:

- *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, South Africa and Switzerland, engaged in the sale of pipe production;
- *Americas:* represents the results of operations and financial position of plants and a trading company located in the United States; and
- *Europe:* represents the results of operations and financial position of plants and trading companies located in Europe (excluding Switzerland), engaged in the sale of pipe production and steel billets.

The following chart presents the main production, trading and services companies within our group, including our effective ownership interest in these companies as at 11 January 2011.



(1) IPSCO Tubulars and its subsidiaries comprise TMK IPSCO, the U.S. division of OAO TMK.
(2) Ambridge, Blytheville, Camanche, Geneva, Wilder, Baytown, Koppel and Catoosa facilities.
(3) TMK owns 100% of the ordinary voting shares which comprise 75% of share capital. The Russian government owns a 25% interest consisting of preference shares, which are non-voting.
(4) Houston, Odessa and Brookfield facilities.
(5) OAO TMK holds a 0.1% interest with SinTZ holding a 50.9% interest.

Production Operations

We conduct all of our production operations at our 19 production subsidiaries and one strategic venture located in Russia, the United States, Romania and Kazakhstan.

Russia

- *Volzhsky,* which produces both steel and seamless and welded pipes, is located in the town of Volzhsky in the Volgograd region;
- *Seversky,* which produces both steel and seamless and welded pipes, is located in the town of Polevskoy in the Sverdlovsk region;

- *Sinarsky,* which produces seamless pipes, is located in the town of Kamensk-Uralsky in the Sverdlovsk region;
- *Tagmet,* which produces both steel and seamless and welded pipes, is located in the town of Taganrog in the Rostov region near the Azov Sea;
- *TMK-CPW,* in which Seversky has a 51% interest, with Humbel Limited (a subsidiary of Corinth Pipeworks) holding the remaining 49% interest, which produces welded oil and gas pipes and is located in Polevskoy, in the Sverdlovsk region; and
- *TMK-INOX,* in which we hold a 51% interest, with RusNano holding the remaining 49% interest and established in December 2009, to further develop the production and sales of stainless steel pipes produced at Volzhsky and Sinarsky.

United States

- *Ambridge Facility,* which produces seamless pipes and carries out heat treatment, is located in Pennsylvania, United States;
- *Blytheville Facility,* which produces welded pipes and carries out heat treatment and threading, is located in Arkansas, United States;
- *Camanche Facility,* which produces welded pipes and carries out threading, is located in Iowa, United States;
- *Geneva Facility,* which produces welded HSS, is located in Nebraska, United States;
- *Wilder Facility,* which produces welded 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 billets and carries out heat treatment is located in Pennsylvania, United States; and
- *Catoosa Facility,* which carries out heat treatment and threading, is located in Oklahoma, United States;
- *Houston Facility,* which carries out premium threading, is located in Texas, United States;
- *Odessa Facility,* which carries out premium threading, is located in Texas, United States; and
- *Brookfield Facility,* which carries out premium threading, is located in Ohio, United States.

Europe

- *TMK-Artrom,* which produces seamless pipes, is located in Slatina, in southern Romania; and
- *TMK-Resita,* which produces steel billets, 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.

Oil and Gas Services

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, as well as pump barrels and other equipment for the oil and gas and other industries, 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.

Premium Connections

Our premium connections activity is carried out through:

- *TMK-Premium Service,* which develops 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;
- *ULTRA Connections,* which manufactures premium connections and oilfield accessories and provides services at our Houston and Odessa facilities in Texas and at the recently opened Brookfield facility in Ohio. In addition, we have recently started to develop the production of pipes with premium connections, including ULTRA connections, at Orsky Machine Building Plant in Russia; and

United States

- *Houston Facility,* which carries out premium threading, is located in Texas, United States;
- *Odessa Facility,* which carries out premium threading, is located in Texas, United States; and
- *Brookfield Facility,* which carries out premium threading, is located in Ohio, United States.

Sales and Marketing

Our sales and marketing activities are carried out through:

Russia

- *TMK Trade House,* incorporated in Russia, 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; and
- *TMK Warehouse,* incorporated in the Russia, which distributes our products from stock in the Moscow region.

United States and Canada

- *TMK North America,* incorporated in the United States, which conducts sales of our products in North and South America; and
- *TMK IPSCO Canada,* which has a sales office in Calgary, Alberta, Canada, which functions as a head office for sales in Canada and supports conventional and unconventional hydrocarbon exploration and development programs in Canada.

Europe, the CIS, Middle East and Africa

- *TMK Europe,* incorporated in Germany, which currently distributes our products in Europe (other than Italy);
- *TMK Global,* incorporated in Switzerland, which is primarily responsible for the distribution of our pipe products to customers outside Europe, Russia and the CIS countries;
- *TMK Italia,* incorporated in Italy, which distributes our products in Italy.
- *TMK Middle East,* incorporated in United Arab Emirates, which is primarily responsible for distribution of our pipe products in the Middle East;
- *TMK-Kazakhstan,* incorporated in Kazakhstan, which currently distributes our products in Kazakhstan; and
- *TMK Africa Tubulars,* incorporated in Cape Town, South Africa, which distributes our products in the Sub-Saharan oil and gas markets and provides additional support to established relationships in Northern Africa.

Our trading houses serve purely to facilitate our sales functions and do not serve as profit centres.

Research and Development

Our research and development activities are carried out through 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 authorize RosNITI to evaluate the quality of inputs used in pipe production, analyse product performance and audit the quality systems of our suppliers. 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 center that will be based in Houston. We intend to enhance our research and development capabilities to expand our technological footprint and increase manufacturing efficiency while decreasing production costs.

Competitive Strengths

We believe the following competitive strengths distinguish our past operational and financial performance and our future growth prospects from other global steel pipe producers for the oil and gas industry:

Focus on the Oil and Gas Services Industry

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, the cost of OCTG typically represents 10% to 20% of total well cost depending on the type of well, with OCTG costs generally representing a higher percentage of total well costs in conventional (vertical) wells in deep formations and a smaller percentage of total well costs in more complex wells. Operators of more complex wells are less sensitive to OCTG pricing as OCTG represents a smaller portion of the overall cost structure of more complex wells. Above ground, up to 40% of oil and gas pipeline construction costs are associated with the procurement of line pipe.

In addition, the operating environment for oil and gas companies is becoming increasingly complex, leading to more capital intensive drilling activity, such as offshore drilling and exploration and production in challenging environments which require higher value-added pipes and more steel per well, as the length of offshore or onshore unconventional wells tends to be significantly greater than the length of onshore conventional wells. As the leading manufacturer of steel pipes in Russia based on output, 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 under investment in the oil and gas infrastructure in Russia following the collapse of the Soviet Union and the deteriorating production conditions in traditional oil regions, coupled with 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. In addition, we are a leading supplier of OCTG pipes to customers within the United States oil and gas market, where we estimate that we had a 17% market share for OCTG in the first half of 2010. We expect to benefit from increasing unconventional drilling activity, such as that used in gas shale developments, favorable oil prices and overall high level of drilling activity in North America.

Leader in a Consolidated Industry with High Barriers to Entry

Our strategic focus is on value-added pipes for the oil and gas industry. In the first six months of 2010, we estimate that, by sales volume, we had approximately 13% of the global OCTG pipe market, an approximately 60% of the Russian seamless OCTG pipe market and 17% 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, Europe 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 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 end user base, which includes, among others, Chevron, ExxonMobil/XTO, Marathon, Anadarko, Devon, Chesapeake Energy, EnCana, EOG Resources, Williams Production and BP.

Strong International and Export Platform

We have a strong international presence, with significant production facilities in three key markets — Russia/CIS, Europe and North America. We have 23 production and service sites in Russia, CIS, Europe and the United States

supported by an extensive wholly-owned sales and marketing network covering all key oil and gas markets. We estimate that we are the leading exporter of pipes from Russia in the first six months of 2010, with a 55% share of all Russian-produced steel pipe exports from Russia and an estimated 73% share of total seamless pipe exports from Russia. 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. We believe that our global presence, coupled with the completion of key strategic investment projects, provide us with a strong platform from which to enhance our position as a global leader in the OCTG and line pipe segments. We have significant access to the United States market, which, despite the effects of the recent global economic crisis, remains the world's largest oil and gas pipe market. TMK IPSCO benefits from strong brand recognition with a track record across key customer classes. Our two European 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 a local scrap supplier, favourable location of our assets, 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. 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 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 complete our capital expenditure programme, which envisions the installation of a 600 thousand tonne FQM seamless rolling mill at our Seversky plant and a 1 million tonne EAF at Tagmet. Furthermore, in 2010 we acquired and assembled ancillary equipment for the full ramp-up of Tagmet's PQF mill and installed a vacuum degassing system. The EAF's recirculating water cooling system minimizes water intake and the vacuum degassing unit is unparalleled in Russia and the CIS in terms of particle emission control.

Vertically Integrated Producer

Three of our four Russian pipe plants have internal steel manufacturing facilities and produce their own billets for use in their seamless pipe-making operations. In addition, almost all of TMK-Artrom's steel billet requirements are supplied by TMK-Resita. Furthermore, our facility in Koppel, Pennsylvania operates a scrap yard and steel melting and casting facility that supplies all 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 and certain production flexibility. In 2008, as part of our strategic capital expenditure programme, we completed the construction of an EAF at Seversky to replace its open hearth furnace, which enhanced 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 expect that the construction of a new EAF steelmaking facility at Tagmet, scheduled to be completed in 2013, will significantly enhance our production capabilities.

Strong Organic Growth Potential and Well Placed to Benefit from Anticipated Market Recovery

We have completed a large portion of our strategic capital expenditure programme, which has served to enhance significantly our Russian seamless pipe production capabilities and the efficiency of our production processes, and we have 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, while we also plan to implement the remaining projects under

our strategic capital expenditure programme over the next few years. *See "Business — Capital Expenditures — Strategic Capital Expenditure Programme".*

Strategy

Our strategy is to enhance our position as one of the world's leading producers of steel pipes. Though, given the recent 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 Northern American assets and the completion of most of the key projects under our strategic capital investment programme has provided us with a strong platform from which to enhance our position as a global leader in OCTG and line pipe products.

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 existing production practices from our Russian facilities to TMK IPSCO and the existing know how and business practices 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 value-added 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 premium connection business, which concentrates on developing and marketing all of our existing and new premium connection products, particularly through TMK IPSCO and its ULTRA premium connections products. In addition, in August 2010, TMK-IPSCO opened a sales office in Calgary, Alberta, Canada. This new office functions as a head office for sales in Canada and supports conventional and unconventional hydrocarbon exploration and development programs in Canada. We believe the success of ULTRA premium connections will serve as a platform for the supply of tubular goods to Canadian oil sands development. 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, the commissioning and ramp-up of the new 650,000 tonne longitudinal welded pipe mill at our Volzhsky plant in 2008 enhanced our leading role in this important product segment.

In spite of the recent 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 are continuing to implement the remainder of our capital investment programme, including the addition of an EAF at Tagmet in 2013 and a continuous FQM rolling mill at Seversky in 2013-2014, 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 strategy to enhance our position as one of the world's leading producers of steel pipes with the acquisition of assets and subsidiaries in the United States 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 TMK NSG have been operating with over 50 years of expertise in the pipe manufacturing market and 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 the following commercial and manufacturing synergies from the acquisition and integration of TMK IPSCO:

- ***Commercial and Manufacturing Synergies.*** We have an enhanced product offering in North America, providing us with a comprehensive and balanced range of seamless and welded energy pipe products. We

maximise our revenues by processing and finishing our products at our facilities in the United States and intend, depending on overall demand in the U.S. markets, to increase the supply of green (unfinished) pipes from our manufacturing facilities located in Russia and Romania for such processing and finishing. In addition, we deliver 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 seen significant growth in our U.S. premium connections businesses. TMK IPSCO's ULTRA products strongly augment our premium connection product offering. We are focused on strengthening our position in the U.S. market by further developing our existing relationships with large U.S. independent distributors.

We continually seek 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 are ramping-up our steel-making and seamless rolling operations in Pennsylvania.

We further broadened our product and service offerings through our acquisition in late 2007 of certain service assets of TNK-BP, which provide services and specialise in the repair of tubing pipes, piston rods and pipe coatings, and provide transportation services, and our acquisition in 2008 of TMK-Kaztrubprom, which has 60,000 tonnes of finishing capacity and which specialises in high-technology pipe threading.

Seamless Business

We seek to consolidate our position as the leading supplier of OCTG and line pipe to the oil and gas industry in Russia and the CIS and become a leading supplier of OCTG in the United States and globally. 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 had previously postponed certain projects under our capital expenditure programme, we relaunched it in 2010 and we continue to introduce new high performance pipes that are specifically designed 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 higher precision, high anti-corrosion characteristics and greater resistance to low temperatures. To assist us in accomplishing this objective we established TMK-Premium Service, which develops and promotes all of our existing and new premium connection products on global markets, except the U.S., and TMK Oilfield Services which manage and coordinate our oilfield services assets in Russia. TMK-Premium Service is also helping us to explore and acquire intellectual property in the premium connections segment, perform 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-end OCTG products in conjunction with the provision of related services in Russia, the CIS and globally. In particular, we aim to further leverage on our well-established 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 pipe segments by expanding our relationship with existing customers and by developing our downstream services and technological components business to complement our product offering. In major international markets, we plan to expand by developing a global network of commercial and distribution channels In particular, we plan to build upon our position as a leading producer of oil and gas pipe products in North America as a result of our U.S. asset base and subsidiaries, which specialises in welded and seamless OCTG. In the first half of 2010, TMK IPSCO had an approximate 17% share of the U.S. OCTG market. We will also seek to extend our vendor approvals 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. Although we put our capital expenditure programme on hold during the recent global economic crisis, 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. In 2010, we completed the seamless pipe rolling modernization program at Volzhsky. The remaining key elements of our capital expenditure programme include the construction and installation of a 600,000 tonne three-roller FQM continuous seamless rolling mill at Seversky and the replacement of Tagmet's open hearth furnace with a one million tonne capacity 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 and cost effectiveness 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 and pipe products for the oil refining and petrochemical sectors. We also intend to expand our capabilities throughout the value chain, concentrating on pipe accessories. 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 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

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 welded OCTG pipes can be used interchangeably with seamless products in most conventional operations. Accordingly, in the United States, we have focused our efforts on the high margin welded OCTG market, as well as on the seamless pipe 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 and the CIS. 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, which allowed us to capitalise on our improved production capabilities as market demand returned. 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. TMK IPSCO significantly enhances our capabilities in the welded pipe segment, diversifies our product portfolio and extends our product coverage to markets in the United States, and we have transferred 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 inter-regional oil and gas transportation projects in Russia and the CIS. We are also seeking to become actively involved at all stages of such pipeline projects, from the initial planning stage to the development and implementation stages to enhance our opportunities to serve such projects with pipe supplies.

Improving Liquidity Profile

One of our key priorities is to continue to refinance our short-term debt and improve our debt maturity profile. Since late 2008, a combination of factors related to the global financial crisis and economic slowdown has adversely affected our operating performance. As a result, our Adjusted EBITDA decreased from U.S.$1,047.2 million in 2008 to U.S.$328.1 million in 2009. At the same time, our net debt increased significantly primarily as a result of borrowing undertaken in connection with our acquisition of TMK IPSCO, as well as a result of our continued capital expenditure programme. Since the onset of the global economic crisis, we have embarked upon a programme

designed to improve our working capital position 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. Such actions have included, among other things, an issuance of convertible bonds in February 2010 to refinance existing short-term debt, and refinancing several short-term debt facilities with longer term debt. These actions have, among other things, enabled us to improve our working capital position significantly. As of 31 December, 2008, we recorded a working capital deficit of U.S.$1,446.4 million, whereas as of 30 June, 2010, we had positive working capital of U.S.$146.7 million. Our overall leverage levels also decreased as of 30 June, 2010, as compared to 31 December, 2008 and 2009. 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. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting Our Results of Operations — Leverage Level and Ongoing Efforts to Improve Our Liquidity Profile*".

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. In October 2006, TMK Steel conducted a public offering of 180 million of our ordinary shares in the form of ordinary shares and global depositary receipts for the purpose of repaying a loan that we had provided to TMK Steel; 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.

As of 11 January 2011 our shareholders are TMK Steel (which held, together with affiliated entities, 69.68% of our shares), subsidiaries of TMK (which held, together with affiliated entities 0.006% of our shares) and a 30.31% free float. As of 11 January 2011, an aggregate of 71,505,956 shares, representing 7.63% of our issued and fully paid share capital is held by TMK Bonds S.A. to support conversion obligations under the U.S.$412.5 million 5.25% convertible bonds due 2015 issued in February 2010 through TMK Bonds S.A. See "*Management's Discussion and Analysis of Financial Conditions and Results of Operations — Certain Factors Affecting Our Results of Operations — Issuance of Convertible Eurobonds and Capital Increase*"

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 TMK NSG, together with an option to acquire the remaining 49% ownership interest, from Evraz, for total consideration of U.S.$1.6 billion. We exercised the call option in January 2009. In December 2009, we contributed our 51% interest in TMK NSG to IPSCO Tubulars and, as a result, currently hold a 100% direct interest in IPSCO Tubulars and a 100% indirect interest in TMK NSG.

In the first half of 2010, we acquired an additional 0.04% of Sinarsky shares, 0.02% of Seversky shares, 0.02% of Tagmet shares and 49.0% of TMK-SMS shares. As of June 30, 2010, our equity interest in Sinarsky, Seversky, Tagmet and TMK-SMS stood at 94.2%, 94.24%, 96.08% and 100%, respectively.

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, alloyed 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 ended 30 June				Year ended 31 December			
	2010	2009	Change	Change, %	2009	2008	Change	Change, %
	in thousand tonnes							
Russia	1,385.2	1,007.5	377.7	37.5%	2,296.5	2,573.7	(277.2)	(10.8)%
America	412.3	132.9	279.4	210.2%	358.0	488.3	(130.3)	(26.7)%
Europe	88.5	55.4	33.1	59.7%	114.7	164.5	(49.8)	(30.3)%
Total pipes	**1,886.0**	**1,195.8**	**690.2**	**57.7%**	**2,769.2**	**3,226.5**	**(457.3)**	**(14.2)%**

Globally, our overall pipe sales volumes increased by 58% in the six months ended 30 June 2010 compared to the six months ended 30 June 2009. This increase was primarily due to the increased demand for oil and gas pipe products as a result of the market-driven recovery of energy demand.

Russia. Our pipe sales volumes in the Russian division increased by 37.5% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was primarily due to an increase in pipes supplied to the oil and gas market, in particular line pipes and large diameter pipes as a result of the revival of previously postponed major pipeline projects by oil and gas companies in Russia and the overall recovery in drilling activity in the oil and gas sector. We also recorded an increase in our sales volumes of industrial pipes principally due to the market-driven recovery of demand in the automotive, engineering and power generation industries in Russia in the first half of 2010.

Americas. Our sales volumes in the American division increased by 210.2% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. Following a severe market downturn in the U.S. pipe market in the first half of 2009, our U.S. operations experienced increased demand in the first half of 2010 in all pipe product groups. This increase principally resulted from both the increased on-shore oil and gas drilling activity and the increase in unconventional drilling activity, principally in the shale gas sector. The increase in our sales volumes in the Americas was also partly due to certain measures implemented by the government of the United States including trade restrictions against low-cost Chinese pipe products in the second half of 2009 and the first half of 2010 which resulted in a reduction in volumes of imported pipes.

Europe. Our sales volumes in the European division increased by 59.7% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. This increase was principally attributable to a 77% increase in our sales volumes of industrial pipes as a result of the market-driven recovery of demand in the automotive and engineering industry in Europe in the first half of 2010.

The decrease in overall sales volumes of both seamless and welded pipes in 2009 to 1,648 thousand tonnes and 1,121 thousand tonnes from 1,980 thousand tonnes and 1,247 thousand tonnes in 2008, respectively, was attributable to the recent global economic downturn. The recent global financial crisis, coupled with lower oil and gas prices, contributed to a significant decrease in drilling activity and suspended investments in the development of new fields by oil and gas companies in the second half of 2008 to the first half of 2009, which resulted in lower demand for oil and gas pipes (line pipe and OCTG) from the global oil and gas industry. The decline in industrial pipe sales volumes was primarily caused by the contraction in demand from the construction and machine-building sectors as demand from their respective end-customers dropped as well. At the same time, sales of large-diameter pipes increased in 2009 to 311 thousand tonnes from 259 thousand tonnes as a result of the implementation of several large oil and gas transportation projects by Gazprom and Transneft and the commissioning of a large-diameter longitudinal welded pipe mill at Volzhsky in late 2008.

Our shipment volumes of both seamless and welded pipes further increased in the second half of 2010 as compared to the first half of 2010, with total shipment volumes amounting to 1,103 thousand tonnes and 1,002 thousand tonnes, respectively. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Trading Update*". Despite low natural gas prices in the United States, shale gas operators continued to increase their activity during 2010, as many successfully adjusted to the situation by moving to fields with higher levels of natural gas liquids. We believe that advancements in horizontal drilling and completion technologies coupled with the ability to extract more hydrocarbon liquids have lowered break-even costs for drillers and kept unconventional gas exploration and production activity at high levels. Along with the development of shale gas, the United States market witnessed significant activity growth in land-based oil drilling, owing to high crude oil prices, the development of oil shales and limited activity in the Gulf of Mexico. This trend had a positive effect on TMK IPSCO's business during 2010 as it specializes in the supply of tubular products used in onshore operations.

Demand for premium threaded connections continued to increase throughout 2010 in both the United States and Russia. During the first six months of 2010, we shipped more than 219,000 premium connection joints, representing a 124% year-on-year increase. In the United States, the main driver behind premium connection consumption remains the active development of unconventional gas fields and drilling activity. In Russia, the emphasis is on the development of East Siberian and offshore fields. Until August 2010, only imported pipes were used in Russian offshore oil and gas production. Late in the second quarter of 2010, our premium threaded gas-tight casing connection, designed for horizontal and directional wells in oil, gas and gas-condensate fields, was successfully run in the Yury Korchagin field in the Caspian Sea.

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 an approximately 7% and 7% worldwide market share of seamless pipe in 2009 and the first half of 2010, respectively, according to our estimates. We produce seamless pipes with diameters from 1 mm to 426 mm and wall thickness from 0.1 mm 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 in-field oil and gas pipelines and to transport crude oil, oil products and natural gas from well heads to primary 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 oxygen 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 42 mm. We are one of the principal producers of 1,220 mm and 1,420 mm diameter pipes for Gazprom and of 530-1,220 mm diameter pipes for Transneft, LUKOIL and other customers. We make both longitudinal and spiral welded pipes. 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 moulding of steel coils. In contrast to longitudinal 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 coil and thinner flat steel products.

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 primary collectors 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 utilities 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 performance of such connections is certified by national and international testing laboratories. Our products include threaded and coupled premium connections designed for special applications; integral joint connections for thin-wall pipes and integral joint connections for thick-wall pipes.

TMK-Premium Service, a company we established in 2007 to enhance our presence on the Russian and global premium connections market, develops a range of patented connections through our own research and development efforts. 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. ULTRA Connections, developed by TMK IPSCO, are proprietary premium connections which are widely used by North American oil and gas companies. ULTRA connections have been used in natural gas shale

exploration/development activity since July 2004 and as of 2009 are one of the most widely used premium connections in U.S. natural gas shale exploration/development activity.

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 and at our recently opened Brookfield facility in Ohio. During the first six months of 2010, we shipped more than 219,000 premium connection joints, representing a 124% year-on-year increase. 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.

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/sizes and cut into pieces of various lengths, corresponding to the length of the desired finished pipe.

We produced internally approximately 95%, 85% and 92% of the steel billets that we use for our seamless pipe production in the first six months of 2010 and in the years ended 31 December, 2009 and 2008, respectively. We produced in aggregate 1.3 million tonnes, 1.8 million tonnes and 2.3 million tonnes of steel billets in the first six months of 2010 and in the years ended 31 December 2009 and 2008, respectively. We have commissioned continuous billet casting machines at our Volzhsky, Seversky and Tagmet plants in Russia as well as at TMK-Resita in Romania and Koppel facility in the United States 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*".

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 for drill pipes, couplings for tubing and casing pipes, drilling accessories, gas cylinders and hydro cylinders, Truboplast, which produces protective coatings for steel pipes used in the oil and gas industry, and Pipe Maintenance Department and Central Pipe Yard, which specialises in the repair of tubing pipes, piston rods and pipe coatings, and provides transportation services.

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. 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^{o} 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 Koppel (TMK IPSCO). In the first half of 2010, we modernized the EAF at TMK-Resita. 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.

We use continuous casting process, 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. 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^{o} 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 and line pipe 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, and can be reconfigured quickly to produce pipes of different measurements. 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 one of our pilger mills with a continuous rolling mill and casting machines at Tagmet and plan to 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 is done mainly to increase the strength of connections by way of 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 Central Pipe Yard, Pipe Maintenance Department 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 and precision stainless pipes at TMK-INOX. We also produce steel at five of our plants: Volzhsky, Seversky, Tagmet, TMK-Resita and the Koppel facility. In addition, we produce tool joints at Orsky Machine Building Plant in Orsk and protective pipe coatings for steel pipes used in the oil and gas industry at Truboplast in Yekaterinburg and at Pipe Maintenance Department. We also produce ULTRA premium connections at our Odessa and Houston facilities in Texas, and at our recently opened Brookfield facility in Ohio. 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 in Russia and enter a number of new global 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, 2010.

	Seamless pipe production			Welded pipe production					
	OCTG	Line and Industrial	Total Seamless	OCTG	Large Diameter	Line and Industrial	Total Welded	Total Pipe Production	Steel Production
	(thousands of tonnes)								
Volzhsky	270	430	700	—	1,100	—	1,100	1,800	900
Seversky	220	120	340	—	—	400	400	740	950
Sinarsky[1]	378	222	600	—	—	—	—	600	—
Tagmet	430	350	780	—	—	500	500	1,280	600
TMK CPW	—	—	—	—	—	200	200	200	—
TMK-Artrom	—	200	200	—	—	—	—	200	—
TMK-Resita	—	—	—	—	—	—	—	—	450
TMK IPSCO	210	90	300	520	—	630	1,150	1,450	450
Total	**1,508**	**1,412**	**2,920**	**520**	**1,100**	**1,730**	**3,350**	**6,270**	**3,350**

(1) Including TMK-INOX.

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 tonnes of pipes per year and a new EAF at Seversky with the nominal production capacity of 950,000 tonnes of steel billets.

The table above is based on nominal production capacity, while actual product mix and order books have a significant impact on actual output. In the first six months of 2010, our capacity utilisation rates increased significantly, due to increased demand in our key markets. Utilisation rates in our Russia and Americas segments surpassed 60% in the first six months of 2010, while the utilisation rate in our Europe segment was close to 90%. In accordance with our strategy to become one of the world's top suppliers of premium pipes and related services, we are increasing our production capacity, enhancing our product mix with higher value-added production, expanding our global operations, and pursuing advancements in research and development.

Volzhsky

Volzhsky 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 from the administration of the city of Volzhsky and surrounding settlements.

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 and gas 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 the majority of its output of welded 1,420 mm diameter pipes to Gazprom.

In the first six months of 2010, we modernized the plant's continuous casting machine and seamless hot-rolling mill and acquired and assembled the ancillary equipment needed for the plant's full ramp-up for the production of pipes.

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;
- 2520 SAW mill producing spiral welded pipes for oil and gas pipeline; 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

Seversky 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, construction sector, public works, and in furniture manufacturing.

In late 2009, we completed a vacuum steel degassing facility as part of the modernisation of Seversky's steelmaking facilities. In the first six months of 2010 we modernized the scrap processing mill and the transfer passage we use to deliver crude steel to the vacuum steel degassing facility or directly to the continuous caster.

Seversky's principal production facilities consist of:

- a steel shop, including an EAF that was commissioned in the fourth quarter of 2008, a ladle furnace, a vacuum degasser 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; and
- 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 line and industrial pipes.

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 a right of permanent use with respect to the land, comprising an area of approximately 2.0 million square metres. We also lease approximately 0.04 million square metres of land near the facility from the administration of Taganrog.

Tagmet produces principally seamless drill, casing and line pipes, industrial seamless pipes and electric welded pipes. In the first six months of 2010, we completed the installation of a degassing facility as part of the modernisation of Tagmet's facilities and acquired and assembled the ancillary equipment needed for the plant's full ramp-up for the production of steel pipes.

Tagmet's principal production facilities consist of:

- a steel shop, including three open hearth furnaces, a ladle furnace, vacuum degasser and continuous casting machine;
- a new 600,000 tonne capacity PQF seamless rolling mill, completed in 2008, which replaced one of two Tagmet's pilger mills;
- one pilger pipe mill;
- finishing lines, including upsetting, threading and cutting equipment, two heat treatment lines, including new 200 thousand tpa line commenced in 2008, primarily used for the production of seamless drill, casing, tubing and line pipes as well as industrial seamless pipes; and
- five electric-welding pipe mills, including a hot galvanisation line, which are used to produce a variety of longitudinal welded line and industrial pipes.

Sinarsky

Sinarsky 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 0.6 million square metres of land near the facility from the administration of Kamensk-Uralsky.

Sinarsky specialises in producing drill, casing, tubing and line pipes as well as various industrial pipes including cold-finished carbon and special grade seamless steel pipes principally for the power generation, chemical and

machine building industries. Sinarsky does not have any in-house steel making capacity, but obtains steel billets from Volzhsky, Sevesky and Tagmet and third party suppliers.

In the first six months of 2010, we installed additional cold drawing equipment for our production of carbon steel pipes and completed the reconstruction of cold drawing equipment for stainless steel pipes.

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 is comprised of IPSCO Tubulars, TMK NSG 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. Its production operations are conducted through 11 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 pipe and premium connections required in unconventional drilling environments such as gas shale drilling. TMK IPSCO produces a diverse range of carbon and alloyed seamless and welded pipe products for the oil and gas sector and a wide range of welded pipe products primarily for energy applications. The product offering includes seamless and welded tubing and casing, drill pipe, line pipe, standard pipe and HSS, coupling stock, premium connections and oilfield accessories. Through its facility in Koppel, Pennsylvania, TMK IPSCO 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:

	Seamless (tonnes)	Welded (tonnes)			Steel Making and Finishing (tonnes)			ULTRA (joints)
Facility	OCTG and line pipe	Electric resistance welded pipe, OCTG, line pipe and standard pipe	Threading	Electric resistance welded pipe and HSS	Billets	Heat treating	Threading	Premium connections
Ambridge, Pennsylvania	296,000					73,000		
Blytheville, Arkansas		272,000	181,000			91,000		
Camanche, Iowa		249,000	290,000					
Geneva, Nebraska				109,000				
Wilder, Kentucky		517,000						
Baytown, Texas						113,000	152,000	
Koppel, Pennsylvania					435,000	73,000		
Catoosa, Oklahoma						91,000	118,000 (including Premium connections)	
ULTRA								
Houston, Texas								130,000
Odessa, Texas								150,000
Brookfield, Ohio								240,000

Seamless Pipes

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 region 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 facility, which is 632,000 square feet under roof. At this facility, TMK IPSCO manufactures seamless OCTG tubing and casing, line pipe, coupling stock, drill pipe hollows, and mechanical

tubing. The Ambridge facility's seamless mill has a piercer, stand floating mandrel mills, stand stretch-reducing mills, heat treatment line, non-destructive testing, and IMS wall control gauges.

Welded Pipe Facilities

TMK IPSCO manufactures its welded pipe products at four facilities, which include Blytheville, Arkansas, Camanche, Iowa, Geneva, Nebraska and Wilder, Kentucky.

- *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, which 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 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. 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), which also includes office space. The facility manufactures line pipe, casing and standard pipe products.

Steel Making and Finishing

- *Finishing.* The Baytown, Texas pipe and tube finishing facility is operated by IPSCO Koppel Tubulars, L.L.C. The land and buildings (196,000 square feet) are owned by IPSCO Koppel Tubulars, L.L.C. This facility has a heat treat quench and temper line, full finishing and high speed threading capabilities for OCTG casing, upsetters and threading for external upset end tubing.

- *Catoosa facility.* The Catoosa, Oklahoma facility, which occupies approximately 138,000 square feet, has heat treating, testing and threading capabilities, including ULTRA Connections. 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 5 ½ and 6 ½ inch steel billets. The majority of the billets are transferred to the Ambridge facility for seamless pipe production and heat treating. The remainder are sold externally.

ULTRA Premium Connections

In addition to the Catoosa Facility, 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 and Brookfield, Ohio 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 threading casing joints. The land and facility are owned by ULTRA Premium Oilfield Services.

- *Odessa facility.* The Odessa facility (27,000 square feet) is capable of manufacturing both tubing and casing joints. The Odessa facility is comprised of five physical locations. All the land and facilities are owned by ULTRA Premium Oilfield Services.

- *Brookfield facility.* In response to increased demand for ULTRA's products, TMK IPSCO commissioned a new ULTRA premium threading facility for premium connections by opening a threading line in Brookfield, Ohio, in May 2010. The facility is located in close proximity to the Marcellus Shale Region, one of America's largest shale gas deposits and has been successfully ramping-up since becoming operational. We expect that the

completion of the second threading line, scheduled to be operational by the end of the first six months of 2011, will double the mill's current annual ULTRA premium connections threading capacity.

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 kilometers 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, couplings for casing and tubing pipes, drilling accessories, gas cylinders and hydraulics. Orsky Machine Building Plant is authorised by the American Petroleum Institute ("**API**") 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. In addition, Orsky Machine Building Plant has recently started to develop the production of pipes with premium connections, including ULTRA connections.

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 kilometers per year of pipes with diameters ranging from 57 to 720 mm, primarily 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 pipe. Truboplast's products are used by major Russian and international oil and gas companies confronted with complex oil and gas production conditions that necessitate the use of anti-corrosive coatings.

Central Pipe Yard and Pipe Maintenance Department

In December 2007, we acquired service assets 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 kilometers of pipes per year.

Capital Expenditures

Strategic Capital Expenditure Programme

Since 2004, we have engaged in a significant capital expenditure programme which, though was put on hold in light of the recent global economic crisis and relaunched in 2010, is largely complete and has significantly increased our Russian seamless pipe production and enhanced the efficiency of our production processes. We believe our comprehensive strategic capital expenditure programme will enable us to expand our global commercial presence and enhance long-term relations with key Russian and global customers. As a result of our strategic capital expenditure programme to date, together with recent acquisitions, we have increased our seamless pipe production capacity to 2.92 million tonnes per annum and our steel making capacity to 3.35 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.$1,635 million between 2004 and 30 June, 2010 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. Our total expenditure under our strategic capital expenditure programme was U.S.$252 million in 2009. In light of recent adverse financial and economic situation, we put on hold spending under the programme. We relaunched our capital expenditure programme in 2010, and plan to implement remaining projects, including the addition of an EAF at Tagmet, which we expect will be completed in 2013, and a continuous FQM rolling mill at Seversky, which we expect will be completed in 2013-2014, to further enhance our seamless pipe production and efficiency in Russia in the near future, depending upon market conditions and our ability to obtain appropriate financing.

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, 2010, we made the following principal capital expenditures as part of our strategic capital expenditure programme:

- U.S.$609 million to modernise our steel-making facilities for seamless pipes;
- U.S.$252 million to increase production capacity for heat treatment and finishing of pipes;
- U.S.$25 million to upgrade testing and control facilities;
- U.S.$491 million to increase production capacity for and improve the quality of seamless pipes;
- U.S.$231 million to increase production capacity for large diameter welded pipes; and
- U.S.$27 million to enhance our environmental protection systems.

We have financed the major part of our strategic capital expenditure programme and we plan to continue to finance the rest of our programme from cash flows from operating activities and existing cash balances, as well as from other sources as appropriate. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources*".

As of 30 June, 2010, we had total contractual commitments for the acquisition of property, plant and equipment from third parties of U.S.$89.6 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.

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 an EAF, continuous casting machines and a modernized continuous pipe rolling mill. In 2008, we completed the construction of a new 650,000 tonne per annum capacity large-diameter longitudinal welded pipe mill and a 600 thousand tonne per annum anti-corrosion and smooth internal coating capacity, which we believe provide us with a strong platform to expand our share of the Russian large diameter pipe market. In 2008, we also completed a new 200 thousand tonnes per annum finishing line and a 340,000 tonnes per annum heat treatment line for casing and line pipes. In 2010, we completed the seamless pipe rolling modernization program at Volzhsky. The complete overhaul of Volzhsky's steelmaking and pipe rolling equipment began in 2005 and included the upgrade of two continuous casters and an EAF as well as the installation of a waste gas purification equipment. As a result, the annual EAF capacity increased by 400 thousand tonnes in 2005 to 900 thousand tonnes per year currently, enabling the mill to become self-sufficient in its production of steel for its seamless pipe rolling operations as well as providing extra billet capacity to supply other TMK mills. The gradual upgrade of one of Volzhsky's mills permitted the facility to begin producing round billets, thus almost doubling the mill's annual seamless pipe production capacity to 630,000 tonnes. The use of round billets significantly improves pipe geometry, production yields and mill efficiency. Our future principal capital expenditure projects at Volzhsky include projects aimed at optimising production processes and enhancing their energy efficiency, and further improving the plant's environmental protection systems.

Seversky

Seversky is our oldest plant and currently produces steel billets using an EAF and continuous casing 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 project at Seversky under our strategic capital expenditure programme includes the construction of a new FQM, which we expect to complete in 2013 to 2014. In 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 2011 to 2012. The new mill is expected to have capacity of 600,000 tonnes of pipes per year.

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 with an arc-furnace steel making technology as part of our strategic capital expenditure programme by the construction of an EAF, which we plan to complete in 2013. In 2008, we completed construction of a new 600,000 tonne per annum capacity Premium Quality Finishing (PQF) seamless rolling mill to replace one of two Tagmet's existing pilger mill, which improved 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. The principal remaning project at Tagmet under our strategic capital

expenditure programme is the construction of a new EAF, which we expect will enable us 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. Over the last few years, we have introduced new heat treatment and finishing capacity, including a 200,000 tonnes per annum heat treatment line, an upsetting press 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. In the first half of 2010, our key projects implemented at Sinarsky included:

- the installation of a new additional cold drawing mill for carbon steel pipes, including a smelting facility and the modernisation of a cold-rolling mill; and
- the installation of additional cold drawing equipment for stainless steel pipes, including the construction of a protecting gas furnace.

To further enhance the quality of produced pipes and quality assurance, we have recently developed and started a modernization programme at Sinarsky. Scheduled to take place from 2010 to 2012, the production upgrade programme at Sinarsky includes the modernization of existing pipe threading equipment, hydraulic testing equipment and non-destructive testing facilities. We will also plan to constuct new non-destructive testing facilities at the plant.

TMK-Artrom

The installation of a new CPE mill was completed in 2008 and, together with the planned upgrading of existing facilities and installation of a new break-down mill, has allowed us to increase TMK-Artrom's production capacity to 200 thousand tonnes per annum. We will consider implementing future projects at TMK-Artrom, including the modernization of an Assel mill to increase TMK-Artrom's production capacities to 350 thousand tonnes per annum, depending upon the level of recovery of demand and prices for pipe products.

TMK-Resita

Principal projects for TMK-Resita we have implemented under our strategic capital expenditure programme include a general facilities upgrade, an upgrade of waste gas purification equipment and the installation of new equipment.

These projects, including the construction of a continuous casting machine, modernization of TMK-Resita's EAF and the construction of a new vacuum steel degassing facility, increased TMK-Resita's steel output to 450 thousand tonnes per annum, improved the quality of its steel billets and reduced emissions.

TMK IPSCO

The majority of TMK IPSCO's capital expenditures relate to certain limited capital expenditures principally for the replacement of existing equipment and /or compliance requirements at various U.S. facilities. In 2008 and 2009 respectively, new heat treatment facilities were brought on stream at TMK IPSCO's Blytheville and Baytown 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. In the first half of 2010 we started the modernization of the pipe production lines at Baytown and Koppel and the pipe mill at Ambridge and expect that these projects will be completed in 2011. In addition, in response to increased demand for ULTRA products, TMK IPSCO opened a threading facility in Brookfield, Ohio, in May 2010. This new line has been successfully ramping-up since becoming operational. In addition, we began building a second threading line for premium connections at Brookfield facility, which is expected to double the mill's current annual ULTRA threading capacity when it is anticipated to launch in the first half of 2011. We believe this will answer the increased demand for ULTRA premium connections, particularly for operators with positions in the Marcellus Shale.

Strategic Ventures

Strategic Venture with Corinth Pipeworks

In January 2007, Seversky entered into a strategic venture with Corinth Pipeworks, a leading producer of welded pipes in Greece, for the production of 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 total capacity to produce 200 thousand tonnes of medium-diameter welded pipes per annum.

Strategic Venture with RusNano

In December 2010, we launched a strategic venture with Russia's state-owned nanotechnology corporation RusNano for the production of high-tensile precise stainless pipes at TMK-INOX production facilities, which are located at our Sinarsky plant. We will hold 51% of the strategic venture and RusNano will hold the remaining 49%. TMK-INOX authorised capital will be approximately RUB 2.65 billion, we contribute cash resources, intellectual property, facilities and equipment to the strategic venture and RusNano contributes cash resources. We aim to further enhance product quality and characteristics and increase the production of high-tensile precise stainless pipes principally used by nuclear, energy, machine building and chemical industries.

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 2009, our raw material costs amounted to U.S.$1662.8 million, which represented 63% of our total cost of production and in the first six months of 2010, our raw material costs amounted to U.S.$1,346.8 million, which represented 66% 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, and TMK IPSCO's Koppel facility provides Ambridge facility with substantially all of its steel billet requirements

Sinarsky, which does not have internal steel making facilities, purchases steel billets mainly from our Russian plants as well as from a number of Russian integrated steel companies including Evraz, OOO Ural Steel, Orsky Machine Building Plant, OAO ZMZ and Mechel Steel Group. Volzhsky, Seversky and Tagmet supplied Sinarsky with approximately 79%, 51% and 74% of its annual steel billet requirements in the first six months of 2010 and in the years ended 31 December 2009 and 2008, respectively.

EAFs, which we operate at Volzhsky, TMK-Resita, Koppel and, since the fourth quarter of 2008, Seversky, consume almost exclusively scrap, whereas open hearth furnaces at Tagmet consume certain amount of pig iron. As part of our strategic capital expenditure programme, we replaced Seversky's open hearth furnace with an EAF in 2008. In accordance with our strategic capital expenditure programme, we are planning to construct a new EAF to replace the existing open hearth furnace at Tagmet in 2013. These improvements are expected to further reduce our pig iron and ferroalloy requirements and increase our scrap metal consumption.

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. We may consider acquiring 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. 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 derives a portion of its scrap requirements from the dismantling of its obsolete assets and from production waste of TMK-Artrom pipe-making operations. 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 2010, based on data from the industry publications Steel Business Briefing, the average delivery price of heavy metal scrap — HMS1-FOB Rotterdam scrap — was approximately U.S.$350-370, whereas the average Russian scrap metal price was approximately U.S.$260-300, according to our estimates. In 2009, average delivery prices of heavy metal scrap were approximately U.S.$240-260 per tonne, whereas we estimate that the average Russian scrap metal prices were approximately U.S.$170-210 per tonne, respectively. 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. Because we have 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. 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 do not, at present, use derivative instruments to hedge any commodity price risks.

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, Hickman-Williams, Varomet, Minerais and Climax. TMK IPSCO purchases refractories, which are heat resistant materials used to line our open hearth furnaces and EAFs, from Vesuvius, Resco, Universal and LWB. United States scrap prices have decreased significantly in the second half of 2008, but since then have recovered to an average of approximately U.S.$208 per tonne of delivered scrap in the first six months of 2010.

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 Russian and international producers for processing into welded steel pipes. Our principal suppliers of steel plate include MMK, Severstal, Dilinger, Salzgitter, Azovstal, MMP Iljich, Nippon Steel, POSCO, ISD — Huta Częstochowa, EVRAZ Vitkovice Steel and Voestalpine AG. Our principal suppliers of steel coil include MMK, JSC Severstal, OJSC Novolipetsk Steel ("**NLMK**"), ArcelorMittal-Temirtau and JSC Zaporozhstal. For the production of welded pipes in the United States, coils are purchased from domestic steel producers for processing into welded steel pipes. Principal suppliers of steel hot rolled band coil include SSAB, Nucor and JSC 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 October 2007, we entered into an agreement with JSC Severstal for the supply of coil and plate for TMK plants. In November 2010, we entered into a cooperation agreement with Nippon Steel Trading (Japan) for the supply of up to 150 thousand tonnes of plate to Volzhsky in 2011.

In addition, in 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. We also have agreements for the supply of coil and plate to our plants with Russian producers JSC Severstal and NLMK, European producers Azovstal and Zaporizhstal located in Ukraine, Voestalpine located in Austria, EVRAZ Vitkovice Steel located in the Czech Republic, ISD — Huta Częstochowa, located in Poland, as well as ArcelorMittal Temirtau in Kazakhstan, Nippon Steel in Japan and POSCO in Korea. TMK IPSCO also 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 2010, energy and utilities costs related to our costs of production amounted to approximately 8% of our total costs of production, as compared to 9% in the first six months of 2009. In 2009, energy and utilities costs related to our costs of production amounted to approximately 8% of our total costs of production. In 2009, our main Russian production subsidiaries (Volzhsky, Seversky, Sinarsky, Tagmet and Orsky) consumed approximately 2.24 billion kWh of electricity, as compared to 2.24 billion kWh in 2008.

We purchase electricity from certain electricity suppliers. The average cost of electricity purchased in 2009 in Russia was RUB 1.60 per kWh. 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*". As EAFs consume electricity instead of natural gas, we expect that with the planned installation of an EAF at our Tagmet plant in 2013, 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 at Tagmet and for seamless pipe production and heat treatment. We purchase all of our natural gas supplies from subsidiaries of Gazprom. In the first six months of 2010 and in the years ended in 31 December 2009 and 2008, our Russian plants purchased 458,816 and 897 million cubic metres of natural gas, respectively. Average natural gas tariffs increased by approximately 7% in 2009, as compared to 2008. In late 2008, we replaced our open hearth furnace at Seversky and we plan to replace our open hearth furnace at Tagmet with an EAF in 2013. 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 65 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, the Far East and North Africa as well as to customers in Russia. In addition, we have entered the Central and Sub-Saharan markets by participating in regional tenders. In the first six months of 2010 and in the year ended 31 December 2009, sales to customers located in Russia accounted for 60.6% and 62.7%, respectively, of our consolidated sales revenue. 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 Condition 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 2010, our five largest customers by sales volumes were Surgutneftegas, TNK BP, Gazprom (excluding Gazprom Neft), Rosneft and Transeft, which together accounted for approximately 28% 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 (and its subsidiaries TMK Middle East and TMK Africa), TMK Europe, headquartered in Germany, TMK Italy, headquartered in Italy, TMK IPSCO and TMK North America, (which have recently combined their sales efforts), headquartered in the United States and TMK IPSCO's recently established sales office in Canada. 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 and its subsidiaries, TMK Middle East and TMK Africa, for markets in other parts of the world (other than America and Europe). TMK-Artrom and TMK-Resita ship their products directly to domestic Romanian market and use our international sales network for global sales. 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 PR 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 operate 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 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. Furthermore, in May 2010, TMK IPSCO opened a new Brookfield facility fully dedicated to the threading of ULTRA premium connections.

In June 2010, we established TMK Africa Tubulars, incorporated in Cape Town, South Africa, which distributes our products in the Sub-Saharan oil and gas markets and provides additional support to established relationships in Northern Africa. Also in 2010, TMK North America and TMK IPSCO combined their marketing efforts, effectively combining the expertise of TMK North America's import and export operations with TMK IPSCO's expertise in selling pipes to a diversified client base in the U.S. market.

As a result of the recent economic crisis, we have become more active in our non-core markets, including Latin America, central Africa and Southeast Asia. We are also taking steps to protect our main Russian and U.S. markets.

We also expect to enhance our international profile through our ongoing qualification programmes with target customers.

Sales and Market Position

Our global presence is reflected in our extensive network of 11 trade subsidiaries and representative offices, which are situated in close proximity to our key customers. We also have a global network of 88 authorized distributors. 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 after the shipment takes place.

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 2007, we extended our supply agreement with TNK-BP to 31 December 2012. The agreement provides that TNK-BP will buy a range of pipes from TMK for approximately U.S.$70 million over five years to 2012 and the volumes are guaranteed. We expect our strategic partnership with TNK-BP to continue after 2012.

Our customers include almost every significant oil and oil service company in Russia. We sell our products to more than 50 such customers according to framework supply agreements, which are subject to extension on an annual basis. Our supply and cooperation agreements include agreements with Surgutneftegas, LUKOIL, Rosneft, Gazprom Neft, Russneft, Tatneft, Bashneft, Salym Petroleum Development N.V., subsidiaries of Royal Dutch Shell. Our total shipments based on our supply and cooperation agreements exceeded one million tonnes of pipes in 2009.

We also have a well-established supply relationship with Gazprom and its subsidiaries, which has remained one of our key customers over a number of years. We sell our products to Gazprom based on agreed prices, which are reviewed semi-annually, in accordance with prevailing market conditions. In 2010, the majority of our shipments to Gazprom was of large-diameter pipes, including supplies for a number of pipeline projects such as the Bovanenkovo-Ukhta gas pipeline, the Pochinki-Gryazovets gas pipeline and the Sakhalin-Khabarovsk-Vladivostok gas pipeline, in addition to repair and maintenance needs. Transneft is also one of our key customers and in 2010 our large-diameter pipe supplies for Transneft included pipes used in such projects as the BPS-2 oil pipeline, phase two of the ESPO Pipeline and the Purpe-Samotlor oil pipeline.

We supply seamless green pipes and seamless threaded pipes, including pipes with premium connections to certain Russian independent gas producers, including Itera Group and OAO Novatek and its subsidiaries. In addition to supplying the oil and gas industries, we sell significant amounts of our pipe products to the automotive sector, including AvtoVaz and KAMAZ and the machine building industry, including SUEK. We also supply pipes for the Russian and European energy sector, petrochemical, chemical, public utilities and construction industries.

Throughout 2010, we continued to supply pipe products to international oil, gas and service companies, and we currently supply more than 70 international companies. In June 2010, we established TMK Africa Tubulars, incorporated in Cape Town, South Africa, which distributes our products in the Sub-Saharan oil and gas markets and provides additional support to established relationships in Northern Africa. In August 2010, TMK IPSCO opened a sales office in Calgary, Alberta, Canada. This new office functions as a head office for sales in Canada and supports conventional and unconventional hydrocarbon exploration and development programs in Canada. In 2010, we successfully qualified or enhanced the range of qualified products with end-users in the United States, Canada, China and United Arab Emirates, including Saudi Aramco, McJunkin Redman Corporation, AERA, Kelly Pipe, East Cost Tubulars Ltd., ENI, REPSOL, CNPC, Exxon Mobil, Shell, NABUCCO.

Since 2008, we have supplied pipes and/or are currently supplying pipes to pipeline projects including, among others:

- the Pochinki-Gryazovets gas pipeline;
- the CAC Pipeline, which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to China;
- the onshore portion of the Nord Stream gas pipeline, which, upon completion, will connect Russia to Germany via the Baltic Sea;
- the Bovanenkovo-Ukhta gas pipeline, which is a part of the Yamal-Europe gas pipeline;
- the Sakhalin-Khabarovsk-Vladivostok gas pipeline;

- the BPS-2, which connects oil fields in Western Siberia to a Russian port on the Gulf of Finland;
- phase two of the ESPO Pipeline, which will run from Eastern Siberia to the Amur region near the border with China; and
- the Purpe-Samotlor oil pipeline, which will connect new oil fields being developed in the Yamal and Krasnoyarsk regions to oil refinery facilities, and connect Eastern and Western parts of the Russian oil transportation system.

Russian Sales

Our customers in Russia principally include the major oil and gas companies and machinery and power generation enterprises. Our sales revenue to customers located in Russia accounted to 60.6%, 62.7% and 59.7% in the first six months of 2010 and in years ended 31 December, 2009 and 2008, respectively. Gazprom (including its subsidiaries) is one of our most significant customers, accounting for approximately 7%, 5% and 9% of our sales volumes in the first six months of 2010 and in years ended 31 December, 2009 and 2008, respectively.

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 at our Russian plants, where we sell all types of pipe products to wholesalers. We realise higher margins on these sales compared to our other sales of comparable products. 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 expand the kinds of services provided by our warehouses, OCTG repair and threading operations. Although we have begun to sell larger volumes of our OCTG pipes outside of Russia in the wake of our acquisition of TMK IPSCO, we still sell most of our OCTG products produced at Russian plants domestically principally to large Russian oil and gas producers pursuant to tenders or directly under contracts with such customers.

In 2008, our five largest domestic customers of seamless pipes by sales volumes were TNK-BP, Surgutneftegas, LUKOIL, Rosneft and Gazprom, which together accounted for approximately 40% of our total seamless pipe sales. In 2008, our three largest domestic customers of welded pipes were Gazprom, Steel Industrial Company, a major Russian wholesaler and retailer of rolled metal products, and Rosneft, which together accounted for approximately 18% of our total welded pipe sales.

In 2009, our five main domestic customers of seamless pipes were Rosneft, Surgutneftegas, TNK-BP, LUKOIL and Gazprom Neft, which together accounted for approximately 44% of our total seamless pipe sales. Our three largest domestic customers of welded pipes in 2009 were Gazprom, Transneft and Steel Industrial Company, which together accounted for approximately 20% of our total welded pipe sales.

In the first six months of 2010, our five main domestic customers of seamless pipe sales were TNK-BP, Surgutneftegas, Rosneft, LUKOIL and Gazprom Neft, which together accounted for approximately 36% of our total seamless pipe sales. Gazprom, Transneft and Steel Industrial Company were our three largest customers of welded pipes and together accounted for approximately 31% of our total welded pipe sales.

Gazprom currently buys the majority of our 1,420 mm pipe output produced at Volzhsky. Our sales of large diameter pipes to Gazprom amounted to 149 thousand tonnes, 129 thousand tonnes and 154 thousand tonnes, respectively, in the first six months of 2010 and in 2009 and 2008. The commissioning of a new longitudinal welded pipe mill in 2008 and a new internal coating line, both at Volzhsky, significantly enhanced our prospects of meeting Gazprom's requirements. Furthermore, as at the date of this Prospectus, our longitudinal welded pipe mill has a strong order book for the next two years, primarily from Gazprom, indicating continued strong demand for longitudinal welded pipes in the future. In the first six months of 2010 and the years ended 31 December 2009 and 2008, we sold approximately 92%, 87% and 76%, 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 European 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. To enhance our global presence, we are targeting the Sub-Saharan market, including projects to be implemented in Angola, Nigeria, Equatorial Guinea, the Republic of Congo, Gabon, Ghana, South Africa and Uganda. In the first six months of 2010, OCTG and line pipe amounted to 68% of our total sales volumes outside of Russia, as compared to 58% in the first six months of 2009. In 2009,

OCTG and line pipe amounted to 57% of our total sales volumes outside of Russia, as compared to 58% in 2008. 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.

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%. The anti-dumping measures applicable to imports of seamless pipes from Russia are due to expire on 30 June 2011.

In the first six months of 2010 and 2009, we exported approximately 30.6 thousand tonnes and 23.0 thousand tonnes, respectively, to North America from our non-U.S. plants, while in 2009 and 2008, we exported approximately 30.4 thousand tonnes and 109.6 thousand tonnes, respectively, of pipes to North America from our non-U.S. plants. Through TMK IPSCO, we are able 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.

In the United States, TMK IPSCO benefits from longstanding relationships with a diverse end user base, which includes Chevron, ExxonMobil/XTO, Marathon, Anadarko, Devon, Chesapeake Energy, EnCana, EOG Resources, Williams Production and BP.

The largest export customers of our Russian plants include:

- Tubos Y Barras Huecas SA DE CV., American Piping Production, LINCOLN MANUFACTURING, INC., and Texas Pipe & Supply Co., in North America;
- Arcelor projects, Voest Alpine Tubulars GmbH & Co KG, Assotubi S.p.a., in Europe;
- ONGC, Akakus Oil Operations, Al-Reziza Trading & Contracting Co, SIGMA SUPPLIES CO, SIGMA PETROLEUM SERVICES CO, ADCO and Offshore Engineering & Marketing Ltd. in the Middle East; and
- Hascelik, AYDIN BORU ENDUSTRISI A.S. and HUNG CUONG STEEL JOINT STOCK COMPANY, in other regions.

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 centralized and timely planning, logistics and shipment control systems.

Our main provider of rail transportation services is Russian Railways, the tariffs for which are set annually by the Federal Tariffs Service. We are party to strategic partnership agreements with key owners of railcars that we use for raw materials and pipe products transportation. Our main export points for sea transportation are on the Black Sea, Baltic 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, 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.

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.

TMK IPSCO ships its products by truck, railway, and barge transport. Shipments of work-in-process between our facilities use all three modes of transportation. Finished goods are primarily shipped to customers by truck and rail transport. Truck transport is provided by 50 to 60 different trucking companies. For barge transport we are contracted with Ingram. Rail transportation is provided by most of the major U.S. carriers, including BNSF, the Union Pacific, the CSX and Norfolk Southern. All truck rates are contracted annually as needed, with rail rates being a combination of tariff and private rates. Shipping terms with our customers are a combination of freight on board at the mill or prepaid and delivered by TMK IPSCO and can be arranged in any of the desired modes of transportation, where applicable.

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 RosNITI, the Technology Directorate, 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 research and development 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 center, located in Houston, Texas. Construction of the facility is expected to start in the first quarter of 2011.

Product development and research projects we currently conduct include:

- development of production technologies of spiral welded and longitudinal 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 coating 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 threaded connections and 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.

The rights for the results of our research and development efforts are registered with patents for inventions and with useful model patents. As at 30 June 2010, our Russian plants and RosNITI had obtained 114 patents for inventions and 13 useful model patents.

We spent U.S.$10.2 million for research and development in 2009 as compared to U.S.$15.2 million in 2008. As a result of the onset of the recent global economic crisis in the second half of 2009, we decreased funding for research and development. However, in the first six months of 2010, our expenses toward research and development increased to U.S.$6.3 million as compared to U.S.$4.8 million in the first six months of 2009.

Competition

Global Market

Global pipe markets are highly competitive, particularly in view of the recent 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 2009, we were the largest worldwide producer of steel pipes, by output, with total sales volumes of 2,769 thousand tonnes.

Our principal competitors in the international seamless steel pipe markets are:

- *Tenaris,* 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. According to publicly available reports, in 2009, Tenaris had total sales volumes of 2,650 thousand tonnes;
- *Vallourec,* 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. According to publicly available reports, in 2009, Vallourec had total sales volumes of 1,503 thousand tonnes;
- *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; and
- *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.

Ukrainian producer Interpipe has also historically competed in the "commodity" sector of the market, and, like the Chinese producers, is gradually improving the quality of its products and capacity. In addition, Korean and other Asian pipe producers have recently become increasingly significant competitors for TMK IPSCO in the U.S. market due in part to their low-priced product offering.

Russia

We estimate that we were the largest producer of steel pipes in the Russian market in 2009. As for the first six months of 2010, our share of the Russian market is estimated at 30% based on sales volume. 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 Rely on 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 Condition 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 2010, 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 2010, our share in the Russian market for seamless OCTG based on sales volumes is approximately 60%. The only other significant producer of OCTG in Russia is ChTPZ, which controls Chelyabinsk Tube Rolling Plant and Pervouralsk New Pipe Plant, United Metallurgical Company ("**OMK**"), which controls, among others, OAO Vyksa Steel Works ("**Vyksa Steel Works**") and OAO Almetyevsky Pipe Plant ("**Almetyevsky**"), also produces certain grades of welded line and welded 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 76% share in the Russian market for seamless line pipe based on sales volumes in the first six months of 2010. ChTPZ is our only significant competitor in the Russian market.

Seamless Industrial Pipe

We currently estimate that we have an approximate 33% share in the Russian market for seamless industrial pipe based on sales volumes in the first six months of 2010. ChTPZ is the largest producer in Russia in this segment.

Large Diameter Welded Pipe

We currently estimate that we have an approximate 18% share in the Russian market for large diameter welded pipe based on sales volumes in the first six months of 2010. OMK, Severstal (Izhora plant) and ChTPZ are our principal competitors in this segment. Competition in this sector is increasing following the launch by OMK 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 12% share in the Russian market for industrial welded pipe based on sales volumes in the first six months of 2010. There are a large number of Russian producers in this market, of which we are among the largest, together with OMK. We are also subject to some competition in this market segment from importers, primarily from Ukraine.

Our principal competitors 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. In July 2010, ChTPZ commissioned and is now ramping-up a new longitudinal welded pipe mill, which allows ChTPZ to produce longitudinal large diameter pipes with diameters of 508-1,420 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

OMK, which includes Vyksa Steel Works and Almetyevsky, is headquartered in the Nizhny Novgorod region of Russia and produces welded pipes. In 2008, OMK installed 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. OMK 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. Furthermore, new North American capacity is expected to add over 1.5 million tonnes by 2012 if all announced programs are completed. Due to actions taken by the U.S. Department of Commerce and the U.S. International Trade Commission 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 decreased significantly in 2010. From January through October 2010, only 35 thousand tonnes have been imported from China, while Korean and other Asian producers have recently become increasingly significant competitors as a result of their rising provision of low priced products.

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:

- API (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 francaise 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 maintain the international competitiveness of our products, we implemented and integrated the Corporate Quality Management System ("**CQMS**") to allow our facilities to operate under common standards, completing the transition of the CQMS to the new ISO 9001-2008 requirements, in 2009. In December 2009, the independent audit company Lloyd Register Quality Assurance recognized our Quality Management System as complying with the new ISO 9001-2008 requirements. In addition, we maintain various API licences with respect to Seversky, TMK-CPW, Sinarsky, Volzhsky, Tagmet, TMK-Kaztrubprom and TMK-Artrom.

TMK IPSCO maintains a Quality System Certification ISO 9001:2008 granted by SAI Global (formerly QMI — Quality Management Institute) for eight of its facilities (apart from its ULTRA facilities in Odessa and Houston, Texas). In 2009, ULTRA Premium Oilfield Services, a part of TMK-IPSCO, was certified to ISO 9001:2008 by QMS Registered. In addition, TMK IPSCO maintains an API Spec Q1 license granted by the API 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 licences 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, KNPC, Agip KCO, PDVSA, KARACHAGANAK, Technip Coflexip and Saipem.. 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 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. 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, environmental safety, discharges to the air and water and the handling of solid wastes.

According to our environmental policy, each of our plants approves an environmental protection plan on an annual basis. These plans 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.

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 and the Russian Steel Association, to respond in a timely fashion to changes in state and market driven environmental regulatory standards.

We have introduced environmental management systems at each of our plants as a means of improving our environmental processes. All of our Russian and Romanian plants have received ISO:14001 certifications with respect to their environmental management systems and are regularly audited by independent companies to ensure compliance with standards. In 2009, the results of an MWH environmental and social audit of OAO TMK, Seversky, Sinarsky, Volzhsky and Tagmet to assess compliance with Russian environmental laws as well as European Union and EBRD requirements recognized us as environmentally responsible. Three of TMK IPSCO's operations in the United States are ISO:14001 certified. 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.

In 2009, we implemented 27 environmental projects for a total amount of U.S.$24.4 million, as compared to U.S.$85.0 million in 2008. Our investments in environmental projects include:

- equipment modernization and introduction of environmentally-friendly industrial technologies; and
- construction and reconstruction of purification and filtering facilities.

Our total expenses for environmental activities in 2009 amounted to U.S.$43.0 million.

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 30 September
	2008	2009	2010
OAO TMK	**295**	**298**	**301**
TMK Trade House	**669**	**645**	**647**
Russian Plants:			
Seversky	7,848	8,029	7,379
Tagmet	9,627	9,437	9,417
Sinarsky	9,266	7,998	7,680
Volzhsky	11,356	11,488	12,498
Total Russian Plants	38,097	36,952	36,974
Total Service Division	3,568	2,983	3,120
Foreign Subsidiaries:			
TMK-Artrom	1,257	1,020	1,082
TMK-Resita	1,224	959	814
TMK IPSCO	2,272	1,865	2,372
Total Foreign Subsidiaries	**4,753**	**3,844**	**4,268**
Total Other	**1,559**	**1,291**	**1,361**
Total TMK Group	**48,941**	**46,013**	**46,671**

During the last few years, we have been optimising our business processes and outsourcing some of our non-production operations, thus gradually decreasing the number of our employees. We have achieved this primarily through a controlled reduction in the number of employees and outsourcing of non-production activities, such as cafeteria and repair services, and through the reduction of administrative staff. Moreover, staff optimisation was

implemented during the recent global economic crisis, from the fourth quarter of 2008 to the first half of 2010. While our productivity (as measured by tonnes of production per employee) at Russian plants 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. In 2010, the overall number of our employees in Russia and the United States marginally increased, as compared to 2009, primarily in the second half of the year. Such increases were primarily due to increased production volumes, notwithstanding the continuation of our personnel optimizing policy aimed at increasing productivity. In 2010, we did not introduce work delays and part-time work weeks, due to sufficient utilization rates of our production equipment. During the crisis, our production subsidiaries did not have arrears in wages.

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. Approximately 85.5% of our employees are currently members of the Mining and Metallurgical Trade Union of Russia. Each of our production facilities enters into annual collective bargaining arrangements with trade unions. 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, for employment stabilisation purposes, contain all necessary measures to hold positions of employment, develop and modernize production and create new employment positions, provide job search assistance to terminated employees and require us to provide notice to the trade union prior to making any major lay-offs.

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.

We are party to collective bargaining arrangements at four of our facilities in the United States. These collective bargaining agreements regulate all facets of our labour relations, including salaries and compensations and working hours for bargaining unit members at these plants. 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 our acquisition of TMK IPSCO, in June 2008. Salaries, compensation and working hours for the seven U.S. plants that are not subject to collective bargaining agreements are determined in accordance with company policy.

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 certain pension and other post-employment benefits to their employees in accordance with collective bargaining agreements. In addition, we and each of our Russian plants are parties to 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.$7.1 million and U.S.$3.7 million in 2009 and 2008, respectively. The increase in the insurance premium we paid for 2009 as compared to 2008 was largely due to our acquisition of TMK IPSCO in 2008.

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 Prospectus, 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.

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. See "*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*".

Other Proceedings

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 contested the determination of the tax audit and in 2010 we obtained an arbitral decision in favour of Seversky.

We are involved in legal and regulatory proceedings from time to time that arise in the ordinary course of business. As at the date of this Prospectus, we do not have any significant material proceedings, instituted against us or any member of the TMK Group.

RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties for the years ended 31 December, 2008 and 2009 and for the first six months of 2010. For further details of these transactions, see note 19 to the 2010 Interim Condensed Consolidated Financial Statements, note 27 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 by 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 the TMK Group Require the Approval of Disinterested Directors or Disinterested Shareholders". and "Risk Factors — Legal and Legislative Risks — Russian Transfer Pricing Rules May Affect Our Results of Operations*" for a discussion of applicable Russian requirements.

Transactions with related parties for the first six months of 2010 and 2009 and for the years ended 31 December, 2009 and 2008 are set out below.

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(millions of U.S. dollars)			
Sales revenue	1.7	0.62	1.2	13.6
Purchases of goods and services	3.6	3.4	6.9	8.3
Interest expenses from loans and borrowings	0.26	0.23	0.49	0.16
Interest income from loans and borrowings	0.36	0.01	0.22	0.84
Loss on sale of treasury shares to management	—	—	—	0.02

In the first six months of 2010, sales transactions with related parties constituted approximately 0.07% of the total volume of TMK Group's sales of goods. In the year ended 31 December, 2009, sales transactions with related parties constituted approximately 0.03% of the total volume of TMK Group's sales of goods as compared to 0.2% in 2008.

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.

The following table sets forth our outstanding balances with related parties as at 30 June, 2010 and 31 December, 2009 and 2008.

	As at 30 June	As at 31 December	
	2010	2009	2008
	(millions of U.S. dollars)		
Cash and cash equivalents	19.0	86.5	6.1
Accounts receivable — current	2.3	0.8	6.0
Prepayments — current	0.2	0.4	—
Accounts receivable — non current	0.1	0.1	0.1
Accounts payable — current	(16.5)	(21.3)	(1.4)
Interest payable	(0.8)	(0.5)	—

Cash

The cash balances represent cash in bank at OAO SKB Bank ("**SKB Bank**") (an entity under common control) as at 30 June, 2010, 31 December, 2009 and 31 December, 2008 in the amount of U.S.$19 million, U.S.$86.5 million and U.S.$6.1 million, respectively.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding the ownership of our shares as at 11 January 2011:

Owner	Number	%
TMK Steel and its subsidiaries	653,264,243	69.68
Subsidiaries of OAO TMK	54,993	0.006
Depositary	261,900,300	27.93
Other	22,366,558	2.384
Total	**937,586,094**	**100.0**

To our knowledge, no person other than TMK Steel and its subsidiaries holds more than 3% of OAO TMK's outstanding shares.

As of 11 January 2011, an aggregate of 71,505,956 shares, representing 7.63% of our issued and fully paid share capital is held by TMK Bonds S.A. to support conversion obligations under the U.S.$412.5 million 5.25% guaranteed convertible bonds due 2015 issued in February 2010 through TMK Bonds S.A. See "*Management's Discussion and Analysis of Financial Conditions and Results of Operations — Certain Factors Affecting Our Results of Operations — Issuance of Convertible Eurobonds and Capital Increase*".

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

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 access 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 of 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 annual profits, including payment of annual dividends, if any.

Board of Directors

The Board of Directors is responsible for our overall governance and presently consists of ten members.

Our directors, and their respective years of birth, positions and duties outside TMK as at the date hereof, are as follows:

Name	Year of birth	Position	Independent[(1)]	Current duties outside TMK
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; President of Sverdlovsk Region of Industrialists and Entrepreneurs
Alexander N. Shokhin	1951	Director	Yes	President of the Russian Union of Industrialists and Entrepreneurs; member of the Board of Directors of OAO Lukoil, OAO Russian Railways, TNK-BP Limited, OAO Fortum and OAO Beer Company Baltika; President of the State University - Higher School of Economics
Mukhadin A. Eskindarov	1951	Director	Yes	Rector at the Finance University of the Government of Russia; member of the Board of Directors of OAO Bank of Moscow, OAO VTB Bank, OAO Bank Vozrogdenie and OAO MInB

Name	Year of birth	Position	Independent[1]	Current duties outside TMK
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, Bravecorp Limited, Tirelli Holding Limited, Sinara Capital Management SA and Furdberg Services Limited
Josef Marous	1949	Director	No	General director of TMKEurope GmbH, Chairman of the Board of Directors of TMK-ARTROM, TMK-Resita and TMK Italia, Chairman of the advisory board of the International Rotary Music Competition for Children in Moscow.
Sergey T. Papin	1955	Director	No	Vice President of ZAO Sinara Group; member of the Board of Directors of ZAO Sinara Group, OOO Urals Lokomotives, 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. Shiryaev	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 2011.

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 Ysetski Metallurgical Works, AOOT Inter Industry Concern Uralmetprom 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 a member of our Board of Directors 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 University 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 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). Since 2010, Mr. Marous is the General director of TMK Europe GmbH.

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:

Name	Year of birth	Position
Andrey Yu. Kaplunov	1960	Senior Vice President, Corporate Governance
Alexander A. Klachkov	1957	Vice President and Chief Engineer
Alexander G. Lyalkov	1961	Senior 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. Shiryaev	1952	President and CEO, Chairman of the Management Board
Vladimir V. Shmatovich	1964	Vice President for Strategy and 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. 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 the 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, totaling 26 persons as at 30 June, 2010 and 28 persons as at 30 June, 2009. Total compensation to key management personnel included as part of the general and administrative expenses in the income statement amounted to U.S.$6.5 million and U.S.$6.9 million for the six months period ended 30 June, 2010 and 2009, respectively. There were no share-based payments to key management personnel for the six months period ended 30 June, 2010 and 2009. Compensation to key management personnel consists of contractual salary and performance bonus depending on operating results. The TMK Group issued no loans to key management personnel during the six month period ended 30 June, 2010. The TMK Group guaranteed debts of key management personnel outstanding as at 30 June, 2010 in the amount of U.S.$3.6 million with maturities ranging from 2011 to 2017. The TMK Group purchased no shares of OAO TMK from key management personnel during the six month period ended 30 June, 2010.

For the year ended 31 December, 2009, total compensation to key management personnel included in general and administrative expenses in the income statement amounted to U.S.$13.2 million as compared to U.S.$22.9 million in 2008. There were no share-based payments to key management personnel for the year ended 31 December, 2009,

as compared to U.S.$4.5 million in 2008. Compensation to key management personnel consisted of contractual salary, performance bonus depending on operating results and share-based payments. The TMK Group guaranteed debts of key management personnel outstanding as at 31 December, 2009 in the amount of U.S.$3.2 million with maturities ranging from 2011 to 2014.

For the year ended 31 December, 2009, members of the Board of Directors received an aggregate remuneration of U.S.$2.52 million, including salary, bonuses and other payments, as compared to U.S.$5.18 million in 2008. The above amounts do not include expenses under our share options programme. For the year ended 31 December, 2009, members of the Management Board received an aggregate remuneration of U.S.$6.50 million, including salary, bonuses and other payments, as compared to U.S.$12.27 million in 2008. 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 Prospectus, 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 Prospectus, the Nomination and Remuneration Committee consists of Mukhadin Eskindarov, Geoffrey Townsend and Sergey Papi 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 Prospectus, the Strategy Committee consists of Josef Marous, Alexander Shokhin and Alexander Shiryaev and is headed by Mr. Alexander Shokhin, 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 31 December, 2012, and in respect of Volzhsky until 31 December, 2011.

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 Prospectus, 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.

CERTAIN REGULATORY MATTERS

General

Russia has not enacted any specific legislation governing the operation of pipe manufacturing activities. The production, sale and distribution of pipes in the Russian Federation is regulated by general civil legislation and special legislation relating to quality standards, industrial safety rules, environmental and other issues.

At the federal level, the Ministry of Industry and Trade of the Russian Federation is the principal state body supervising the operation of the pipes sector. The ministry is responsible for the development of governmental policy in the industry, including, among other things, attraction of investments, foreign trade, taxation, support of scientific research and employment, however, it lacks direct regulatory authority. The Ministry of Industry and Trade of the Russian Federation on 18 March 2009 approved the "*Strategy for Development of Metal Manufacture Industry of the Russian Federation for the Period till 2020*" (the "**Strategy**"). The Strategy supersedes the "*Strategy for Development of Metal Manufacture Industry of the Russian Federation for the Period till 2015*" dated 29 May 2007. The Strategy, inter alia, outlined the key trends and factors relevant for the development of national ferrous and non-ferrous metallurgy, set out three stages of development of the Russian metallurgy (2009-2011, 2012-2015 and 2016-2020) and determined that innovative growth would be the priority for improving competitive strength of national manufacturers.

The Ministry of Economic Development of the Russian Federation regulates Russian export and imports of products and coordinates intergovernmental negotiations relating to export and import activity.

The federal ministries in Russia are not responsible for compliance control or management of state property and provision of services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that are relevant to our activities include:

- the Federal Service for Ecological, Technological and Nuclear Supervision, which sets procedures for, and oversees compliance with, industrial safety and environmental rules and issues licences for certain industrial activities and activities relating to safety and environmental protection;
- the Federal Service for the Supervision of Environmental Use oversees compliance with the terms and conditions of licences issued by the Federal Subsoil Use Agency and environmental legislation;
- the Federal Agency for Technical Regulation and Metrology, which determines and oversees levels of compliance with applicable technical regulations; and
- the FAS, oversees, *inter alia*, economic concentration, including the acquisitions of controlling stakes in companies and, the activities of companies enjoying dominant market positions.

Aside from the above federal executive bodies, which are directly involved in the regulation of and supervision over the Russian pipe industry, a number of other governmental bodies and agencies have authority over general issues connected with the pipe industry such as defense, rail transport and tax enforcement.

Licensing

We are required to obtain numerous licences, authorisations and permits from Russian governmental authorities in the conduct of our operations. Federal Law No. 128-FZ "*On Licensing of Certain Types of Activities*," dated 8 August, 2001, which came into force in February 2002 (the "**Licensing Law**"), established a list of activities which can only be performed on the basis of licences issued by the relevant Russian authorities. The list of activities relating to the pipe industry includes, among other things, activities connected with handling of hazardous waste, operation of explosive, inflammable and chemically hazardous production facilities. The licensing of operations of explosive, inflammable and chemically hazardous production facilities will be abolished in time with the enactment of technical regulations with respect to those activities.

Under the Licensing Law, the minimum period for which a licence is issued is five years. These licences are usually issued for a period of five years and may be extended upon application by the licensee. Licences for the use of natural resources may be issued for shorter or longer periods. In particular, licences for the use of surface water resources may be issued for periods of up to 25 years. Upon the expiration of a licence, it may be extended upon application by the licensee. Certain types of licences may also have unlimited terms. A licence can be suspended by the licensing authority or by the court if the licensee becomes subject to administrative liability for violation of conditions and requirements of a licence under the procedure stipulated by Russian law. If a licensee does not mitigate any breach of the licence granted to it within the period established by the court or the licensing authority, the licensing authority must apply to a court for the cancellation of that licence.

Certification

Federal Law No. 184-FZ "*On Technical Regulation*," dated 27 December, 2002, as amended, (the "**Technical Regulation Law**"), establishes specific rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

The Technical Regulation Law represents the first step in the long-term reform of Russian standardisation and certification legislation. The overall goal of the reform is to replace the Soviet-era GOST system (which contains a large number of requirements as to safety and production quality of goods and services) with a new system of state control over safety of goods.

The Technical Regulation Law provides for voluntary confirmation of products' compliance with technical regulations and envisages the mandatory confirmation of such compliance in certain instances. Compulsory confirmation of compliance may take the following two forms: declaration of compliance by producers or sellers, or mandatory certification.

Violation of the rules of mandatory certification, i.e. sale of goods subject to mandatory certification without required certificates, may lead to an administrative fine and/or administrative suspension of business operations for up to ninety days.

Land Use Rights

Russian legislation prohibits the carrying out of any commercial activity on a land plot without appropriate land use rights.

Under the Land Code of the Russian Federation of 25 October, 2001, as amended, (the "**Land Code**"), companies generally have one of the following rights with regard to land in the Russian Federation: (1) ownership; (2) right of free use for a fixed term; or (3) lease.

The majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities which, through public auctions or tenders or the filing of requests of individuals and legal entities, can sell, lease or grant other use rights to the land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, Federal Law No. 137-FZ "*On Introduction of the Land Code*," dated 25 October, 2001, with certain exceptions, requires companies using land pursuant to rights of perpetual use either to purchase the land from, or to enter into a lease agreement relating to, the land with the relevant federal, regional or municipal authority owner of the land by 1 January 2012.

Our subsidiaries generally have a right of ownership or perpetual use of their plots or have entered into long-term lease agreements. A lessee has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of one year or more must be registered with the registration services and local land authorities if required by municipal legislation.

Anti-monopoly Regulation

The anti-monopoly legislation of the Russian Federation is based on the Federal Law No. 135-FZ of 26 July, 2006 "*On Protection of Competition*" ("**Competition Law**") and other federal laws and regulations governing anti-monopoly issues.

The anti-monopoly legislation of the Russian Federation governs relations which are aimed at the protection of competition on the Russian market and which involve, inter alia, Russian legal entities, foreign legal entities, state authorities of the Russian Federation and regional and local government authorities.

The compliance with anti-monopoly legislation in Russia is monitored by the FAS. Russian legislation grants the FAS ample powers necessary for the performance of its functions and dealing with violations of antimonopoly legislation. The FAS is, *inter alia*, authorised (i) to initiate or examine cases regarding violation of anti-monopoly legislation (pursuing, inter alia, invalidations of any agreements violating anti-monopoly legislation); (ii) to issue binding orders to business entities in cases specified in the Competition Law; and (iii) to penalize commercial and non-commercial organisations and their officers for violating anti-monopoly laws in the instances and in accordance with the procedure that is established by Russian legislation.

In general, anti-monopoly regulation comprises certain measures aimed at prevention and termination of monopolistic activity and control over the economic concentration.

Antimonopoly restrictions in the sphere of regulation of monopolistic activity include prohibitions of conclusion of anticompetitive agreements, exercise of anticompetitive coordinated actions, unfair competition, and abuse of dominant position.

An entity or a group of entities is deemed to have a dominant position in a particular commodity market if:

(a) the entity (or the group of entities) has a market share on a particular commodity market in excess of 50%, *unless* it is specifically established by the FAS that the entity (or the group of entities) does not have a dominant position; or (b) the entity has a market share on a particular commodity market which is less than 50% but more than 35% and the dominant position of the entity (or the group of entities) is specifically established by FAS based on (i) the stability or near stability of such entity's (group of entities') share on the particular commodity market, and (ii) certain characteristics of the relevant commodity market (such as the accessibility of the commodity market to new competitors); or (c) even if the entity has a market share of less than 35% in certain specific circumstances.

The Competition Law also provides the possibility of several unrelated entities being considered to collectively have a dominant position. In particular, each of three business entities collectively having a market share exceeding 50%, or each of five business entities collectively having a market share exceeding 70%, provided that the market share of each entity in any case exceeds 8%, may be considered as having dominant position provided that (i) market shares of relevant entities have been stable or nearly stable during a significant period of time; (ii) the access of new competitors into the particular commodity market is hindered; (iii) the relevant commodity cannot be easily substituted; and (iv) the demand for the commodity is price-inelastic.

Furthermore, pursuant to the Competition Law, any entity being a natural monopoly is deemed to enjoy a dominant position on the relevant commodity market which represents the natural monopoly ("*natural monopolies*" are regulated by specific legislation and, *inter alia*, include the gas and electricity markets).

The Competition Law establishes a regulatory framework for companies enjoying dominant positions in certain markets, aimed at protection of competition in the relevant markets. In particular, an entity enjoying a dominant position is prohibited from abusing such a position through; *inter alia*, the following activities:

(i) fixing and/or maintaining a monopolistic high or low price of goods; (ii) withdrawing goods from circulation, which results in price increases; (iii) dictating to a counterparty terms of agreement unfavourable to it or not relevant to the subject-matter of the agreement; (iv) economically or technologically unjustified reducing or terminating the production of certain goods; (v) refusing to enter into an agreement with certain buyers (customers) or avoiding such agreement; (vi) economically or technologically unjustified fixing various prices (tariffs) for the same goods; (vii) creating discriminatory conditions; (viii) creating impediments for other entities to either access or exit a particular commodity market; and (ix) violation of established pricing rules.

If a company enjoying a dominant position systematically carries out any monopolistic activities the court based on a suit brought by the FAS may decide that such company is a subject to forcible division or spin-off.

Antimonopoly control over economic concentration involves control (a) over mergers, accessions, and incorporation of companies, and (b) over acquisitions (i) of more than 25%, 50%, or 75% of the shares of Russian joint-stock companies (or more than 1/3, 1/2, or 2/3 of the participatory shares of Russian limited liability companies), (ii) of more than 20% of the assets (except for the land plots, non-industrial buildings and unfinished construction) belonging to Russian companies or located in Russia and (iii) of rights to determine the commercial activity of Russian companies. All abovementioned transactions require either prior approval or subsequent notification of the FAS in cases established in the Competition Law.

Recent legislative changes widened the extraterritorial application of the Competition Law. Pursuant to the new wording of the Competition Law, it applies also to the acquisitions where the target is a foreign company performing commercial activities in the Russian market or otherwise influencing the competition in the Russian Federation. Currently, the Competition Law does not stipulate any specific merger filing thresholds for acquisitions not involving a Russian company. The FAS currently tends to support rather conservative position on this issue pursuant to which the provisions of the Competition Law regulating acquisitions of Russian companies apply by analogy, to the acquisitions of foreign companies performing activities in the Russian Federation or otherwise, influencing competition in Russia, regardless of any sales volumes in Russia. Thus, the acquisitions of foreign companies operating in Russia similarly to the abovementioned acquisitions of Russian companies may require either prior approval or subsequent notification of the FAS in cases established in the Competition Law.

Strategic Investments

According to Federal Law No. 57-FZ "On the Procedure for Making Foreign Investments in Business Entities of Strategic Importance for the National Defense and Security of the Russian Federation," dated 29 April 2008, as amended (the "**Strategic Investments Law**") (which became operative in practice in late July 2008, after the Governmental Commission for Control over Foreign Investment chaired by the Russian Prime Minister (the "**Government Commission**") was formed), a transaction entered into by a foreign investor that results in the acquisition of control (or blocking power) over a Strategic Company (as defined below) is subject to a notification to the FAS or prior consent of the Government Commission. Decisions of the Government Commission may be contested in the Supreme Commercial Court of the Russian Federation.

The Strategic Investments Law defines "foreign investors" as: (i) foreign states or international organizations which are authorized to make investments under an international treaty; (ii) individuals or organizations which are citizens of or are registered in a foreign state, and are authorized to make investments under the laws of that foreign state; and (iii) Russian companies under foreign control.

Strategic Companies

According to the Strategic Investments Law, a Strategic Company is a business entity that is established in the Russian Federation and is engaged in at least one of the designated *activities of strategic importance for Russian national defense and security.*

As of the date of this Prospectus, the Strategic Investments Law lists 42 strategically important activities including placing, constructing, operating, and disarming nuclear facilities and activities related to operations with infectious agents.

For the purposes of the Strategic Investments Law, a Strategic Company will be considered under the "control" of a foreign investor if such investor:

- has the right to directly or indirectly dispose (including by means of the contracts of entrusted property management, simple partnership, delegation or as the result of other agreements or on other grounds) of more than 50% of the total number of votes which pertain to the voting shares in the charter capital of the Strategic Company's;
- as a result of entering into an agreement or on other grounds has the right to determine decisions of the Strategic Company including decisions on its commercial activities;
- has the right to appoint the sole executive body and/or more then 50% of the collective executive body of the Strategic Company (or has the undeniable option to elect more than 50% of the board of directors/other collegial managing bodies of the Strategic Company);
- executes the powers of the managing company of the Strategic Company; and
- in other cases where a foreign investor has less than 50% of the Strategic Company's voting shares, but nevertheless the ratio of the foreign investor's voting shares and of voting shares owned by other shareholders enables the foreign investor to determine the Strategic Company's decisions.

Furthermore, the Strategic Investments Law sets more stringent regime for Strategic Companies conducting *geological exploration and/or prospecting and extraction of mineral resources within subsoil plots of federal significance*. This regime has been established mainly due to the state's endeavour to protect its natural resources (gas, gold, oil, copper) which currently appear to be the main source of the state's budget proceeds.

Approval Requirements

According to the Strategic Investments Law, any transaction entered into by a foreign investor that results in "control" establishment over a Strategic Company (as discussed above) requires prior consent from the Government Commission. A prior consent is also required when foreign states, international organizations and entities under their control enter into transactions resulting in the acquisition of the right to (i) dispose (directly or indirectly) of more than 25% of the total number of votes which pertain to the voting shares in the charter capital of a Strategic Company, or (ii) block resolutions of the Strategic Company's management bodies, or (iii) dispose (directly or indirectly) of more than 5% of the total number of votes which pertain to the voting shares in the charter capital of the Strategic Company which uses *subsoil deposits of federal significance*. A prior consent is not required for the acquisition of shares in a Strategic Company (save for those using *subsoil deposits of federal significance*), if prior to such acquisition, a foreign investor or its group had the right to directly or indirectly dispose of more than 50% of the total number of votes which pertain to the voting shares in the charter capital of the Strategic Company.

A retroactive consent of the Government Commission is required if a foreign investor or its group acquires control over a Strategic Company as a result of redistribution of voting rights among shareholders of a strategic company due to redemption of treasury shares or conversion of non-voting preferred shares into ordinary (voting) shares. In these cases a foreign investor must apply for the consent within 3 months period after the control over a Strategic Company was obtained.

A foreign investor must file a notification with the FAS in case of the acquisition of 5% or more of shares in the charter capital of a Strategic Company.

Russian legislation provides for certain penalties for breaching of approval / notification requirements of the Strategic Investments Law. In particular:

- In case of non-compliance with the notification requirements, the Administrative Offences Code of the Russian Federation provides for the imposition of administrative fines.
- The failure to obtain a prior consent when required under the Strategic Investments Law results in the voidness of any transaction executed in violation of the requirement or the acquirer may be deprived from voting rights which correspond to the stake acquired in the Strategic Company.
- If a retroactive consent is denied a foreign investor must within 3 months period after the denial was sent to them dispose of a part of its shares, so that the remaining shares do not provide "control" over the respective Strategic Company.

Environmental Matters

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of hazardous substances into the air and water, the management and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by Federal Law No. 7-FZ "*On Environmental Protection*," dated 10 January, 2002 (the "**Environmental Protection Law**"), as well as by a number of other federal and local legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The Ministry of Natural Resources and Ecology has established standards relating to the permissible impact on the environment and, in particular, limits for emissions and disposal of substances, waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Ecological approval

Certain activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with Federal Law No. 174-FZ "*On Ecological Expert Examination*," dated 23 November, 1995, as amended. Conducting such operations that may cause damage to the environment without state ecological approval may result in the negative consequences described under "— Environmental liability".

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometeorology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and mainly the Ministry of Natural Resources and Ecology is responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to

initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Health and Safety

Due to the nature of our business, substantially all of our operating activities are conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is Federal Law No. 116-FZ "*On Industrial Safety of Dangerous Industrial Facilities*," dated 21 July, 1997, as amended (the "**Safety Law**"). The Safety Law applies, in particular, to industrial facilities and sites where certain hazardous substances (e.g. flammable, or toxic substances, explosives, combustibles, etc) are used, processed, stored, transported, or destroyed. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used. There are also regulations that address safety rules for the steel smelting and the production of pipes. Additional safety rules also apply to certain industries, including the metallurgical industry.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia effective 1 February, 2002, as amended (the "**Labour Code**"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order. In addition, the Labour Code provides for the state inspections of work safety to verify, in particular, the compliance of work conditions to state standards as well as compensations to employees due to hazardous work conditions.

Besides, companies with more than 50 employees must have a special work safety service or a work safety officer. Business entities are required to spend 0.2% of their production expenses on improvement of work safety.

Furthermore, on 29 May, 2006, the Ministry of Public Health and Social Development of the Russian Federation issued Order No. 413 approving the model regulations on work safety to be used by employers.

Companies operating industrial sites where the amounts of hazardous substances exceed maximum permissible levels established in the Safety Law must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken or will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Federal Service for Environmental, Technological and Nuclear Supervision has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health related damages.

Employment and Labour Regulation

Labour matters in Russia are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws.

Employment contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts. Generally, an employment contract can be entered into for a fixed term of up to five years in cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as provided by the Labour Code and federal laws. The Labour Code specifies where the employer is obliged to enter into a fixed term employment contracts, and where the employer may, but is not obliged to, conclude such agreement subject to the parties' mutual agreement. Employment contract with the chief executive officer, his deputy, and the chief accountant may be concluded either for a fixed or an indefinite term.

An employer may terminate an employment contract only on the basis of the specific grounds listed in the Labour Code, including, *inter alia*:

- liquidation of the organization or reduction of personnel (downsizing);
- unsuitability of the employee for the job due to insufficient skills as evidenced by the results of an evaluation;
- systematic failure by the employee to fulfil his or her duties without due cause if the employee already has a disciplinary sanction imposed on him/her;
- any single gross breach by the employee of his or her employment duties in the events expressly identified by the Labour Code;
- provision by the employee of false documents when concluding the employment contract; and
- other grounds provided in the Labour Code or other federal laws.

An employee dismissed from an organization due to a reduction of personnel (downsizing) or liquidation is entitled to receive a severance payment and other payments in accordance with the requirements of the Labour Code.

The Labour Code also provides protection for specified categories of employees. For example, except in cases of liquidation of an organization, an employer cannot dismiss an expectant mother. In addition, an employer may not dismiss a mother with a child under the age of three, a single mother with a child under the age of 14 (or a disabled child under the age of 18) or other persons caring for a child under the age of 14 (or a disabled child under the age of 18) without a mother, other than due to liquidation of an organization, specified breach of the employment duties by an employee, and for certain delinquent actions. Employment contracts with minors can be terminated at the initiative of the employer only with the consent of the state labour inspection and the commission for protection of minors' rights (except in the case of liquidation of an organization).

Any termination by the employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and where a court invalidates a termination, the relevant employee will be reinstated. Where an employee is reinstated by a court, the employer must compensate the employee for his unpaid salary for the period between his wrongful dismissal and his reinstatement, as well as for any mental distress suffered.

Work Time

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate or with additional days of paid vacation.

Annual paid vacation under the Labour Code is generally 28 calendar days. The Labour Code contemplates additional paid vacation in a number of cases, including work on an irregular hours basis, work under harmful conditions and work in the regions of Russia with abnormal climatic conditions. Companies may establish additional paid vacations beyond the statutory minimums. Employees who perform work in harmful conditions may be entitled to additional paid vacation generally ranging from six to 36 working days.

The retirement age in the Russian Federation is generally 60 years for men and 55 years for women.

Salary

The minimum salary in the Russian Federation is established by federal law and as at 31 December 2010 was at the rate of RUB 4330 (approximately U.S.$142 per month).

Employees working in localities with abnormal climatic conditions are entitled to regional coefficients salary increase and percentage salary increase related to the duration of work in such conditions. Coefficients are generally aimed at compensating unfavourable climatic or other conditions in particular regions.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of the employees to fulfill their employment duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be considered an adequate ground for termination.

Trade Unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees. The activities of trade unions are generally governed by the Federal Law No. 10-FZ of 12 January 1996 "*On Trade Unions, Their Rights and Guaranties of Their Activity*" (as amended) (the "**Trade Union Law**"). The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and production interests incorporated for the purposes of representing and protecting the social and labour rights and interests of its members.

As part of their activities, trade unions have the right to:

- negotiate collective contracts and agreements between trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective bargaining and other agreements;
- access work sites and offices and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with employers;
- organize strikes and participate in them; and
- monitor redundancies and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers also benefit from legal restrictions with respect to the dismissal of employees elected or appointed to the management of trade unions who are afforded protection from disciplinary sanctions or dismissal by the employer without the prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association. Employees that are elected to the management of trade unions and are relieved from performing their job function in connection with serving the term in the trade union are given job protection. Employees who previously served in the management of a trade union, within two years from the end of their service may be dismissed only with the consent of the relevant trade union association. Employers are also obliged to provide the necessary premises and office equipment for use by the trade union free of charge.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability.

THE ISSUER

General

TMK Capital S.A. (the "**Issuer**") was incorporated as a société anonyme on 8 September, 2006 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation have been published on page 97588 of the Mémorial, Recueil des Sociétés et Associations No. C-2034 dated 30 October, 2006. The Issuer is registered with the Luxembourg Register of Commerce and Companies under number B-119.081. Its registered office is located at 2, boulevard Konrad Adenauer, L-1115 Luxembourg and its telephone number is +352 421 22-243.

The Issuer's subscribed share capital amounts to U.S.$50,000 divided into 500 registered shares with a par value of U.S.$100 each. All of the shares are fully paid up. Four-hundred and ninety nine (499) shares are owned by Stichting TMK Capital, and one (1) share by Stichting Participatie DITC Amsterdam.

The Issuer has a Board of Directors, currently consisting of three directors. The directors at present are:

- Rachel Aguirre, employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg;
- Heike Kubica, employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg; and
- Anja Lakoudi, employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

There are no potential conflicts of interest between any duties of the members of the Board of Directors towards the Issuer and their private interests and/or other duties.

Deutsche Bank Luxembourg S.A. is the domiciliation agent of the Issuer. Its duties include the provision of certain administrative and related services. It may terminate its appointment at any time upon not less than two months' prior notice in writing, provided that any such termination shall not be effective until a replacement acceptable to the Issuer has been suggested by Deutsche Bank Luxembourg S.A.

The Issuer has been established as a special purpose vehicle for the purpose of issuing asset backed securities. The corporate object of the Issuer, as described in article 3 of its articles of incorporation is:

- the issue of loan participation notes and other debt securities for the purpose of financing loans to OAO TMK;
- the granting of loans to OAO TMK;
- the granting of security interests over its assets to a trustee in relation to the issuance of the loan participation notes and other debt securities;
- the making of deposits (including fiduciary deposits) at banks or with other depositaries; and
- the entering into all ancillary transactions, documents and agreements.

The Issuer may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate object at the exclusion of any banking activity.

In general, the Issuer may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Ernst & Young S.A., having its registered office at 7, Parc d'Activité Syrdall, L-5365 Munsbach, Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B-47771, has been appointed to act as approved auditor of the Issuer and is a member of the Luxembourg body of registered auditors ("**Institut des Réviseurs d'Entreprises**").

THE LOAN GUARANTORS

OAO TMK, its 100% percent owned subsidiary Volzhsky and its subsidiary TMK Trade House (of which OAO TMK owns all shares but one, which is held by Sinarsky) are the Initial Loan Guarantors of the Notes. Seversky, Sinarsky, Tagmet and IPSCO Tubulars, which are 94.36%, 94.2%, 96.09% and 100% owned subsidiaries of TMK, respectively, are Additional Loan Guarantors and, together with the Initial Loan Gurantors, the Loan Guarantors of the Notes. See "*Overview of the Offering*". As of 30 June 2010, the Loan Guarantors represented approximately 88.2% of the total assets of the TMK Group and, for the six months ended 30 June, 2010, the Loan 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 Loan Guarantors other than TMK, the business of which is described in other sections of this Prospectus.

Volzhsky

Incorporation and Status

Volzhsky 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.

As of the date of this Prospectus, Volzhsky holds (i) a licence for operations with infectious agents, issued to it by the Federal Service for Supervision of Consumer Rights Protection and Human Welfare in December 2007 and effective until December 2012, and (ii) a licence for operating radiation sources issued to it by the Donskoye regional department of the Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor) in September 2010 and effective until September 2015. The holding of each of these licences makes Volzhsky a Strategic Company, subject to the specific rules and regulations listed in the Strategic Investments Law. See "*Certain Regulatory Matters — Strategic Investments*".

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, Blagoustroystvo; 1% is held by TMK Trade House.

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:

Director	Position
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 OAO TMK 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:

Director	Position
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 RAS. TMK Trade House's financial year corresponds to the calendar year.

Seversky

Incorporation and Status

Seversky 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.

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:

Director	Position
Andrey Yu. Kaplunov	Chairman of the Board of directors
Alexander A. Klachkov	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 6 Vershinin street No. 7, 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

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 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:

Director	Position
Andrey Yu. Kaplunov	Chairman of the Board of directors
Mikhail S. Astahov(1)	Director
Tigran I. Petrosyan	Director
Dmitriy A. Pumpyanskiy	Director
Konstantin A. Semerikov	Director
Sergey G. Chetverikov	Director
Alexander G. Shiryaev	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:

Director	Position
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 RAS. 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 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 TMK NSG and Blytheville Finance Corporation and TMK IPSCO Canada, Ltd.

Business

IPSCO Tubulars is one 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:

Director	Position
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.

THE LOAN AGREEMENT

The following is the text of the Loan Agreement to be entered into between us and the Issuer.

THIS AGREEMENT is dated 25 January 2011 BETWEEN:

(1) O**PEN JOINT STOCK COMPANY TMK,** an open joint stock company organised under the laws of the Russian Federation (the "**Borrower**"); and

(2) **TMK CAPITAL S.A.**, a company incorporated under the laws of Luxembourg as a société anonyme with registered office at 2, boulevard Konrad Adenauer, L-1115 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B-119.081 (the "**Lender**").

WHEREAS:

The Lender and the Borrower wish to record herein the terms of the Loan to be made by the Lender to the Borrower. The Loan is to be unconditionally, irrevocably, jointly and severally guaranteed by the Initial Loan Guarantors under the Initial Loan Guarantees and the Borrower has undertaken hereunder that the Loan will be additionally guaranteed by each of the Additional Loan Guarantors once the Additional Loan Guarantors accede to the Deed of Loan Guarantee, by way of executing Additional Loan Guarantees not later than 90 calendar days after the date hereof. The Borrower may also be obligated to procure Further Loan Guarantees upon the satisfaction of certain conditions set out in Clause 14.11 hereof (*Additional Loan Guarantees*).

IT IS AGREED:

1 Definitions and Interpretation

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

"**12-Month Consolidated EBITDA**" means the aggregate Consolidated EBITDA for the two most recent consecutive Measurement Periods preceding any date of determination for which consolidated financial statements of the Group prepared in accordance with Accounting Standards are available.

"**Acceleration Notice**" has the meaning set forth in Clause 15.2 (*Rights of Lender upon occurrence of an Event of Default*).

"**Account**" means the account of the Lender with Deutsche Bank AG, London Branch, account number: 28013402.

"**Accounting Standards**" means IFRS or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the relevant regulators from time to time; provided however, that where such term is used with respect to the financial statements of the Subsidiaries of the Borrower, in this Agreement, it shall, where financial statements prepared in accordance with IFRS are not available, be deemed to include U.S. GAAP, Russian GAAP or any other generally accepted accounting standards of the jurisdiction of incorporation of the relevant Subsidiary from time to time.

"**Additional Amounts**" has the meaning set out in Clause 8.3 (*Additional Amounts*).

"**Additional Loan Guarantees**" means guarantees by way of the deeds of accession to the Deed of Loan Guarantee, substantially in the form set out in the Schedule to the Deed of Loan Guarantee executed by the Additional Loan Guarantors.

"**Additional Loan Guarantors**" means OAO Seversky Pipe Plant, OAO Sinarsky Pipe Plant, OAO Taganrog Metallurgical Works and IPSCO Tubulars Inc.

"**Affiliate**" of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; provided that beneficial ownership of 20 per cent. or more of the Capital Stock with voting power of a Person shall be deemed to be control.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

"**Agency Agreement**" means the agency agreement dated 25 January 2011, as amended or supplemented from time to time with the prior written approval of the Trustee, between the Issuer, the Borrower, the Trustee and the Agents named therein;

"**Approved Jurisdiction**" means the United States of America, Russia and any member nation of the European Union as constituted on the Original Issue Date.

"**Asset Acquisition**" means (i) an Investment by the Borrower or any Subsidiary of the Borrower in any other Person pursuant to which such Person shall become a Subsidiary of the Borrower or shall be consolidated or merged with the Borrower or any Subsidiary of the Borrower or (ii) the acquisition by the Borrower or any Subsidiary of the Borrower of assets of any Person which constitute all or substantially all of the assets of such Person or which comprise a division or line of business of such Person.

"**Asset Sale**" means any lease, sale, sale and lease-back, transfer or other disposition either in one transaction or in a series of related transactions, by the Borrower and/or any of the Subsidiaries of the Borrower to a Person or Persons that is/are outside the Group, of any Production Assets or Capital Stock of any Subsidiary of the Borrower the value of which exceeds 10 per cent. of the value of the total Production Assets of the Group in any 12 month period (determined in each case by reference to the most recent publicly available consolidated audited or reviewed balance sheet of the Borrower, prepared in accordance with Accounting Standards); provided that "**Asset Sale**" shall not include sales or other dispositions of inventory or stock in trade in the ordinary course of business or assignments of or other arrangements over the rights or revenues arising from contracts for the sale of products on an arm's-length basis; and provided that the value of the Capital Stock of the relevant Subsidiary so sold or disposed of shall for these purposes be deemed to be the value of the relevant proportion of that Subsidiary's Production Assets.

"**Board of Directors**" means, as to any Person, the board of directors of such Person or any duly authorised committee thereof.

"**Borrower**" means the party named as such above until a successor replaces it in accordance with Clause 14.5 (*Mergers and Similar Transactions*) and thereafter means such successor.

"**Borrower Further Loan Guarantee Event Notice**" means a notice given by the Borrower to the Lender of the failure to procure the Additional Loan Guarantees or, if relevant any Further Loan Guarantee under Clause 14.11(a) or 14.11(b).

"**Business Day**" means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Moscow, Luxembourg, London and New York City.

"**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 non-voting) of such Person's equity, including any preferred stock of such Person, whether now outstanding or issued after the Original Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into such Capital Stock.

"**Cash Equivalents**" means:

(a) any evidence of Indebtedness with a maturity of one year or less issued or directly and fully guaranteed or insured by a corporation or other legal entity organised under the laws of an Approved Jurisdiction or any Agency or instrumentality thereof; provided that the full faith and credit of an Approved Jurisdiction (or similar concept under the laws of the relevant Approved Jurisdiction) is pledged in support thereof;

(b) commercial paper with a maturity of one year or less issued by a corporation organised under the laws of an Approved Jurisdiction and rated at all times at least the same rating as that of the unsecured, unsubordinated debt obligations of Borrower by Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc., Moody's Investors Service Limited or Fitch Ratings Ltd. to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (b)) invested by application of Disposal Proceeds do not exceed at any time U.S.$10 million or its U.S. Dollar Equivalent; and/or

(c) commercial paper with a maturity of one year or less, issued by a corporation organised under the laws of an Approved Jurisdiction, and at all times listed or traded on the Moscow Inter-bank Currency Exchange to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (c)) invested by application of Disposal Proceeds do not exceed at any time U.S.$10 million or its U.S. Dollar Equivalent.

"**Change of Law**" means any of the enactment or introduction of any new law, the variation, amendment or repeal of an existing or new law, and any ruling on or interpretation or application by a competent authority of any existing

or new law which, in each case, occurs after the date hereof and for this purpose the word "law" means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks or other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

(i) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and/or

(ii) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law); and

(iii) the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any of the foregoing by any court of law, tribunal, central bank, monetary authority or agency or any Taxing Authority or fiscal or other competent authority or agency.

"**Conditions**" has the meaning given to it in the Trust Deed.

"**Consolidated Depreciation and Amortisation**" means, in respect of any period, the consolidated depreciation and amortisation of fixed assets and intangibles of the Group for such period as shown in the latest available consolidated financial statements of the Group prepared in accordance with Accounting Standards.

"**Consolidated EBITDA**" means, in respect of any period,

(i) the consolidated net income (loss) of the Group for such period as shown in the then most recent consolidated profit and loss account of the Group prepared in accordance with Accounting Standards adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication:

  (a) gains or losses, net of taxes (less all fees and expenses relating thereto), in respect of dispositions of assets other than in the ordinary course of business;

  (b) any net foreign exchange gain or loss;

  (c) any gain or loss on net monetary position;

  (d) any share of the profit or loss of any associated company, associated undertaking or unconsolidated joint venture;

  (e) the cumulative effect of changes in accounting principles;

  (f) any loss or gain on impairment of fixed assets charged to the profit and loss account;

  (g) inventory and doubtful debt allowances and the movement on other provisions;

  (h) any other non-cash items, increasing (decreasing) consolidated net income (loss) for the Group for such period;

  (i) gain or loss on changes in fair value of derivative financial instruments; and

  (j) any extraordinary items (net of taxes),

(ii) as adjusted by adding back, to the extent deducted in calculating Subclause (i) of this definition, without duplication for such period:

  (a) Consolidated Interest Expense;

  (b) Consolidated Income Tax Expense; and

  (c) Consolidated Depreciation and Amortisation.

"**Consolidated Income Tax Expense**" means, in respect of any period, the expenses of the Group in respect of income taxes as shown in the consolidated profit and loss account of the Group for such period prepared in accordance with Accounting Standards.

"**Consolidated Indebtedness**" means at any date of determination (and without duplication) all Indebtedness of the Group as calculated in accordance with the then most recently published consolidated financial statements of the Group prepared in accordance with Accounting Standards.

"**Consolidated Interest Expense**" means, in relation to any period, the total of the following calculated in accordance with the consolidated financial statements of the Group for such period prepared in accordance with Accounting Standards:

(a) cash and non-cash interest expense (net of finance income as reflected in the Borrower's consolidated financial statements prepared in accordance with Accounting Standards) for the Group for such period (including any amortisation of debt issuance costs), including, without limitation (whether or not interest expense in accordance with Accounting Standards):

  (i) amortisation of debt discount;

  (ii) the net costs associated with hedging agreements (including amortisation of fees and discounts);

  (iii) the interest portion of any deferred payment obligations;

  (iv) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

  (v) accrued interest; and

  (vi) interest due and payable under any guarantee, indemnity or equivalent arrangement; and

(b) the interest component of any capital lease obligation of any member of the Group accrued during such period.

"**Core or Related Business**" means the business of (a) producing steel and steel pipe products, (b) investing in property, plant or equipment for the production of steel and steel pipe products, (c) purchasing and processing of raw materials and manufacturing equipment for the production of steel and steel pipe products, (d) conducting business connected with the consumption of steel and steel pipe products, (e) industrial construction for the production of steel and steel pipe products, (f) automobile, railway and ship transportation of steel and steel pipe products in connection with the Group's production of steel and steel pipe products, (g) conducting sales of steel and steel pipe products and related activities, (h) supplemental pipe services such as the repair or finishing of steel pipe products, (i) energy distribution ancillary to/necessary for the pipe business, (j) research activities relating to the scientific and technological development of the pipe industry and relevant business, or (k) evaluating, participating in or pursuing any other activity or opportunity that is related to those identified in paragraphs (a) to (k) above.

"**Credit Facility**" means one or more debt facilities (including the existing credit facilities) in the form of loan agreements, revolving credit facilities, overdraft facilities, working capital facilities, syndicated credit facilities, letters of credit and other facilities provided by commercial banks and other financial institutions as each such facility may be amended, restated, modified, renewed, refunded, replaced, restructured or refinanced in whole or in part from time to time.

"**Deed of Loan Guarantee**" means the deed of loan guarantee, substantially in the form set out in the Schedule hereto, containing the Loan Guarantees, as such Deed of Loan Guarantee may be amended or supplemented from time to time.

"**Disinterested Director**" means, with respect to any transaction or series of related transactions, a member of the Board of Directors of the Borrower who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions. A Person shall not be ineligible to constitute a Disinterested Director solely as a result of such Person owning any equity interests of the Borrower or any of its Subsidiaries or acting as an officer, director or employee of the Borrower or any of its Subsidiaries.

"**Disposal Proceeds**" has the meaning set forth in Clause 14.4 *(Asset Sales)*.

"**Dispute**" has the meaning set forth in Clause 25.2 (*Arbitration*).

"**Event of Default**" has the meaning set forth in Clause 15.1 (*Circumstances which constitute Events of Default*).

"**Fair Market Value**" means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress or necessity of either party, determined in good faith by the chief executive officer or chief financial officer of the Borrower, whose determination shall be conclusive.

"**Finance 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 Accounting Standards 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 Accounting Standards, 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.

"**Further Loan Guarantor**" means any Person who accedes to the Deed of Loan Guarantee as a result of the application of the requirements of Clause 14.11(b) hereof.

"**Further Loan Guarantee**" means any guarantee issued by means of accession to the Deed of Loan Guarantee as a result of the application of the requirements of Clause 14.11(b) hereof.

"**Further Loan Guarantee Event**" means the failure by Borrower to fulfil its obligations to procure any Additional Loan Guarantee or any Further Loan Guarantee (if required) under Clause 14.11(a) or 14.11(b).

"**Further Loan Guarantee Event Offer**" means the making by the Lender of an offer to purchase the Notes on the occurrence of a Further Loan Guarantee Event.

"**Further Loan Guarantee Event Payment Date**" means the purchase date for the Further Loan Guarantee Event Offer, which will be a Business Day which is 60 calendar days from the date of delivery to the Lender of the Borrower Further Loan Guarantee Event Notice, except as may be otherwise required by applicable law.

"**Group**" means the Borrower and its Subsidiaries, together with special purpose entities that are consolidated in the latest available consolidated financial statements of the Borrower prepared in accordance with Accounting Standards.

"**Guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person:

(a) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, or

(b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such oblige against loss in respect thereof, in whole or in part,

provided, that "**Guarantee**" shall not include endorsements for collection or deposit in the ordinary course of business. "**Guarantee**" used as a verb has a corresponding meaning.

"**IFRS**" means the International Financial Reporting Standards.

"**increased amounts of principal, interest or any other payment due hereunder**" has the meaning set forth in Clause 8.1(b) (*No Withholding and increased amounts of principal, interest or any other payment*).

"**Incur**" means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such Person, and "**Incurrence," "Incurred**" and "**Incurring**" shall have meanings correlative to the preceding. Indebtedness of any acquired Person or any of its Subsidiaries existing at the time such acquired Person becomes a Subsidiary (or is merged into or consolidated with the Borrower or any Subsidiary), whether or not such Indebtedness was Incurred in connection with, as a result of, or in contemplation of, such acquired Person becoming a Subsidiary (or being merged into or consolidated with the Borrower or any Subsidiary), shall be deemed Incurred at the time any such acquired Person becomes a Subsidiary or merges into or consolidates with the Borrower or any Subsidiary.

"**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 uncovered letters of credit (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 Finance Lease Obligations of such Person;

(f) all Indebtedness of other Persons secured by a Lien 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 Lien) 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 monies 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 (i) bank guarantees, 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) and (ii) for the purposes of Clause 14.2 only, restructured tax payable reported in the most recent balance sheet prepared in accordance with Accounting Standards of such Person.

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.

"**Independent Appraiser**" means any of PricewaterhouseCoopers, KPMG, Deloitte & Touche, Ernst & Young or such investment banking, accountancy or appraisal firm generally recognised in the relevant jurisdiction selected by the competent management body of the Borrower or the relevant Subsidiary, *provided* it is not an Affiliate of the Borrower, or any Subsidiary.

"**Initial Loan Guarantors**" means OAO Volzhsky Pipe Plant and ZAO TMK Trade House.

"**Interest Payment Date**" means 27 January and 27 July of each year in which the Loan remains outstanding, being the last day of the corresponding Interest Period, commencing on 27 July 2011, and the last such date being the Repayment Date.

"**Interest Period**" means, except as otherwise provided herein, any of those periods mentioned in Clause 4 (*Interest Periods*).

"**Interest Rate**" means, except as otherwise provided herein, the interest rate specified in Clause 5.2 (*Calculation of Interest*).

"**Investment**" means, with respect to any Person, directly or indirectly, any advance (other than advances to customers in the ordinary course of business), loan (including guarantees), or other extension of credit (including guarantees) or capital contribution to (by means of any transfer of cash) or other property to others or any payment for property or services for the account or use of others, or any purchase, acquisition or ownership by such Person of any Capital Stock, bonds, notes, debentures, or other securities (including, without limitation, any interests in any partnership or joint venture) or evidence of indebtedness issued or owned by any Person and all other items that would be classified as investments on a balance sheet prepared in accordance with Accounting Standards; provided that:

(a) hedging obligations entered into in the ordinary course of business and in compliance with the terms of this Agreement; and

(b) endorsements of negotiable instruments in the ordinary course of business,

shall in each case be deemed not to be an Investment.

"**IPSCO Credit Facility**" means the credit agreement dated as of 1 December 2010 by and among IPSCO Tubulars Inc. and its subsidiaries that are signatories thereto, the Lenders party thereto and Wells Fargo Capital Finance, LLC, as agent for the Lenders, together with the related documents thereto (including, without limitation, any guarantee agreements and security documents granted by IPSCO Tubulars Inc. and/or one or more of its subsidiaries in favour of the Agent and/or Lenders), in each case as such agreements may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time by one or more credit agreements, including (without limitation) any agreement adding subsidiaries of IPSCO Tubulars Inc. as additional borrowers or guarantors thereunder, removing such subsidiaries as existing borrowers or guarantors thereunder or extending the maturity of, refinancing, refunding, replacing or otherwise restructuring all or any portion of the Indebtedness under such agreement(s) or any successor or replacement agreement(s) and whether granted by or to the same or any other agent, lender or group of lenders.

"**Leverage Ratio**" means, at the date of the incurrence of the Indebtedness giving rise to the need to calculate the Leverage Ratio and subject to provisions of Clause 14.2, the ratio of (i) Consolidated Indebtedness as at such date (ii) to 12-Month Consolidated EBITDA of the Borrower, after giving effect, as determined in good faith by a responsible financial or accounting officer of the Borrower, on a *pro forma* basis to:

(a) the incurrence of any Indebtedness the permissibility of which is then being measured, the incurrence or repayment of any other Indebtedness since the date of the then most recently published consolidated financial statements of the Group prepared in accordance with Accounting Standards and, in each case, the receipt and application of the proceeds therefrom; and

(b) the exclusion of Consolidated EBITDA associated with any Asset Sales or the inclusion of Consolidated EBITDA associated with any Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of indebtedness) occurring on or after the first day of the Measurement Period relevant for such calculation as if any such Asset Sale or Asset Acquisition occurred on the first day of the first Measurement Period used in the calculation of 12-Month Consolidated EBITDA,

provided, however, that any such *pro forma* Consolidated EBITDA in respect of an Asset Acquisition may only be so included if such *pro forma* Consolidated EBITDA shall have been derived from (i) financial statements of, or relating to or including, such acquired entity, that have been prepared in accordance with Accounting Standards or (ii) such other financial statements or financial reports of the acquired entity that the chief financial officer of the Borrower believes in good faith to present fairly the financial position and results of operations of the acquired entity so as to permit such a pro forma Consolidated EBITDA to be prepared on the basis of reasonable assumptions and estimates.

"**Lien**" 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.

"**Loan**" means the U.S.$500,000,000 term loan granted to the Borrower by the Lender pursuant to the terms of this Agreement.

"**Loan Guarantees**" means the guarantees of the Loan Guarantors under the Deed of Loan Guarantee.

"**Loan Guarantors**" means the Initial Loan Guarantors together with the Additional Loan Guarantors and any other Person who becomes a guarantor pursuant to Clause 14.11 hereof and "**Loan Guarantor**" means any of them.

"**Luxembourg**" means the Grand Duchy of Luxembourg.

"**Material Adverse Effect**" means any material adverse effect on the business, financial condition or results of operations of the Borrower and its Subsidiaries taken as a whole.

"**Material Subsidiary**" means at any relevant time a Subsidiary of the Borrower:

(a) whose Production Assets represent not less than 10 per cent. of the total consolidated Production Assets of the Borrower or whose gross revenues (excluding intercompany revenues) represent not less than 10 per cent. of the gross consolidated revenues of the Borrower (determined by reference to the most recent publicly available annual or interim financial statements of the Borrower prepared in accordance with Accounting Standards and the latest financial statements of the Subsidiary determined in accordance with Accounting Standards (or, if unavailable, such Subsidiary's most recent management accounts)); 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 Loan Guarantor shall at all times be deemed to be a Material Subsidiary,

and as identified in an Officers' Certificate of the Borrower delivered to the Lender (and the Trustee) at the same time as the most recent financial statements referred to herein or within 10 days of a request therefor.

"**Measurement Period**" means each financial half-year ending on 30th June or 31st December. For the avoidance of doubt, any non-balance sheet financial information for a Measurement Period ending on 31st December of any year shall be calculated by subtracting (a) the relevant information for the Measurement Period ending on 30th June of that year from (b) the equivalent information for that year.

"**Noteholder**" means the person in whose name the Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

"**Notes**" means the U.S.$500,000,000 7.75 per cent. loan participation notes due 2018 proposed to be issued by the Lender in its capacity as issuer pursuant to the Trust Deed.

"**Officer**" means, with respect to a Person, the Chairman of the Board of Directors, the General Director, the Chief Executive Officer, the President, the Chief Financial Officer, the Controller, the Treasurer or the General Counsel of such Person.

"**Officers" Certificate**" means a certificate signed by two Officers of the Borrower.

"**Original Issue Date**" means 27 January 2011.

"**Permitted Indebtedness**" means:

(a) the Incurrence by the Borrower or any Subsidiary of the Borrower of intercompany Indebtedness to the Borrower and/or any Subsidiary of the Borrower; provided that (i) any disposition, pledge or transfer of the rights under any such Indebtedness (other than pursuant to the IPSCO Credit Facility) to any Person other than a disposition, pledge or transfer to the Borrower or a Subsidiary of the Borrower and (ii) any transaction pursuant to which any Subsidiary of the Borrower that has Indebtedness owing to it from the Borrower or another Subsidiary ceases to be a Subsidiary of the Borrower, shall, in each case, be deemed to be an Incurrence of such Indebtedness which shall not be permitted by this paragraph (a);

(b) Refinancing Indebtedness in respect of (1) Indebtedness outstanding on the date hereof, and (2) Indebtedness Incurred pursuant to Clause 14.2 (including, for the avoidance of doubt, Permitted Indebtedness);

(c) Net obligations under hedging agreements entered into in the ordinary course of business for the purposes of protection against or benefiting from fluctuations in the rates of exchange or prices and not for speculative purposes unrelated to transactions undertaken in the ordinary course of business;

(d) Indebtedness in respect of performance, bid, appeal and surety bonds and completion bonds and guarantees provided by the Borrower or any Subsidiary of the Borrower and that do not secure other indebtedness, in amounts and for purposes customary in the Core or Related Business;

(e) Indebtedness arising from netting arrangements and the honouring by a bank or other financial institution of a cheque, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within three Business Days of its Incurrence;

(f) Indebtedness arising from agreements of the Borrower or a Subsidiary of the Borrower providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Capital Stock of any Subsidiary of the Borrower; provided that (A) the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds (including the Fair Market Value of non-cash consideration) actually received by (or held in escrow as a collateral for such Indebtedness) the Borrower and its Subsidiaries in connection with such disposition (without giving effect to any subsequent changes in value) and (B) such Indebtedness is not reflected in the balance sheet of the Borrower or any Subsidiary of the Borrower (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet shall not be deemed to be reflected on such balance sheet for purposes of this paragraph (f));

(g) Indebtedness Incurred in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit; provided that such Indebtedness is reimbursed within 30 days of its Incurrence;

(h) Indebtedness in respect of Capital Lease Obligations and Purchase Money Indebtedness, provided that the aggregate principal amount of such Indebtedness does not exceed the aggregate of the Fair Market Value (on the date of the Incurrence thereof) of the property or assets acquired, constructed or leased and expenses in connection therewith, and provided further that the aggregate principal amount of such Indebtedness Incurred under this paragraph (h) does not exceed Euro 200 million (or its equivalent in other currencies) at any time outstanding, but excluding any accrued but unpaid interest, fees and/or reimbursable expenses which may be owing in connection therewith, whether or not added to the principal amount of such Indebtedness;

(i) Indebtedness of IPSCO Tubulars Inc. and its subsidiaries Incurred under one or more Credit Facilities in an aggregate principal amount up to U.S.$200 million (or its equivalent in other currencies) at any time outstanding, including amounts outstanding under the IPSCO Credit Facility, but excluding any accrued but unpaid interest, fees and/or reimbursable expenses which may be owing in connection therewith, whether or not added to the principal amount of such Indebtedness, for the avoidance of doubt, it being understood that IPSCO Tubulars Inc. or any of its subsidiaries may repay, prepay, redeem or otherwise retire Indebtedness

incurred pursuant to this paragraph (i) at any time, and any principal amount so repaid, prepaid, redeemed or otherwise retired shall reduce the principal amount of Indebtedness Incurred pursuant to this paragraph (i); or;

(j) Indebtedness in an aggregate principal amount up to U.S.$300 million (or its equivalent in other currencies), but excluding any accrued but unpaid interest, fees and/or reimbursable expenses which may be owing in connection therewith, whether or not added to the principal amount of such Indebtedness, at any one time Incurred by the Borrower or a Subsidiary of the Borrower (for the avoidance of doubt, it being understood that the Borrower or any Subsidiary may repay, prepay, redeem or otherwise retire Indebtedness Incurred pursuant to this paragraph (j) at any time, and any principal amount so repaid, prepaid, redeemed or otherwise retired shall reduce the principal amount of Indebtedness Incurred pursuant to this paragraph (j)).

"**Permitted Liens**" means:

(a) Liens granted by: (i) a Subsidiary of the Borrower (including any Loan Guarantor) in favour of the Borrower or any Loan Guarantor, or (ii) a Subsidiary of the Borrower other than a Loan Guarantor in favour of another Subsidiary of the Borrower, or (iii) by the Borrower in favour of a Loan Guarantor, in each case with respect to the property or assets, or any income or profits therefrom, of the Borrower or such Subsidiary of the Borrower, as the case may be;

(b) any Lien existing on the Original Issue Date;

(c) Liens imposed by law, including but without limitation, Liens of landlords and carriers, warehousemen, mechanics, suppliers, material men, repairmen or other similar Liens arising in the ordinary course of business;

(d) any Lien on any property, income or assets of any Person existing at the time such Person is acquired, merged or consolidated with or into the Borrower or any Material Subsidiary and not created in contemplation of such event; provided that no such Lien shall extend to any other property, income or assets of such Person or to any other property or assets of the Subsidiaries of such Person or the Borrower or any of the Material Subsidiaries;

(e) any Lien existing on any property, income or assets prior to the acquisition thereof by the Borrower or any of the Material Subsidiaries and not created in contemplation of such acquisition; provided that no such Lien shall extend to any other property, income or assets of the Borrower or any of the Material Subsidiaries;

(f) any Lien on the property, income or assets of the Borrower or any of its Subsidiaries securing working capital facilities with disbursements of a tenor of 180 days or less with an aggregate principal amount outstanding at any time not to exceed U.S.$400 million;

(g) any Lien on any property or assets of the Borrower or any Subsidiary securing Indebtedness incurred for the purpose of financing all or part of the acquisition, maintenance, repair or construction of such property or assets provided that (i) such Lien is created solely for the purpose of securing Indebtedness incurred by the Borrower or relevant Subsidiary in compliance with Clause 14.2, (ii) no such Lien shall extend to any other property or assets of the Borrower or any of its Subsidiaries, (iii) the aggregate principal amount of all Indebtedness secured by Liens under this paragraph (g) on such property or assets does not exceed the purchase price of such property or assets (including customs duties, transport, insurance, construction and installation costs and other incidental costs and expenses of purchase and any VAT or similar taxes thereon) and (iv) (A) in the case of property or assets acquired, maintained or repaired, such Lien attaches to such property or assets concurrently with the maintenance or repair thereof or within 90 days after the acquisition thereof and (B) in the case of property or assets constructed, within 90 days after the completion of construction thereof and the recognition of such property or asset as a fixed asset under Accounting Standards, as the case may be;

(h) any Lien granted in favour of a Person providing Project Financing if the Lien is solely on the property, income, assets or revenues of the project for which the financing was incurred provided that (i) the person or persons providing such financing limits its recourse solely to the property, income, assets or revenues subject to such Lien, (ii) such Lien is created solely for the purpose of securing Indebtedness incurred by the Borrower or any Subsidiary in compliance with Clause 14.2, and (iii) no such Lien shall extend to any other property, income, assets or revenues of the Borrower or any Material Subsidiaries;

(i) any Lien securing the Loan and any Guarantee under the Deed of Loan Guarantee or any other Guarantee or any other Guarantees in connection with the Loan (including, but not limited to, any Additional Loan Guarantees and Further Loan Guarantees);

(j) any Lien incurred, or pledges or deposits in connection with workers' compensation, unemployment insurance and other social security benefits and other obligations of like nature in the ordinary course of business;

(k) any deposits to secure the performance of bids, trade contacts, government contracts, leases, statutory obligations, customs duties, surety and appeal bonds, performance or return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature, in each case so long as, such Liens do not secure obligations constituting Indebtedness for borrowed money and are incurred in the ordinary course of business;

(l) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges and encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Borrower or any of its Material Subsidiaries and existing, arising or incurred in the ordinary course of business;

(m) any Lien securing Indebtedness of which Purchase Money Indebtedness is a part provided that the related Purchase Money Indebtedness shall not be secured by any property or other assets of the Borrower or a Subsidiary of the Borrower other than the property or assets so acquired or constructed and any rights under any Indebtedness incurred by the Borrower or a Subsidiary of the Borrower to the Borrower or a Subsidiary of the Borrower in connection with such acquisition, construction, improvement or lease of such property or assets, and the Lien securing such Indebtedness shall be created within 90 days of such acquisition, construction, improvement or lease;

(n) any Lien securing reimbursement obligations of the Borrower or any of its Subsidiaries with respect to letters of credit encumbering only documents and other property relating to such letters of credit and other property relating to such letters of credit and the products or proceeds thereof in the ordinary course of business;

(o) any Lien in respect of obligations arising under hedging agreements so long as the related indebtedness is permitted to be incurred under the terms of this Agreement and any such hedging agreement is not speculative;

(p) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(q) any Lien for *ad valorem,* income or property taxes or assessments, customs charges and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower or relevant Material Subsidiary has set aside in its accounts reserves to the extent required by Accounting Standards;

(r) Liens securing Indebtedness and other obligations under a Credit Facility permitted to be Incurred under clause (i) under the definition of Permitted Indebtedness;

(s) any extension, renewal or replacement of any Lien described in clauses (a) to (r) above, provided that the amount of Indebtedness secured by such Lien is not increased (except by an amount necessary to pay any premium required to be paid under the terms of the instrument governing such Indebtedness and plus the amount of reasonable fees and expenses related to such extension, renewal or replacement); and

(t) any Lien on the property, income or assets of the Borrower or any Subsidiaries of the Borrower securing Indebtedness of the Borrower or any Subsidiaries of the Borrower incurred in an aggregate principal amount outstanding at any one time not to exceed 40 per cent. of the total assets of the Group (determined by reference to the then most recent publicly available annual or interim financial statements of the Group prepared in accordance with Accounting Standards and measured on the date the underlying Indebtedness giving rise to any such Lien is Incurred). For the avoidance of doubt this paragraph (t) does not include any Lien created in accordance with paragraphs (a) to (s) hereof;

"**Person**" means any individual, corporation, partnership, joint venture, trust, unincorporated organisation or government or any Agency or political subdivision thereof.

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfillment of any similar condition, would constitute, an Event of Default.

"**Proceedings**" has the meaning set forth in Clause 25.3 (*English Courts*).

"**Production Assets**" means property, plant and equipment of the Group determined in accordance with Accounting Standards.

"**Project Financing**" means any financing of all or part of the costs of the acquisition, construction, development or operation of any asset or project if the person or persons providing such financing limits its recourse solely to the asset or project financed and the revenues derived from such asset or project.

"**Prospectus**" means the Preliminary Prospectus dated 14 January 2011 and the Prospectus dated 25 January 2011, relating to the offering of the Notes.

"**Purchase Money Indebtedness**" means Indebtedness:

(a) where the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of the property, plant, equipment or capital purchased for use in the business of the Group as at the date of the Incurrence thereof or such purchase price or cost, including any refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of refinancing and the maturity of such Indebtedness does not exceed the anticipated useful life of the property, plant, equipment or capital assets being financed; and

(b) Incurred to finance the acquisition, construction, improvement or lease of such property, plant, equipment or capital assets, including additions and improvements thereto;

provided, however, that such Indebtedness is Incurred within 180 days after the acquisition, construction, improvement or lease of such property, plant, equipment or capital assets by the Borrower or a Subsidiary.

"**Qualifying Jurisdiction**" means any jurisdiction the transfer or assignment of the Loan (or any rights, benefits and/or obligations hereunder) to which would not, at the time of such transfer or assignment, cause the Borrower to have to provide payments of increased amounts of principal, interest or any other payment due hereunder or Additional Amounts when interest, principal and any other amounts paid under this Loan Agreement is paid to or from such jurisdiction.

"**Qualified Securitisation Transaction**" means (i) any transaction by which an entity acquires or provides finance against the security of assets (financial or otherwise) or any rights arising from or by reference to such assets from the Borrower or any of its Subsidiaries and that entity funds such acquisition or financing from external funding sources (including, but not limited to, debt securities or banking facilities) on terms that such funding will be repaid primarily from the cashflows and/or values and/or rights attributable to such assets, or (ii) any asset-backed financing, receivables financing or comparable secured loan financing or similar arrangement pursuant to which, at any time, the aggregate principal amount of the funding raised does not at the initial funding thereof exceed 10 per cent. of the consolidated total assets of the Borrower as determined at any time by reference to the most recent consolidated balance sheet of the Borrower prepared in accordance with Accounting Standards.

"**Rating Agencies**" means Moody's Investors Service Limited ("**Moody's**") or any successor to its rating agency business and Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc. ("**S&P**") or any successor to its rating agency business or any other rating agency that provides a corporate credit rating of the Borrower or a credit rating in respect of the Loan or the Notes, if applicable.

"**Redeemable Capital Stock**" means any Capital Stock that, either by its terms or by the terms of any security into which it is convertible or exchangeable or otherwise, is or upon the happening of an event or passage of time would be, required to be redeemed prior to 180 days after the Repayment Date or is redeemable at the option of the holder thereof at any time prior to 180 days after the Repayment Date, or is convertible into or exchangeable for debt securities at any time prior to 180 days after the Repayment Date at the option of the holder thereof.

"**Refinance**" means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part. "**Refinanced**" and "**Refinancing**" shall have correlative meanings.

"**Refinancing Indebtedness**" means any Refinancing by the Borrower or any Subsidiary of the Borrower, to the extent that such Refinancing does not:

(a) result in an increase in Consolidated Indebtedness as of the date of such proposed Refinancing (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and plus the amount of reasonable fees and expenses incurred by the Borrower in connection with such Refinancing); or

(b) create Indebtedness with:

(i) a Weighted Average Life to Maturity that is less than the Weighted Average Life to Maturity of the Indebtedness being Refinanced or

(ii) a final maturity earlier than the final maturity of the Indebtedness being Refinanced,

for the avoidance of doubt, it being understood that any Incurrence of additional Indebtedness for Refinancing purposes and the related Refinancing of any existing Indebtedness may not be concurrent, and that a lapse of

time of up to 90 Business Days between the Incurrence of additional Indebtedness for Refinancing purposes and the related Refinancing of existing Indebtedness shall not prejudice the determination that such transaction falls within the definition of Refinancing Indebtedness.

"**Repayment Date**" means 27 January 2018, or if such day is not a Business Day, the next succeeding Business Day.

"**Rules**" has the meaning set firm in Clause 25.2 (*Arbitration*).

"**Russia**" shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and "Russian" shall be construed accordingly.

"**Russian GAAP**" means the rules set by Federal Law «On Accounting» (No. 129-FZ of November 21, 1996, as amended), the Regulation on Accounting and Reporting in the RF, approved by Order No. 34n of July 29, 1998, of the RF Ministry of Finance; the Accounting Regulation "Financial Statement of an Organisation" (PBU/499), approved by Order No. 43n of July 6, 1999, of the RF Ministry of Finance; and other normative acts of the Russian Federation regulating accounting procedures and the preparation of financial statements.

"**Stated Maturity**" means:

(a) with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final instalment of principal of such Indebtedness is due and payable; and

(b) with respect to any scheduled instalment of principal of or interest on any Indebtedness, the date specified in such Indebtedness as the fixed date on which such instalment is due and payable.

"**Subsidiary**" of any Person means (a) any corporation more than 50 per cent. of the outstanding voting power of the Capital 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.

"**Taxes**" has the meaning set out in Clause 8.1(a) (*No Withholding and increased amounts of principal, interest or any other payment*).

"**Taxing Authority**" has the meaning set out in Clause 8.1(a) (*No Withholding and increased amounts of principal, interest or any other payment*).

"**Trust Deed**" means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Original Issue Date between the Lender, in its capacity as issuer, and the Trustee as amended, varied or supplemented from time to time.

"**Trustee**" means Deutsche Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

"**unpaid sum**" has the meaning set forth in Clause 16.1 (*Default Interest Periods*).

"**U.S. Dollar Equivalent**" means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under "Currency Rates" in the section of the *Financial Times* entitled "Currencies, Bonds & Interest Rates".

"**U.S. GAAP**" means generally accepted accounting principles, standards and practices in the United States of America.

"**Weighted Average Life to Maturity**" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(a) the sum of the products obtained by multiplying:

  (i) the amount of each then remaining instalment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by

  (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment into

(b) the then outstanding aggregate principal amount or liquidation preference, as the case may be, or such Indebtedness.

Other Definitions:

the "**Lender**" shall be construed so as to include it and any of its subsequent successors, assignees and charges in accordance with their respective interests;

"**repay**" (or any derivative form thereof) shall, subject to any contrary indication, be construed to include "prepay" (or, as the case may be, the corresponding derivative form thereof); and

"**VAT**" shall be construed as a reference to value added tax including any similar tax which may be imposed in place thereof from time to time.

1.2 Interpretation

Unless the context otherwise requires,

(a) a term has the meaning assigned to it;

(b) an accounting term not otherwise defined has the meaning assigned to it in accordance with Accounting Standards consistently applied;

(c) "or" is not exclusive;

(d) words in the singular include the plural, and words in the plural include the singular;

(e) provisions apply to successive events and transactions;

(f) references to "U.S.$" or "U.S. dollars" are to United States dollars; and

(g) references to the "Loan Guarantee" are to any Loan Guarantee which may exist from time to time in accordance with the provisions hereof; in the event that no such Loan Guarantee exists at any time, the relevant provisions and references in this Agreement shall be deemed to be amended accordingly.

1.3 Statutes

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.4 Headings

Clause and Schedule headings are for ease of reference only.

1.5 Amended Documents

Except where the contrary is indicated, any reference in this Agreement to this Agreement, the Loan Guarantee or any other agreement or document shall be construed as a reference to this Agreement, the Loan Guarantee or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2 The Loan

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of U.S.$500,000,000.

3 Availability of the Loan

The Loan will be available by way of a single advance which will be made by the Lender to the Borrower, and the Borrower will draw down the Loan, on 27 January 2011, or such later date as may otherwise be agreed by the parties to this Agreement, if:

(1) the Lender has not, prior to 27 January 2011, or such later date as may otherwise be agreed by the parties to this Agreement, notified the Borrower that it has not received the condition precedent documents as listed in the agreements entered into in connection with the Notes in form and substance satisfactory to the Lender;

(2) the Lender has received the arranged funding for the Loan; and

(3) no event has occurred or circumstance arisen which would, whether or not with the giving of notice and/or the passage of time constitute an event described under Clause 15 (*Events of Default*) and the representations set out in Clause 11 (*Representations and Warranties of the Borrower*) and when made, the representations of each of the Loan Guarantors set out in the Loan Guarantee will be true and accurate in all material respects on the date they are given.

4 Interest Periods

The period for which the Loan is outstanding shall be divided into successive semi-annual periods, ending on and excluding 27 January and 27 July, each of which, other than the first (which shall commence on, and shall include, 27 January 2011) shall start on, and shall include, the last day of the preceding such period (each, an "**Interest Period**").

5 Payment and Calculation of Interest

5.1 Payment of Interest

Not later than 10.00 am (New York City time) one Business Day prior to each Interest Payment Date, the Borrower shall pay to the Account, or, following a notice from the Lender, to such other account as the Lender may specify, all accrued and unpaid interest, any increased amounts of principal, interest or any other payment due hereunder and any Additional Amounts, calculated to the last day of each Interest Period, on the outstanding principal amount of the Loan.

5.2 Calculation of Interest

The amount of interest payable for any Interest Period shall be calculated by applying the rate of 7.75 per cent. per annum (the "**Interest Rate**") to the amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent, half a cent being rounded upwards. When interest is required to be calculated for any other period, it shall 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 actual number of days elapsed.

6 Repayment

Subject to Clause 15.2 (*Rights of Lender upon occurrence of an Event of Default*), not later than 10:00 am (New York City time) one Business Day prior to the Repayment Date, the Borrower shall repay in full the outstanding principal amount of the Loan and, to the extent not already paid in accordance with Clause 5.1 (*Payment of Interest*), all accrued and unpaid interest, any increased amounts of principal, interest or any other payment due hereunder and any Additional Amounts, calculated to the last day of the last Interest Period.

7 Prepayment

7.1 Prepayment for Tax Reasons

If, as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application) in, or determination under, the double taxation treaty between Russia and Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or the laws or regulations of Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or of any political sub-division thereof or any Agency therein, the Borrower would thereby be required to pay any increased amounts of principal, interest or any other payment due hereunder in respect of Taxes pursuant to Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*), or pay any Additional Amounts pursuant to Clause 8.3 (*Additional Amounts*), then the Borrower may (without premium or penalty), upon not less than 30 calendar days' written irrevocable notice to the Lender and the Trustee, including an Officers' Certificate of the Borrower, to the effect that the Borrower would be required to pay such increased amounts of principal, interest or any other payment due hereunder or Additional Amounts prepay the Loan in whole (but not in part) at any time together with all accrued and unpaid interest, any increased amounts of principal, interest or any other payment due hereunder and any Additional Amounts; provided, however, that no such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such increased amounts of principal, interest or any other payment due hereunder or Additional Amounts, as the case may be.

7.2 Prepayment for Reasons of Increased Costs or Illegality

The Borrower may, if it is required to make any payment by way of indemnity under Clause 10.1 (*Increased Costs*), subject to giving to the Lender not less than 30 calendar days' prior written notice to that effect (without premium or penalty), prepay the whole, but not part only, of the amount of the Loan, together with any amounts then payable under Clause 10.1 (*Increased Costs*) and accrued and unpaid interest, any increased amounts of principal, interest or any other payment due hereunder and Additional Amounts, if any.

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Loan made or to be made by it hereunder or to maintain the Notes, the Borrower may, if it is so required by the Lender and subject to Clause 10.3 (*Illegality*) hereof, prepay without premium or penalty the Loan together with accrued and unpaid interest thereon and all other amounts owing to the Lender hereunder.

7.3 Reduction of a Loan Upon Cancellation of corresponding Notes

The Borrower or any Subsidiary or affiliate of the Borrower or any other company acting for the benefit of the Borrower may from time to time purchase any Notes (or may provide funding to the Lender to purchase the Notes in the open market, by tender or by private agreement) at any price and on such other terms as the Borrower may determine. The Borrower (or any Subsidiary or affiliate of the Borrower) may from time to time surrender to the Lender for cancellation Notes having an aggregate principal value of at least U.S.$1,000,000 (or its equivalent in a Specified Currency), together with an authorisation addressed to the agent of the Lender designated for such purpose (or instruct the Lender to cancel the Notes it has purchased at the request of the Borrower), whereupon the Lender shall have the relevant Notes cancelled and the principal amount of the Loan corresponding to the principal amount of such Notes is deemed to have been repaid by the Borrower for all purposes as of the date of such cancellation and no further payments shall be made by the Borrower in respect of such amounts.

7.4 Noteholder Put

In the event that the Borrower fails to procure any of the Additional Loan Guarantees or any Further Loan Guarantee (if required) under Clause 14.11(a) or 14.11(b) respectively, hereof, the Borrower shall, on the last Business Day before the relevant Further Loan Guarantee Event Payment Date (as defined in the Conditions), prepay the outstanding principal amount of the Loan plus a premium in respect of its breach of the obligation to procure any Additional Loan Guarantee or any Further Loan Guarantee (if required) in the amount of 1% of the outstanding principal amount of the Loan, plus accrued but unpaid interest and plus the Additional Amounts and increased amounts of principal, interest or any other payment due hereunder, as Notified to the Borrower by the Lender in a notice given to the Borrower no less than two Business Days prior to the Further Loan Guarantee Event Payment Date.

Following any such failure hereunder, as soon as possible, but in any event no later than within 10 calendar days after the date specified for the procurement of an Additional Loan Guarantee or, if relevant, after the date when any Further Loan Guarantee is to be procured, the Borrower shall deliver to the Lender (and the Trustee) a written notice in the form of an Officer's Certificate: (i) stating that an Further Loan Guarantee Event has occurred; and (ii) specifying the Further Loan Guarantee Event Payment Date, which date shall be a Business Day occurring 60 calendar days from the date such notice is delivered.

On the last Business Day prior to the Further Loan Guarantee Event Payment Date the Borrower shall deposit in the Account, or, following a notice from the Lender, to such other account as the Lender may specify, an amount in cash equal to the amount payable hereunder.

7.5 Notice of Prepayment

Without prejudice to any other requirement in this Agreement, any notice of prepayment given by the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) or Clause 7.2 (*Prepayment for Reasons of Increased Costs or Illegality*) hereof, shall be irrevocable, shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment one Business Day prior to such date.

7.6 Costs of Prepayment

The Borrower shall, on the date of prepayment, pay all accrued and unpaid interest, any increased amounts of principal, interest or any other payment due hereunder and any Additional Amounts (each only with respect to the amount subject to such prepayment), as of such date of prepayment and all other amounts payable to the Lender hereunder in connection with such prepayment. The Borrower shall indemnify the Lender on demand against any

costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Prepayment*).

7.7 No Other Repayments

The Borrower shall not repay the whole or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement.

8 Certain Additional Payments

8.1 No Withholding and increased amounts of principal, interest or any other payment

(a) Subject to Clause 8.1(b), all payments made by the Borrower under or with respect to the Loan will be made free and clear of, and without withholding or deduction for, or on account of any present or future tax, duty, levy, impost, assessment, or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "**Taxes**") imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein or thereof having the power to tax (each, a "**Taxing Authority**") within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), unless the Borrower is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. For the avoidance of doubt, this Clause 8.1 shall not apply to any taxes on income payable by the Lender.

(b) If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), it shall, on the due date for such payment, increase the payment of principal or interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in U.S. dollars equal to the full amount which it would have received had payment not been made subject to such taxes ("**increased amounts of principal, interest or any other payment due hereunder**").

(c) The Borrower will also:

  (i) make such withholding or deduction; and

  (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

(d) If the Lender pays any amount in respect of such Taxes in respect of which increased amounts of principal, interest or any other payment due hereunder are payable (without prejudice to, and duplication of, the provisions of Clause 8.3 (*Additional Amounts*)), the Borrower shall pay to the Lender an increased amount of principal, interest or any other payment due hereunder equal to such amount in U.S. dollars on demand.

(e) Whenever this Agreement mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with respect to the Loan, this includes, without duplication, payment of any increased amounts of principal, interest or any other payment due hereunder and Additional Amounts that may be applicable such as shall be verified by supporting documentation provided by the Lender to the Borrower.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any successor of the Borrower is organised.

8.2 Exemption assistance

The Lender shall assist the Borrower in ensuring that all payments made under this Agreement are exempt from deduction or withholding of Tax.

8.3 Additional Amounts

Without prejudice to, and without duplication of, the provisions of Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*),

(a) if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the Noteholders) on account of Tax (other than Taxes on income payable by the Lender) in respect of the Loan or in respect of any instruments issued to, or documents entered into with, the Noteholders imposed by any Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any

successor thereto is resident for tax purposes, or any liability in respect of any such Tax is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender (setting out in reasonable detail the nature and the extent of the obligation), pay to the Lender an amount sufficient to cover such payment, together with any interest, penalties, costs and expenses payable or incurred in connection therewith; and

(b) if at any time a Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes imposes an obligation on the Lender to withhold or deduct any amount on any payment made or to be made by the Lender to or for the account of the Noteholders and the Lender is required by the Notes to pay additional amounts to such Noteholders in connection therewith, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender (setting out in reasonable detail the nature and the extent of the obligation), pay to the Lender such additional amounts as may be necessary so that the net amount received by the Noteholders (including such additional amounts) in U.S. dollars after such withholding or deduction will not be less than the amount such Noteholders would have received if such withholdings or deductions had not been made and free from liability in respect of such withholding or deduction. Notwithstanding the previous provisions of the Clause 8.3(b), such additional amounts shall be paid by the Borrower to the Lender no later than one Business Day prior to the due date for any relevant payment under the Notes. The Lender shall, as soon as reasonably practicable, provide the Borrower in writing with reasonable details as to the reasons for such withholding or deduction.

Any payments required to be made by the Borrower under this Clause 8.3 are collectively referred to as "**Additional Amounts**". For the avoidance of doubt, the provisions of this Clause 8.3 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of increased amounts of principal, interest or any other payment due hereunder under Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*).

8.4 Tax Claims

If the Lender intends to make a claim for any Additional Amounts pursuant to Clause 8.3 (*Additional Amounts*), it shall notify the Borrower thereof; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 Tax Credits and Tax Refunds

(a) If any increased amounts of principal, interest or any other payment due hereunder are paid under Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*) or Additional Amounts are paid under Clause 8.3 (*Additional Amounts*) by the Borrower for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such increased amounts of principal, interest or any other payment due hereunder or, in the case of Additional Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Additional Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; provided that the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or prepayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof. The Lender shall use reasonable endeavours to obtain any tax credits or tax refunds available to the Lender and shall notify the Borrower of any such available tax credits or tax refunds.

(b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (i) such Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, (A) the Borrower applies on behalf of the Lender to the relevant Russian Taxing Authorities for a tax refund and such tax refund is credited by the Russian Taxing Authorities to the Lender or (B) if such tax refund is otherwise credited by a relevant Taxing Authority to the Lender pursuant to a final decision of such Taxing Authority, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and promptly transfer the amount equal to the tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

8.6 Representations and Undertakings of the Lender

The Lender represents that (a) it is a company which at the date hereof is a resident of Luxembourg for Luxembourg domestic purposes as well as under the Luxembourg-Russia double tax treaty, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; (b) at the date hereof, it does not have a permanent establishment in Russia; and (c) does not have any current intention to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Luxembourg and subject to taxation in Luxembourg.

The Lender shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated, including its obligations under Clause 8.8 (*Delivery of Forms*). The Lender makes no representation as to the application or interpretation of any double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated.

The Lender shall not take any action or do any thing likely to cause it to cease to be resident for taxation purposes in Luxembourg or a Qualifying Jurisdiction, other than as required by a Change of Law.

8.7 Exceptions

The Lender agrees promptly, upon becoming aware of such, to notify the Borrower if it ceases to be resident in Luxembourg or a Qualifying Jurisdiction or establishes a permanent establishment in Russia or if any of the representations set forth in Clause 8.6 (*Representations of the Lender*) are no longer true and correct. If the Lender ceases to be resident in Luxembourg or a Qualifying Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in Luxembourg or a Qualifying Jurisdiction by reason of any Change of Law (including a change in a double taxation treaty or in such law or treaty's application or interpretation), in each case taking effect after the date of this Agreement, the Borrower shall not be liable to pay to the Lender under Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*) or Clause 8.3 (*Additional Amounts*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in Luxembourg or a Qualifying Jurisdiction.

8.8 Delivery of Forms

The Lender shall, not more than 30 days prior to the first Interest Payment Date and within 30 calendar days of the request of the Borrower, to the extent it is able to do so under applicable laws including Russian laws, deliver to the Borrower a certificate issued by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming that the Lender is a tax resident in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and such other information or forms as the Borrower may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian Tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian Tax has not been obtained. The Lender shall, within 30 calendar days of the request of the Borrower, to the extent it is able to do so under applicable laws including Russian laws, from time to time deliver to the Borrower any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian Tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 8.8 shall be duly signed by the Lender, if applicable, and

stamped or otherwise approved by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and apostilled or otherwise legalised. If a relief from deduction or withholding of Russian Tax under this Clause 8.8 has not been obtained and further to an application of the Borrower to the relevant Russian Taxing Authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of the Borrower (x) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (y) thereafter furnish the Borrower with the details of such rouble bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such rouble bank account.

8.9 Tax Treatment

The Borrower and the Lender hereby agree to treat the Loan as a debt obligation of the Borrower payable to the Lender, as the beneficial owner of such debt obligation, for Russian and Luxembourg tax purposes.

9 Tax Receipts

9.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, the Borrower shall promptly notify the Lender.

9.2 Evidence of Payment of Tax

The Borrower will make all reasonable endeavours to obtain certified copies, and translations into English, of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. The Borrower will furnish to the Lender and/or the Trustee, within 60 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by the Borrower or, if such receipts are not obtainable, other evidence of such payments by the Borrower.

10 Changes in Circumstances

10.1 Increased Costs

If, by reason of (i) any Change of Law, other than a Change of Law which relates only to the basis or rate of Tax on the net income of the Lender or the amounts due pursuant to Clauses 20.1 and/or 20.4:

(a) the Lender incurs an additional cost as a result of the Lender's entering into or performing its obligations, including its obligation to make the Loan, under this Agreement (excluding Taxes payable by the Lender on its net income); or

(b) the Lender becomes liable to make any additional payment on account of Tax or otherwise, not being a tax imposed on its net income or the amounts due pursuant to Clauses 20.1 and/or 20.4, on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by it hereunder except where compensated under Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*) or under Clause 8.3 (*Additional Amounts*),

then the Borrower shall, from time to time within 30 calendar days of written demand of the Lender, pay to the Lender amounts sufficient to cover such properly documented (1) cost or (2) liability; provided that the Lender will not be entitled to indemnification where such increased cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall notify the Borrower thereof and provide a written description in reasonable detail of the relevant Change of Law, including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other person's affairs. The written description shall demonstrate the connection between the change in circumstance and the increased costs and shall be accompanied by relevant supporting documentation evidencing the matters described therein.

10.3 Illegality

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Loan made or to be made by it hereunder or to maintain the Notes, then the Lender shall, after becoming aware of the same, deliver to the Borrower a written notice, setting out in reasonable detail the nature and extent of the relevant circumstances, to that effect and:

(a) if the Loan has not then been made, the Lender shall not thereafter be obliged to make the Loan; and

(b) if the Loan is then outstanding and the Lender so requests by written notice to the Borrower, the Borrower shall: (i) on the latest date permitted by the relevant law or such earlier date as the Borrower elects (to be notified to the Lender not less than 30 calendar days prior to the date set for repayment by written notice), or (ii) if such request is received after the latest date permitted by the relevant law, on the date which is three Business Days after such request is received by the Borrower; repay the Loan pursuant to Clause 7.2 (*Prepayment for Reasons of Increased Costs or Illegality*).

10.4 Mitigation

If circumstances arise which would result in:

(a) any payment falling due to be made by or to the Lender or for its account pursuant to Clause 10.3 (*Illegality*);

(b) any payment falling due to be made by the Borrower pursuant to Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*); or

(c) a claim for indemnification pursuant to Clause 8.3 (*Additional Amounts*) or Clause 10.1 (*Increased Costs*),

then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall, upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such circumstances including, without limitation, by transfer of its rights or obligations under this Agreement to another entity; provided that the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any arrangements which it may have made with the Noteholders.

11 Representations and Warranties of the Borrower

The Borrower makes the following representations and warranties and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 Due Organisation

Each of the Borrower and its Subsidiaries has been duly incorporated and is validly existing as a legal entity in good standing (where such concept or an analogous concept exists) under the laws of its jurisdiction of incorporation and has full power and authority (corporate and other) to own or lease its properties and conduct its business, except where the failure to do so would not have a Material Adverse Effect; and the Borrower and each of its Subsidiaries is duly qualified to do business as a legal entity in good standing (where such concept or an analogous concept exists) in all jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to do so would not have a Material Adverse Effect.

11.2 Authorisations

The Borrower has full corporate power and authority to enter into this Agreement and the Agency Agreement (together the "**Agreements**") and each Agreement has been duly authorised, executed and delivered by the Borrower, and is a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except that the enforcement thereof may be limited by (i) bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and (ii) general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

11.3 No Default, Conflict or Violation

Neither the Borrower nor any of its Subsidiaries is in violation of its charter or by-laws or other constitutive documents; and no default exists, and no event has occurred which, with notice or lapse of time or both, would

constitute a default in the due performance and observance of any term, covenant or condition of any agreement or instrument (for the avoidance of doubt including this Agreement) to which the Borrower or any of its Subsidiaries is a party or by which the Borrower or any of its Subsidiaries is bound or to which any of their respective properties is subject, except, in each case, where such violation, default or event would not, individually or in the aggregate, have a Material Adverse Effect.

The execution, delivery and performance of each Agreement by the Borrower, the compliance by the Borrower with all the provisions thereof and the consummation of the transactions contemplated thereby will not: (a) conflict with or constitute a breach of any of the terms or provisions of, or constitute a default under, the charter or other constitutive documents of the Borrower, (b) conflict with or constitute a breach of any agreement, indenture or other instrument to which the Borrower or any of its Subsidiaries is a party or by which the Borrower, any of its Subsidiaries or their respective property or assets is bound, and (c) violate or conflict with any laws, administrative regulations or rulings or court decrees applicable to the Borrower, any of its Subsidiaries or their respective property, except, in the case of clause (b) and (c), for any conflict, breach or violation which would not have a Material Adverse Effect.

11.4 Consents

The execution, delivery and performance of each Agreement by the Borrower, the compliance by the Borrower with all the provisions hereof and the consummation of the transactions contemplated hereby and the legality, validity, enforceability and, subject to Russian law requirements, admissibility in evidence of each Agreement will not require any consent, approval, authorisation or other order of any court, regulatory body, administrative agency or other governmental body (except such as may be required under the securities laws of any jurisdiction other than Russia, Luxembourg and the United Kingdom), except for such consents, approvals, authorisations or other orders as have been obtained and which are in full force and effect by the Closing Date and except for such consents as may be obtained within 30 days of the requirement for such consent arising.

11.5 Financial Statements

The audited consolidated financial statements of the Borrower and the related notes thereto, as contained in the Prospectus, were prepared in accordance with IFRS consistently applied throughout the periods involved and present fairly, in all material respects, the consolidated financial position of the Borrower as at the dates at which they were prepared and the results of the operations and the cash flows of the Borrower in respect of the periods for which they were prepared. The other financial and statistical information and data, is in all material respects, accurately presented and prepared on a basis consistent with such financial statements, where applicable, and the books and records of the Borrower and its Subsidiaries. Since 31 December 2009, except as disclosed in the Prospectus, (a) there has been no material adverse change in the condition (financial or otherwise) or affecting the business, prospects, financial position, or results of operations of the Borrower or the Group, whether or not arising from transactions in the ordinary course of business; and (b) neither the Borrower nor any of its Subsidiaries has entered into any transaction or agreement material to the Borrower or to the Group, other than in the ordinary course of business.

11.6 No Other Indebtedness

The Borrower has no Indebtedness, other than Indebtedness (a) as set forth in the June 30, 2010 reviewed consolidated balance sheet of the Borrower; (b) as disclosed in the Prospectus; or (c) that in the aggregate would not have a Material Adverse Effect.

11.7 Payment in U.S. Dollars

All payment obligations of the Borrower under this Agreement are required by the terms hereof to be paid in U.S. dollars, and the Borrower does not require any approvals, consents, licences and permissions to make and may make such payments in U.S. dollars.

11.8 Taxes

Except as disclosed in the Prospectus, each of the Borrower and the Material Subsidiaries has duly filed with the appropriate Taxing Authorities, or has received an extension for filing with respect to, all tax returns, reports and other information required to be filed by it, and each such tax return, report, or other information was, when filed, accurate and complete in all material respects; and each of the Borrower and the Material Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it, and to the best of the Borrower's knowledge, no overdue Tax liability or Tax deficiency is currently

asserted against the Borrower or any of the Material Subsidiaries, except, in each case, where any failure to do so would not have a Material Adverse Effect.

11.9 Litigation and Contracts

Except as set forth in the Prospectus (which disclosure shall be disregarded for the purpose of Clause 11.21 (*Repetition*)): (A) there are no pending legal or governmental proceedings against the Borrower or any of its Subsidiaries or any of their respective properties and (B) there are no pending legal or governmental proceedings naming, and, to the best knowledge of the Borrower, there are no threatened legal or governmental proceedings against or naming, the Borrower or any of its Subsidiaries or any of their respective properties that, in each case, if determined adversely to the Borrower or any such Subsidiary, would individually or in the aggregate have a Material Adverse Effect or would have a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement or on the Loan Guarantors to perform their respective obligations under the Loan Guarantee and, to the best knowledge of the Borrower, no such proceedings are contemplated.

11.10 Labour

There are no labour disputes involving the employees of the Borrower or any of its Subsidiaries that exist, or to the best knowledge of the Borrower, that are threatened, except where such would not, individually or in the aggregate, have a Material Adverse Effect.

11.11 Title, Licences and Consents

Each of the Borrower and its Subsidiaries possesses all certificates, authorisations, licences and permits issued by appropriate governmental agencies or bodies necessary to conduct the business now conducted by it, except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect and neither the Borrower nor any of its Subsidiaries has received any notice of proceedings relating to the revocation or modification for any such certificate, authorisation or permit that, if determined adversely to the Borrower or any of its Subsidiaries, could have a Material Adverse Effect.

Except as disclosed in the Prospectus, each of the Borrower and its Subsidiaries (A) has good and marketable title to all items of real property owned by it and good and marketable title to all other property and assets owned by it, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects that would affect the value thereof or interfere with the use made or proposed to be made thereof by it, and (B) holds any real property and buildings leased by it under valid, subsisting and enforceable leases with no exceptions that would interfere with the use made or proposed to be made thereof by it, except, in the cases of each of (A) and (B), where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

The Borrower and each of its Subsidiaries owns or possesses all patents, patent applications, trademarks, service marks, trade names, licences, copyrights and proprietary or other confidential information currently employed by it in connection with its business (collectively, "**intellectual property rights**"), except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect; and neither the Borrower nor any of its Subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Borrower or any of its Subsidiaries, could individually or in the aggregate have a Material Adverse Effect.

11.12 Adequate Insurance

Except as disclosed in the Prospectus, the Borrower and each of its Material Subsidiaries has, where relevant, applied for insurance with an insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively; the Borrower and each of its Material Subsidiaries has not been refused any insurance coverage sought or applied for; and the Borrower and each of its Material Subsidiaries, where relevant, has no reason to believe that they will not be able to obtain, within 90 days of the date of the making of the Loan, such coverage as may be necessary to continue their business at a cost that would not have a Material Adverse Effect.

11.13 No Withholding or Similar Tax

Under current laws and regulations of Russia and Luxembourg and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 8.6 (*Representations of the Lender*) hereof, all payments of principal and/or interest, increased amounts of principal, interest or any other payment due hereunder, Additional Amounts or any other amounts payable on or in respect of the Loan may be paid by the Borrower to the Lender in U.S.

dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Luxembourg, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that the Borrower makes no representation as to any income or similar Tax of Luxembourg (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein.

11.14 Rating

No Rating Agency (a) has imposed (or has informed the Borrower that it is considering imposing) any condition (financial or otherwise) on the Borrower's retaining any rating assigned to the Borrower or any securities of the Borrower or the Lender or (b) has indicated to the Borrower that it is considering (i) the downgrading, suspension or withdrawal of, or any review for a possible change that does not indicate the direction of the possible change in, any rating so assigned or (ii) any change in the outlook for any rating of the Borrower, as applicable, or any securities of the Borrower or the Lender.

11.15 No Liquidation or Similar Proceedings

No receiver or liquidator (or similar person) has been appointed in respect of the Borrower or any Subsidiary of the Borrower or in respect of any material part of the assets of the Borrower or any Subsidiary of the Borrower; no resolution, order of any court, regulatory body, governmental body or otherwise, or petition or application for an order, has been passed, made or presented for the winding up of the Borrower or any Subsidiary of the Borrower or for the protection of the Borrower or any such Subsidiary from its creditors; and the Borrower has not, and no Subsidiary of the Borrower has, stopped or suspended payments of its debts, become unable to pay its debts or otherwise become insolvent.

11.16 Certificates

Each certificate signed by any director or officer of the Borrower and delivered to the Lender or counsel for the Lender on the date of the making of the Loan shall be deemed to be a representation and warranty by the Borrower to the Lender as to the matters covered thereby.

11.17 Pari Passu Obligations

The obligations of the Borrower under this Agreement will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

11.18 No Stamp Taxes

Under the laws of Russia in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Agreement.

11.19 No Events of Default

No event has occurred or circumstances arisen which would (whether or not with the giving of notice and/or the passage of time) constitute an event described in Clause 15 (*Events of Default*).

11.20 Health, Safety and Environment

Each of the Borrower and its Subsidiaries is in compliance with all statutes, and all rules, regulations, requirements, decisions and orders of, and agreements with, any governmental agency or body and any court, relating to the protection of human health and safety (including occupational health and safety), the use, handling, transportation, disposal or release of hazardous or toxic substances, or the protection or restoration of the environment (collectively, "**HSE laws**"), and has received, and is in compliance with all terms and conditions of, all permits, licences or other approvals required of it under applicable HSE laws in order to conduct its business, except, in each case, where the failure to be in compliance with or receive such permits, licences or other approvals would not, individually or in the aggregate, have a Material Adverse Effect.

Neither the Borrower nor any of its Subsidiaries is subject to any claims, costs or liabilities associated with any HSE laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with HSE laws or to acquire or comply with the terms and conditions of any permit, licence or approval under any HSE laws, any constraints on operating activities and any potential liabilities to third

parties) which could, individually or in the aggregate, have a Material Adverse Effect; and, to the best of the Borrower's knowledge, having made all due inquiries, there are no past or present events, conditions, circumstances, activities, practices, incidents or actions that would be reasonably likely to give rise to such costs, liabilities or claims.

11.21 Repetition

Each of the representations and warranties in Clause 11 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the date of the making of the Loan and each of Clause 11.1 (*Due Organisation*) (solely with respect to the Borrower and provided that, upon the occurrence of a merger or sale of assets pursuant to Clause 14.5 (*Mergers and Similar Transactions*), the Borrower is the Surviving Entity), Clause 11.2 (*Authorisations*), Clause 11.3 (*No Default, Conflict or Violation*) and Clause 11.9 (*Litigation and Contracts*) (solely with respect to any legal or governmental proceedings pending or, to the best knowledge of the Borrower, threatened in writing delivered to the Borrower, before any court, tribunal, arbitration panel or Agency challenging the lawfulness, validity or enforceability of this Agreement (except for any such proceedings as may have been disclosed in writing by the Borrower to the Lender prior to the relevant date of repetition)) shall be deemed to be repeated and updated on each Interest Payment Date. The Borrower shall inform the Lender in writing of any breach or prospective breach of such deemed repeated representations and warranties as soon as it becomes aware of the same.

12 Representations and Warranties of the Lender

In addition to the representations and warranties set forth in Clause 8.6 (*Representations and Undertakings of the Lender*), the Lender makes the representations and warranties set out in Clause 12.1 (*Status*) to Clause 12.4 (*No Conflicts*), inclusive, and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1 Status

The Lender is duly incorporated under the laws of Luxembourg and is resident in Luxembourg for taxation purposes and has full corporate power and authority to enter into this Agreement and any other agreements relating to the Notes, and to undertake and perform the obligations expressed to be assumed by it herein and therein.

12.2 Authorisation

Each of this Agreement and any other agreements entered into by the Lender in connection with the Notes has been duly authorised, executed and delivered by the Lender, and is a legal, valid and binding obligation of the Lender, enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and general equitable principles.

12.3 Consents and Approvals

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and any other agreements relating to the Notes and the performance by the Lender of the obligations expressed to be undertaken in such agreements have been obtained and are in full force and effect.

12.4 No Conflicts

The execution of this Agreement and any other agreements relating to the Notes and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or the constitutive documents of the Lender.

13 Financial Information

The Borrower will, at its own expense, so long as the Loan remains outstanding, furnish to the Lender and the Trustee:

13.1 copies of all reports and other communications (financial or other) furnished to stockholders of the Borrower (excluding communications made only in the Russian language);

13.2 as promptly as practicable, copies of (i) any reports and financial statements furnished to or filed with any securities exchange (other than any securities exchange in Russia) on which any class of securities of the Borrower is listed; and (ii) such additional publicly available information concerning the business and financial condition of the Borrower as the Lender may from time to time reasonably request;

13.3 such information as the UK Listing Authority or the London Stock Exchange plc (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of the Notes;

13.4

13.4.1 its audited annual consolidated financial statements, prepared in accordance with Accounting Standards consistently applied with the corresponding financial statements for the preceding period, within 180 days of the end of the financial year to which such statements relate;

13.4.2 its reviewed semi-annual consolidated financial statements, prepared in accordance with Accounting Standards consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate; and

13.4.3 its other interim consolidated financial statements (if the Borrower prepares any such other interim consolidated financial statements), prepared in accordance with Accounting Standards consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate, provided that the Borrower shall not be required to deliver any other interim consolidated financial statements if such financial statements are prepared solely for internal purposes,

in each case together with a certificate signed by the individual then responsible for the financial matters of the Group stating that since the date of the last certificate or, if none, the Original Issue Date each of the Borrower and the Material Subsidiaries has performed its obligations under, and complied with, the terms of this Agreement and is not in default in the performance of any of the terms of this Agreement (or, if an Event of Default or Potential Event of Default shall have occurred, describing all such Events of Default or Potential Event of Default, of which he may have knowledge). In addition, the Borrower shall provide such a certificate to the Lender and the Trustee within 10 days of any request by the Lender.

13.5 If so requested by the Lender, the Borrower shall deliver to the Lender and/or the Trustee, within 14 Business Days of such request, an Officers' Certificate (a) stating that to the best of each of the Officers' knowledge (i) the Borrower has kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in this Agreement and (ii) the Borrower is not in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Potential Event of Default or Event of Default shall have occurred, describing all such Potential Events of Default or Events of Default of which he may have knowledge) and (b) setting out the calculations of the ratios set out in Clause 14.2 (*Incurrence of Indebtedness*).

14 Covenants

For so long as any amount remains outstanding hereunder:

14.1 Limitation on Liens

Neither the Borrower nor any of its Material Subsidiaries shall, directly or indirectly, create, incur, assume or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness unless, at the same time or prior thereto, the Loan or the relevant Loan Guarantee, as the case may be, (a) is secured equally and rateably therewith or (b) has the benefit of other security or other arrangement, in each case to the satisfaction of the Trustee.

14.2 Incurrence of Indebtedness

(a) Neither the Borrower nor any Subsidiary of the Borrower shall incur any Indebtedness, other than in circumstances where, (i) no Potential Event of Default nor Event of Default shall have occurred and be continuing at the time, or would occur as a consequence, of the incurrence of such Indebtedness, and (ii) the Leverage Ratio is 3.5 or lower.

(b) At any time when the conditions set forth in Clause 14.2(a) hereof are not met, the Borrower and its Subsidiaries may only Incur additional Indebtedness if it is Permitted Indebtedness.

(c) Notwithstanding any other provision of this Clause 14.2, the maximum amount that the Borrower or a Subsidiary of the Borrower may Incur pursuant to this Clause 14.2 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely to the result of fluctuations in the exchange rate of currencies.

(d) For the purposes of determining compliance with this covenant:

(i) in the event that an item of Indebtedness (or any portion thereof) on Incurrence meets the criteria of more than one of the types of Indebtedness described in this Clause 14.2 or the definition of Permitted Indebtedness, the Borrower, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of Incurrence and will only be required to include the amount and type of such Indebtedness in one of the classifications as described in sub-Clause 14.2(a), sub-Clause 14.2(b) or one of the paragraphs under the definition of Permitted Indebtedness; and

(ii) the Borrower will be entitled to divide and classify such item of Indebtedness which meets the criteria of more than one of the types of Indebtedness described in this Clause 14.2 or the definition of Permitted Indebtedness and may at any time change the classification of such item of Indebtedness (or any portion thereof) to any other type of Indebtedness that it meets the criteria of.

14.3 Transactions with Affiliates

Neither the Borrower nor any Subsidiary or the Borrower shall, directly or indirectly, enter into or make or amend any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of the Borrower or any other Subsidiary of the Borrower unless such transaction or series of related transactions is entered into in good faith and in writing and such transaction or series of related transactions is on terms that are no less favourable to the Borrower or the relevant Subsidiary or the Borrower, as the case may be, than those that would be available in a comparable transaction at arm's-length with an unrelated third party, provided, however, that this provision shall not apply to:

(i) any employment agreement, collective bargaining agreement or employee benefit arrangements with any officer or director of the Borrower or any of its Subsidiaries, including under any stock option or stock incentive plans, entered into in the ordinary course of business;

(ii) payment of reasonable fees and compensation to employees, officers, directors, consultants or agents in the ordinary course of business;

(iii) transactions between the Borrower and any of its Subsidiaries or between its Subsidiaries;

(iv) transactions undertaken pursuant to contractual obligations or rights in existence on the Original Issue Date (as in effect on the Original Issue Date) or any amendment thereto after the Original Issue Date (so long as such amendment is not disadvantageous to the Lender in any material respect in the reasonable opinion of the Borrower);

(v) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and otherwise in compliance with the terms of this agreement which are on terms at least as favourable to the Borrower or the relevant Subsidiary as might reasonably be obtained at such time from an unrelated third party;

(vi) sales of Capital Stock (other than Redeemable Capital Stock) of the Borrower

(vii) sales or other transfers or dispositions of accounts receivables and other related assets customarily transferred in a Qualified Securitisation Transaction, and acquisitions of Investments in connection with a Qualified Securitisation Transaction, in each case to or from the relevant securitisation vehicle; or

(viii) any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation) undertaken by the Borrower or any of its Subsidiaries as may be permitted pursuant to Clause 14.5 (*Mergers and Similar Transactions*).

14.4 Asset Sales

Neither the Borrower nor any Subsidiary of the Borrower shall consummate any Asset Sale, unless the proceeds received by the Borrower or the relevant Subsidiary of the Borrower, as the case may be, are at least equal to the Fair Market Value of the assets sold or disposed of and an amount equal to such proceeds (less any costs incurred in relation to such Asset Sale) (the "**Disposal Proceeds**") is:

(a) applied to repay permanently any Indebtedness of the Group (other than Indebtedness subordinated to the Loan);

(b) invested in assets of a nature or type that is used or usable in the ordinary course of a Core or Related Business of the Borrower or any of its Subsidiaries;

(c) retained as cash deposited with a bank or invested in Cash Equivalents; and/or

(d) applied to finance: (i) an acquisition of Capital Stock of a Person engaged in a Core or Related Business who, following the consummation of such Asset Sale, is to become a Subsidiary of the Borrower, or (ii) an acquisition of, or a merger, reorganisation or other combination of a business of the Group with, the business of a Person that is similar or related to the Core or Related Business,

in each case within 360 days of the date when such proceeds are received (it being understood that receipt by the Borrower or any Subsidiary of the Borrower of Capital Stock of any Person who, following the consummation of such Asset Sale is to become a Subsidiary of the Borrower, as consideration for such Asset Sale shall be deemed to satisfy the financing of the acquisition of Capital Stock requirement set out above);

provided that if the Disposal Proceeds are applied pursuant to paragraph (c), the Borrower or the relevant Subsidiary, as the case may be, shall apply or invest the Disposal Proceeds on or prior to the date falling 540 days after the date when such proceeds are received either to (i) repay permanently Indebtedness of the Group (other than Indebtedness subordinated to the Loan), (ii) invest in assets of a nature or type that is used or usable in the ordinary course of Core or Related Business of the Borrower or any of its Subsidiaries or (iii) applied to finance the acquisition of Capital Stock of, or merger, reorganisation or other combination of a business of the Group with the business of, a Person whose business is similar or related to the Core or Related Business.

14.5 Mergers and Similar Transactions

(a) Subject to Clause 14.5(b), neither the Borrower nor any Material Subsidiary shall, in each case without the prior written consent of the Trustee (which consent may only be given by the Trustee if it is of the opinion that to do so will not be materially prejudicial to the interests of the Noteholders):

(i) in the case of any of the Material Subsidiaries (A) enter into any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation contemplated or as may be contemplated from time to time by any applicable legislation), or (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (for the avoidance of doubt, not including Capital Stock of such Material Subsidiaries) to any Person; and

(ii) in the case of the Borrower (A) merge with or into or enter into a transaction whose effect would be similar to that of a merger, (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets to any Person or (C) permit any Person to merge with or into the Borrower.

(b) Clause 14.5(a) shall not apply to any transactions provided that:

(i) the transaction is between a Subsidiary of the Borrower and the Borrower and the Borrower is the continuing Person;

(ii) in the case of any such transaction by a Material Subsidiary, the conditions set out in (iv) to (vi) below are satisfied; and

(iii) in the case of the Borrower either (A) the Borrower is the continuing Person, or (B) if other than the Borrower, the Person into which the Borrower is merged or that acquired or leased such property and assets of the Borrower (the "**Surviving Entity**") shall (1) be a company organised and validly existing under the laws of, as applicable, Russia or a member state of the European Union (as the European Union is constituted on the Original Issue Date), (2) expressly assume, by amendment to the Loan Agreement, executed and delivered by such continuing Person to the Lender and the Trustee, in form and substance satisfactory to the Lender and the Trustee, the due and punctual payment of the principal of and interest under the Loan Agreement and the due and punctual performance and observance of all the covenants, conditions and other obligations of the Borrower under the Loan Agreement, and (3) deliver to the Lender and the Trustee an opinion of counsel with respect to such amendment to the Loan Agreement in a form and substance reasonably acceptable to the Lender and the Trustee, and provided that in each case the conditions set out in (iv) to (vi) below are satisfied;

(iv) immediately before and after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Borrower or the relevant Material Subsidiary or the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the Borrower or the relevant Material Subsidiary or the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions), no Potential Event of Default or Event of Default shall have occurred and be continuing;

(v) the Borrower delivers to the Lender and the Trustee an opinion of counsel or tax advisors in form and substance reasonably acceptable to the Trustee, to the effect that the Lender will not recognise income, gain or loss for tax purposes as a result of the merger or sale of assets and the Lender would, after the merger or sale of assets, be subject to taxes on the same amount and in the same manner and at the same times as would have been the case if such merger or sale of assets had not occurred; and

(vi) the Person (if other than the Borrower or the relevant Material Subsidiary) into which the Borrower or the relevant Material Subsidiary is merged or that acquired or leased such property and assets of the Borrower or the relevant Material Subsidiary principally undertakes, in its ordinary course of business prior to the merger, acquisition or lease, as the case may be, a Core or Related Business.

14.6 Maintenance of Authorisations

(a) the Borrower and each Material Subsidiary shall take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business; and

(b) the Borrower and each Material Subsidiary shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in any relevant jurisdiction for the purposes of the execution, delivery or performance of the Notes and the Trust Deed and for the validity and enforceability thereof, provided that, in any case, if the Borrower or the relevant Material Subsidiary remedies any failure to comply with (a) and (b) above within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

14.7 Maintenance of Property

The Borrower and each Material Subsidiary shall cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Borrower or the relevant Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided that if the Borrower or the relevant Material Subsidiary remedies any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.$25 million (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

14.8 Payment of Taxes and Other Claims

The Borrower and each of the Material Subsidiaries shall pay or discharge, or cause to be paid and discharged, before the same shall become overdue and without incurring penalties, (a) all Taxes levied or imposed upon, or upon the income, profits or property of the Borrower or the Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of any of the Borrower or the Material Subsidiaries; provided that none of the Borrower or the Material Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such Tax (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with Accounting Standards as consistently applied or other appropriate provisions have been or will be made or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims of the Group, not so contested and for which adequate reserves in accordance with Accounting Standards as consistently applied or other appropriate provisions have been or will be made does not in the aggregate exceed U.S.$30 million (or its U.S. Dollar Equivalent).

14.9 Insurance

The Borrower and each of the Material Subsidiaries shall obtain and maintain insurance with an insurer or insurers of sufficient standing (in the reasonable judgment of the Borrower or the relevant Material Subsidiary) against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged in the jurisdiction(s) where it operates; provided that if the Borrower or the relevant Material Subsidiary remedies any failure to comply with the above within 90 days or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by the Borrower or the relevant Material Subsidiary over the preceding 3 years) do not exceed U.S.$25 million (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

14.10 Change of Business

Neither the Borrower nor any of the Material Subsidiaries shall make any material change to the Core or Related Business of the Group.

14.11 Additional Loan Guarantees

(a) Procurement of Additional Loan Guarantees

(i) The Borrower shall procure that the Additional Loan Guarantors, not later than 90 calendar days after the Original Issue Date, execute Additional Loan Guarantees in favour of the Lender whereby the Additional Loan Guarantors will, jointly and severally, unconditionally and irrevocably guarantee that if the Borrower does not pay any sum payable under the Loan Agreement by the time and on the date specified for such payment (whether on the normal due date, an acceleration or otherwise) the Additional Loan Guarantor will pay that sum to or to the order of the Borrower before the close of business that day

(ii) The Borrower shall also procure that the following opinions are delivered to the Lender and the Trustee on the date of the execution of the Additional Loan Guarantees:

(a) an opinion of counsel or tax advisors reasonably acceptable to the Lender and the Trustee, in form and substance satisfactory to the Lender and the Trustee, to the effect that neither the Lender nor any Noteholder will recognise any income, gain or loss for Tax purposes as a result of the addition of such Additional Loan Guarantees, subject to customary exceptions, qualifications and limitations; and

(b) an opinion of counsel reasonably acceptable to the Lender and the Trustee, in form and substance satisfactory to the Lender and the Trustee, stating that all legal conditions precedent in relation to such substitution or addition have been complied with and that each Additional Loan Guarantee constitutes legal, valid and binding obligations of the respective Additional Loan Guarantor, enforceable in accordance with its terms, subject to customary exceptions, qualifications and limitations.

(b) Procurement of Further Loan Guarantees

(i) The Borrower will use its reasonable best efforts to cause each Material Subsidiary to execute and deliver to the Lender (with a copy to the Trustee) a Loan Guarantee, in the form set out in the Schedule hereto, pursuant to which such Material Subsidiary will unconditionally and irrevocably guarantee the payment of all moneys payable under this Agreement and will become vested with all the duties and obligations of a Loan Guarantor as if originally named a Loan Guarantor, as soon as practicable (but in any event no later than 90 calendar days) after the total Production Assets or the gross revenues (excluding intercompany revenues) of such Material Subsidiary (determined by reference to the most recent period for which financial statements of such Material Subsidiary prepared under Accounting Standards are available (or, if unavailable, such Material Subsidiary's most recent management accounts) or, if the relevant Material Subsidiary does not prepare financial statements in accordance with Accounting Standards, the most recent period for which audited financial or reviewed financial statements of such Material Subsidiary are available (or if unavailable, such Material Subsidiary's most recent management accounts)) equals or exceeds 20 per cent. of the Group's consolidated total Production Assets or 20 per cent. of the Group's consolidated revenues, respectively (determined by reference to the most recent period for which the Group's financial statements prepared in accordance with Accounting Standards are available).

(ii) In addition and as a separate obligation to those above in this Clause 14.11, the Borrower will procure that any Material Subsidiary of the Borrower that is not a Loan Guarantor execute, and deliver a copy thereof to the Lender (with a copy to the Trustee), a Loan Guarantee, in the form set out in the Schedule hereto, pursuant to which such Material Subsidiary will unconditionally and irrevocably guarantee the payment of all money payable under this Agreement and will become vested with all the duties and obligations of a Loan Guarantor as if originally named as such, as soon as practicable (but in any event no later than 90 calendar days) after such Material Subsidiary Guarantees, together with all of the Loan Guarantors at such time, any Indebtedness of any member of the Group.

(iii) A Loan Guarantor will be automatically and unconditionally released and discharged from its Loan Guarantee: (i) upon any sale, exchange or transfer to any Person which is not an Affiliate of Borrower of all or substantially all of the Capital Stock of the Loan Guarantor held by Borrower and other Subsidiaries of Borrower (which sale, exchange or transfer is not prohibited by these Conditions) or (ii) upon the reorganisation (whether by way of merger or accession) of the relevant Loan Guarantor pursuant to which such Loan Guarantor accedes to or is merged into the Borrower.

(iv) The Borrower will give notice to the Lender (with a copy to the Trustee) in accordance with Clause 24 (*Notices Language*) hereof of any Loan Guarantor becoming or ceasing to be a Loan Guarantor and, so long as the Notes are listed on the London Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the London Stock Exchange and/or such other exchange (including preparation of a supplemental offering circular) in relation to any Loan Guarantor becoming or ceasing to be a Loan Guarantor.

14.12 Other Information

The Borrower shall:

(a) provide the Lender and the Trustee with a list of its authorised signatories (together with specimen signatures) and forthwith to notify the Lender and the Trustee of any changes to the list; and

(b) forthwith following a request by the Lender notify the Lender and the Trustee of any Notes held by or on behalf of the Borrower or any Loan Guarantor or any of their Affiliates, in each case as beneficial owner.

15 Events of Default

15.1 Circumstances which constitute Events of Default

Each of the following constitutes an "**Event of Default**" with respect to the Loan:

(a) default by the Borrower or any Loan Guarantor in the payment of principal of (or premium, if any, on) the Loan, in the currency and in the manner provided herein or in the Loan Guarantee, as the case may be, when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise and such default continues for a period of 5 Business Days;

(b) default by the Borrower or any Loan Guarantor in the payment of interest on the Loan, in the currency and in the manner provided herein or in the Loan Guarantee, as the case may be, when the same becomes due and payable if such default continues for a period of 7 Business Days;

(c) failure by the Borrower or any Loan Guarantor to prepay the Loan in accordance with Clause 7.4 (*Noteholder Put*) hereof and such default continues for a period of 10 Business Days;

(d) default by the Borrower or any Loan Guarantor in the performance of any of its other obligations under this Agreement or the Loan Guarantee, as the case may be and (except where in any such case that failure is not capable of remedy) that failure continues for a period of 30 days following the submission by the Lender of a notice in writing requiring the breach to be remedied; provided that a failure in the performance by the Borrower of the provisions contained in Clauses 14.11 (*Additional Loan Guarantees*) hereof shall be deemed not to constitute an Event of Default;

(e) any Indebtedness of either the Borrower or any of its Subsidiaries is not paid when due (taking into account any originally applicable grace period), or any Indebtedness of either the Borrower or any of its Subsidiaries is declared to be due and payable prior to its Stated Maturity as a result of a default by the Borrower or its Subsidiaries pursuant to the terms of the relevant Indebtedness; provided, however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its Stated Maturity is equal to or greater than U.S.$30 million (or its U.S. Dollar Equivalent in another currency) disregarding any guarantee of the Borrower or its Subsidiaries given in respect of such Indebtedness owed by the Borrower or its Subsidiaries, 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, to the extent non-U.S. dollar denominated, the U.S. Dollar Equivalent of such amount) 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 Borrower or any Material Subsidiary 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, to the extent non-U.S. dollar denominated, the U.S. Dollar Equivalent of such amount) 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 this Agreement or the Loan Guarantee is contested by the Borrower or any Loan Guarantor or the Borrower or any Loan Guarantor shall deny any of its obligations under this Agreement or any Loan Guarantor shall deny any of its obligations under the Loan Guarantee; or it is, or will become, unlawful for the Borrower or any Loan Guarantor to perform or comply with any of its obligations under or in respect of this

Agreement or the Loan 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 Borrower or any of its Material Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation of the Borrower or any of its Material Subsidiaries 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 Borrower or any of its Material Subsidiaries, 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 Clause 15.1(h); or

(i) the Borrower or any of its Material Subsidiaries 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 Clause 15.1(i).

15.2 Rights of Lender upon occurrence of an Event of Default

(a) If an Event of Default occurs under this Agreement and is continuing, the Lender and/or the Trustee may, by written notice (an "**Acceleration Notice**") to the Borrower (including if the Lender and/or the Trustee receives written instructions from the Noteholders),

(i) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate, and

(ii) declare the principal amount of, premium, if any, and accrued and unpaid interest, increased amounts of principal, interest or any other payment due hereunder and Additional Amounts, if any, on the Loan to be immediately due and payable and the same shall become immediately due and payable,

pursuant to and in accordance with the terms of any agreements entered into in connection with the arranged funding.

(b) If an Event of Default specified in Clause 15.1(h) or (i) occurs with respect to the Borrower or any of its relevant Material Subsidiaries, the obligations of the Lender hereunder shall immediately terminate, and the principal amount of, premium, if any, and accrued and unpaid interest, increased amounts of principal, interest or any other payment due hereunder and Additional Amounts, if any, on the Loan then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Lender and/or the Trustee, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

15.3 Other Remedies

If an Event of Default occurs and is continuing, the Lender by notice to the Borrower and/or the Loan Guarantors, as the case may be, and/or the Trustee may pursue any available remedy to collect the payment of principal or interest on the Loan or to enforce the performance of any provision of this Agreement or the Loan Guarantee. A delay or omission by the Lender and/or the Trustee in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

15.4 Notification of Potential Event of Default or Event of Default

The Borrower shall and shall procure that each of the Loan Guarantors shall promptly on becoming aware thereof inform the Lender of the occurrence of any Potential Event of Default or Event of Default and, upon receipt of a

written request to that effect from the Lender, confirm to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no Potential Event of Default or Event of Default has occurred.

16 Default Interest and Indemnity

16.1 Default Interest Periods

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 19 (*Payments*) or if any sum due and payable by the Borrower under any judgement of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "**unpaid sum**") is discharged shall be divided into successive periods, each of which, other than the first, shall start on the last day of the preceding such period and the duration of each of which shall, except as otherwise provided in this Clause 16 (*Default Interest and Indemnity*), be selected by the Lender, but shall in any event not be longer than one month.

16.2 Default Interest

During each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*) an unpaid sum shall bear interest at a rate per annum equal to the Interest Rate.

16.3 Payment of Default Interest

Any interest which shall have accrued under Clause 16.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

16.4 Borrower's Indemnity

The Borrower undertakes to pay to the Lender a sufficient premium to cover any reasonably incurred and properly documented cost, claim, loss, expense (including legal fees) or liability, together with any VAT thereon, which it may sustain or incur as a consequence of the occurrence of any Event of Default or any default by the Borrower in the performance of any of the obligations expressed to be assumed by it in this Agreement.

16.5 Unpaid Sums as Advances

Any unpaid sum shall, for the purposes of this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*), be treated as an advance and accordingly in this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*) the term "Loan" includes any unpaid sum and the term "Interest Period," in relation to an unpaid sum, includes each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*).

17 Amendments to Agreements Relating to the Notes

Any amendment to, or waivers of any provision of, any agreements entered into in connection with the Notes shall be prohibited without the express written consent of the Borrower, which consent shall not be unreasonably withheld (other than amendments or waivers that are made pursuant to any legal, regulatory or accounting requirement, with respect to which the Lender shall consult with the Borrower to the extent reasonably practicable).

18 Currency of Account and Payment

18.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

18.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and

(ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

19 Payments

19.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in same day funds on such date, or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in U.S. dollars, to the Account, or, following a notice from the Trustee under the provisions of Clause 2.6(b) of the Trust Deed, to such other account as the Trustee may specify. The Borrower shall procure that the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message three Business Days prior to the date that such payment is required to be made by this Agreement the payment instructions relating to such payment.

19.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any Change of Law, exchange control regulations or any similar event, for the Borrower to make any payments hereunder in the manner specified in Clause 19.1 (*Payments to the Lender*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made; provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

19.3 No Setoff

All payments required to be made by the Borrower hereunder shall be calculated without reference to any setoff or counterclaim and shall be made free and clear of and without any deduction for or on account of any setoff or counterclaim.

20 Costs and Expenses

20.1 Transaction Expenses and Fees

In consideration of the Lender making the Loan available to the Borrower, the Borrower hereby agrees that it shall pay to the Lender a fee including applicable front-end expenses incurred in connection with the financing of the Loan, the negotiation, preparation and execution of this Loan Agreement and all related documents and other expenses connected with and necessary for the extension of the Loan (the "**Loan Arrangement Fee**"), in the amount of U.S.$3,350,000. The Lender shall promptly submit an invoice to the Borrower stating the amount due. The Borrower and the Lender shall enter into and sign a delivery and acceptance act ("**Act of Acceptance**"). Such Act of Acceptance shall specify (i) the net amount due, (ii) any applicable Russian income tax withholding (if any), (iii) any applicable Russian value added tax (if any) and (iv) the resulting total amount inclusive of tax.

20.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time on demand of the Lender and following receipt from the Lender of a description in writing in reasonable detail of the relevant costs and expenses, together with the relevant supporting documents evidencing the matters described therein, reimburse the Lender for all costs and expenses, including legal fees, together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement except where the relevant claim is successfully defended by the Borrower.

20.3 Stamp Taxes

The Borrower shall pay all stamp, registration and other similar Taxes to which this Agreement or any judgement given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on demand of the Lender, indemnify the Lender against any properly documented liabilities, costs, expenses and claims resulting from any failure to pay or any delay in paying any such Tax.

20.4 Ongoing Fees and Expenses

In consideration of the Lender (i) making available the Loan hereunder and (ii) supporting such a continuing loan and managing the account, the Borrower shall pay to the Lender each year ongoing fees as increased by expenses. Such fees shall be sufficient to cover expenses of the Lender arising with respect to any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees) arising out of, or in connection with the arranged funding, or based on any dispute or issue arising out of, or in connection with, the arranged funding. Payments to the Lender referred to in this Clause shall be made by the Borrower as soon as reasonably practicable and in any event no later than 15 days following receipt of an invoice from the Lender setting out in detail the nature of fees and calculation of the relevant payment. In addition, the Borrower and the Lender shall enter and sign an Act of Acceptance as provided in Clause 20.1 (*Transaction Fees and Expenses*) above.

21 Assignments and Transfers

21.1 Binding Agreement

This Agreement shall be binding upon and inure to the benefit of each party hereto and its or any subsequent successors and assigns.

21.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder, except as permitted under Clause 14.5 (*Mergers and Similar Transactions*).

21.3 Assignments by the Lender

The Lender may not assign or transfer all or any part of its rights and benefits or obligations hereunder except pursuant to (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits hereunder, in each case pursuant to the provisions of the Trust Deed.

22 Calculations and Evidence of Debt

22.1 Basis of Accrual

Default interest payable hereunder shall accrue from day to day and shall be calculated on the basis of a year of 360 days consisting of 12 30-day months.

22.2 Evidence of Debt

The Lender shall maintain, in accordance with its usual practice, accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

22.3 Change of Circumstance Certificates

A certificate signed by two authorised signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*) or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Additional Amounts*) or Clause 10.1 (*Increased Costs*) shall, in the absence of manifest error, be *prima facie* evidence of the existence and amounts of the specified obligations of the Borrower.

23 Remedies and Waivers, Partial Invalidity

23.1 Remedies and Waivers

No failure by the Lender to exercise, nor any delay by the Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

23.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

24 Notices; Language

24.1 Communications in Writing

Each communication to be made hereunder shall be made in writing and, unless otherwise stated, shall be made by fax or letter.

24.2 Delivery

Any communication or document to be made or delivered by one person to another pursuant to this Agreement shall, unless that other person has by 15 calendar days' written notice to the same, specified another address, be made or delivered to that other person at the address identified with its signature below and shall be effective or when left at that address (in the case of a letter) or when received by the addressee (in the case of a fax). Provided that any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

24.3 Language

This Agreement shall be signed in English. Each communication and document made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation thereof into English certified by an officer of the person making or delivering the same as being a true and accurate translation thereof.

25 Law and Jurisdiction

25.1 English Law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

25.2 Arbitration

If any dispute or difference of whatever nature howsoever arises from or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement or this Clause 25 or any non-contractual obligation arising out of or in connection with this Agreement), or any supplement, modifications or additions thereto (each a "**Dispute**"), each party hereto agrees that, subject to the option of the Lender set out in Clause 25.3 (*English Courts*), such claim shall be settled by arbitration in accordance with the following provisions. Each party hereby agrees that (regardless of the nature of the Dispute) any Dispute shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "**Rules**") (provided that any provision of such Rules relating to the nationality of an arbitrator shall, to that extent, not apply) as at present in force by a panel of three arbitrators appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Articles 7(2) and 7(3) of the Rules shall be the London Court of International Arbitration.

25.3 English Courts

Notwithstanding the provisions of Clause 25.2 (*Arbitration*), the Lender and the Borrower hereby agree that, at any time before an arbitral tribunal has been appointed to determine a Dispute, the Lender may by notice in writing to the Borrower, require that all Disputes or a specific Dispute be heard by a court of law. If the Lender give such notice, the Dispute to which such notice refers shall be determined in accordance with this Clause 25.3.

Each of the Lender and the Borrower agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Agreement ("**Proceedings**") and, for such purposes, irrevocably submit to the jurisdiction of such courts.

25.4 Appropriate Forum

Each of the Lender and the Borrower irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

25.5 Service of Process

The Lender and the Borrower agree that the process by which any Proceedings in England are begun may be served on them by being delivered to Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London EC2V 7EX, Attn: Anne Hills (email: Anne.Hills@LawDeb.com, fax: +44 20 7606 0643). If any such Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall immediately appoint a further Person in England to accept service of process on its behalf. If such Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on the Borrower's behalf, the Borrower shall immediately appoint a further Person in England to accept service of process on its behalf. Nothing in this Clause shall affect the right of either party hereto to serve process in any other manner permitted by law.

25.6 Non-exclusivity

The submission to the jurisdiction of the English courts in accordance with Clause 25.3 (*English Courts*) hereof shall not, and shall not be construed so as to, limit the right of any party hereto to take Proceedings in any other court of competent jurisdiction.

25.7 Consent to Enforcement, etc.

Each of the Lender and the Borrower consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever, irrespective of its use or intended use, of any order or judgement which is made or given in such Proceedings.

25.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

25.9 Counterparts

This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

FORM OF DEED OF LOAN GUARANTEE

The following is the text of the form of Loan Guarantee to be entered into between the Issuer and the Initial Loan Guarantors:

THIS DEED OF LOAN GUARANTEE is entered into on 25 January 2011

BETWEEN:

(1) **OAO VOLZHSKY PIPE PLANT AND ZAO TMK TRADE HOUSE** (each a "**Loan Guarantor**" and collectively, the "**Initial Loan Guarantors**"); and

(2) **TMK CAPITAL S.A.**, a company incorporated under the laws of Luxembourg as a société anonyme with registered office at 2, boulevard Konrad Adenauer, L-1115 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B-119.081 (the "**Lender**").

WHEREAS:

The Lender has agreed, pursuant to the terms of the Loan Agreement, to grant to the Borrower a single disbursement term loan facility in the amount of U.S.$500,000,000 and each Loan Guarantor has agreed to guarantee all the obligations of the Borrower to the Lender under the Loan Agreement on an irrevocable, unconditional, joint and several basis.

NOW THIS DEED WITNESSETH AS FOLLOWS:

INTERPRETATION

Terms defined in the Loan Agreement dated 25 January 2011 (the "**Loan Agreement**") between the Lender and OAO TMK as Borrower (the "**Borrower**") shall have the same meaning when used in this Loan Guarantee, except where the context otherwise requires and except that, for the purposes of this Loan Guarantee:

the term "**Loan Guarantor**" shall include any of the Borrower's Subsidiaries from time to time guaranteeing the obligations of the Borrower under the Loan Agreement; and

the term "**Subsidiary**", except as otherwise stated, shall be construed as a reference to the Subsidiary of the relevant Loan Guarantor.

1 Loan Guarantee and Indemnity

1.1 Loan Guarantee and Indemnity

Each Loan Guarantor irrevocably and unconditionally jointly and severally:

(a) guarantees to the Lender the due and punctual performance by the Borrower of all the Borrower's obligations under the Loan Agreement;

(b) undertakes with the Lender that whenever the Borrower does not pay any amount when due under or in connection with the Loan Agreement, that Loan Guarantor shall immediately on demand pay or cause to be paid in full that amount as if it was the principal obligor; and

(c) agrees, as an independent primary obligation, that it shall pay to the Lender on demand sums sufficient to indemnify the Lender against any cost, loss or liability suffered by the Lender by reason of the non-payment, as and when the same shall become due and payable, of any sum expressed to be payable by the Loan Guarantor under this Loan Guarantee, whether by reason of any of the obligations guaranteed by that Loan Guarantor being or becoming unenforceable, invalid or illegal including any and all reasonable expenses properly documented, such as legal fees and expenses incurred by the Lender in enforcing any rights under the Loan Agreement or this Loan Guarantee.

1.2 Continuing guarantee

This Loan Guarantee is a continuing guarantee and extends to the total balance of sums payable by the Borrower under the Loan regardless of any intermediate payment or discharge in whole or in part.

1.3 Reinstatement

If any payment by the Borrower is avoided or reduced or any discharge given by the Lender or the Noteholders (whether in respect of the obligations of the Borrower or any security for those obligations or otherwise) as a result of any insolvency, reorganisation or similar event in respect of the Borrower:

(a) the liability of each Loan Guarantor shall continue as if the payment, discharge, avoidance or reduction had not occurred; and

(b) the Lender shall be entitled to recover the full amount of such payment from each Loan Guarantor, as if the payment, discharge, avoidance or reduction had not occurred.

1.4 Waiver of defences

As between each Loan Guarantor and the Lender, but without affecting the Borrower's obligations, each Loan Guarantor will be liable as if it were the sole principal debtor and not merely a surety. Accordingly, such Loan Guarantor will not be discharged nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor, including:

(a) any time, waiver or consent granted to, or composition with, the Borrower or other person;

(b) the release of the Borrower or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;

(c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, the Borrower or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;

(d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of the Borrower or any other person;

(e) any amendment (however fundamental) or replacement of the Loan Agreement or any other document or security;

(f) any unenforceability, illegality or invalidity of any obligation of any person under the Loan Agreement or any other document (including any other guarantee given in respect of the Loan) or security or the absence of any action to enforce the same;

(g) any insolvency or similar proceedings; or

(h) any failure by any party to perform any requisite due diligence or to present any requisite document, claim, demand for payment, protest or notice with respect to the Loan Agreement.

1.5 Immediate recourse

Each Loan Guarantor waives any right it may have of first requiring the Lender (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from that Loan Guarantor under this Loan Guarantee. This waiver applies irrespective of any law or any provision of the Loan Agreement to the contrary.

1.6 Appropriations

Until all amounts which may be or become payable by the Borrower pursuant to the terms of the Loan Agreement have been irrevocably paid in full, the Lender (or any trustee or agent on its behalf) may:

(a) refrain from applying or enforcing any other moneys, security or rights held or received by the Lender (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and no Loan Guarantor shall be entitled to the benefit of the same; and

(b) hold in an interest-bearing suspense account any moneys received from any Loan Guarantor or on account of any Loan Guarantor's liability under this Loan Guarantee.

1.7 Deferral of Loan Guarantors' rights

Until all amounts which may be or become payable by the Borrower pursuant to the terms of the Loan Agreement have been irrevocably paid in full no Loan Guarantor will exercise any rights which it may have by reason of the performance by it of its obligations under this Loan Guarantee:

(a) to be indemnified by the Borrower;

(b) to claim any contribution from any other Loan Guarantor of the Borrower's obligations under the Loan Agreement; and/or

(c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Lender under the Loan Agreement or of any other guarantee or security taken pursuant to, or in connection with, the Loan Agreement by the Lender.

1.8 Additional security

This Loan Guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Lender, for the avoidance of doubt including any other guarantee (present or future) given in connection with the Loan Agreement.

1.9 Acceleration

Each Loan Guarantor further agrees that, as between it, on the one hand, and the Lender, on the other hand, (i) for the purposes of this Loan Guarantee, the maturity of the obligations guaranteed by this Loan Guarantee may be accelerated as provided in Clauses 7 (*Prepayments)* and 15 (*Events of Default*) of the Loan Agreement, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed thereby; provided, however, that if a court of competent jurisdiction determines that the Loan was improperly accelerated pursuant to the terms thereof, then the maturity of such obligations may not be accelerated for the purposes of this Loan Guarantee, and (ii) in the event of any acceleration of such obligations (whether or not due and payable) such obligations shall forthwith become due and payable by each Loan Guarantor for purposes of this Loan Guarantee.

1.10 Termination and accession of Loan Guarantors

This Loan Guarantee will be terminated in relation to any Loan Guarantor and the relevant Loan Guarantor will be automatically and unconditionally released and discharged from its obligations hereunder upon: (i) any sale, exchange or transfer to any Person which is not an Affiliate of Borrower of all or substantially all of the Capital Stock of the relevant Loan Guarantor held by Borrower and/or other Subsidiaries of Borrower (which sale, exchange or transfer is not prohibited under the Terms and Conditions of the Notes) or (ii) upon the reorganisation (whether by way of merger or accession) of the relevant Loan Guarantor pursuant to which such Loan Guarantor accedes to or is merged into the Borrower.

The Borrower will give notice to the Lender and the Trustee in accordance with Clause 14 of the Loan Agreement of any Loan Guarantor becoming or ceasing to be a Loan Guarantor and, so long as the Notes are listed on the London Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the London Stock Exchange and/or such other exchange (including preparation of a supplemental offering circular) in relation to any Loan Guarantor becoming or ceasing to be a Loan Guarantor.

1.11 Suspense Account

Provided that the Trustee, acting in the best interests of the Noteholders, instructs the Lender to do so, the Lender may place any amount, received or recovered by or on behalf of itself from any of the Loan Guarantors in respect of any sum payable by the Borrower under the Loan Agreement, in a suspense account and keep it there for as long as the Lender (on instructions of the Trustee, acting in the best interests of the Noteholders) considers appropriate.

2 Representations and Warranties of each Loan Guarantor

Each Loan Guarantor makes, in respect of itself, the following representations and warranties and acknowledges that the Lender has entered into the Loan Agreement in reliance on these representations and warranties.

2.1 Due Organisation

The Loan Guarantor and its Subsidiaries have been duly incorporated and are validly existing as legal entities in good standing (where such concept or an analogous concept exists) under the laws of their jurisdictions of incorporation and have full power and authority (corporate and other) to own or lease their properties and conduct their business in good standing (where such concept or an analogous concept exists), except where the failure to do so would not have a material adverse effect in relation to that Loan Guarantor and its subsidiaries taken as a whole (a "**Material Adverse Effect**"); and the Loan Guarantor and each of its Subsidiaries are duly qualified to do business as legal entities in good standing (where such concept or an analogous concept exists) in all jurisdictions in which their ownership or lease of property or the conduct of their business requires such qualification, except where the failure to do so would not have a Material Adverse Effect.

2.2 Authorisations

The Loan Guarantor has full corporate power and authority to enter into this Loan Guarantee, and this Loan Guarantee has been duly authorised, executed and delivered by that Loan Guarantor, and is a legal, valid and binding obligation of that Loan Guarantor, enforceable against that Loan Guarantor in accordance with its terms, except that the enforcement thereof may be limited by (i) bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and (ii) general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

2.3 No Default, Conflict or Violation

Neither the Loan Guarantor nor any of its Subsidiaries is in violation of its charter or by-laws or other constitutive documents; and no default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any agreement or instrument (for the avoidance of doubt including this Loan Guarantee) to which the Loan Guarantor or any of its Subsidiaries is a party or by which the Loan Guarantor or any of its Subsidiaries is bound or to which any of their respective properties is subject, except, in each case, where such default or event would not, individually or in the aggregate, have a Material Adverse Effect.

The execution, delivery and performance of this Loan Guarantee by the Loan Guarantor, the compliance by the Loan Guarantor with all the provisions hereof and the consummation of the transactions contemplated hereby will not: (a) conflict with or constitute a breach of any of the terms or provisions of, or constitute a default under, the charter or other constitutive documents of the Loan Guarantor, (b) conflict with or constitute a breach of any agreement, indenture or other instrument to which the Loan Guarantor or any of its Subsidiaries is a party or by which the Loan Guarantor, any of its Subsidiaries or their respective property or assets are bound, and (c) will not violate or conflict with any laws, administrative regulations or rulings or court decrees applicable to that Loan Guarantor, any of the its Subsidiaries or their respective property, except, in the case of clause (b) and (c), for any conflict, breach or violation which would not have a Material Adverse Effect.

2.4 Consents

The execution, delivery and performance of this Loan Guarantee by the Loan Guarantor, the compliance by the Loan Guarantor with all the provisions hereof and the consummation of the transactions contemplated hereby and the legality, validity, enforceability and, subject to Russian law requirements, admissibility in evidence of this Loan Guarantee will not require any consent, approval, authorisation or other order of any court, regulatory body, administrative agency or other governmental body (except as may be required under the securities laws of any jurisdiction other than Russia, Luxembourg and the United Kingdom) except for such consents, approvals, authorisations or other orders as have been obtained and which are in full force and effect by the Closing Date and except for such consents as may be obtained within 30 days of the requirement for such consent arising.

2.5 Financial Statements

The audited financial statements of the Loan Guarantor and the related notes thereto were prepared in accordance with Accounting Standards consistently applied throughout the periods involved and present fairly, in all material respects, the financial position of the Loan Guarantor as at the dates at which they were prepared and the results of the operations and the cash flows of the Loan Guarantor in respect of the periods for which they were prepared. Except as set forth in the Prospectus, since the 31 December 2009 financial statements (a) there has been no material adverse change in the condition (financial or otherwise) or affecting the business, prospects, financial position, or results of operations of the Loan Guarantor or the Loan Guarantor and its Subsidiaries taken as a whole, whether or

not arising from transactions in the ordinary course of business; and (b) neither the Loan Guarantor nor any of its Subsidiaries have entered into any transaction or agreement material to the Loan Guarantor or to the Loan Guarantor and its Subsidiaries taken as a whole, other than in the ordinary course of business.

2.6 No Other Indebtedness

The Loan Guarantor has no Indebtedness, other than Indebtedness (a) as set forth in the 30 June 2010 reviewed interim consolidated balance sheet of the Borrower; (b) as disclosed in the Prospectus or (c) that in the aggregate would not have a Material Adverse Effect.

2.7 Payment in U.S. Dollars

All payment obligations of the Loan Guarantor under this Agreement are required by the terms hereof to be paid in U.S. dollars, and the Loan Guarantor does not require any approvals, consents, licenses and permissions to make and may make such payments in U.S. dollars.

2.8 Taxes

Except as set forth in the Prospectus (which disclosure shall be disregarded for the purpose of Clause 2.20 (*Repetition*)), the Loan Guarantor and each of its Subsidiaries that are also Material Subsidiaries have duly filed with the appropriate Tax Authorities, or has received an extension for filing with respect to, all tax returns, reports and other information required to be filed by it, and each such tax return, report, or other information was, when filed, accurate and complete in all material respects; and, the Loan Guarantor and each of its Subsidiaries that are also Material Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it, and to the best of that Loan Guarantor's knowledge, no overdue Tax liability or Tax deficiency is currently asserted against the Loan Guarantor or any of its subsidiaries that are also Material Subsidiaries, except, in each case, where any such failure to do so would not have a Material Adverse Effect.

2.9 Litigation and Contracts

Except as set forth in the Prospectus (which disclosure shall be disregarded for the purpose of Clause 2.20 (*Repetition*)) (A) there are no pending legal or governmental proceedings against the Loan Guarantor or any of its Subsidiaries or any of their respective properties and (B) there are no pending legal or governmental proceedings naming, and, to the best knowledge of the Loan Guarantor, there are no threatened legal or governmental proceedings against or naming, that Loan Guarantor or any of its Subsidiaries or any of their respective properties that, in each case, if determined adversely to the Loan Guarantor or any such Subsidiary, would individually or in the aggregate have a Material Adverse Effect or would have a material adverse effect on the ability of that Loan Guarantor to perform its obligations under this Loan Guarantee and, to the best knowledge of that Loan Guarantor, no such proceedings are contemplated;

2.10 Labour

There are no labour disputes involving the employees of the Loan Guarantor or any of its Subsidiaries that exist, or to the best knowledge of the Loan Guarantor, that are threatened, except where such would not, individually or in the aggregate, have a Material Adverse Effect.

2.11 Title, Licenses and Consents

Each of the Loan Guarantor and its Subsidiaries possess all certificates, authorisations, licences and permits issued by appropriate governmental agencies or bodies necessary to conduct the business now conducted by it, except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect and neither the Loan Guarantor nor any of its Subsidiaries have received any notice of proceedings relating to the revocation or modification or any such certificate, authorisation or permit that, if determined adversely to the Loan Guarantor or any of its Subsidiaries, could have a Material Adverse Effect;

Except as set forth in the Prospectus (which disclosure shall be disregarded for the purpose of Clause 2.20 (*Repetition*)), each of the Loan Guarantor and its Subsidiaries (A) have good and marketable title to all items of real property owned by it and good and marketable title to all other property and assets owned by it, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects that would affect the value thereof or interfere with the use made or proposed to be made thereof by it, and (B) holds any real property and buildings leased by that Loan Guarantor and its subsidiaries under valid, subsisting and enforceable leases with no

exceptions that would interfere with the use made or proposed to be made thereof by it, except, in each of the cases (A) and (B), where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

The Loan Guarantor and each of its Subsidiaries owns or possesses all patents, patent applications, trademarks, service marks, trade names, licenses, copyrights and proprietary or other confidential information currently employed by it in connection with its businesses (collectively, "**intellectual property rights**"), except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect; and neither the Loan Guarantor nor any of its Subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Loan Guarantor or any of its Subsidiaries, could individually or in the aggregate have a Material Adverse Effect.

2.12 Adequate Insurance

Except as set forth in the Prospectus (which disclosure shall be disregarded for the purpose of Clause 2.20 (*Repetition*)), the Loan Guarantor and each of its subsidiaries that are also Material Subsidiaries have, where relevant, applied for insurance with insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively; that Loan Guarantor and each of its Subsidiaries that are also Material Subsidiaries have not been refused any insurance coverage sought or applied for; and that Loan Guarantor and each of its Subsidiaries that are also Material Subsidiaries have, where relevant, no reason to believe that they will not be able to obtain, within 90 days of the date hereof, such coverage as may be necessary to continue their business at a cost that would not have a Material Adverse Effect.

2.13 No Withholding or Similar Tax

Under current laws and regulations of Russia and Luxembourg and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 12 (*Representations and Warranties of the Lender*) of the Loan Agreement, all payments of principal and/or interest, increased amounts of principal, interest or any other payment due hereunder, Additional Amounts or any other amounts payable on or in respect of this Loan Guarantee may be paid by the Loan Guarantor to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Luxembourg, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that the Loan Guarantor makes no representation as to any income or similar Tax of Luxembourg (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein.

2.14 No Liquidation or Similar Proceedings

No receiver or liquidator (or similar person) has been appointed in respect of the Loan Guarantor or any Subsidiary of the Loan Guarantor or in respect of any material part of the assets of the Loan Guarantor or any Subsidiary of the Loan Guarantor; no resolution, order of any court, regulatory body, governmental body or otherwise, or petition or application for an order, has been passed, made or presented for the winding up of the Loan Guarantor or any Subsidiary of the Loan Guarantor or for the protection of the Loan Guarantor or any such Subsidiary from its creditors; and that Loan Guarantor has not, and no Subsidiary of the Loan Guarantor has, stopped or suspended payments of its debts, become unable to pay its debts or otherwise become insolvent.

2.15 Certificates

Each certificate signed by any director or officer of the Loan Guarantor and delivered to the Lender or counsel for the Lender on the date of granting this Loan Guarantee shall be deemed to be a representation and warranty by the Loan Guarantor to the Lender as to the matters covered thereby.

2.16 *Pari Passu* Obligations

The obligations of the Loan Guarantor under this Loan Guarantee will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of that Loan Guarantor, except as otherwise provided by mandatory provisions of applicable law.

2.17 No Stamp Taxes

Under the laws of Russia in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Loan Guarantee.

2.18 Health, Safety and Environment

Each of the Loan Guarantor and its Subsidiaries is in compliance with all statutes, and all rules, regulations, requirements, decisions and orders of, and agreements with, any governmental agency or body and any court, relating to the protection of human health and safety (including occupational health and safety), the use, handling, transportation, disposal or release of hazardous or toxic substances, or the protection or restoration of the environment (collectively, "**HSE laws**"), and has received, and is in compliance with all terms and conditions of, all permits, licenses or other approvals required of them under applicable HSE laws in order to conduct their businesses, except, in each case, where the failure to be in compliance with or receive such permits, licenses or other approvals would not, individually or in the aggregate, have a Material Adverse Effect;

Neither the Loan Guarantor nor any of its Subsidiaries is subject to any claims, costs or liabilities associated with any HSE laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with HSE laws or to acquire or comply with the terms and conditions of any permit, license or approval under any HSE laws, any constraints on operating activities and any potential liabilities to third parties) which could, individually or in the aggregate, have a Material Adverse Effect; and, to the best of the Loan Guarantor's knowledge, having made all due inquiries, there are no past or present events, conditions, circumstances, activities, practices, incidents or actions that would be reasonably likely to give rise to such costs, liabilities or claims.

2.19 Events of Default

No event has occurred or circumstances arisen which would (whether or not with the giving of notice and/or the passage of time) constitute an Event of Default in relation to the Loan Guarantor or a default under any agreement or instrument evidencing any Indebtedness of the Loan Guarantor.

2.20 Repetition

Each of the representations and warranties in Clause 2 (*Representations and Warranties of Each Loan Guarantor*) shall be deemed to be repeated by the Loan Guarantor on the date of the granting of the Loan Guarantee and, as long as the Loan Guarantee in relation to the Loan Guarantor has not been terminated, each of Clause 2.1 (*Due Organisation*) (solely with respect to the Loan Guarantor and provided that, upon the occurrence of a merger or sale of assets pursuant to Clause 3.5 (*Mergers and Similar Transactions)*, the Loan Guarantor is the Surviving Entity), Clause 2.2 (*Authorisations*), Clause 2.3 (*No Conflict*) and Clause 2.8 (*Litigation and Contracts*) (solely with respect to any legal or governmental proceedings pending or, to the best knowledge of the Loan Guarantor, threatened in writing, delivered to the Loan Guarantor before any court, tribunal, arbitration panel or Agency challenging the lawfulness, validity or enforceability of this Loan Guarantee (except for any such proceedings as may have been disclosed in writing by that Loan Guarantor to the Lender prior to the relevant date of repetition)) shall be deemed to be repeated and updated on each Interest Payment Date. The Loan Guarantor shall inform the Lender in writing of any breach of prospective breach of such deemed repeated representations and warranties as soon as it becomes aware of the same. Each Additional and each Further Loan Guarantor shall be deemed to make each of the above representations and warranties on the date on which it executes the Deed of Accession, with such modifications as are appropriate to take into account the jurisdiction in which such Additional or Further Loan Guarantor is incorporated or resident for tax purposes.

3 Covenants of the Loan Guarantors

Each Loan Guarantor covenants as follows, in respect of itself, and acknowledges that the Lender has entered into the Loan Agreement in reliance on these covenants:

3.1 Limitation on Liens

The Loan Guarantor has not and shall not, directly or indirectly, create, incur, assume or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness unless, at the same time or prior thereto, this Loan Guarantee and any sum owing hereunder (a) is secured equally and rateably therewith or (b) has the benefit of other security or other arrangement, in each case to the satisfaction of the Trustee.

3.2 Incurrence of Indebtedness

(a) The Loan Guarantor shall not incur any Indebtedness, other than in circumstances where (i) no Potential Event of Default nor Event of Default shall have occurred and be continuing at the time, or would occur as a consequence, of the incurrence of such Indebtedness, and (ii) the Leverage Ratio is 3.5 or lower.

(b) At any time when the conditions set forth in Clause 3.2(a) hereof are not met, the Loan Guarantor may only Incur additional Indebtedness if it is Permitted Indebtedness.

(c) Notwithstanding any other provision of Clause 3.2, the maximum amount that the Loan Guarantor may Incur pursuant to Clause 3.2 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely to the result of fluctuations in the exchange rate of currencies.

(d) For the purposes of determining compliance with this covenant:

(i) in the event that an item or Indebtedness (or any portion thereof) on Incurrence meets the criteria of more than one of the types of Indebtedness described in this Clause 3.2 or the definition of Permitted Indebtedness as defined in the Loan Agreement, the Borrower, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of Incurrence and will only be required to include the amount an type of such Indebtedness in one of the classifications as described in sub-Clause 3.2(a), sub-Clause 3.2(b) or one of the paragraphs under the definition of Permitted Indebtedness as defined in the Loan Agreement; and

(ii) the Borrower will be entitled to divide and classify such item of Indebtedness which meets the criteria of more than one of the types of Indebtedness described in this Clause 3.2 or the definition of Permitted Indebtedness as defined in the Loan Agreement and may at any time change the classification of such item of Indebtedness (or any portion thereof) to any other type of Indebtedness that it meets the criteria of.

3.3 Transactions with Affiliates

The Loan Guarantor shall not, directly or indirectly, enter into or make or amend any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of the Loan Guarantor unless such transaction or series of related transactions is entered into in good faith and in writing and such transaction or series of related transactions is on terms that are no less favourable to the Loan Guarantor than those that would be available in a comparable transaction at arm's-length with an unrelated third party, provided, however, that this provision shall not apply to:

(i) any employment agreement, collective bargaining agreement or employee benefit arrangements with any officer or director of the Loan Guarantor, including under any stock option or stock incentive plans, entered into in the ordinary course of business;

(ii) payment of reasonable fees and compensation to employees, officers, directors, consultants or agents in the ordinary course of business;

(iii) transactions between or the Loan Guarantor, the Borrower and any of the Subsidiaries of the Borrower;

(iv) transactions undertaken pursuant to contractual obligations or rights in existence on the Original Issue Date (as in effect on the Original Issue Date) or any amendment thereto after the Original Issue Date (so long as such amendment is not disadvantageous to the Lender in any material respect in the reasonable opinion of the Loan Guarantor);

(v) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and otherwise in compliance with the terms of this agreement which are on terms at least as favourable to the Loan Guarantor as might reasonably be obtained at such time from an unrelated third party;

(vi) sales of Capital Stock (other than Redeemable Capital Stock) of the Borrower;

(vii) sales or other transfers or dispositions of accounts receivables and other related assets customarily transferred in a Qualified Securitisation Transaction, and acquisitions of Investments in connection with a Qualified Securitisation Transaction, in each case to or from the relevant securitisation vehicle; or

(viii) any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation) undertaken by the Loan Guarantor as may be permitted pursuant to Clause 3.5 (*Mergers and Similar Transactions*).

3.4 Asset Sales

The Loan Guarantor shall not consummate any Asset Sale, unless the proceeds received by the Loan Guarantor are at least equal to the Fair Market Value of the assets sold or disposed of and an amount equal to such proceeds (less any costs incurred in relation to such Asset Sale) (the "**Disposal Proceeds**") is:

(a) applied to repay permanently any Indebtedness of the Group (other than Indebtedness subordinated to the Loan);

(b) invested in assets of a nature or type that is used or usable in the ordinary course of a Core or Related Business of the Borrower, any Loan Guarantor or any Material Subsidiary of the Borrower;

(c) retained as cash deposited with a bank or invested in Cash Equivalents; and/or

(d) applied to finance: (i) an acquisition of Capital Stock of a Person engaged in a Core or Related Business who, following the consummation of such Asset Sale, is to become a Subsidiary of the Borrower, or (ii) an acquisition of, or a merger, reorganisation or other combination of a business of the Group with, the business of a Person that is similar or related to the Core or Related Business,

in each case within 360 days of the date when such proceeds are received (it being understood that receipt by the Borrower, any Material Subsidiary of the Borrower or any Loan Guarantor of Capital Stock of any Person who, following the consummation of such Asset Sale is to become a Subsidiary of the Borrower, as consideration for such Asset Sale shall be deemed to satisfy the financing of the acquisition of Capital Stock requirement set out above);

provided that if the Disposal Proceeds are applied pursuant to paragraph (c), the Borrower, any Subsidiary of the Borrower or the Loan Guarantor, as the case may be, shall apply or invest the Disposal Proceeds on or prior to the date falling 540 days after the date when such proceeds are received either to (i) repay permanently Indebtedness of the Group (other than Indebtedness subordinated to the Loan), (ii) invest in assets of a nature or type that is used or usable in the ordinary course of Core or Related Business of the Borrower, any of its Subsidiaries or any Loan Guarantor or (iii) applied to finance the acquisition of Capital Stock of, or merger, reorganisation or other combination of a business of the Group with the business of, a Person whose business is similar or related to the Core or Related Business.

3.5 Mergers and Similar Transactions

(a) Subject to Clause 3.5(b), the Loan Guarantor shall not, without the prior written consent of the Trustee (which consent may only be given by the Trustee if it is of the opinion that to do so will not be materially prejudicial to the interests of the Noteholders): (A) enter into any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation contemplated or as may be contemplated from time to time by, any applicable legislation), or (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (for the avoidance of doubt, not including its Capital Stock) to any Person;

(b) Clause 3.5(a) shall not apply to any transactions provided that:

  (i) the transaction is between a Subsidiary and the Borrower and the Borrower is the continuing Person;

  (ii) in the case of any such transaction between the Loan Guarantor and any other Loan Guarantor or the Loan Guarantor and the Borrower, the conditions set out in (iv) to (vi) below are satisfied;

  (iii) either: (A) the Loan Guarantor shall be the continuing Person, or (B) the Person (if other than the Loan Guarantor) into which the Loan Guarantor is merged or that acquired or leased such property and assets of the Loan Guarantor (the "**Surviving Entity**") shall (1) be a company organised and validly existing under the laws of, as applicable, Russia or a member state of the European Union (as the European Union is constituted on the Original Issue Date), (2) expressly assume, by amendment to this Loan Guarantee or an accession thereto, executed and delivered by such continuing Person to the Lender and the Trustee, in form and substance satisfactory to the Lender and the Trustee, the due and punctual payment of such sums as may become due under this Loan Guarantee and the due and punctual performance and observance of all the covenants, conditions and other obligations of the Loan Guarantor under this Loan Guarantee and (3) deliver to the Lender and the Trustee an opinion of counsel with respect to such amendment to this Loan Guarantee in a form and substance reasonably acceptable to the Lender and the Trustee, and provided that in each case the conditions set out in (iv) to (vi) below are satisfied;

(iv) immediately before and after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Borrower or the Loan Guarantor or the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the Borrower or the Loan Guarantor or the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions), no Potential Event of Default or Event of Default shall have occurred and be continuing;

(v) the Borrower or the Loan Guarantor delivers to the Lender and the Trustee an opinion of counsel or tax adviser in form and substance reasonably acceptable to the Trustee, to the effect that the Lender will not recognise income, gain or loss for tax purposes as a result of the merger or sale of assets and the Lender would, after the merger or sale of assets, be subject to taxes on the same amount and in the same manner and at the same times as would have been the case if such merger or sale of assets had not occurred; and

(vi) the Person (if other than the Borrower or the Loan Guarantor) into which the Loan Guarantor is merged or that acquired or leased such property and assets of the Loan Guarantor principally undertakes, in its ordinary course of business prior to the merger, acquisition or lease, as the case may be, a Core or Related Business.

3.6 Maintenance of Authorisations

(a) the Loan Guarantor and each of its Subsidiaries shall take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Loan Guarantor, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business; and

(b) the Loan Guarantor and each of its Subsidiaries shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in any relevant jurisdiction for the purposes of the execution, delivery or performance of the Notes and the Trust Deed and for the validity and enforceability thereof, provided that, in any case, if the Borrower, any of its Material Subsidiaries or the Loan Guarantor or its relevant Subsidiary, remedies any failure to comply with (a) and (b) above within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

3.7 Maintenance of Property

The Loan Guarantor and each of its Subsidiaries shall cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Loan Guarantor or the relevant Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided that if the Loan Guarantor or the relevant Subsidiary remedies any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.$25 million (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

3.8 Payment of Taxes and Other Claims

The Loan Guarantor and each of its Subsidiaries shall pay or discharge, or cause to be paid and discharged, before the same shall become overdue and without incurring penalties, (a) all Taxes levied or imposed upon, or upon the income, profits or property of the Loan Guarantor or any of its Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of any of the Loan Guarantor; provided that none of the Loan Guarantor or any of its Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such Tax (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with Accounting Standards as consistently applied or other appropriate provisions have been or will be made or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims of the Group not so contested, and for which adequate reserves in accordance with Accounting Standards as consistently applied or other appropriate provisions have been or will be made or does not in the aggregate exceed U.S.$30 million (or its U.S. Dollar Equivalent).

3.9 Insurance

The Loan Guarantor and each of its Subsidiaries shall obtain and maintain insurance with an insurer or insurers of sufficient standing (in the reasonable judgment of the Loan Guarantor or the relevant Subsidiary) against such losses

and risks and in such amounts as are prudent and customary in the businesses in which it is engaged in the jurisdiction(s) where it operates; provided that if the Loan Guarantor or the relevant Subsidiary remedies any failure to comply with the above within 90 days or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by the Loan Guarantor or the relevant Subsidiary over the preceding 3 years) do not exceed U.S.$25 million (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

3.10 Financial Information

The Loan Guarantor undertakes to deliver to the Lender and the Trustee, at its own expense, copies of such financial statements, communications and reports as are furnished to the stockholders of the Loan Guarantor (excluding communications made only in the Russian language) which are material in the context of Notes, as the Lender or the Trustee may reasonably request.

If so requested by the Lender or the Trustee, the Loan Guarantor shall deliver to the Lender and the Trustee, within 14 days of such request, an Officers' Certificate stating that to the best of the Officers' knowledge (i)the Loan Guarantor has kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in this Agreement and (ii)the Loan Guarantor is not in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Potential Event of Default or Event of Default shall have occurred, describing all such Potential Events of Default or Events of Default of which he may have knowledge).

3.11 Change of Business

Neither the Loan Guarantor nor any of its Subsidiaries shall make any material change to their respective Core or Related Businesses.

4 Taxation

4.1 No withholding and increased amounts of principal, interest or any other payment

(a) Subject to Clause 4.1(b), all payments made by each Loan Guarantor under or with respect to this Loan Guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment, or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "**Taxes**") imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein or thereof having the power to tax (each, a "**Taxing Authority**") within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), unless the relevant Loan Guarantor is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. For the avoidance of doubt, this Clause 4.1 shall not apply to any Taxes on income payable by the Lender.

(b) If at any time a Loan Guarantor is required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), it shall, on the due date for such payment, increase the payment of principal, interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in U.S. dollars equal to the full amount which it would have received had payment not been made subject to such taxes ("**increased amount of principal, interest or any other payment due hereunder**").

(c) Each Loan Guarantor will also:

  (i) make such withholding or deduction; and

  (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

(d) If the Lender pays any amount in respect of such Taxes, in respect of which increased amounts of principal, interest or any other payment due hereunder are payable (without prejudice to, and duplication of, the provisions of Clause 4.3 (*Additional Amounts*), each relevant Loan Guarantor shall pay to the Lender an increased amount of principal, interest or any other payment due hereunder equal to such amount in U.S. dollars on demand.

(e) Whenever this Loan Guarantee mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with respect to the Loan or the Loan

Guarantee, this includes, without duplication, payment of any increased amounts of principal, interest or any other payment due hereunder and Additional Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any Loan Guarantor or any successor of the Borrower or of any Loan Guarantor is organised.

4.2 Exemption assistance

The Lender shall assist each Loan Guarantor in ensuring that all payments made under this Loan Guarantee are exempt from deduction or withholding of Tax.

4.3 Additional Amounts

Without prejudice to, and without duplication of, the provisions of Clause 4.1 (*No withholding and increased amounts of principal, interest or any other payment*),

(a) if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the Noteholders) on account of Tax (other than Taxes on income payable by the Lender) in respect of this Loan Guarantee or in respect of any instruments issued to, or documents entered into with, the Noteholders, imposed by any Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes, or any liability in respect of any such Tax is asserted, imposed, levied or assessed against the Lender, each Loan Guarantor shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender (setting out in reasonable detail the nature and the extent of the obligation), pay to the Lender an amount sufficient to cover such payment, together with any interest, penalties, costs and expenses payable or incurred in connection therewith; and

(b) if at any time a Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any successor thereof is resident for tax purposes imposes an obligation on the Lender to withhold or deduct any amount on any payment made or to be made by the Lender to or for the account of the Noteholders and the Lender is required by the Notes, to pay additional amounts to such Noteholders in connection therewith, each Loan Guarantor shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender (setting out in reasonable detail the nature and the extent of the obligation), pay to the Lender such additional amounts as may be necessary so that the net amount received by the Noteholders (including such additional amounts) in U.S. dollars after such withholding or deduction will not be less than the amount such Noteholders would have received if such withholdings or deductions had not been made and free from liability in respect of such withholding or deduction. Notwithstanding the previous provisions of this Clause 4.3(b), such additional amounts should be paid by each Loan Guarantor to the Lender no later than the Business Day prior to the due date for any relevant payment under the Notes. The Lender shall, as soon as reasonably practicable, provide the Loan Guarantors in writing with reasonable details as to the reasons for such withholding or deduction.

Any payments required to be made by any Loan Guarantor under this Clause 4.3 are collectively referred to as "**Additional Amounts**". For the avoidance of doubt, the provisions of this Clause 4.3 shall not apply to any withholding or deductions of Taxes with respect to this Loan Guarantee which are subject to payment of increased amounts of principal, interest or any other payment due hereunder under Clause 4.1 (*No withholding and increased amounts of principal, interest or any other payment*).

4.4 Tax Claims

If the Lender intends to make a claim for any Additional Amounts pursuant to Clause 4.3 (*Additional Amounts*), it shall notify each relevant Loan Guarantor thereof; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

4.5 Tax Credits and Tax Refunds

(a) If any increased amounts of principal, interest or any other payment due hereunder are paid under Clause 4.1 (*No withholding and increased amounts of principal, interest or any other payment*) or Additional Amounts are paid under Clause 4.3 (*Additional Amounts*) by any Loan Guarantor for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the

deduction or withholding giving rise to such increased amounts of principal, interest or any other payment due hereunder or, in the case of Additional Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Additional Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to each relevant Loan Guarantor such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; provided that the Lender shall not be obliged to make any payment under this Clause 4.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or prepayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to each relevant Loan Guarantor hereunder and shall be accepted by each relevant Loan Guarantor in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 4.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof. The Lender shall use reasonable endeavours to obtain any tax credits or tax refunds available to the Lender and shall notify the Loan Guarantors of any such available tax credits or tax refunds.

(b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (i) such Tax is deducted or withheld by any Loan Guarantor and pursuant to Clause 4.1 (*No withholding and increased amounts of principal, interest or any other payment*) an increased amount is paid by any relevant Loan Guarantor to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, (A) the relevant Loan Guarantor applies on behalf of the Lender to the relevant Taxing Authorities for a tax refund and such tax refund is credited by the relevant Taxing Authorities to the Lender or (B) if such tax refund is otherwise credited by a relevant Taxing Authority to the Lender pursuant to a final decision of such Taxing Authority, the Lender shall as soon as reasonably possible notify such relevant Loan Guarantor of the receipt of such tax refund and promptly transfer an amount equal to the tax refund to a bank account of each relevant Loan Guarantor specified for that purpose by each relevant Loan Guarantor.

4.6 Representations and Undertakings of the Lender

The Lender represents that it is a company which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; (b) at the date hereof, it does not have a permanent establishment in Russia and (c) does not have any current intention to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Luxembourg and subject to taxation in Luxembourg.

The Lender shall make reasonable and timely efforts to assist each relevant Loan Guarantor to obtain relief from the withholding of income tax in any jurisdiction in which the relevant Loan Guarantor is resident for tax purposes, pursuant to the double taxation treaty between the jurisdiction in which the relevant Loan Guarantor is resident for tax purposes and the jurisdiction in which the Lender is incorporated, including its obligations under Clause 4.8 (*Delivery of Forms*). The Lender makes no representation as to the application or interpretation of any double taxation treaty between the jurisdiction in which the relevant Loan Guarantor is resident for tax purposes and the jurisdiction in which the Lender is incorporated. The Lender shall not take any action or do any thing likely to cause it to cease to be resident for taxation purposes in Luxembourg or a Qualifying Jurisdiction, other than as required by a Change of Law.

4.7 Exceptions

The Lender agrees promptly, upon becoming aware of such, to notify each Loan Guarantor if it ceases to be resident in Luxembourg or a Qualifying Jurisdiction or if any of the representations set forth in Clause 4.6 (*Representations of the Lender*) are no longer true and correct. If the Lender ceases to be resident in Luxembourg or a Qualifying Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in Luxembourg or a Qualifying Jurisdiction by reason of any Change of Law (including a change in a double taxation treaty or in such law or treaty's application or interpretation), in each case taking effect after the date of this Loan Guarantee, no

Loan Guarantor shall be liable to pay to the Lender under Clause 4.1 (*No withholding and increased amounts of principal, interest or any other payment*) or Clause 4.3 (*Additional Amounts*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in Luxembourg or a Qualifying Jurisdiction.

4.8 Delivery of Forms

The Lender shall within 30 calendar days of the request of any Loan Guarantor, to the extent it is able to do so under applicable law including the laws of the jurisdiction in which the relevant Loan Guarantor is resident for tax purposes, deliver to that Loan Guarantor a certificate issued by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming that the Lender is a tax resident in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and such other information or forms as the relevant Loan Guarantor may need to be duly completed and delivered by the Lender to enable that Loan Guarantor to apply to obtain relief from deduction or withholding of the relevant Tax after the date of this Loan Guarantee or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of the relevant Tax has not been obtained. The Lender shall, within 30 calendar days of the request of any Loan Guarantor, to the extent it is able to do so under applicable laws, including the laws of the jurisdiction in which the relevant Loan Guarantor is resident for tax purposes, from time to time deliver to that Loan Guarantor any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable that Loan Guarantor to apply to obtain relief from deduction or withholding of the relevant Tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of the relevant Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 4.8 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and apostilled or otherwise legalised. If a relief from deduction or withholding of the relevant Tax under this Clause 8.8 has not been obtained and further to an application of that Loan Guarantor to the relevant Taxing Authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of that Loan Guarantor (x) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (y) thereafter furnish that Loan Guarantor with the details of such rouble bank account. The relevant Loan Guarantor shall pay for all costs associated, if any, with opening and maintaining such rouble bank account.

4.9 Notification of Requirement to Deduct Tax

If, at any time, a Loan Guarantor is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, that Loan Guarantor shall promptly notify the Lender.

4.10 Evidence of Payment of Tax

Each relevant Loan Guarantor will make all reasonable endeavours to obtain certified copies, and translations into English, of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. That Loan Guarantor will furnish to the Lender and the Trustee, within 60 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by that Loan Guarantor or, if such receipts are not obtainable, other evidence of such payments by that Loan Guarantor.

5 Currency of Account and Payment

5.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from each Loan Guarantor hereunder.

5.2 Currency Indemnity

If any sum due from any Loan Guarantor under this Loan Guarantee or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against such Loan Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the relevant Loan Guarantor shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first

currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

6 Assignments and Transfers

6.1 No Assignments and Transfers by the Loan Guarantors

No Loan Guarantor shall be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

6.2 Assignments by the Lender

The Lender may not assign or transfer all or any part of its rights and benefits or obligations hereunder except pursuant to (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits hereunder, in each case pursuant to the provisions of the Trust Deed.

7 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

8 Notices; Language

8.1 Communications in Writing

Each communication to be made hereunder shall be made in writing and, unless otherwise stated, shall be made by fax or letter.

8.2 Delivery

Any communication or document to be made or delivered by one person to another pursuant to this Agreement shall, unless that other person has by 15 calendar days' written notice to the same specified another address, be made or delivered to that other person at the address identified with its signature below and shall be effective or when left at that address (in the case of a letter) or when received by the addressee (in the case of a fax). Provided that any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

8.3 Language

This Agreement shall be signed in English. Each communication and document made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation thereof into English certified by an officer of the person making or delivering the same as being a true and accurate translation thereof.

9 Governing Law and Jurisdiction

9.1 English Law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law..

9.2 Arbitration

If any dispute or difference of whatever nature howsoever arises from or in connection with this Loan Guarantee (including a dispute regarding the existence, validity or termination of this Loan Guarantee or this Clause 9 or any non-contractual obligation arising out of or in connection with this Loan Guarantee), or any supplement, modifications or additions thereto, (each a "**Dispute**"), each party may elect to settle such claim by arbitration in accordance with the following provisions. Each party hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "**Rules**")

(provided that any provision of such Rules relating to the nationality of an arbitrator shall, to that extent, not apply) as at present in force by a panel of three arbitrators appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Articles 7(2) and 7(3) of the Rules shall be the London Court of International Arbitration.

9.3 English Courts

Notwithstanding the provisions of Clause 9.2 each Loan Guarantor irrevocably agrees that, at any time before an arbitral tribunal has been appointed to determine a Dispute, the Lender may by notice in writing to each Loan Guarantor, require that all Disputes or a specific Dispute be heard by a court of law. If the Lender gives such notice, the Dispute to which such notice refers shall be determined in accordance with this Clause 9.3,

Each of the Lender and the Loan Guarantors agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Loan Guarantee ("**Proceedings**") and, for such purposes, irrevocably submit to the jurisdiction of such courts.

9.4 Appropriate Forum

Each Loan Guarantor irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes (as defined below), and agrees not to claim that any such court is not a convenient or appropriate forum.

9.5 Service of Process

Each Loan Guarantor agrees that the process by which any Proceedings in England are begun may be served on them by being delivered to Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London EC2V 7EX, Attn: Anne Hills (email: Anne.Hills@LawDeb.com, fax: +44 20 7606 0643), or their registered offices for the time being. If any Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on any Loan Guarantor's behalf, the relevant Loan Guarantor shall immediately appoint a further Person in England to accept service of process on its behalf. Nothing in this Clause shall affect the right of either party hereto to serve process in any other manner permitted by law.

9.6 Non-exclusivity

The submission to the jurisdiction of the English courts in accordance with Clause 9.3 (*English Courts*) hereof shall not, and shall not be construed so as to, limit the right of any party hereto to take Proceedings in any other court of competent jurisdiction.

9.7 Consent to Enforcement, etc.

Each Loan Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever, irrespective of its use or intended use, of any order or judgement which is made or given in such Proceedings.

9.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Loan Guarantee has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Loan Guarantee, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which contains summaries of certain provisions of the Trust Deed and which will be endorsed on each Note Certificate in definitive form (if issued) and will be attached and (subject to the provisions hereof) apply to the Global Note Certificate:

The US$500,000,000 7.75 per cent. Loan Participation Notes due 2018 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of TMK CAPITAL S.A. (the "**Issuer**") are constituted by, are subject to and have the benefit of, a trust deed (as amended or supplemented from time to time, the "**Trust Deed**") dated 27 January 2011 between the Issuer and Deutsche Trustee Company Limited as trustee (the "**Trustee**", which expression includes all persons from time to time appointed trustee or trustees under the Trust Deed). The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing the U.S.$500,000,000 loan (the "**Loan**") to OAO TMK (the "**Borrower**"). The Loan is unconditionally, irrevocably, jointly and severally guaranteed (the "**Initial Loan Guarantees**") by OAO Volzhsky Pipe Plant and ZAO TMK Trade House (the "**Initial Loan Guarantors**") under a Deed of Loan Guarantee in favour of the Issuer as Lender under the Loan Agreement dated 25 January 2011 (the "**Deed of Loan Guarantee**"), and the Borrower has undertaken in the Loan Agreement that the Loan will be additionally so guaranteed (the "**Additional Loan Guarantees**") by each of OAO Seversky Pipe Plant, OAO Sinarsky Pipe Plant, OAO Taganrog Metallurgical Works and IPSCO Tubulars Inc. (the "**Additional Loan Guarantors**" and, together with the Initial Loan Guarantors and Further Loan Guarantors (as defined below), the "**Loan Guarantors**") executing a deed of accession to the Deed of Loan Guarantee, substantially in the form set out in the Schedule to the Deed of Loan Guarantee, not later than 90 calendar days after the Closing Date. The Borrower may also be obligated to procure certain further loan guarantees from further loan guarantors ("**Further Loan Guarantors**") upon the satisfaction of certain conditions set out in Clause 14.11 of the Loan Agreement (the "**Further Loan Guarantees**"). The Initial Loan Guarantees, Additional Loan Guarantees and Further Loan Guarantees are together referred to as the "**Loan Guarantees**". Loan Guarantors may be automatically released in accordance with the Loan Agreement.

In each case where amounts of principal, interest, additional amounts, or any other amounts due pursuant to Condition 8 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders (as defined in Condition 2 (*Register and Transfers*)), on each date upon which such amounts are due in respect of the Notes, for an amount equivalent to the sums of principal, interest, increased amounts of principal, interest or any other payment due or any other amounts actually received by, or for the account of, the Issuer pursuant to the Loan Agreement or the Loan Guarantees, as the case may be, less any amount in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively upon the Borrower's covenant to pay under the Loan Agreement or each Loan Guarantor's covenant to pay under the Loan Guarantees, as the case may be, and the credit and financial standing of the Borrower or each Loan Guarantor, respectively. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

Security

Pursuant to the Trust Deed, the Issuer has:

(A) charged by way of first fixed security to the Trustee: (i) its present and future rights, title, interest and benefit to principal, interest and other amounts paid and payable to it under the Loan Agreement and the Initial Loan Guarantees; (ii) its present and future right, title, interest and benefit to receive amounts paid and payable to it under any claim, award or judgment relating to the Loan Agreement and the Initial Loan Guarantees; in each case other than its right to amounts in respect of any rights, title, interests and benefits of the Issuer under the following clauses of the Loan Agreement: Clause 7.5, second sentence thereof (*Costs of Prepayment)*, Clause 8.3(a) (*Additional Amounts*), Clause 10 (*Changes in Circumstances*), Clause 11 (*Representations and Warranties of the Borrower*), Clause 16.4 (*Borrower's Indemnity*), Clause 20 (*Costs and Expenses*), and (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of the Loan Agreement) Clause 18.2 (*Currency Indemnity*); and the following clauses of each Initial Loan Guarantee: Clause 2 (*Representations and Warranties of each Guarantor*), Clause 4.3 (*Additional Amounts*), and (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of any Initial Loan Guarantee) Clause 5.2 (*Currency Indemnity*) (such rights referred to herein as the "**Reserved Rights**") and will so charge its rights, title, interest and benefit under the Additional Loan Guarantees and the Further Loan Guarantees;

(B) charged by way of first fixed security to the Trustee its rights, title, interest and benefit sums held on deposit from time to time, in an account in London in the name of the Issuer with the Principal Paying Agent (defined below), account number 28013402, together with the debt represented thereby (other than interest from time to time earned thereon and sums held in respect of the Reserved Rights) (the "**Account**"); and

(C) has assigned absolutely to the Trustee all of its present and future rights, title, interest and benefit in and under the Loan Agreement and the Initial Loan Guarantees and will so assign its rights, title, interest and benefit under the Additional Loan Guarantees and the Further Loan Guarantees (save in each case for those rights charged or excluded in (A) and (B) above) (the "**Loan Assignment**" and the "**Loan Guarantee Assignment**", respectively and, together, the "**Security Interests**").

In addition, the Issuer has granted a power of attorney by way of security in favour of the Trustee in respect of the Security Interests created pursuant to the Trust Deed.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to enforce the Security Interests pursuant to Condition 13 (*Enforcement*)).

The Notes are the subject of an agency agreement dated 25 January 2011 (as amended or supplemented from time to time, the "**Agency Agreement**") among the Issuer, the Trustee, Deutsche Bank Luxembourg S.A., at its specified office in Luxembourg, as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, London Branch, at its specified office in London, as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes) and Deutsche Bank AG, London Branch, at its specified office in London as transfer agent (the "**Transfer Agent**", which expression includes any additional or successor transfer agent appointed from time to time in connection with the Notes) and each as paying agent (each a "**Paying Agent**" and together the "**Paying Agents**", which expressions include any additional or successor paying agent appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrar, any Transfer Agent, the Principal Paying Agent and any Paying Agent and any reference to an "**Agent**" is to any one of them. Certain provisions of these terms and conditions ("**Conditions**") are summaries of the Trust Deed, the Deed of Loan Guarantee, the Loan Agreement and the Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Deed of Loan Guarantee, the Loan Agreement and the Agency Agreement applicable to them. Copies of the Trust Deed, the Deed of Loan Guarantee, the Loan Agreement and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Winchester House, 1 Great Winchester Street, London EC2N 2DB and at the Specified Offices (as defined in the Agency Agreement) of the Registrar, the Principal Paying Agent, any Transfer Agent and any Paying Agent. The initial Specified Offices of the initial Agents are set out below.

1 Form, Denomination and Title

(a) *Form and denomination:* The Notes are in registered form in amounts of U.S.$200,000 and higher integral multiples of U.S.$1,000 in excess thereof (referred to as the "**principal amount**" of a Note). A note certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar and at the registered office of the Issuer. The Registrar will provide to the Issuer a copy of the updated register as soon as possible after each change to the register.

(b) *Title:* The title to the Notes passes only by registration in the register of Noteholders. The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes, whether or not such Note is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft of the relative Note Certificate, and no person shall be liable for so treating such holder.

2 Register and Transfers

(a) *Register:* The Registrar will maintain outside the United Kingdom a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Transfers:* Subject to Conditions 2(e) (*Closed periods*) and 2(f) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the

endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or a Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor in accordance with Condition 2(c) (*Registration and delivery of Note Certificates*) below.

(c) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with Condition 2(b) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Note(s) transferred to the relevant Holder at the Registrar's Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its Specified Office. In the case of the transfer of part only of the Notes, a new Note Certificate in respect of the balance of the Notes not transferred will be so delivered or (at the risk and, if mailed at the request of the transferor otherwise than by ordinary uninsured mail, at the expense of the transferor) sent by mail to the transferor.

(d) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Issuer or the Registrar, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(e) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(f) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the Borrower. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Transfer Agent to any Noteholder who requests in writing a copy of such regulations and will be available at the office of the Registrar in Luxembourg and the Transfer Agent in Luxembourg.

3 Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute obligations of the Issuer to apply an amount equal to the gross proceeds from the issue of the Notes for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest, increased amounts of principal, interest or any other payment due and Additional Amounts (as defined in the Loan Agreement), if any, actually received by, or for the account of, the Issuer pursuant to the Loan Agreement and/or any Loan Guarantee, as the case may be (less any amounts in respect of the Reserved Rights), the right to receive which is, *inter alia,* being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

Payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest, increased amounts of principal, interest or any other payment due or Additional Amounts, if any, pursuant to the Loan Agreement and/or any Loan Guarantee, as the case may be (less any amounts in respect of the Reserved Rights) will be made *pro rata* among all Noteholders (subject to Conditions 6(c) (*Noteholders' Put*) and Condition 8 (*Taxation*)), on the corresponding payment dates (as provided in the Loan Agreement) of, and in the currency of, and subject to the conditions attaching to, the equivalent payment in accordance with the Loan Agreement and/or any Loan Guarantee, as the case may be. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. The Issuer shall be under no obligation to exercise in favour of the Trustee or the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower and/or the Issuer and any of the Loan Guarantors, as the case may be.

Noteholders are deemed to have accepted that:

(i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or liability, or obligation in respect of the performance and observance by the Borrower or any of the Loan Guarantors, as the case may be, of its obligations under the Loan Agreement or any Loan Guarantee, respectively, or the recoverability of any sum of principal, interest, increased amounts of

principal, interest or any other payment due or Additional Amounts, if any, due or to become due from the Borrower or any of the Loan Guarantors, as the case may be, under the Loan Agreement or any Loan Guarantee, respectively;

(ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower or any of the Loan Guarantors, as the case may be;

(iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower or any of the Loan Guarantors, as the case may be, under or in respect of the Loan Agreement or any Loan Guarantee, respectively;

(iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, the Principal Paying Agent, any Transfer Agent or any Paying Agent of their respective obligations under the Agency Agreement;

(v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower and each the Loan Guarantor, as the case may be, of their respective obligations under the Loan Agreement and/or the Loan Guarantees, the Borrower's covenant to pay under the Loan Agreement and each Guarantor's covenant to pay under its respective Loan Guarantee, respectively and their respective credit and financial standings. The Borrower has represented and warranted to the Issuer in the Loan Agreement that, subject to certain potential qualifications set out in Clause 11.2 (*Authorisations*) of the Loan Agreement, the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower. Each Loan Guarantor has represented and warranted to the Issuer in the Deed of Loan Guarantee that, subject to certain qualifications set out in Clause 2.2 (*Authorisations*) of the Deed of Loan Guarantee, its Loan Guarantee constitutes legal, valid and binding obligations of such Loan Guarantor;

(vi) the Issuer (and, pursuant to the Loan Assignment, the Trustee) will rely on self-certification by the Borrower and any Loan Guarantor and certification by third parties as a means of monitoring whether the Borrower or such Loan Guarantor is complying with its obligations under the Loan Agreement or the relevant Loan Guarantee, respectively, (including, without limitation, compliance with the covenants in Clause 14 (*Covenants*) of the Loan Agreement) and shall not otherwise be responsible for investigating any aspect of the Borrower's or any Loan Guarantor's performance or compliance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission ordefect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security;

(vii) the Issuer will not be liable for any withholding or deduction or for any payment on account of Taxes (as defined in the Loan Agreement) (not being a tax imposed on the Issuer's net income) required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement or any Loan Guarantee, as the case may be, which will or may affect payments made or to be made by the Borrower or any of the Loan Guarantors, as the case may be under the Loan Agreement or any Loan Guarantee, respectively, save to the extent that it has received increased amounts of principal, interest or any other payment due or Additional Amounts under the Loan Agreement or any Loan Guarantee, as the case may be, in respect of such withholding or deduction; the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in this context in Clause 8 (*Certain Additional Payments*) and Clause 10.4 (*Mitigation*) of the Loan Agreement and in Clause 4 (*Taxation*) of the Deed of Loan Guarantee; and

(viii) where the Trustee or the Issuer is required, pursuant to the Loan Agreement or the Loan Guarantee, to determine whether a matter or amount is "material" or "substantial" or has a Material Adverse Effect (as defined in the Loan Agreement), the Trustee shall be entitled to direct the Issuer to obtain advice in relation thereto from an Independent Appraiser (as defined in the Loan Agreement) on which advice the Trustee will be entitled to rely. The Issuer shall have 5 Business Days (as defined in the Trust Deed) after the occurrence of the circumstance which gives rise to the need for such determination to appoint an Independent Appraiser, the Issuer will notify the Trustee if it has failed to do so and the Trustee may, but shall not be obliged to, use

reasonable endeavours to make such appointment, at the expense of the Issuer, within 15 Business Days of being notified of the Issuer's failure. The Trustee shall have no responsibility for performing the role of the Independent Appraiser itself, shall not be obliged to take any action in relation to making such appointment unless previously indemnified and/or secured and/or pre-funded to its satisfaction and shall have no liability for any failure to appoint such Independent Appraiser. If the Trustee has not engaged an Independent Appraiser after 15 Business Days, the Trustee shall not make such a determination but either (i) shall call a meeting of Noteholders which shall by means of an Extraordinary Resolution make such a determination in place of the Trustee or (ii) shall accept a direction making such a determination by the holders of at least one-quarter in principal amount of the outstanding Notes making such a determination.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or any Loan Guarantee exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or any Loan Guarantee or have direct recourse to the Borrower or any of the Loan Guarantors except through action by the Trustee under the Security Interests. Neither the Issuer nor the Trustee pursuant to the Loan Assignment or the Loan Guarantee Assignment, as the case may be, shall be required to take proceedings to enforce payment under the Loan Agreement or any Loan Guarantee, as the case may be, unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Issuer are solely to make payments of amounts in aggregate equivalent to each sum actually received by or for the account of the Issuer from the Borrower or the Loan Guarantors, as the case may be, in respect of principal, interest, increased amounts of principal, interest or any other payment due or Additional Amounts, if any, as the case may be, pursuant to the Loan Agreement or any Loan Guarantee, as the case may be, (less any amount in respect of the Reserved Rights), the right to which is being assigned by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the Borrower and the Loan Guarantors complying with their obligations under the Loan Agreement or the Loan Guarantees, as the case may be, the credit and financial standing of the Borrower and the Loan Guarantors and the ability of the Issuer (or, in certain circumstances as described in Condition 13 (*Enforcement*) the Trustee) to enforce such obligations against the Borrower and the Loan Guarantors under the Loan Agreement or the Loan Guarantees, as the case may be.

The obligations of the Issuer to make payments as stated in the previous paragraph constitute direct and general obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments to be made by the Borrower under the Loan Agreement or by any of the Loan Guarantors under the Loan Guarantees to the Account (before such time that the Issuer has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) will satisfy *pro tanto* the obligations of the Issuer to make payments in respect of the Notes unless there is subsequent failure to pay such amounts to Noteholders.

4 Issuer's Covenant

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (each as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement or the Deed of Loan Guarantee and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement and/or the Loan Guarantees, as the case may be, except as otherwise expressly provided in the Trust Deed, the Loan Agreement and/or the Loan Guarantees. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Trustee to the Noteholders in accordance with Condition 15 (*Notices*).

5 Interest

(a) *Accrual of interest:* The Notes bear interest from 27 January 2011 (the "**Closing Date**") at the rate of 7.75 per cent. per annum (the "**Interest Rate**") payable semi-annually in arrear on 27 January and 27 July in each year (each, other than the Closing Date, an "**Interest Payment Date**"), subject as provided in Condition 7 (*Payments*). Each period from (and including) the Closing Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an "**Interest Period**".

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation of the relevant Note Certificate, payment of principal is improperly withheld or refused, in which case interest will continue to accrue (before or after any judgment) from the due date for redemption to, but excluding, the date on which payment in full of the principal is made under the Notes.

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Interest Rate to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). When interest is required to be calculated in respect of a period other than an Interest Period, it shall 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 actual number of days elapsed.

(b) *Default Interest under the Loan Agreement:* In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on unpaid sums from the Borrower and/or a Loan Guarantor, as the case may be, pursuant to Clause 16 (*Default Interest and Indemnity*) of the Loan Agreement the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on unpaid sums actually so received. Any payments made by the Issuer under this Condition 5(b) will be made on the next following Business Day (as defined in Condition 7(c) (*Payments on Business Days*)) after the day on which the Issuer receives such amounts from the Borrower and/or the Loan Guarantor, as the case may be, and, save as provided in this Condition 5(b), all subject to and in accordance with Condition 7 (*Payments*).

6 Redemption and Purchase

(a) *Final redemption:* Unless previously prepaid pursuant to Clause 7 (*Prepayment*) of the Loan Agreement or repaid in accordance with Clause 10.3 (*Illegality*) of the Loan Agreement, the Borrower or the Loan Guarantors, as the case may be, will be required to repay the Loan on the Business Day prior to its due date as provided in the Loan Agreement and, subject to such repayment, all the Notes will be redeemed at their principal amount on 27 January 2018, subject as provided in Condition 7 (*Payments*).

(b) *Redemption by the Issuer:* The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 25 days' notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set out in the notice of prepayment referred to in Condition 6(b)(i) or (ii) below) in accordance with Condition 15 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 8 (*Taxation*), if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has received a notice of prepayment from the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) or Clause 7.2 (*Prepayment for Reasons of Increased Costs or Illegality*) of the Loan Agreement; or

(ii) the Issuer has delivered a notice to the Borrower, the contents of which require the Borrower to repay the Loan, in accordance with the provisions of Clause 10.3 (*Illegality*) of the Loan Agreement.

The Issuer shall deliver to the Trustee an Officer's Certificate (as defined in the Trust Deed) of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 6(b). A copy of the Borrower's notice of prepayment or details of the circumstances contemplated by Clause 10.3 (*Illegality*) of the Loan Agreement and the date fixed for redemption shall be set out in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 6(b) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6, subject as provided in Condition 7 (*Payments*).

(c) *Redemptions at the option of the Noteholders:*

(A) Should the Borrower fail to fulfil its obligations to procure any Additional Loan Guarantee or any Further Loan Guarantee (if required) under Clause 14.11(a) or 14.11(b) of the Loan Agreement (each a "**Further Loan Guarantee Event**"), the Issuer will make an offer to purchase (the "**Further Loan Guarantee Event Offer**") and shall purchase all of the Notes duly tendered, at a price per Note of 101% of the principal amount thereof, plus accrued but unpaid interest thereon and plus any additional amounts or other amounts that may be due thereon, up to but excluding the date of repurchase (the

"**Further Loan Guarantee Event Payment**"). Pursuant to Clause 7.4 of the Loan Agreement, the Borrower is required to give notice to the Issuer (and, following the Loan Assignment, the Trustee) of the failure to procure the Additional Loan Guarantees or, if relevant any Further Loan Guarantee (the "**Borrower Further Loan Guarantee Event Notice**") as soon as possible but in any event no later than within 10 calendar days after the date specified for the procurement thereof, and thereafter to prepay the Loan in such amounts as correspond to the Issuer's obligations to prepay the Notes hereunder. The Issuer, upon the receipt of the Borrower's notice, shall mail to each Holder, postage paid, with a copy to the Trustee, the Agents and the UK Listing Authority, and shall publish a notice thereof in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) a notice containing the following information: (i) that a Further Loan Guarantee Event Offer is being made pursuant to this Condition 6(c) and all Notes properly tendered thereunder will be accepted for payment; (ii) the purchase price and the purchase date, which will be a Business Day (which in this Condition 6(c) shall have the meaning given to it in the Loan Agreement) which is 60 calendar days from the date of delivery to the Issuer of the Borrower Further Loan Guarantee Event Notice, except as may be otherwise required by applicable law (the "**Further Loan Guarantee Event Payment Date**"); (iii) that any Note not properly tendered or not tendered at all will remain outstanding and continue to accrue interest and additional amounts, if any; (iv) that unless the Issuer defaults in the payment of the Further Loan Guarantee Event Payment, all Notes accepted for payment pursuant to the Further Loan Guarantee Event Offer will cease to accrue interest and additional amounts, if any, on the Further Loan Guarantee Event Payment Date; (v) that all Holders electing to have any Notes repurchased pursuant to the Further Loan Guarantee Event Offer will be required to surrender the Notes, with the form entitled "Noteholder Put Notice" set out in Schedule II to the Agency Agreement (the "**Noteholder Put Notice**"), completed, to the Paying Agent and at the address specified in the notice prior to the close of business on the fifth Business Day preceding the Further Loan Guarantee Event Payment Date; (vi) that Holders will be entitled to withdraw their tendered Notes and their election to require the Issuer to repurchase such Notes provided that the Paying Agent receives prior to the close of business (in the place the Paying Agent is located) on the third Business Day preceding the Further Loan Guarantee Event Payment Date, a facsimile transmission or letter setting out the name of the Holder, the principal amount of Notes tendered for repurchase, and a statement that such Holder is withdrawing his tendered Notes and his election to have such Notes repurchased; and (vii)that Holders whose Notes are being repurchased only in part will be issued new Note Certificates equal in principal amount to the unpurchased portion of the principal amount of the Notes surrendered, which unpurchased portion must be in integral multiples of U.S.$200,000.

(B) The Issuer will comply with the requirements of any laws of any jurisdiction in which the Further Loan Guarantee Event Offer is made, in each case to the extent such laws or regulations are applicable in connection with the repurchase of the Notes pursuant to a Further Loan Guarantee Event Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Loan Agreement or these Conditions, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations contained in the Loan Agreement or these Conditions by virtue thereof.

(C) On the second Business Day preceding the Further Loan Guarantee Event Payment Date, the Issuer will provide a notice (the "**Issuer Further Loan Guarantee Event Notice**") to the Trustee and the Borrower setting out the details of the Further Loan Guarantee Event Payment (including the computation thereof) required to be made by the Issuer for such Notes or portions thereof on the Further Loan Guarantee Event Payment Date.

(D) On the last Business Day prior to the Further Loan Guarantee Event Payment Date, the Borrower will, pursuant to Clause 7.4 (*Noteholder Put*) of the Loan Agreement, failing which the Loan Guarantors pursuant to the Loan Guarantees will, deposit in the Account an amount equal to the aggregate Further Loan Guarantee Event Payment in respect of all Notes or portions thereof properly tendered and not properly withdrawn as set out in the Issuer Further Loan Guarantee Event Notice. On the Further Loan Guarantee Event Payment Date, the Issuer will, to the extent permitted by law, (i)accept for payment all Notes or portions thereof properly tendered and not properly withdrawn pursuant to the Further Loan Guarantee Event Offer and (ii)deliver, or cause to be delivered, to the Registrar for cancellation on behalf of the Issuer the Notes so accepted together with a certificate of the Management Board of the Issuer stating that such Notes or portions thereof have been tendered to and purchased by the Issuer. In accordance with the instructions of the Holder set out in the Noteholder Put Notice, the Paying Agent will promptly either (x)pay to the Holder or (y)mail to each Holder of Notes postage prepaid, the Further

Loan Guarantee Event Payment for such Notes, and the Registrar will promptly authenticate and deliver to the Holder of the Notes a new Note Certificate or Certificates, equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided, however, that each new Note will be in integral multiples of U.S.$200,000. The Issuer will publicly announce the results of the Further Loan Guarantee Event Offer on or as soon as practicable after the Further Loan Guarantee Event Payment Date.

(d) *No other redemption:* Except where the Loan is accelerated pursuant to Clause 15.2 (*Rights of Lender upon occurrence of an Event of Default*) of the Loan Agreement, the Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 6(a) (*Final* Redemption), 6(b) (*Redemption by the Issuer*) and 6(c) (*Redemptions at the option of the Noteholders*) above.

(e) *Purchase:* The Issuer or the Borrower or any of its Subsidiaries (as defined in the Loan Agreement) may at any time purchase Notes in the open market or otherwise and at any price.

(f) *Cancellation:* All Notes redeemed or purchased by the Issuer and all Notes purchased by the Borrower or any of its Subsidiaries (for the avoidance of doubt including the Loan Guarantors) and surrendered, together with an authorisation addressed to the Registrar by the Borrower or such Subsidiaries, to the Lender pursuant to Clause 7.7 of the Loan Agreement (*Purchase of Notes*), shall be cancelled.

7 Payments

(a) *Principal:* Payments of principal shall be made by U.S. dollar cheque drawn on, or upon application by, a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by, the payee, upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate(s) at the Specified Office of the Registrar and/or the Transfer Agent.

(b) *Interest:* Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee, and (in the case of interest payable on redemption in whole) upon presentation for surrender of the relevant Note Certificate(s) at the Specified Office of the Registrar and/or the Transfer Agent.

(c) *Payments on Business Days:* Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date for payment, or, if the due date for payment is not a Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of the Registrar and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Business Day or (B) a cheque mailed in accordance with this Condition 7 (*Payments*) arriving after the due date for payment or being lost in the mail. In this Condition 7, "Business Day" means any day (other than a Saturday or Sunday) on which banks generally are open for business in Luxembourg, London and New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(d) *Partial payments:* If the Principal Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(e) *Record date:* Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Specified Office of the Registrar on the fifteenth day before the due date for such payment (the "**Record Date**") whether or not a Business Day. Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

(f) *Payment to the Account:* Save as the Trustee may otherwise direct at any time after the Charge (as defined in the Trust Deed) created pursuant to the Trust Deed becomes enforceable, the Issuer will pursuant to the provisions of Clause 7.1 (*Payments to the Principal Paying Agent*) of the Agency Agreement require the Borrower or the Loan Guarantors, as the case may be, to make all payments of principal and interest to be made

pursuant to the Loan Agreement or the Loan Guarantees, respectively, less any amounts in respect of the Reserved Rights, to the Account.

(g) *Payment obligations limited:* The obligations of the Issuer to make payments under Conditions 6 (*Redemption and Purchase*) and 7 (*Payments*) shall constitute an obligation only to account to the Noteholders on such date upon which a payment is due in respect of the Notes, for an amount equivalent to sums of principal, interest, increased amount of principal, interest or any other payment due or Additional Amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement and/or any Loan Guarantee less any amount in respect of the Reserved Rights.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made to, or for the account of, each Holder free and clear of, and without withholding or deduction for, any Taxes imposed or levied by the Grand Duchy of Luxembourg ("**Luxembourg**") or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. No such additional amounts shall be payable in respect of any Note:

(a) held by a Holder who is liable for such Taxes in respect of such Note by reason of its having some connection with Luxembourg other than the mere holding of such Note (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, Luxembourg); or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after a Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days; or

(c) where such withholding or deduction is imposed or levied on a payment to an individual and is required to be made pursuant to any European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) for any Taxes that would not have been imposed but for the failure of the relevant Holder to comply with the Issuer's written request, addressed to the relevant Holder and delivered at least 30 days prior to the date when the relevant payment is due, to provide information with respect to any reasonable certification, documentation, information or other reporting requirement concerning the nationality, residence, identity or connection with the taxing jurisdiction of the relevant Holder; or

(e) presented for payment by or on behalf of a Holder who would be able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

Notwithstanding the foregoing provisions, the Issuer shall only make payments of additional amounts to the Noteholders pursuant to this Condition 8 (*Taxation*) to the extent and at such time as it shall have actually received an equivalent amount for such purposes from the Borrower and/or the Loan Guarantors under the Loan Agreement and/or any Loan Guarantee, as the case may be, by way of increased amount of principal, interest or any other payment due or Additional Amounts or otherwise.

To the extent that the Issuer receives a lesser sum, in respect of an increased amount of principal, interest or any other payment due from the Borrower and/or the Loan Guarantors for the account of the Noteholders, the Issuer shall account to each Noteholder entitled to receive an additional amount pursuant to this Condition 8 (*Taxation*) for an additional amount equivalent to a *pro rata* portion of such increased amounts of principal, interest or any other payment due (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement and/or any Loan Guarantee on the date of, in the currency of, and subject to any conditions attaching to the payment of such increased amounts of principal, interest or any other payment due to the Issuer.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 or any undertaking

given in addition to or in substitution of this Condition 8 pursuant to the Trust Deed, the Loan Agreement or the Deed of Loan Guarantee.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Luxembourg, references in these Conditions to Luxembourg shall be construed as references to Luxembourg and/or such other jurisdiction.

9 Prescription

Claims for principal shall become void unless the relevant Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, in each case of the appropriate Relevant Date.

10 Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or any Paying 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, security, indemnity and otherwise as the Issuer, the Registrar or Paying Agent may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11 Trustee and Agents

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Borrower, any of the Loan Guarantors and any entity relating to the Issuer, the Borrower or any of the Loan Guarantors without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent or additional or successor other paying agents and transfer agents; provided, however, that the Issuer shall, if and so long as the Notes are listed on the London Stock Exchange and the rules of the London Stock Exchange so require, maintain a transfer and paying agent in London and shall at all time maintain a registrar outside the United Kingdom. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

The Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

12 Meetings of Noteholders; Modification and Waiver; Substitution

(a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Loan Agreement, the Loan Guarantees or any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined in the Trust Deed). Such a meeting may be convened

on no less than 21 days' notice by the Trustee, the Borrower or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes provided it shall have been indemnified and/or secured and/or prefunded to its satisfaction. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that certain proposals (including but not limited to any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, to alter the governing law of the Conditions, the Trust Deed, the Loan Agreement or any Loan Guarantee, to change any date fixed for payment of principal or interest under the Loan Agreement or any Loan Guarantee, to alter the method of calculating the amount of any payment under the Loan Agreement or any Loan Guarantee or to change the currency of payment or events of default under the Loan Agreement or any Loan Guarantee (each, a "**Reserved Matter**") may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions, the Trust Deed or pursuant to the Loan Assignment, the Loan Agreement or any Loan Guarantee (i) (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders or (ii) which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any breach or proposed breach of the Notes or the Trust Deed by the Issuer or, pursuant to the Loan Assignment, the Loan Agreement or the Deed of Loan Guarantee by the Borrower or any Loan Guarantor, as the case my be, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement and the Loan Guarantees shall not be treated as such (other than a proposed breach or breach relating to a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

(c) *Substitution:* The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes to a third party provided that certain conditions specified in the Trust Deed are fulfilled.

13 Enforcement

At any time after the Trustee has actual notice of the occurrence of an Event of Default (as defined in the Loan Agreement) or Relevant Event (as defined below) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes (including, after a Relevant Event, enforcing the Security Interests and, where applicable, after an Event of Default, directing the Issuer to enforce its rights against the Borrower or the Loan Guarantors under the Loan Agreement or the Deed of Loan Guarantee), but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or prefunded to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

The Trust Deed also provides that, in the case of an Event of Default, or a Relevant Event, the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being indemnified and/or secured and/or prefunded to its satisfaction, (1) require the Issuer to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (in the case of an Event of Default), or (2) enforce the security created in the Trust Deed in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 8 *(Taxation)* and thereupon shall cease to be outstanding.

For the purposes of these Conditions, "**Relevant Event**" means the earlier of any of (i) the failure by the Issuer to make any payment of principal or interest on the Notes when due, following receipt by the Issuer of the corresponding amount under the Loan Agreement and/or any Loan Guarantee, (ii) the filing of an application for the institution of controlled management (*"gestion contrôlée*"), suspension of payment (*sursis de paiement*), liquidation by decision of the court (*"liquidation judiciaire*"), bankruptcy, moratorium, insolvency, composition proceedings (*"concordat préventif de la faillite*"), general agreement with any of its creditors or any other similar legal procedure, (iii) the appointment of a *"commissaire à la gestion contrôlée*", a *"liquidateur judiciaire*", a *"curateur*", a *"commissaire*" or any similar officer in respect of the Issuer, or (iv) the taking of any action in furtherance of the dissolution of the Issuer.

14 Further Issues

The Issuer may from time to time, with the consent of the Borrower and the Loan Guarantors and without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Borrower, the Loan Guarantors and the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

15 Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are listed on the London Stock Exchange and the rules of that Exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) or, if, in the opinion of the Trustee, such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

16 Governing Law and Jurisdiction

(a) *Governing law:* The Trust Deed, the Agency Agreement, the Notes, the Loan Agreement, the Deed of Loan Guarantee, all other agreements entered into in connection therewith and any non-contractual obligations arising out of or in connection therewith shall be governed by, and construed in accordance with, English law. The provisions of Articles 86 to 94-8 of the Luxembourg law of 10 August 1915 on commercial companies, as amended, are hereby excluded.

(b) *Jurisdiction:* The Issuer has in the Trust Deed (i) submitted irrevocably to the non-exclusive jurisdiction of the courts of England for the purposes of hearing any determination and suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Loan Agreement or the Deed of Loan Guarantee; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated a person in England to accept service of any process on its behalf; and (iv) consented to the enforcement of any judgment.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term of condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will be represented by a Global Note Certificate. The Global Note Certificate contains provisions which apply to the Notes in respect of which the Global Note Certificate is issued, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes have the same meanings as in the paragraphs below. The following is a summary of those provisions:

Exchanges

The Notes will initially be represented by a global note certificate in registered form. The Global Note Certificate will be registered in the name of a nominee for and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

Interests in the Global Note Certificate will be exchangeable (free of charge), in whole but not in part, for Note Certificates in definitive form without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes "Exchange Event" means that (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of legal holidays) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available, (ii) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions, or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Global Note Certificate in definitive form.

The Issuer will promptly give notice to Noteholders in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Note Certificate) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfers

Transfers of interests in the Notes will be effected through the records of Euroclear and Clearstream, Luxembourg or any alternative clearing system and their direct and indirect participants.

Redemption and Purchase

In the event of the purchase or redemption by or on behalf of the Issuer, the Borrower or any of the Borrower's subsidiaries, as the case may be and cancellation of a part of the Global Note Certificate in accordance with Condition 6(c) (*Redemptions at the option of the Noteholders*) or 6(f) (*Cancellation*) of the Terms and Condition of Notes, the portion of the principal amount thereof so purchased, or redeemed, and cancelled shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate, whereupon the principal amount thereof shall be reduced by the amount so purchased and cancelled and endorsed. Upon the purchase or redemption of the whole of the Global Note Certificate in accordance with Condition 6(c) (*Redemptions at the option of the Noteholders*) or Condition 6(f) (*Cancellation*) of the Terms and Conditions of the Notes, the Global Note Certificate shall be surrendered to or to the order of the Registrar and cancelled. So long as the Notes are held on behalf of Euroclear or Clearstream, Luxembourg or any alternative clearing system, such purchases and redemptions will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system, as appropriate.

Payments

To the extent that the Issuer has actually received the relevant funds from the Borrower, payments of interest in respect of Notes represented by the Global Note Certificate will be made without presentation or, in the case of payment of interest due on redemption and the final payment of principal, against presentation and surrender of the Global Note Certificate to or to the order of the Registrar. Upon any payment of principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate. Payments while Notes are represented by the Global Note Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system.

Accountholders

For so long as all of the Notes are represented by the Global Note Certificate and such Global Note Certificate is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "Noteholders" and references to "holding of Notes" and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, the Borrower, any Loan Guarantor and the Trustee, solely in the nominee for the relevant clearing system (the "Relevant Nominee") in accordance with and subject to the terms of the Global Note Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

Notices

So long as any of the Notes are represented by the Global Note Certificate and it is held on behalf of Euroclear, Clearstream, Luxembourg, or any alternative clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg, or any alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the "Terms and Conditions of the Notes". For so long as the Notes are listed on the London Stock Exchange and the rules of the London Stock Exchange so require, notice shall also be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*).

Record Date

Notwithstanding Condition 7(e), for so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any alternative clearing system, "Record Date" shall mean the Clearing System Business Day before the relevant due date for payment, where "Clearing System Business Day" means a day when Euroclear and Clearstream, Luxembourg is open for business.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us with respect to Russian law by White & Case LLC. Certain legal matters in connection with the Offering will be passed upon for the Joint Lead Managers and the Trustee with respect to English law and Luxembourg law by Linklaters LLP and with respect to Russian law by Linklaters CIS.

INDEPENDENT AUDITORS

The Consolidated Financial Statements have been audited or reviewed by Ernst & Young LLC, independent auditors, of Sadovnicheskaya Naberezhnaya 77, building 1, 115035 Moscow, Russian Federation.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Deutsche Bank AG, London Branch and UBS Limited (together the "**Joint Lead Managers**") have jointly and severally agreed, subject to the satisfaction of the terms and conditions of a subscription agreement dated 25 January 2011 (the "**Subscription Agreement**"), by and among the Issuer, the Joint Lead Managers and TMK, to subscribe and pay for the Notes at the issue price of 100% of the principal amount of the Notes. The Subscription Agreement provides that the obligation of the Joint Lead Managers to purchase the Notes is subject to the satisfaction of certain conditions, including, among other things, the delivery of legal opinions by legal counsel and tax opinions by tax advisers. In connection with the offering of the Notes, TMK has agreed to pay management, underwriting and selling commissions to the Joint Lead Managers and to reimburse certain of their expenses related to the offering of the Notes. See "*Use of Proceeds*". TMK, the Initial Loan Guarantors and the Issuer have agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to the closing of the issue of the Notes.

The Joint Lead Managers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Borrower and its affiliates (including its shareholders). The proceeds of the offering shall be used by the Issuer to provide as Loan to TMK. TMK will use the proceeds of the Loan in their entirety to refinance existing short-term indebtedness. Please also see "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments*", "*Business — Joint Ventures and Acquisitions*" and "*Use of Proceeds*".

Selling Restrictions

United States

The Notes, the Loan and the Loan Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States 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 represented that it has not offered or sold any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) ***Financial promotion:*** 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 Notes in circumstances in which section 21 (1) of the FSMA does not apply to the Issuer; and

(b) ***General compliance:*** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each of the Joint Lead Managers has represented and agreed that the Notes 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.

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "**professional investors**" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the

Prospectus being a "**prospectus**" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Joint Lead Manager has acknowledged that the Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

   (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

   (ii) where no consideration is or will be given for the transfer;

   (iii) where the transfer is by operation of law; or

   (iv) as specified in Section 276(7) of the SFA.

Switzerland

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it will not publicly offer, sell or advertise the Notes in or from Switzerland, as such term is defined or interpreted under the Swiss Code of Obligations ("**CO**"); and

(b) to the extent the Notes qualify as structured products within the meaning of the Swiss Collective Investment Schemes Act ("**CISA**"), it will not publicly offer, sell or advertise the Notes in or from Switzerland, as such term is defined or interpreted under the CISA, except in accordance with Swiss law and regulation.

Neither this Prospectus nor any other documents related to the Notes constitute a prospectus in the sense of article 652a or 1156 CO or a simplified prospectus in the sense of article 5 CISA, and neither this Prospectus nor any other documents related to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. No application has been made for a listing of the Notes on the SIX Swiss Exchange or any other regulated securities market in Switzerland, and consequently, the information presented in this Prospectus does not necessarily comply with the information standards set out in the listing rules of the SIX Swiss Exchange. The Notes do not constitute participations in a collective investment scheme within the meaning of the CISA. Therefore the Notes are not subject to the approval of, or supervision by, the Swiss Financial Markets Supervisory Authority

FINMA ("**FINMA**"), and investors in the Notes will not benefit from protection under the CISA or supervision by FINMA.

General

Each Joint Lead Manager has agreed that it has, to the best of its knowledge and belief, complied and will comply in all material respects with applicable laws and regulations in each jurisdiction in which they offer, sell or deliver Notes or distribute this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer, TMK or any Loan Guarantor.

No action has been taken, in any jurisdiction, by the Issuer, TMK, any Loan Guarantor or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of the Prospectus or any other offering or publicity material relating to the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any prospectus, offering circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of the Notes by it will be made on the same terms.

Persons into whose possession this Prospectus comes are required by the Issuer, TMK, the Loan Guarantors and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

TAXATION OF THE NOTES, LOAN AND GUARANTEES

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences under the tax laws of the country of which they are residents of a purchase of Notes, including, but not limited to, the consequences of receipt of interest and sale or redemption of the Notes. The following is a general description of certain tax laws relating to the Notes and the Loan as in effect on the date hereof and does not purport to be a comprehensive discussion of the tax treatment of the Notes.

Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as taxation of interest payments on the Loan. The summary is based on the laws of the Russian Federation in effect on the date of this Prospectus (whereas they are subject to changes which could occur frequently and at short notice). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The summary does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia, nor does it seek to address the availability and eligibility of double tax treaty relief in respect of income payable on the Notes, or practical difficulties connected with claiming such double tax treaty relief.

Prospective investors should consult their own tax advisors regarding the tax consequences of investing in the Notes that may arise in their own particular circumstances. No representation with respect to the Russian tax consequences to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack of interpretive guidance resulting in inconsistent interpretations and application thereon by the various authorities in practice. Further, 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 Noteholder**" means:

- a Noteholder who is an individual not actually present in Russia for an aggregate period of 183 days or more in a period comprised of 12 consecutive months (the "**Non-Resident Noteholder — Individual**") , or
- a legal entity or an organisation in each case not organised under Russian law which holds and disposes of the Notes otherwise than through a permanent establishment in Russia (the "**Non-Resident Noteholder — Legal Entity**").

Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education purposes.

Currently, the Russian Tax Code is frequently interpreted such that days of arrival should not be taken into account as opposed to days of departure when calculating the total number of days of presence of an individual in Russia, and we are aware of a court case confirming this position. However, there have been several incidents when the Russian Ministry of Finance and the Federal Tax Service suggested a different methodology in their private letters.

For the purposes of this summary, the term "**Resident Noteholder**" means any Noteholder (including any individual and any legal entity or an organisation) not qualifying as a Non-Resident Noteholder.

For the purposes of this summary, the definitions of "**Russian Resident Noteholder**" and "**Non-Resident Noteholder**" 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 by the tax authorities may differ depending on the position. The law is currently worded in a way that implies the potential for a split year residency for individuals. However both the Russian Ministry of Finance and the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full year. Consequently if the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to the Russian Tax Code dealing with taxation of individuals, a change in the position of the tax authorities or by outcomes of tax controversy through the courts. Russia's rights with regard to taxation rights may be affected by an applicable double tax treaty.

The Russian tax treatment of interest payments made by the Borrower to the Issuer or to the Trustee under the Loan Agreement may affect the Noteholders. See "— *Taxation of Interest on the Loan*" below.

Taxation of the Notes

Non-Resident Noteholders

Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer.

Non-Resident Noteholders also generally should not be subject to any Russian taxes in respect of any gains or other income realised on redemption, sale or other disposition of the Notes outside Russia, provided that proceeds from such disposition are not received from a source within Russia. However, in absence of a clear definition of what constitutes income from sources within Russia in case of sale of securities, there is a risk that income from disposition of the Notes may be considered as received from Russian sources.

Taxation of Non-Resident Noteholders — Legal Entities

Acquisition of the Notes

Acquisition of the Notes by Non-Resident Noteholders — Legal Entities should not constitute a taxable event under Russian tax law. Consequently, acquisition of the Notes should not trigger any Russian tax implications for Non-Resident Noteholders — Legal Entities.

Disposition of the Notes

In the event that proceeds from disposition of the Notes are received from a source within Russia, a Non-Resident Noteholder — Legal Entity should not be subject to any Russian tax on any gain on sale or other disposition of the Notes, although there is some residual uncertainty regarding the tax treatment of the portion of the sales proceeds, if any, from disposition of the Notes that is attributable to accrued interest on the Notes. Subject to reduction or elimination under provisions of an applicable double tax treaty relating to interest income, the portion of sales proceeds attributable to accrued interest may be subject to Russian withholding tax at the rate of 20%, even if disposition of the Notes results in a capital loss.

Non-resident Noteholder — Legal Entities should consult their own tax advisers with respect to the details and risks associated with this possibility.

Taxation of Non-Resident Noteholders — Individuals

Acquisition of the Notes

Acquisition of the Notes by Non-Resident Noteholders — Individuals may constitute a taxable event pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of acquisition of securities. If the acquisition price of the Notes is below the "market price" decreased by the amount of the maximum permissible fluctuation rate, the difference may be subject to the Russian personal income tax at the rate of 30%. The Russian tax legislation as currently in effect contains a specific procedure for the determination of market prices of securities and the maximum permissible fluctuation rate for tax purposes. Effective 1 January 2011 these rules will be amended.

Under the Russian tax legislation, taxation of income of Non-Resident Noteholders — Individuals will depend on whether this income is received from Russian or non-Russian sources. Although the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, the tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as a purchase of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of acquisition transaction, the location of the Issuer, or other similar criteria.

Disposition of the Notes

Subject to any available tax treaty relief, if receipt of any proceeds from disposition of the Notes by a Non-Resident Noteholder — Individual is classified as income from Russian sources for Russian personal income tax purposes, these proceeds will be subject to Russian personal income tax at the rate of 30%. The tax will apply to the gross amount of sales proceeds received upon disposition of the Notes decreased by the amount of any available cost deductions (including the original purchase value of the Notes). There is a risk that, if the documentation supporting the cost deductions is deemed insufficient, the deduction will be disallowed and the tax will apply to the gross amount of sales proceeds.

In certain circumstances if sales proceeds are paid to a Non-Resident Noteholder — Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation, or any other person located in Russia, including a foreign company with a permanent establishment or any registered presence in Russia and by an individual entrepreneur located in Russia, who carries out operations under an agency agreement, a commission agreement or another similar agreement for the benefit of the Non-Resident Noteholder — Individual, the applicable personal income tax at the rate of 30% should be withheld at source by such person who will be considered as the tax agent. The amount of tax to be withheld will be calculated as the difference between sales proceeds paid to the Non-Resident Noteholder — Individual and the amount of duly documented deductions relating to the purchase value of the Notes and other related expenses to the extent that such deductions and expenses can be determined by the entity making the payment of income to the Non-Resident Noteholder — Individual.

When a sale is made to other legal entities, organisations or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder — Individual will be required to file a tax return individually, report on the amount of income realized to the Russian tax authorities and apply for a deduction in the amount of acquisition expenses, confirmed by the supporting documentation. The applicable tax will then have to be paid by the Non-Resident Noteholder — Individual on the basis of the filed tax return.

Under certain circumstances gains received and losses incurred by a Non-Resident Noteholder — Individual as a result of disposition of the Notes and other securities occurring within the same year may be aggregated which would affect the total amount of tax payable by the Non-Resident Noteholder—Individual in Russia.

Any gain derived by a Non-Resident Noteholder — Individual from the disposition of the Notes may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of disposition of the Notes and rubles. There is also some uncertainty regarding tax treatment of the portion of the sales proceeds derived by a Non-Resident Noteholder — Individual from Russian sources in connection with disposition of the Notes that is attributable to accrued interest on the Notes. The tax authorities could argue that the portion of sales proceeds attributable to accrued interest income provided that these sales proceeds are derived from Russian sources, should be subject to Russian personal income tax at the rate of 30%, even if disposition of the Notes results in a capital loss. This rate however could be reduced or eliminated under provisions of an applicable double tax treaty relating to interest.

Tax Treaty Relief

Russia 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 allow to reduce or eliminate Russian tax due with respect to income received by Non-Resident Noteholders from Russian sources, including income relating to disposition of the Notes. In order to obtain the benefit available under the respective double tax treaty, a Non-Resident Noteholder must comply with the certification, information, and reporting requirements in force in Russia.

Currently a Non-Resident Noteholder — Legal Entity will need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. The certificate should confirm that the respective Non-Resident Noteholder — Legal Entity is the tax resident of the relevant double tax treaty country in a particular calendar year during which the income is paid. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarized Russian translation of the certificate may be required. In practice the payer of income may request additional documents confirming the eligibility of the Non-Resident Noteholder that is a legal entity to the benefit of the double tax treaty. There can be no assurance, however, that advance treaty relief will be available in practice.

Under Russian domestic tax legislation in order to enjoy benefits of the respective double tax treaty a Non-Resident Noteholder — Individual must provide the Russian tax authorities with a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes and a confirmation from the relevant foreign tax authorities of income received and the tax paid outside Russia in relation to income with respect to which treaty benefits are claimed. Such requirements may be imposed even if they directly contradict provisions of the applicable double tax treaty. Technically, these requirements mean that a Non-Resident Noteholder — Individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. Individuals in practice would not be able to obtain the advance treaty relief in relation to income derived from Russian sources, as it is unlikely that the supporting documentation required for the treaty relief can be provided to the Russian tax authorities and, consequently, approval from the latter could be obtained, before the receipt of income by a Non-Resident Noteholder — Individual occurs.

Non-Resident Noteholders 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 a disposition of the Notes.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder — Legal Entity was withheld at source, despite the right of such a Non-Resident Noteholder — Legal Entity to rely on benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced rate in relation to such income, a claim for a refund of the tax that was excessively withheld at source can be filed with the tax authorities within three years following the tax period in which the tax was withheld.

If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder — Individual was withheld at source and the Non-Resident Noteholder—Individual has a right to rely on benefits of the applicable double tax treaty allowing not to pay the tax in Russia or allowing to pay the tax at a reduced rate in relation to such income, a claim for a refund of tax thus withheld can be filed with the Russian tax authorities within one year following the year in which the tax was withheld.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty, even if such documentation is not explicitly required by the Russian Tax Code.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted in practice.

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realized by them in connection with acquisition, ownership and/or disposition of the Notes and interest received on the Notes.

Resident Noteholders should consult their own tax advisers with respect to the effect that acquisition, ownership and/or disposition of the Notes may have on their tax position.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal entity or organization having no registered presence and/or permanent establishment in Russia are subject to Russian withholding tax at the rate of 20%, which could be reduced or eliminated under the terms of an applicable double tax treaty. Based on professional advice it has received, TMK believes that payments of interest to the Issuer on the Loan should not be subject to Russian withholding tax under the terms of the Russia-Luxembourg double tax treaty. However, there can be no assurance that this tax relief will be available in practice and/or that such relief will continue to be available during the term of the Loan.

If interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the Russia-Luxembourg double tax treaty will cease and payments of interest will become subject to Russian withholding tax at the rate of 20%, or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under any double tax treaty under such circumstances. In such cases, Noteholders may seek the reduction or elimination of Russian withholding tax or a refund of withholding tax under applicable double tax treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable. There is no assurance however that the respective treaty relief will be available to them in practice under these circumstances.

Russian thin capitalisation rules, as explained below, will be applicable to interest payable on the Loan by TMK since the Russian affiliated entities of a non-Russian legal entity that directly owns more than 20% of TMK, act as the Loan Guarantors for TMK's debt obligations under the Deed of Loan Guarantee. Under Russian thin capitalisation rules, the deductibility of interest payable on the Loan is subject to certain limitations if the TMK's outstanding debt to the non-Russian legal entity that directly or indirectly owns more than 20% of the Borrower or to such legal entity's affiliated Russian entities, or guaranteed by such entity or by such entity's affiliated Russian entities, jointly qualified as "controlled debt" of TMK under the Russian thin capitalisation rules, exceeds 300% of the TMK's own capital. Any interest expense paid by TMK in excess of such limitations (on a pro- rata basis corresponding to the share of investment by the particular non-Russian legal entity into the charter capital of TMK) will not be deductible by TMK and will be reclassified as a dividend for TMK for the purposes of Russian profit tax and will be subject to a Russian withholding income tax at a rate of 15%.

There is also a risk that the reduced rates of withholding tax applicable to dividend income as stipulated by the Russia-Luxembourg double tax treaty would not be applicable to interest that is reclassified as a dividend under the thin capitalisation rules outlined above due to the fact that the Issuer is not a direct shareholder of TMK. Thus, if any portion of interest on the Loan is reclassified as a dividend, then there is a risk that it shall be subject to Russian withholding taxes at the rate of 15%.

If payments under the Loan are subject to Russian withholding tax (as a result of which the Issuer will be required to reduce payments made by it under the Notes by the amount of such withholding tax), TMK is obliged (subject to certain conditions) to increase payments made by it under the Loan as may be necessary so that the net payments received by the Issuer and the Noteholders will be equal to the amounts they would have received in the absence of such withholding tax. It is currently unclear whether the provisions obliging TMK to gross-up payments payable under the Loan will be enforceable under Russian law. There is a risk that gross-up for Russian withholding tax will not take place and that payments made by TMK under the Loan will be reduced by the amount of the Russian income tax withheld by it at the rate of 20%, or such other rate as may be in force at the time of payment. If TMK is obliged to increase payments payable under the Loan, it may (without premium or penalty), subject to certain conditions, prepay the Loan in full. In such case, all outstanding Notes will each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of redemption.

No value added tax will be payable in Russia in respect of interest and principal payments under the Loan.

Taxation of Payments under the Loan Guarantees

In general, payments under a guarantee by a Russian entity to a Non-Resident 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 Deed of Loan Guarantee, as the case may be, as "other similar" Russian source income. If the Russian tax authorities took such a 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 Russia-Luxembourg double tax treaty. However, there can be no assurance that such relief will be available.

If payments under the Trust Deed or the Deed of Loan Guarantee to a Non-Resident Noteholder — Individual performed by the Loan Guarantors are viewed as Russian-source income, they may be subject to Russian tax 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 Notes, would be subject to a 30% tax, which may be payable on a self-assessed basis or withheld at the source. 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 Noteholders-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 Loan Guarantee, as the case may be, that cover interest and principal of the Notes 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 Loan Guarantee, as the case may be, (whether of interest or, less likely, of principal) may be subject to Russian withholding tax at the rate of 20% (or, potentially, at a rate of 30% with respect to Non-Resident Noteholders-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 tax 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 Notes and the Trading Market — Payments We Make under the Loan or the Loan Guarantees May Be Subject to Russian Withholding Tax*".

If payments under the Trust Deed or the Deed of Loan Guarantee are subject to any withholding of Russian tax as a result of which the Issuer would have reduced payments under the Notes by the amount of such withholding, the Loan Guarantor must, subject to certain conditions, pay increased amounts of principal, interest or other payments due thereunder, so that Noteholders receive net payments equal to those that they would have received absent such withholding.

Russian thin capitalisation rules may also be applicable to payments under the Deed of Loan Guarantee pursuant to the same rules as discussed above, thus, giving rise to relative tax risks.

No value added tax will be payable in Russia in respect of payments under the Trust Deed or the Deed of Loan Guarantee, as the case may be, representing principal or interest on the Loan.

Luxembourg Taxation

The following is a general description of certain Luxembourg tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes 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 Prospectus. 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 Notes.

All payments of principal and interest in respect of the Notes 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 Noteholders.

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 Noteholders and certain entities so long as the interest rate is considered to be at arm's length. There is also no Luxembourg withholding tax, with the possible exception of payments of interest made to individual Noteholders and to certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

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 resident in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the procedure of exchange of information or for the tax certificate procedure. The same treatment will apply to payments of interest and other similar income made to certain "residual entities" within the meaning of Article 4.2 of the Savings Directive established in a Member State or in certain EU dependent or associated territories (i.e., entities which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the Savings Directive are not considered as legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation, that are not UCITS recognised in accordance with the Council Directive 85/611/EEC or similar collective investment funds located in Jersey, Guernsey, the Isle of Man, the Turks and Caicos Islands, the Cayman Islands, Montserrat or the British Virgin Islands and have not opted to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC). The applicable withholding tax rate is currently 20% until June 30, 2011, increasing to 35% as of July 1, 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 Notes by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg resident individual beneficial owners of the Notes 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 Noteholder who derives income from such Notes (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 (except for the potential application of the Savings Directive to interest payments) 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 Noteholders who hold Notes in their private capacity are not subject to taxation on capital gain upon disposal of a Note, unless such a disposal precedes the acquisition of the Note or the Note is disposed of within six months of its date of acquisition.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder unless:

(a) such holder is, or is deemed to be, a Luxembourg fully taxable resident company; or

(b) such Note 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 Notes are transferred for no consideration, note in particular:

(a) no Luxembourg inheritance tax is levied on the transfer of the Notes upon death of a Noteholder 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 Note by way of a gift by the Noteholder 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 Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note. 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 Notes. In case of proceedings in a Luxembourg court or of the presentation of documents relating to the Notes, other than the Notes themselves, 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 and in particular, a loan agreement will be subject to an ad valorem registration duty of 0.24% calculated on the amounts mentioned therein.

Residence

A Noteholder will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such Note or the execution, performance, delivery and/or enforcement of that or any other Note.

Stamp Duty and Stamp Duty Reserve Tax

No stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on a transfer by delivery of the Notes 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 foresees that European Member States will have to provide to the tax authorities of another Member State 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, *provided that* Luxembourg and Austria may, however, 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). The Savings Directive further proscribes that an individual subject to the withholding regime set by Luxembourg or Austria 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 Note 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.

GENERAL INFORMATION

1. The Notes are expected to be accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code of the Notes is 058521159 and the ISIN is XS 0585211591. The Maturity Date of the Notes is 27 January 2018 and the annual yield of the Notes when issued is 7.75%. See *"Terms of the Offering*".

2. OAO TMK expects to obtain all necessary consents, approvals, authorisations or other orders for the issue of the Notes and the other documents to be entered into by it in connection with the issue of the Notes, and each of the Loan Guarantors expects to obtain all necessary consents, approvals and authorisations in the Russian Federation in connection with their entry into, and the performance of their obligations under, the Loan Guarantees, as set out in the documents entered into by the Loan Guarantors in connection with the issue of the Notes.

3. The issue of the Notes and the entry into the Loan Agreement was authorised by a decision of the Board of Directors of the Issuer on 29 December 2010. The entry into the Loan Agreement was authorised by a decision of the Board of Directors of OAO TMK on 11 January 2011. The Initial Loan Guarantee was authorised by a decision of the sole shareholders of Volzhsky on 12 January 2011 and by a decision of the general meeting of shareholders of TMK Trade House on 12 January 2011. The Additional Loan Guarantee is expected to be authorised by decisions of the general meetings of shareholders of Seversky, Sinarsky and Tagmet on or about 10 March 2011. The Additional Loan Guarantee is expected to be authorised by the Board of Directors of IPSCO Tubulars on or about 10 March 2011.

4. It is expected that listing of the Notes on the Official List of the U.K. Listing Authority and admission of the Notes to trading on the Regulated Market of the London Stock Exchange will be granted on or before 28 January 2011, subject only to the issue of the Notes. Prior to official listing and admission to trading, however, the London Stock Exchange will permit dealings in accordance with its rules. Transactions will normally be effected for settlements in U.S. dollars and for delivery on the third business day after the day of the transaction.

5. There has been no significant change in the financial or trading position of the Issuer, the Borrower or the Loan Guarantors since 30 June, 2010. There has been no material adverse change in the financial position or prospects of the Borrower since 31 December, 2009, the date of the latest audited financial statements.

6. Neither the Borrower, the Issuer, nor any Loan Guarantor is involved in, or has been involved in during the previous 12 months, any government, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer, the Borrower or any Loan Guarantor is aware) which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Borrower, the Issuer or any Loan Guarantor.

7. Copies in English of the following documents may be inspected at and are available at the offices of the Principal Paying Agent and Transfer Agent during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for so long as any of the Notes are outstanding:

   (a) the charter of OAO TMK and each Loan Guarantor and the articles of incorporation of the Issuer;

   (b) this Prospectus, together with any amendment or supplement hereto;

   (c) the Loan Agreement;

   (d) the Agency Agreement;

   (e) the Trust Deed, which includes the forms of the Global Note Certificate and the Individual Note Certificates;

   (f) the Loan Guarantees;

   (g) the consolidated financial statements of TMK prepared in accordance with IFRS as at and for the years ended 31 December, 2009 and 2008 together with the reports of Ernst & Young LLC thereon; and

   (h) the consolidated interim financial statements of TMK prepared in accordance with IAS 34 "*Interim Financial Reporting*" as at and for the 6 months ended 30 June, 2010 and 2009.

8. OAO TMK prepares annual consolidated and interim condensed consolidated financial statements in accordance with IFRS. The Loan Guarantors do not prepare any financial information in accordance with IFRS.

9. Save for the fees payable to the Joint Lead Managers, the Trustee and the Agents, so far as TMK and the Issuer are aware no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

10. The Annual Consolidated Financial Statements for the years ended 31 December 2009 and 2008 included in this Prospectus have been audited by Ernst & Young LLC, independent auditors, as stated in their report dated 16 April 2010 and reproduced in this Prospectus (See "*Index to Consolidated Financial Statements -TMK's Consolidated Financial Statements as at and for the years ended 31 December 2009 and 2008"*). The Interim Consolidated Financial Statements for the six months ended 30 June 2010 included in this Prospectus have been reviewed by Ernst & Young LLC, independent auditors, in accordance with International Standard on Review Engagements 2410, as stated in their report dated 10 September, 2010 and reproduced in this Prospectus (See "*Index to Consolidated Financial Statements - TMK's Unaudited Condensed Consolidated Financial Statements as at and for the six-month period ended 30 June 2010*"). Ernst & Young LLC is a member of the Audit Chamber of Russia, acting through their office at Savodnicheskaya Nabrezhnaya 77/1, Moscow, 115035, the Russian Federation. Ernst & Young LLC does not have any material interest in the Issuer or OAO TMK.

11. The following table sets forth certain information with respect to our significant subsidiaries:

TMK entity	Actual interest as at 31 December 2010[1]	Registered office
Production operations		
Volzhsky	100%	6 Avtodoroga No. 7 404119 Volzhsky, Volgograd Region Russian Federation
Seversky	94.36%	7 Vershinina Street 623388 Polevskoy, Sverdlovsk Region Russian Federation
Tagmet	96.09%	1 Zavodskaya Street 347928 Taganrog Russian Federation
Sinarsky	94.20%	1 Zadovskoy Proezd, 623401 Kamensk-Uralsky, Sverdlovsk Region Russian Federation
TMK-Artrom	92.66%[2]	30 Draganesti Street 230119 Slatina Olt, Romania
TMK-INOX	51%[8]	1 Zadovskoy Proezd 623401 Kamensk-Uralsky, Sverdlovsk Region Russian Federation
TMK-Resita	100%[2]	36 Traian Halescu Street, Caras-Severin 320050 Resita Romania
TMK-CPW	51%[3]	7 Vershinina Street 623388 Polevskoy, Sverdlovsk Region Russian Federation
IPSCO Tubulars[7]	100%	2650 Warrenville Road Suite 700 Downers Grove, Illinois, 60515
Sales and marketing		
TMK Trade House	100%[4]	51 Rosa Luxembourg Street, 620026 Ekaterinburg, Sverdlovsk Region Russian Federation

TMK entity	Actual interest as at 31 December 2010[1]	Registered office
TMK-Kazakhstan	100%	24/2 Ugolnaya Street 473000 Astana Kazakhstan
TMK Global	100%	2 Boulevard Du Theatre 1204 Geneva Switzerland
TMK Europe	100%	62, Hohestaufenring 50674 Köln Germany
Oil and Gas Services		
Truboplast	100%	5/2 Prospect Lenina 620144 Ekaterinburg, Sverdlovsk Region Russian Federation
Orsky Machine Building Plant	100%[5]	1 Krupskoy Street 462431 Orsk, Orenburg Region Russian Federation
Pipe Maintenance Department	100%	30 km of a Highway Nizhnevartovsk-Raduzhny 628616 Yugra, Nizhnevartovsk region Tyumen region, Khanty-Mansijsk Autonomous District
Central Pipe Yard	100%	6 Tekhnicheskaya Street 461046 Buzuluk, Orenburg Region Russian Federation
TMK Oilfield Services[6]	100%	51 Rosa Luxembourg Street, 620026 Ekaterinburg, Sverdlovsk Region Russian Federation
Premium Connections		
TMK-Premium Service	100%	3 Kazenny pereulok, Business Center Pokrovsky Dvor 105064 Moscow Russian Federation
Research and Development		
RosNITI	97.36%	30 Novorossiskaya Street 454139 Chelyabinsk, Chelyabinsk Region Russian Federation

(1) Represents our proportionate ownership of the relevant entity through our consolidated subsidiaries as of 31 December 2010.
(2) OAO TMK holds its interest through TMK Europe.
(3) OAO TMK holds its interest through Seversky.
(4) Including 1% owned by Sinarsky.
(5) TMK owns 100% of the ordinary voting shares which comprise 75% of share capital. The Russian government owns a 25% interest consisting of preference shares, which are non-voting.
(6) TMK Oilfield Services was established in July 2007.
(7) IPSCO Tubulars and its subsidiaries comprise TMK Ipsco, the U.S. division of OAO TMK and is part of our production operations and premium connections.
(8) OAO TMK holds a 0.1% interest, with SinTZ holding a 50.9% interest.

GLOSSARY OF SELECTED TERMS

API	American Petroleum Institute. API is the U.S. petroleum industry's primary trade association that, among other things, develops consensus standards for the oil and natural gas industry.
ASTM International	A leading global voluntary standard development organisation, formerly known as ASTM, or the American Society for Testing and Materials.
Billet	A round or square steel product that has been hot-worked by forging, rolling or extrusion. A billet is a semi-finished product used for the production of seamless pipes. Billets are delivered in bars of certain diameter and cut into pieces of certain length, according to the length of the desired finished pipe. Thereafter, billets are heated and pierced to form a tube hollow.
Casing pipes	Pipes used as structural retainers for the walls of the drilled hole of deep wells in order to prevent collapse.
Continuous casting	A method of producing billets and other semi-finished steel products in long lengths from steel that is continuously withdrawn from a furnace at a set casting speed. The need for primary and intermediate mills and the storage and use of large numbers of ingot moulds is eliminated in the continuous casting process.
Double submerged arc welding ("**DSAW**")	A welding technique for longitudinal pipe where the pipe seam is welded by an electric arc welder on the interior and exterior surfaces (hence double), with the welding arc being submerged under flux (hence submerged). The advantage of this process is that the welds penetrate 100% of the pipe wall and produce a very strong bond of the pipe material. DSAW pipe is recommended for larger diameter welded pipes for high pressure oil and gas transmission purposes.
Electric arc furnace ("**EAF**")	A steel melting furnace in which heat is generated by electricity that arcs from the graphite electrodes to a metal bath. EAFs use scrap as the primary input in the production of steel. Among other advantages over open hearth furnaces, EAFs melt steel significantly faster than open hearth furnaces.
Electric resistance welded ("**ERW**")	A welding technique using an electric current passed between the two edges of the steel sheet to heat the steel to a point at which the edges are forced together to form a bond without the use of welding filler material.
Heat treatment	A process where solid steel or components manufactured from steel are subject to treatment by heating to obtain required properties, and includes softening, normalising, stress relieving and hardening.
Ingot	A mass of metal that results from casting molten steel into a mould. An ingot is usually rectangular in shape and is subsequently rolled into blooms and billets for rods, bars and sections and slabs for plates, sheet and strip. With the increasing use of the continuous casting process, in which molten steel is directly cast into billets or other semi-finished steel products, ingot casting is now used less frequently.
Line steel pipes	Line steel pipes, usually seamless steel pipes, are used for construction of long distance pipelines for oil and gas, combustible liquids and gases, nuclear station pipelines, heating system pipelines and general purpose pipelines.
Longitudinal welded pipes	Pipes formed from bending metal plates and welding them in such a manner that the weld seam runs along the axis of the pipe.

Mandrel	A metal rod or bar around which material, such as metal, may be shaped.
OCTG	Oil Country Tubular Goods, consisting of drill pipe, surface casing, production casing and production tubing, made in accordance with API specifications.
Open-hearth furnace	Steel is produced in the open hearth process by melting scrap and hot metal on the hearth of a combustion reverberating furnace bath. Scrap, flux and ore are charged into the furnace prior to heating. Fuel is burned in the furnace and the heat necessary to melt the raw materials is provided by radiation from the burning fuel. Open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, high levels of pollutants, slow melting process and relatively low productivity.
Rolling	The process of shaping metal by passing it between revolving rolls.
Spiral welded pipes	Pipe made from coils of steel by bending and welding in such a manner that the weld seam spirals around the circumference of the pipe.
Threaded connections	Threaded connections are similar to grooves on a bolt and enable sections of drill pipe and other kinds of pipe to be screwed together.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

TMK's Unaudited Interim Condensed Consolidated Financial Statements as at and for the six-month period ended 30 June 2010 . . . . . 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-11
TMK's Consolidated Financial Statements as at and for the years ended 31 December 2009 and 2008 . . . . . F-30
Independent auditors' report F-31
Consolidated Income Statement F-34
Consolidated Statement of Comprehensive Income F-35
Consolidated Statement of Financial Position F-36
Consolidated Statement of Changes in Equity F-37
Consolidated Statement of Cash Flows F-39
Notes to Consolidated Financial Statements F-41

OAO TMK
Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2010

OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2010

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 Finanacial Statements 7

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Report on review of interim condensed consolidated financial statements

The Shareholders and Board of Directors
OAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OAO TMK and its subsidiaries ("Group"), comprising the interim consolidated statement of financial position as at June 30 , 2010 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 the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements 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.

Ernst & Young LLC

September 10, 2010

A member firm of Ernst & Young Global Limited

OAO TMK

Unaudited Interim Consolidated Income Statement

Six-month period ended June 30, 2010

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2010	2009
Revenue:	1	2,566,180	1,478,578
Sales of goods		*2,522,041*	*1,447,031*
Rendering of services		*44,139*	*31,547*
Cost of sales	2	(1,980,366)	(1,254,717)
Gross profit		**585,814**	**223,861**
Selling and distribution expenses	3	(198,915)	(146,406)
Advertising and promotion expenses	4	(4,800)	(2,246)
General and administrative expenses	5	(110,048)	(98,531)
Research and development expenses	6	(6,260)	(4,757)
Other operating expenses	7	(23,413)	(13,782)
Other operating income	8	4,229	4,102
Impairment of goodwill		–	(9,645)
Impairment of property, plant and equipment		–	(28,074)
Foreign exchange gain/(loss), net		13,829	(11,658)
Finance costs		(199,080)	(211,675)
Finance income	9	8,560	31,967
Gain on changes in fair value of derivative financial instrument	18	31,811	–
Share of profit in associate		–	764
Profit/(loss) before tax		**101,727**	**(266,080)**
Income tax (expense)/benefit	10	(34,419)	62,272
Profit/(loss) for the period		**67,308**	**(203,808)**
Attributable to:			
Equity holders of the parent entity		69,038	(198,780)
Non-controlling interests		(1,730)	(5,028)
		67,308	**(203,808)**
Earnings/(loss) per share attributable to equity holders of the parent entity (in US dollars):			
Basic	11	**0.08**	**(0.23)**
Diluted	11	**0.06**	**(0.23)**

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

	NOTES	Six-month period ended June 30, 2010	2009
Profit/(loss) for the period		**67,308**	**(203,808)**
Exchange differences on translation to presentation currency [(a)]		(26,164)	48,053
Foreign currency loss on hedged net investment in foreign operation [(b)]	21 (v)	(36,043)	(164,946)
Income tax [(b)]	21 (v)	7,209	15,872
		(28,834)	**(149,074)**
Net unrealised gain on available-for-sale investments		–	312
Income tax		–	(62)
		–	**250**
Other comprehensive loss for the period, net of tax		**(54,998)**	**(100,771)**
Total comprehensive income/(loss) for the period, net of tax		**12,310**	**(304,579)**
Attributable to:			
Equity holders of the parent entity		16,806	(292,993)
Non-controlling interests		(4,496)	(11,586)
		12,310	**(304,579)**

(a) The amount of exchange differences on translation to presentation currency represented other comprehensive loss of 23,398 and other comprehensive income of 54,627 attributable to equity holders of the parent entity for the six-month period ended June 30, 2010 and 2009, respectively. Other comprehensive loss attributable to non-controlling interests amounted to 2,766 and 6,574 for the six-month period ended June 30, 2010 and 2009, respectively.

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

OAO TMK

Unaudited Interim Consolidated Statement of Financial Position

At June 30, 2010

(All amounts in thousands of US dollars)

	NOTES	June 30, 2010		December 31, 2009	
ASSETS					
Current assets					
Cash and cash equivalents	12	84,972		243,756	
Financial investments		3,973		4,075	
Trade and other receivables		653,274		578,956	
Accounts receivable from related parties	19	2,477		1,240	
Inventories	13	1,002,522		926,394	
Prepayments and input VAT		152,740		176,489	
Prepaid income taxes		2,845	**1,902,803**	46,104	**1,977,014**
Non-current assets					
Intangible assets	15	516,011		558,359	
Accounts receivable from related parties	19	59		68	
Property, plant and equipment	14	3,284,499		3,402,680	
Goodwill	15	552,148		555,462	
Deferred tax asset		141,461		135,652	
Other non-current assets		35,353	**4,529,531**	51,874	**4,704,095**
TOTAL ASSETS			**6,432,334**		**6,681,109**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	16	491,405		573,518	
Advances from customers		265,583		325,549	
Accounts payable to related parties	19	17,265		21,772	
Accrued liabilities		126,207		145,247	
Provisions		9,904		9,455	
Interest-bearing loans and borrowings	17, 18	828,583		1,537,382	
Derivative financial instrument	18	3,644		–	
Dividends payable		938		469	
Income tax payable		12,590	**1,756,119**	8,596	**2,621,988**
Non-current liabilities					
Interest-bearing loans and borrowings	17, 18	2,815,297		2,214,168	
Deferred tax liability		270,095		271,664	
Provisions		26,736		21,851	
Employee benefit liability		21,229		18,441	
Other liabilities		13,241	**3,146,598**	13,701	**2,539,825**
Total liabilities			**4,902,717**		**5,161,813**
Equity	21				
Parent shareholders' equity					
Issued capital		305,407		305,407	
Treasury shares		(318,351)		(37,378)	
Additional paid-in capital		383,909		104,003	
Reserve capital		15,387		15,387	
Retained earnings		1,088,243		1,019,322	
Foreign currency translation reserve		(15,551)	1,459,044	36,681	1,443,422
Non-controlling interests			70,573		75,874
Total equity			**1,529,617**		**1,519,296**
TOTAL EQUITY AND LIABILITIES			**6,432,334**		**6,681,109**

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, 2010

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Net unrealised losses**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2010	**305,407**	**(37,378)**	**104,003**	**15,387**	**1,019,322**	**36,681**	**–**	**1,443,422**	**75,874**	**1,519,296**
Profit/(loss) for the period	–	–	–	–	69,038	–	–	**69,038**	(1,730)	**67,308**
Other comprehensive income/(loss)	–	–	–	–	–	(52,232)	–	**(52,232)**	(2,766)	**(54,998)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**69,038**	**(52,232)**	**–**	**16,806**	**(4,496)**	**12,310**
Contributions from shareholders for share capital increase (Note 21 i)	–	–	279,427	–	–	–	–	**279,427**	–	**279,427**
Purchase of treasury shares (Note 21 iv)	–	(280,973)	–	–	–	–	–	**(280,973)**	–	**(280,973)**
Dividends by subsidiaries of the Group to the non-controlling interest owners in subsidiaries (Note 21 iii)	–	–	–	–	–	–	–	–	(8)	**(8)**
Acquisition of non-controlling interests (Note 21 vi)	–	–	479	–	(117)	–	–	**362**	(797)	**(435)**
At June 30, 2010	**305,407**	**(318,351)**	**383,909**	**15,387**	**1,088,243**	**(15,551)**	**–**	**1,459,044**	**70,573**	**1,529,617**

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**	**Non-controlling interests**	**TOTAL**
At January 1, 2009	**305,407**	**(37,827)**	**97,915**	**15,387**	**1,343,255**	**89,274**	**–**	**1,813,411**	**97,011**	**1,910,422**
Loss for the period	–	–	–	–	(198,780)	–	–	**(198,780)**	(5,028)	**(203,808)**
Other comprehensive income/(loss)	–	–	–	–	–	(94,447)	234	**(94,213)**	(6,558)	**(100,771)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**(198,780)**	**(94,447)**	**234**	**(292,993)**	**(11,586)**	**(304,579)**
Purchase of the Company's shares for the purpose of realisation of the Share Options Programme	–	(89)	–	–	–	–	–	**(89)**	–	**(89)**
Dividends by subsidiaries of the Group to the non-controlling interest owners in subsidiaries (Note 21 iii)	–	–	–	–	–	–	–	–	(2,302)	**(2,302)**
Acquisition of non-controlling interests	–	–	345	–	(2,174)	–	–	**(1,829)**	(4,775)	**(6,604)**
At June 30, 2009	**305,407**	**(37,916)**	**98,260**	**15,387**	**1,142,301**	**(5,173)**	**234**	**1,518,500**	**78,348**	**1,596,848**

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

	NOTES	Six-month period ended June 30, 2010	2009
Operating activities			
Profit/(loss) before tax		101,727	(266,080)
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		107,789	96,645
Amortisation of intangible assets	15	42,482	54,064
Loss on disposal of property, plant and equipment	7	7,269	1,683
Impairment of goodwill		–	9,645
Impairment of property, plant and equipment		–	28,074
Foreign exchange (gain)/loss, net		(13,829)	11,658
Finance costs		199,080	211,675
Finance income	9	(8,560)	(31,967)
Gain on changes in fair value of derivative financial instrument	18	(31,811)	–
Share of profit in associate		–	(764)
Allowance for net realisable value of inventory		79	23,152
Allowance for doubtful debts		383	2,622
Movement in other provisions		10,065	5,358
Operating cash flow before working capital changes		**414,674**	**145,765**
Changes in working capital:			
(Increase)/decrease in inventories		(93,834)	88,778
(Increase)/decrease in trade and other receivables		(86,108)	189,159
Decrease in prepayments		19,354	29,291
Increase/(decrease) in trade and other payables		785	(90,471)
Decrease in accrued liabilities		(14,224)	(32,696)
Decrease in advances from customers		(53,353)	(2,150)
Cash generated from operations		**187,294**	**327,676**
Income taxes reimbursed/ (paid)		9,503	(41,725)
Net cash flows from operating activities		**196,797**	**285,951**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(165,011)	(163,808)
Proceeds from sale of property, plant and equipment		217	896
Acquisition of subsidiaries, net of cash acquired		–	(507,542)
Issuance of loans		(863)	(657)
Proceeds from repayment of loans issued		608	533
Interest received		1,653	844
Dividends received		1,691	–
Dividends received from associate		–	1,746
Net cash flows used in investing activities		**(161,705)**	**(667,988)**
Financing activities			
Purchase of treasury shares	21 (iv)	(280,973)	–
Proceeds from shareholders for share capital increase	21 (i)	279,427	–
Proceeds from borrowings		1,042,620	1,880,548
Repayment of borrowings		(1,050,506)	(1,350,022)
Interest paid		(181,966)	(199,688)
Reimbursement of interest paid		2,474	2,796
Payment of finance lease liabilities		(1,421)	(1,294)
Capital contribution by non-controlling interest owners to a subsidiary		–	44
Acquisition of non-controlling interest		(333)	(7,870)
Dividends paid to non-controlling interest shareholders		(16)	(170)
Net cash flows from financing activities		**(190,694)**	**324,344**
Net decrease in cash and cash equivalents		(155,602)	(57,693)
Net foreign exchange difference		(3,182)	523
Cash and cash equivalents at January 1		243,756	143,393
Cash and cash equivalents at June 30		**84,972**	**86,223**

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

Corporate Information

These interim condensed consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the six-month period ended June 30, 2010 were authorised for issue in accordance with a resolution of the General Director on September 10, 2010.

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

As at June 30, 2010, the Company's controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

Basis of Preparation

Basis of Preparation

The interim condensed consolidated financial statements for the six-month period ended June 30, 2010 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, 2009. Operating results for the six-month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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, 2009, 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, 2010, result from adoption of the following new or revised standards:

IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions

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

Basis of Preparation (continued)

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

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

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

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position or performance of the Group.

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

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

Improvements to IFRSs

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

Index to the Notes

1) Segment Information 10
2) Cost of Sales 12
3) Selling and Distribution Expenses 13
4) Advertising and Promotion Expenses 13
5) General and Administrative Expenses 13
6) Research and Development Expenses 14
7) Other Operating Expenses 14
8) Other Operating Income 14
9) Finance Income 14
10) Income Tax 15
11) Earnings per Share 15
12) Cash and Cash Equivalents 15
13) Inventories 16
14) Property, Plant and Equipment 16
15) Intangible Assets 17
16) Trade and Other Payables 18
17) Interest-Bearing Loans and Borrowings 18
18) Convertible Bonds 20
19) Related Parties Disclosures 21
20) Contingencies and Commitments 22
21) Equity 24
22) Subsequent events 25

1) Segment Information

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

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

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

The following tables present revenue and profit information regarding the Group's reportable segments for the six-month periods ended June 30, 2010 and 2009, respectively.

Six-month period ended June 30, 2010	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	1,830,125	620,218	115,837	**2,566,180**
Cost of sales	(1,406,502)	(483,384)	(90,480)	**(1,980,366)**
GROSS PROFIT	**423,623**	**136,834**	**25,357**	**585,814**
Selling, general and administrative expenses	(229,271)	(73,149)	(17,603)	**(320,023)**
Other operating income/(expenses), net	(15,743)	(619)	(2,822)	**(19,184)**
OPERATING PROFIT/(LOSS)	**178,609**	**63,066**	**4,932**	**246,607**
ADD BACK:				
Depreciation and amortisation	87,551	58,695	4,025	**150,271**
Loss/(gain) on disposal of property, plant and equipment	7,320	–	(51)	**7,269**
Allowance for net realisable value of inventory	(577)	623	33	**79**
Allowance for doubtful debts	1,708	(954)	(371)	**383**
Movement in other provisions	10,540	327	(802)	**10,065**
	106,542	58,691	2,834	**168,067**
ADJUSTED EBITDA	**285,151**	**121,757**	**7,766**	**414,674**

1) Segment Information (continued)

Six-month period ended June 30, 2010	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**285,151**	**121,757**	**7,766**	**414,674**
Reversal of adjustments from operating profit to EBITDA	(106,542)	(58,691)	(2,834)	**(168,067)**
OPERATING PROFIT/(LOSS)	**178,609**	**63,066**	**4,932**	**246,607**
Foreign exchange gain/(loss), net	33,385	–	(19,556)	**13,829**
OPERATING PROFIT/(LOSS) AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**211,994**	**63,066**	**(14,624)**	**260,436**
Finance costs				**(199,080)**
Finance income				**8,560**
Gain on changes in fair value of derivative financial instrument				**31,811**
PROFIT/(LOSS) BEFORE TAX				**101,727**

Six-month period ended June 30, 2009	Russia	Americas	Europe	TOTAL
Revenue	1,110,785	286,527	81,266	**1,478,578**
Cost of sales	(893,004)	(299,099)	(62,614)	**(1,254,717)**
GROSS PROFIT/(LOSS)	**217,781**	**(12,572)**	**18,652**	**223,861**
Selling, general and administrative expenses	(153,281)	(81,507)	(17,152)	**(251,940)**
Other operating income/(expenses), net	(10,397)	(228)	945	**(9,680)**
OPERATING PROFIT/(LOSS)	**54,103**	**(94,307)**	**2,445**	**(37,759)**
ADD BACK:				
Depreciation and amortisation	66,304	80,379	4,026	**150,709**
Loss/(gain) on disposal of property, plant and equipment	2,674	–	(991)	**1,683**
Allowance for net realisable value of inventory	(10,348)	32,905	595	**23,152**
Allowance for doubtful debts	(335)	927	2,030	**2,622**
Movement in other provisions	2,258	3,438	(338)	**5,358**
	60,553	**117,649**	**5,322**	**183,524**
ADJUSTED EBITDA	**114,656**	**23,342**	**7,767**	**145,765**

Six-month period ended June 30, 2009	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**114,656**	**23,342**	**7,767**	**145,765**
Reversal of adjustments from operating profit to EBITDA	(60,553)	(117,649)	(5,322)	**(183,524)**
OPERATING PROFIT/(LOSS)	**54,103**	**(94,307)**	**2,445**	**(37,759)**
Impairment of goodwill	(9,645)	–	–	**(9,645)**
Impairment of property, plant and equipment	(2,602)	–	(25,472)	**(28,074)**
Foreign exchange gain/(loss), net	3,950	–	(15,608)	**(11,658)**
OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**45,806**	**(94,307)**	**(38,635)**	**(87,136)**
Finance costs				**(211,675)**
Finance income				**31,967**
Share of profit in associate				**764**
PROFIT/(LOSS) BEFORE TAX				**(266,080)**

1) Segment Information (continued)

The following table presents additional information of the Group's reportable segments as at June 30, 2010 and December 31, 2009:

	Russia	Americas	Europe	TOTAL
SEGMENT ASSETS				
At June 30, 2010	4,199,418	1,927,815	305,101	**6,432,334**
At December 31, 2009	4,433,558	1,903,097	344,454	**6,681,109**

The following table presents the revenues from external customers for each group of similar products and services for the six-month periods ended June 30, 2010 and 2009, respectively.

	Welded pipes	Seamless pipes	Other operations	TOTAL
SALES TO EXTERNAL CUSTOMERS				
Six-month period ended June 30, 2010	1,019,416	1,399,460	147,304	**2,566,180**
Six-month period ended June 30, 2009	396,706	990,835	91,037	**1,478,578**

2) Cost of Sales

Cost of sales for the six-month period ended June 30 was as follows:

	2010	2009
Raw materials and consumables	1,346,789	720,437
Contracted manufacture	34,808	10,716
Energy and utilities	164,348	102,263
Depreciation and amortisation	115,143	92,653
Repairs and maintenance	50,804	39,517
Freight	26,626	12,416
Rent	4,148	3,761
Insurance	431	362
Staff costs including social security	263,063	180,252
Professional fees and services	9,028	7,236
Travel	779	553
Communications	430	639
Taxes	21,519	14,772
Other	2,899	3,021
TOTAL PRODUCTION COST	**2,040,815**	**1,188,598**
CHANGE IN OWN FINISHED GOODS AND WORK IN PROGRESS	(71,903)	19,918
COST OF SALES OF EXTERNALLY PURCHASED GOODS	11,620	15,405
OBSOLETE STOCK AND WRITE-OFFS	(166)	30,796
COST OF SALES	**1,980,366**	**1,254,717**

3) Selling and Distribution Expenses

Selling and distribution expenses for the six-month period ended June 30 were as follows:

	2010	2009
Freight	103,095	48,534
Rent	3,200	3,078
Insurance	787	688
Depreciation and amortisation	40,605	50,034
Staff costs including social security	26,096	22,225
Professional fees and services	10,951	8,397
Travel	2,057	1,231
Communications	642	597
Utilities and maintenance	1,065	1,135
Taxes	755	1,766
Consumables	7,845	5,236
Bad debt expense	1,021	2,622
Other	796	863
	198,915	**146,406**

4) Advertising and Promotion Expenses

Advertising and promotion expenses for the six-month period ended June 30 were as follows:

	2010	2009
Media	285	295
Exhibits and catalogues	1,871	741
Outdoor advertising	2,353	1,094
Other	291	116
	4,800	**2,246**

5) General and Administrative Expenses

General and administrative expenses for the six-month period ended June 30 were as follows:

	2010	2009
Staff costs including social security	59,504	50,075
Professional fees and services	22,105	20,054
Depreciation and amortisation	6,232	7,232
Travel	4,001	3,227
Transportation	2,481	2,111
Rent	2,907	2,962
Communications	1,797	2,580
Insurance	1,875	2,119
Utilities and maintenance	4,057	3,333
Taxes	2,902	2,244
Consumables	1,097	1,259
Other	1,090	1,335
	110,048	**98,531**

6) Research and Development Expenses

Research and development expenses for the six-month period ended June 30 were as follows:

	2010	2009
Staff costs including social security	4,412	3,743
Professional fees and services	933	266
Depreciation and amortisation	287	280
Travel	93	49
Transportation	70	64
Communications	19	15
Utilities and maintenance	205	168
Consumables	141	105
Other	100	67
	6,260	**4,757**

7) Other Operating Expenses

Other operating expenses for the six-month period ended June 30 were as follows:

	2010	2009
Loss on disposal of property, plant and equipment	7,269	1,683
Social and social infrastructure maintenance expenses	4,396	6,052
Charitable donations	4,909	2,732
Other	6,839	3,315
	23,413	**13,782**

Other operating expenses included provisions related to taxes and fines in the amount of 4,709 and 2,376 for the six-month period ended June 30, 2010 and 2009, respectively.

8) Other Operating Income

Other operating income for the six-month period ended June 30 was as follows:

	2010	2009
Gain on sales of current assets	197	1,299
Assets received for free	461	124
Gain from penalties and fines	1,223	132
Other	2,348	2,547
	4,229	**4,102**

9) Finance Income

Finance income for the six-month period ended June 30 was as follows:

	2010	2009
Gain on extinguishment of debts	–	30,979
Dividends received	6,691	–
Interest income - bank accounts and deposits	1,869	988
	8,560	**31,967**

10) Income Tax

Income tax expense/(benefit) for the six-month period ended June 30 was as follows:

	2010	2009
Current income tax expense	35,830	6,140
Current income tax benefit	–	(25,277)
Adjustments in respect of income tax of previous periods	22	(456)
Deferred tax expenses arising from write-down of deferred tax asset	–	1,425
Deferred income tax benefit related to origination and reversal of temporary differences	(1,433)	(44,104)
TOTAL INCOME TAX EXPENSE/(BENEFIT)	**34,419**	**(62,272)**

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.

Diluted earnings per share amounts are calculated by dividing the net profit for the period attributable to ordinary shareholders of the parent entity adjusted for interest expense and other gains and losses for the period ended June 30, 2010, net of tax, relating to convertible bonds by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the potential dilutive ordinary shares into ordinary shares.

	Six-month period ended June 30,	
	2010	2009
Net profit/(loss) attributable to the equity holders of the parent entity	69,038	(198,780)
Effect of convertible bonds, net of tax	(12,347)	–
Net profit/(loss) attributable to the equity holders of the parent entity adjusted for the effect of dilution	56,691	(198,780)
Weighted average number of ordinary shares outstanding	855,572,838	865,833,951
Weighted average number of ordinary shares outstanding adjusted for the effect of dilution	894,288,769	865,833,951
Earnings/(loss) per share attributable to equity holders of the parent entity (in US dollars)		
Basic	**0.08**	**(0.23)**
Diluted	**0.06**	**(0.23)**

In calculation of diluted earnings per share, the denominator represents the weighted average number of ordinary shares which could be outstanding assuming that all of the convertible bonds were converted into ordinary shares on March 24, 2010 (Note18).

12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2010	December 31, 2009
Russian rouble	42,173	185,710
US dollar	33,279	43,363
Euro	5,550	13,810
Romanian lei	3,597	149
Other currencies	373	724
	84,972	**243,756**

The above cash and cash equivalents consisted primarily of cash at bank.

13) Inventories

Inventories consisted of the following:

	June 30, 2010	December 31, 2009
Raw materials and Supplies	435,641	416,046
Finished goods and WIP	588,482	532,481
GROSS INVENTORIES	1,024,123	948,527
Allowance for net realisable value of inventory	(21,601)	(22,133)
NET INVENTORIES	**1,002,522**	**926,394**

14) Property, Plant and Equipment

Movement in property, plant and equipment was as follows in the six-month period ended June 30, 2010:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2010	1,243,839	2,370,728	59,571	40,466	9,439	567,204	**4,291,247**
Additions	–	–	–	–	–	130,239	**130,239**
Assets put into operation	4,926	75,678	2,597	4,589	221	(88,011)	**–**
Disposals	(799)	(18,072)	(902)	(435)	–	(152)	**(20,360)**
Currency translation adjustments	(49,837)	(91,400)	(4,414)	(1,480)	(49)	(18,994)	**(166,174)**
BALANCE AT JUNE 30, 2010	**1,198,129**	**2,336,934**	**56,852**	**43,140**	**9,611**	**590,286**	**4,234,952**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2010	(150,761)	(692,309)	(23,150)	(20,758)	(1,589)	–	**(888,567)**
Depreciation charge	(18,703)	(95,535)	(2,077)	(3,215)	(618)	–	**(120,148)**
Disposals	132	10,807	684	244	–	–	**11,867**
Currency translation adjustments	7,577	36,485	1,560	849	(76)	–	**46,395**
BALANCE AT JUNE 30, 2010	**(161,755)**	**(740,552)**	**(22,983)**	**(22,880)**	**(2,283)**	**–**	**(950,453)**
NET BOOK VALUE AT JUNE 30, 2010	**1,036,374**	**1,596,382**	**33,869**	**20,260**	**7,328**	**590,286**	**3,284,499**
NET BOOK VALUE AT JANUARY 1, 2010	**1,093,078**	**1,678,419**	**36,421**	**19,708**	**7,850**	**567,204**	**3,402,680**

15) Intangible Assets

Movement in intangible assets was as follows in the six-month period ended June 30, 2010:

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2010	209,740	568,891	17,049	472,300	14,100	8,500	5,708	**1,296,288**
Additions	15	–	63	–	–	–	486	**564**
Disposals	–	–	–	–	–	–	(152)	**(152)**
Currency translation adjustments	(49)	(3,724)	(551)	–	–	–	(171)	**(4,495)**
BALANCE AT JUNE 30, 2010	**209,706**	**565,167**	**16,561**	**472,300**	**14,100**	**8,500**	**5,871**	**1,292,205**
ACCUMULATED AMORTISATION AND IMPAIRMENT								
Balance at January 1, 2010	(217)	(13,429)	(8,930)	(147,092)	(2,737)	(8,500)	(1,562)	**(182,467)**
Amortisation charge	(43)	–	(1,560)	(39,648)	(881)	–	(350)	**(42,482)**
Disposals	–	–	–	–	–	–	76	**76**
Currency translation adjustments	18	410	341	–	–	–	58	**827**
BALANCE AT JUNE 30, 2010	**(242)**	**(13,019)**	**(10,149)**	**(186,740)**	**(3,618)**	**(8,500)**	**(1,778)**	**(224,046)**
NET BOOK VALUE AT JUNE 30, 2010	**209,464**	**552,148**	**6,412**	**285,560**	**10,482**	**–**	**4,093**	**1,068,159**
NET BOOK VALUE AT JANUARY 1, 2010	**209,523**	**555,462**	**8,119**	**325,208**	**11,363**	**–**	**4,146**	**1,113,821**

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

	June 30, 2010		December 31, 2009	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
American division	472,968	208,700	472,968	208,700
European division	5,849	–	6,855	–
Kaztrubprom Plant	8,110	–	8,365	–
Oilfield division	30,918	–	31,891	–
Other cash generating units	34,303	–	35,383	–
	552,148	**208,700**	**555,462**	**208,700**

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate the carrying value may be impaired. At June 30, 2010 there were indicators of impairment of Kaztrubprom Plant cash generating unit, therefore, the Group performed an impairment test at that date in respect of this unit.

The projected cash flows related to Kaztrubprom Plant cash generating unit were updated to reflect the increased demand for products and a pre-tax discount rate of 10.23% (December 31, 2009: 14.05%) was applied. All other assumptions remained consistent with those disclosed in the annual statements for the year ended December 31, 2009. As a result of the updated analysis, management did not identify an impairment for this cash generating unit to which goodwill of 8,110 is allocated.

15) Intangible Assets (continued)

The calculation of Kaztrubprom Plant cash generating unit's fair value was the most sensitive to the following assumption:

Commodity Prices

The recoverable amount of Kaztrubprom Plant cash generating unit is based on the business plans approved by management. The reasonably possible deviation of prices from these plans could lead to impairment.

If the actual prices of Kaztrubprom Plant cash generating unit were 5% lower than those assumed in the impairment test, this would lead to the impairment of goodwill in the amount of 7,044.

16) Trade and Other Payables

Trade and other payables consisted of the following:

	June 30, 2010	December 31, 2009
Trade payables	388,963	417,108
Accounts payable for property, plant and equipment	77,969	138,092
Notes issued to third parties	8,694	5,941
Sales rebate payable	3,923	1,541
Other payables	11,856	10,836
	491,405	**573,518**

17) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	June 30, 2010	December 31, 2009
Current:		
Bank loans	211,544	1,251,575
Interest payable	24,287	24,891
Current portion of non-current borrowings	434,478	105,858
Current portion of bearer coupon debt securities	160,280	165,321
Unamortised debt issue costs	(3,582)	(11,858)
	827,007	**1,535,787**
Finance lease liability - current	1,576	1,595
TOTAL SHORT-TERM LOANS AND BORROWINGS	**828,583**	**1,537,382**
Non-current:		
Bank loans	2,727,368	2,160,060
Bearer coupon debt securities	726,230	352,021
Unamortised debt issue costs	(79,466)	(63,470)
Less: current portion of non-current borrowings	(434,478)	(105,858)
Less: current portion of bearer coupon debt securities	(160,280)	(165,321)
	2,779,374	**2,177,432**
Finance lease liability - non-current	35,923	36,736
TOTAL LONG-TERM LOANS AND BORROWINGS	**2,815,297**	**2,214,168**

17) Interest-Bearing Loans and Borrowings (continued)

The carrying amounts of the Group's loans and borrowings were denominated in the following currencies:

	Interest rates for period ended	June 30, 2010	Interest rates for period ended	December 31, 2009
Russian rouble	Fixed 8% - 14%	1,131,140	Fixed 5% - 17%	1,153,219
US Dollar	Fixed 10%	191,999	Fixed 10%	192,812
	Fixed 5.25%	373,989		
	Fixed 7% - 9%	1,632,322	Fixed 6.48% - 12.1%	2,048,035
	Variable:	19,234	Variable:	4,179
	Libor (1m) + 5.65%		Libor (3m) + 1.7%	
	Libor (1w) + 2%		Libor (1w) + 1.8%	
Euro	Fixed 1.3% - 7%	81,387	Fixed 1.3% - 5.11%	91,044
	Cost of funds + 1.25% (*)	14,280	Cost of funds + 1.25% (*)	34,611
	Variable:	159,990	Variable:	189,319
	Euribor (1m) + 0.23% - 1.6%		Euribor (1m) + 0.23% - 1.6%	
	Euribor (3m) + 4%		Euribor (3m) + 0.45% - 4%	
	Euribor (6m) + 0.23% - 4%		Euribor (6m) + 0.23% - 4%	
Romanian Lei	Fixed 10.5% - 13.5%	2,040		–
		3,606,381		**3,713,219**

(*) Cost of funds is advised at the time of rate fixing.

*Russian bond obligation*s

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

Bank Loans

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

In March 2010, the Group amended agreement with VTB for borrowing facilities of 450,000 extending the loan term from 1 to 3 years with an option to extend the maturity up to five years and reducing interest rate. As at June 30, 2010 the principal outstanding balance of the loan was 450,000.

On March 23, 2010, the Group fully repaid a short-term loan from VTB in the principal amount of 90,185 in accordance with the terms of the loan agreement and entered into a new loan agreement with VTB in the amount of 94,000 with an initial maturity of 1 year and an option to extend the maturity up to 5 years. As at June 30, 2010 the principal outstanding balance of the loan was 94,000.

In March 2010, the Group amended agreement with Gazprombank for 5,000,000 thousand Russian roubles credit line reducing interest rate. As at June 30, 2010 the principal outstanding balance was 5,000,000 (160,280 at the exchange rate at June 30, 2010).

17) Interest-Bearing Loans and Borrowings (continued)

Bank Loans (continued)

In April 2010, the Group entered into two short-term credit line arrangements with Uralsib in the amounts of 2,800,000 thousand Russian roubles and 93,300. As at June 30, 2010 the principal outstanding balances were 820,000 thousand Russian roubles (26,286 at the exchange rate at June 30, 2010) and nil, respectively.

Unutilised Borrowing Facilities

As at June 30, 2010, the Group had unutilised borrowing facilities in the amount of 194,715 (December 31, 2009: 411,175).

18) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's special purposes entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK. The bonds are listed on the London Stock Exchange. The bonds have nominal value of 100,000 US dollars each and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis. The conversion can be exercised at the option of bondholders on any date during the period commencing 41 days following the February 11, 2010 and ending on the date falling seven London business days prior to the maturity date or, if earlier, ending on the seventh day prior to any earlier date fixed for redemption of the Convertible bonds. The bonds will be convertible into GDRs at conversion price of $23.075 per GDR. In connection with the issue of convertible bonds the Group purchased 64,478,432 treasury shares to guarantee the fulfillment of an obligation to bondholders (Note 21 iv).

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

There were no conversions of the bonds in the six-month period ended June 30, 2010.

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

18) Convertible Bonds (continued)

The Embedded Conversion Option in foreign currency was classified as financial instrument at fair value through profit or loss. The Embedded Conversion Option was initially recognised at the fair value of 35,455. The Group used binomial options pricing model for initial and subsequent measurement of fair value of this embedded derivative. For the purposes of this model, the Group assesses implied volatility on the basis of market quotes of the bonds and the implied credit spread. Consequently, the Group assessed that the credit spread comprised 800 bps and 900 bps as at the initial recognition date and June 30, 2010, respectively. The change in the fair value of the embedded derivative during the reporting period resulted in a gain of 31,811, which has been recorded as gain on changes in fair value of derivative financial instrument in the income statement for the six-month period ended June 30, 2010.

The fair value of the host component of 368,149 at the initial recognition date has been determined as a residual amount after deducting the fair value of the Embedded Conversion Option from the issue price of the convertible bonds of 412,500 adjusted for transaction costs of 8,896. The host component is subsequently carried at the amortised cost using the effective interest method. As at June 30, 2010, the carrying value of the host component was 373,989.

19) Related Parties Disclosures

The following table provides outstanding balances with related parties as at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
Cash and cash equivalents	19,022	86,541
Accounts receivable – current	2,258	818
Prepayments – current	219	422
Accounts receivable – non-current	59	68
Accounts payable – current	(16,512)	(21,249)
Interest payable	(753)	(523)

The following table provides the total amount of transactions with related parties for the six-month period ended June 30:

	2010	2009
Sales revenue	1,651	616
Purchases of goods and services	3,569	3,379
Interest income from loans and borrowings	363	14
Interest expenses from loans and borrowings	256	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. During the six-month period ended June 30, 2010 the Group paid to the parent company 15,000 for the guarantee. Bravecorp Limited (an entity under common control with TMK Steel) pledged its shares of OAO TMK to VTB in order to guarantee the Group's loans in the amount of 750,000 from VTB. During the six-month period ended June 30, 2010 the Group paid 3,000 to Bravecorp for the guarantee. Accounts payable balance as at June 30, 2010 related principally to the unpaid fees for the guarantee provided by TMK Steel and Bravecorp in the amount of 1,300 and 13,000, respectively.

19) Related Parties Disclosures (continued)

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 26 persons as at June 30, 2010 (26 persons as at December 31, 2009). Total compensation to key management personnel included in general and administrative expenses in the income statement amounted to 6,501 and 6,895 for the six-month period ended June 30, 2010 and 2009, respectively.

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

The Group guaranteed debts of key management personnel outstanding as at June 30, 2010 in the amount of 3,554 with maturity in 2011 – 2017.

20) 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. The future stability of the Russian economy is largely dependent upon reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In the wake of the global financial crisis, there are certain signs of general economic recovery. The stabilisation measures introduced by government to provide liquidity and support debt refinancing have led to stronger customer demand, increased production levels and improved liquidity in the banking sector. If the worldwide financial crisis continues it may lead to the reduction of the available credit facilities as well as substantively higher interest rates. The reduced cash from operations and reduced availability of credit may increase the cost, delay the timing of, or reduce planned capital expenditures.

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

Taxation

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

20) 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 2009 and 2010, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 653,312 thousand Russian roubles (20,943 at the exchange rate as at June 30, 2010). The Group contested the claims for the amount of 496,512 thousand Russian roubles (15,917 at the exchange rate as at June 30, 2010) in the courts; however, up to the date of authorisation of consolidated financial statements of the Group for issuance, the court proceedings had not been finalised. The remaining claims for 156,800 thousand Russian roubles (5,026 at the exchange rate as at June 30, 2010) are in the process of pre-trial settlement.

Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Consequently, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for six-month period ended June 30, 2010.

Contractual Commitments and Guarantees

As at June 30, 2010, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,094,037 thousand Russian roubles (35,070 at the exchange rate as at June 30, 2010), 36,214 thousand Euros (44,330 at the exchange rate as at June 30, 2010) and 10,214 thousand US dollars for the total amount of 89,614 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 22,774 with respect to such commitments.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 9,739 (December 31, 2009: 52,458).

Insurance Policies

The Group currently maintains insurance against losses that may arise in case of property damage, accidents, transportation of goods, occupational diseases and natural disasters. The Group also maintains corporate product liability and directors and officers' liability insurance policies. Nevertheless, any recoveries under maintained insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

Legal Claims

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company.

20) Contingencies and Commitments (continued)

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at June 30, 2010 in the amount of 4,647 (December 31, 2009: 4,246).

21) Equity

i) Share Capital

	June 30, 2010	December 31, 2009
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	959,167,871	873,001,000
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	873,001,000	873,001,000

On February 5, 2010, the Board of Directors authorized an increase of share capital by 86,166,871 shares with par value of 10 Russian roubles each.

In June 2010 the Group received 8,589,818 thousand Russian roubles (279,427 at the historical exchange rate) as consideration from shareholders for the issuance of 64,585,094 shares with par value of 10 Russian roubles each at price of 133 Russian roubles per share.

As at June 30, 2010 share capital increase has not been finalised by the Group (Note 22).

ii) Dividends

The Company declared no final dividend in respect of 2009.

iii) Dividends by the Group's Subsidiaries to Non-controlling Interest Shareholders

During the six-month period ended June 30, 2010 and 2009, the Group's subsidiaries declared dividends to non-controlling shareholders in the amount of 8 and 2,302, respectively.

iv) Treasury shares

During the six-month period ended June 30, 2010, the Group purchased 64,478,432 shares of the Company from TMK Steel for 280,973 (including transaction fees of 2,000). As at June 30, 2010, the Group owned 71,575,796 treasury shares.

	2010	
	Number of shares	Cost
Outstanding as at January 1	7,097,364	37,378
Purchased during the year	64,478,432	280,973
Outstanding as at June 30	71,575,796	318,351

In order to facilitate the issuance of the convertible bonds, investment banks offered to certain institutional investors an opportunity to borrow GDRs of OAO TMK during the term of the bonds.

21) 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 June 30, 2010 the Group designated 186,700 10% loan participation notes, 600,000 of liability to Gazprombank and 371,910 of liability to VTB as hedging instruments.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the six-month period ended June 30, 2010, the effective portion of net losses from spot rate changes in the amount of 1,102,070 thousand Russian roubles (36,043 at historical exchange rate), net of income tax benefit of 220,414 thousand Russian roubles (7,209 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

vi) Acquisition of Non-controlling Interests in Subsidiaries

In the six-month period ended June 30, 2010, the Company purchased additional 0.02% of the shares of OAO "Seversky Pipe Plant", 0.04% of the shares of OAO "Sinarsky Pipe Plant", 0.02% of the shares of OAO "Taganrog Metallurgical Plant" and 49% ownership interest in OOO "TMK-SMS Metallurgical Service". The total cash consideration for the shares amounted to 435.

22) Subsequent Events

Bank loans

In August 2010, the Group amended certain agreements with Gazprombank for borrowing facilities in total amount of 1,107,542 changing the payment schedule and reducing interest rate.

In August 2010, the Group partially repaid 5,000,000 thousand Russian roubles Gazprombank's credit line facility due 2012 and entered into new credit line agreement with Gazprombank for the amount of 5,000,000 thousand Russian roubles with a maturity of 3 years.

Increase of Share Capital

On July 7, 2010, the Group finalised the increase of share capital by 64,585,094 shares with par value of 10 Russian roubles each by means of an open subscription at price of 133 Russian roubles per share. Number of shares subscribed represented approximately 7.4% of the Company's issued and fully paid share capital before additional issue. After completion of the share capital increase, the total number of the issued and fully paid shares was 937,586,094.

OAO TMK

Consolidated Financial Statements

for the years ended December 31, 2009 and 2008

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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 statements of financial position as at December 31, 2009 and 2008, the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows 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 audits. 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.

A member firm of Ernst & Young Global Limited

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 16, 2010

OAO TMK

Consolidated Financial Statements

for the years ended December 31, 2009 and 2008

Contents

Consolidated Income Statement 2
Consolidated Statement of Comprehensive Income 3
Consolidated Statement of Financial Position 4
Consolidated Statement of Changes in Equity 5
Consolidated Statement of Cash Flows 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 10

Significant Estimates and Assumptions 11

Impairment of Property, Plant and Equipment 11
Useful Lives of Items of Property, Plant and Equipment 11
Fair Value of Assets and Liabilities Acquired in Business Combinations 11
Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives 12
Post-Employment Benefits 12
Allowances 12
Litigation 13
Current Taxes 13
Deferred Tax Assets 13
Share-Based Payments 13

Significant Judgments 14
Consolidation of a Special Purpose Entity 14

Changes in Accounting Policies 14

Significant Accounting Policies 20

Index to the Notes to the Consolidated Financial Statements 32

OAO TMK

Consolidated Income Statements

for the years ended December 31, 2009 and 2008

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Statements of Comprehensive Income

for the years ended December 31, 2009 and 2008

(All amounts in thousands of US dollars)

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

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

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

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

Consolidated Statements of Financial Position

as at December 31, 2009 and 2008

(All amounts in thousands of US dollars)

	NOTES	2009		2008	
ASSETS					
Current assets					
Cash and cash equivalents	14, 27	243,756		143,393	
Financial investments		4,075		3,885	
Trade and other receivables	15	578,956		751,691	
Accounts receivable from related parties	27	1,240		6,009	
Inventories	18	926,394		1,175,936	
Prepayments and input VAT	16	176,489		186,744	
Prepaid income taxes		46,104	**1,977,014**	26,290	**2,293,948**
Non-current assets					
Investments in an associate		-		2,726	
Available-for-sale investments	17	-		6,520	
Intangible assets	20	558,359		665,545	
Accounts receivable from related parties	27	68		68	
Property, plant and equipment	19	3,402,680		3,322,160	
Goodwill	20	555,462		568,424	
Deferred tax asset	12	135,652		138,707	
Other non-current assets	17	51,874	**4,704,095**	69,609	**4,773,759**
TOTAL ASSETS			**6,681,109**		**7,067,707**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	21	573,518		709,934	
Advances from customers		325,549		96,430	
Accounts payable to related parties	27	21,772		1,459	
Accrued liabilities	22	145,247		665,452	
Provisions	23	9,455		10,476	
Interest-bearing loans and borrowings	24	1,537,382		2,216,459	
Dividends payable		469		361	
Income tax payable		8,596	**2,621,988**	39,823	**3,740,394**
Non-current liabilities					
Interest-bearing loans and borrowings	24	2,214,168		994,225	
Deferred tax liability	12	271,664		370,561	
Provisions	23	21,851		19,702	
Employee benefit liability	25	18,441		17,187	
Other liabilities		13,701	**2,539,825**	15,216	**1,416,891**
Total liabilities			**5,161,813**		**5,157,285**
Equity	29				
Parent shareholders' equity					
Issued capital		305,407		305,407	
Treasury shares		(37,378)		(37,827)	
Additional paid-in capital		104,003		97,915	
Reserve capital		15,387		15,387	
Retained earnings		1,019,322		1,343,255	
Foreign currency translation reserve		36,681	1,443,422	89,274	1,813,411
Minority interests			75,874		97,011
Total equity			**1,519,296**		**1,910,422**
TOTAL EQUITY AND LIABILITIES			**6,681,109**		**7,067,707**

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2009

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2008

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Net unrealised loss	Total	Minority interests	TOTAL
At January 1, 2008	**305,407**	**(10,752)**	**97,338**	**15,387**	**1,239,993**	**357,510**	**(2,187)**	**2,002,696**	**103,913**	**2,106,609**
Profit/(loss) for the period	-	-	-	-	199,408	-	-	**199,408**	(936)	**198,472**
Other comprehensive income/ (loss)	-	-	-	-	-	(268,236)	2,187	**(266,049)**	(20,323)	**(286,372)**
Total comprehensive income/ (loss)	**-**	**-**	**-**	**-**	**199,408**	**(268,236)**	**2,187**	**(66,641)**	**(21,259)**	**(87,900)**
Purchase of the Company's shares for the purpose of realisation of the Share Options Programme (Note 29 viii)	-	(27,110)	-	-	-	-	-	**(27,110)**	-	**(27,110)**
Sale of treasury shares (Note 29 viii)	-	35	-	-	-	-	-	**35**	-	**35**
Share-based payments (Note 29 vii)	-	-	5,989	-	-	-	-	**5,989**	-	**5,989**
Purchase of warrants (Note 29 ix)	-	-	(5,590)	-	-	-	-	**(5,590)**	-	**(5,590)**
Dividends by subsidiaries of the Group to the minority interest owners in subsidiaries (Note 29 v)	-	-	-	-	-	-	-	**-**	(4,752)	**(4,752)**
Acquisition of minority interests (Note 29 iv)	-	-	178	-	(191)	-	-	**(13)**	(2,534)	**(2,547)**
Derecognition of liability under expired minority interest put-option (Note 29 vi)	-	-	-	-	(1,366)	-	-	**(1,366)**	21,643	**20,277**
Dividends (Note 29 iii)	-	-	-	-	(94,589)	-	-	**(94,589)**	-	**(94,589)**
At December 31, 2008	**305,407**	**(37,827)**	**97,915**	**15,387**	**1,343,255**	**89,274**	**-**	**1,813,411**	**97,011**	**1,910,422**

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

OAO TMK
Consolidated Statements of Cash Flows
for the years ended December 31, 2009 and 2008
(All amounts in thousands of US dollars)

	NOTES	Year ended December 31,	
		2009	2008
Operating activities			
(Loss)/profit before tax		(426,755)	308,084
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment	19	205,288	188,941
Amortisation of intangible assets	20	107,798	58,831
Loss on disposal of property, plant and equipment	7	3,959	1,555
Impairment of goodwill	20	10,053	3,512
Impairment of property, plant and equipment	19	39,730	59,846
Reversal of impairment of property, plant and equipment	19	(2,454)	-
Impairment of financial assets	17	-	23,675
Foreign exchange (gain)/loss, net		(14,233)	99,817
Finance costs		446,875	272,175
Finance income	10	(41,276)	(8,720)
Gain on disposal of available-for-sale investments	17	(1,988)	-
Share-based payments	29 vii	-	5,989
Share of profit in associate	8	(1,416)	(3,006)
Gain on disposal of associate	8	(379)	-
Allowance for net realisable value of inventory	18	(4,559)	24,669
Allowance for doubtful debts	30	4,219	7,212
Movement in other provisions		3,232	4,656
Operating cash flow before working capital changes		**328,094**	**1,047,236**
Working capital adjustments:			
Decrease/(increase) in inventories		226,912	(178,665)
Decrease/(increase) in trade and other receivables		183,001	(156,557)
Decrease in prepayments		5,152	6,381
(Decrease)/increase in trade and other payables		(98,325)	401,560
(Decrease)/increase in accrued liabilities		21,112	(144,927)
(Decrease)/increase in advances from customers		219,747	(8,945)
Cash generated from operations		885,693	966,083
Income taxes paid		(33,387)	(226,573)
Net cash flows from operating activities		**852,306**	**739,510**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(395,318)	(839,994)
Proceeds from sale of property, plant and equipment		1,323	2,436
Sale of available-for-sale investments		8,177	-
Disposal of associate		785	-
Acquisition of subsidiaries, net of cash acquired	11	(509,714)	(1,184,839)
Acquisition of minority interest		(8,961)	(5,149)
Issuance of loans		(1,833)	(1,083)
Proceeds from repayment of loans issued		991	151
Interest received		2,013	2,968
Dividends received from associate		2,676	1,232
Net cash flows used in investing activities		**(899,861)**	**(2,024,278)**

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

	NOTES	2009	2008
Financing activities			
Purchase of treasury shares		(310)	(27,110)
Purchase of warrants	29 ix	-	(5,590)
Proceeds from exercise of options		759	-
Proceeds from borrowings		4,190,093	4,541,071
Repayment of borrowings		(3,608,268)	(2,760,583)
Interest paid		(444,111)	(184,254)
Reimbursement of interest paid		10,498	1,678
Payment of finance lease liabilities		(2,809)	(227)
Capital contribution by minority interest owners to a subsidiary		46	-
Dividends paid to equity holders of the parent		-	(223,568)
Dividends paid to minority interest shareholders		(2,069)	(4,533)
Net cash flows from financing activities		**143,829**	**1,336,884**
Net increase in cash and cash equivalents		96,274	52,116
Net foreign exchange difference		4,089	2,232
Cash and cash equivalents at January 1		143,393	89,045
Cash and cash equivalents at December 31		**243,756**	**143,393**

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

Corporate Information

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

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

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

The Company was incorporated as a closed joint stock company (ZAO) on April 17, 2001. The Company was re-registered as an open joint stock company (OAO) on June 16, 2005. Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

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

Deficit in Working Capital

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

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

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

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

Basis of Preparation of the Financial Statements

Statement of Compliance

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

Basis of Accounting

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

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

Functional and Presentation Currency

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

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

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

Significant Estimates and Assumptions

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

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. This requires an estimation of the value in use of the cash-generating units to which the item is allocated. The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the fair value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the recoverable value and ultimately the amount of any property, plant and equipment impairment. In 2009, the Group recognised impairment losses of 39,730 in respect of property, plant and equipment of Romanian Subsidiaries and Orsk Plant (2008: 59,846). In 2009, the Group reversed 2,454 of impairment losses recognised in six-month period ended June 30, 2009 in respect of property, plant and equipment of Orsk Plant (Note 19).

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". There were not any changes in accounting estimates of remaining useful lives of items of property, plant and equipment in 2009.

Fair Value of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions (Note 11).

Significant Estimates and Assumptions (continued)

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2009 was 555,462 (2008: 568,424). In 2009 the Group recognised impairment losses of 10,053 in respect of goodwill (Note 20) (2008: 3,512).

Post-Employment Benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary). In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially (Note 25).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts, such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at December 31, 2009 and 2008, allowances for doubtful accounts have been made in the amount of 15,172 and 13,132, respectively (Notes 15, 17, 30).

The Group makes allowances for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods, work in process and raw materials of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of reporting period to the extent that such events confirm conditions existing at the end of the period. As at December 31, 2009 and 2008, allowances for net realisable value of inventory were 22,133 and 28,587, respectively (Note 18).

Significant Estimates and Assumptions (continued)

Litigation

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

Current Taxes

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

As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. As at December 31, 2009, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained (Note 12).

Deferred Tax Assets

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

Share-Based Payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for grant of equity instruments which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models are disclosed in Note 29 vii.

Significant Judgments

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

Consolidation of a Special Purpose Entity

The Group determined that the substance of the relationship between the Group and TMK Capital S.A., a special purpose entity, indicates that the Group controls TMK Capital S.A. In September 2006 and in July 2008, TMK Capital S.A. issued notes due September 2009 and July 2011 respectively to provide financing to the Group's companies (Note 24).

Changes in Accounting Policies

Application of new and amended IFRS and IFRIC

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

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

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

IFRS 2 "Share-based payment" – Vesting Conditions and Cancellations (amended)

The amendments specify the accounting treatment of all cancellations of grant of equity instruments to the employees. It also imposes that vesting conditions are only service and performance conditions required in return for the equity instruments issued. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

Changes in Accounting Policies (continued)

Application of new and amended IFRS and IFRIC (continued)

IFRS 7 "Financial Instruments: Disclosures" (amended)

The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. These amendments do not have impact on the financial position or performance of the Group. The liquidity risk disclosures are presented in Note 30.

IFRS 8 "Operating Segments"

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

IAS 1 "Presentation of Financial Statements" (revised)

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

IAS 23 "Borrowing costs" (revised)

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

IAS 32 "Financial instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments require some puttable financial instruments and some financial instruments that impose on the equity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement"

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

Changes in Accounting Policies (continued)

Application of new and amended IFRS and IFRIC (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 of houses before construction is complete. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

The Group has applied early adoption of IFRIC 16 in the 2008 year consolidated financial statements. The interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation. In particular to assess the effectiveness of hedging instrument the change in value of hedging instrument should be calculated in terms of the functional currency of the parent entity that is hedging the risk (for the purposes of consolidated financial statements). The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries (Note 29 x).

IFRIC 18 "Transfer of Assets to Customer"

The interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies circumstances, in which the definition of an asset is met, recognition of asset and its measurement on initial recognition, identification of separately identifiable services, recognition of revenue and accounting for transfer of cash from customers.

Improvements to IFRSs (May 2008)

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

Reclassifications

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

Changes in Accounting Policies (continued)

New accounting pronouncements

The following new or amended (revised) IFRS and IFRIC have been issued but are not yet effective and not applied by the Group. The Group expects that the adoption of the pronouncements listed below will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated Financial Statements" – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (amended) (effective for financial years beginning on or after July 1, 2009)

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

IFRS 2 "Share-based payment" – Group Cash-settled Share-based Payment (effective for financial years beginning on or after January 1, 2010)

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

IFRS 3 "Business combination" (revised) (effective for financial years beginning on or after July 1, 2009)

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

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

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

IAS 27 "Consolidated and Separate Financial Statements" (revised) (effective for financial years beginning on or after July 1, 2009)

The revision requires, among other things, that acquisitions or disposals of non-controlling interests in a subsidiary that do not result in the loss of control, shall be accounted for as equity transactions. The disposal of any interests that parent retains in a former subsidiary may result in a loss of control. In this case, at the date when control is lost the remaining investment retained is increased/decreased to fair value with gains or losses arising from the difference between the fair value and the carrying amount of the held investment recognised in the profit or loss account.

Changes in Accounting Policies (continued)

New accounting pronouncements (continued)

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

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

IAS 39 "Financial Instruments: Recognition and Measurement" (amended) (effective for financial years beginning on or after July 1, 2009)

Amended standard clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

IFRS 9 "Financial Instruments: Recognition and Measurement" (effective for financial years beginning on or after January 1, 2013)

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

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

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

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for financial years beginning on or after July 1, 2010)

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

Changes in Accounting Policies (continued)

New accounting pronouncements (continued)

Amendments to IFRIC 14/IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments of a Minimum Funding Requirement (effective for financial years beginning on or after January 1, 2011)

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

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

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

Significant Accounting Policies

- **Index to Accounting Policies**

A) Principles of Consolidation 21
B) Cash and Cash Equivalents 23
C) Investments and Other Financial Assets 23
D) Trade Receivables 24
E) Borrowings 25
F) Inventories 25
G) Property, Plant and Equipment 26
H) Leases 26
I) Goodwill 27
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 31
Q) Revenue Recognition 31

Significant Accounting Policies

A) Principles of Consolidation

Subsidiaries

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

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

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

Acquisition of Subsidiaries

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

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

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

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

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 end of reporting period represent the minority interest shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minority interests' portion of movements in equity since the date of the combination. Minority interest is presented within equity, separately from the parent's shareholders' equity.

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

Increases in Ownership Interests in Subsidiaries

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

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

Acquisition of Subsidiaries from Entities under Common Control

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

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.

Significant Accounting Policies (continued)

B) Cash and Cash Equivalents

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

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

C) Investments and Other Financial Assets

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

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

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

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

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

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

Significant Accounting Policies (continued)

C) Investments and Other Financial Assets (continued)

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

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

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

Hedges of Net Investment in Foreign Operations

The Group hedges its net investment in operations located in the Unites States against foreign currency risks using US dollar denominated liabilities. Hedges of net investment in foreign operation are accounted for in a following way. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised as separate component of equity is transferred to the income statement. The Group uses a new borrowing facility and loan participation notes as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries (Note 29 x).

D) Trade Receivables

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

Significant Accounting Policies (continued)

E) Borrowings

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

Finance cost of the loans, including the issue costs and any discount on issue, is dealt with as a profit and loss charge over the term of the debt using the effective interest rate method. Carrying amount of the loan is decreased by unamortised balance of debt issue costs.

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

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

F) Inventories

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

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

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

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

Significant Accounting Policies (continued)

G) Property, Plant and Equipment

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

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

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

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

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

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

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

H) Leases

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

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

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

Significant Accounting Policies (continued)

H) Leases (continued)

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 net assets of acquired subsidiary at the date of acquisition.

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

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

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

J) Other Intangible Assets

Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that intangible asset may be impaired. Amortisation period and amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates.

Significant Accounting Policies (continued)

J) Other Intangible Assets (continued)

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

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

Amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of intangible asset.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash generating unit level.

Research and Development

Costs incurred on development (relating to design and testing of new or improved products) are recognised as intangible assets only when the Group can demonstrate technical feasibility of completing intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, availability of resources to complete and ability to measure reliably the expenditure during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from commencement of commercial production of the product on a straight-line basis over the period of its expected benefit. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

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

An assessment is made at each reporting date to determine whether there is objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the recoverable amount is assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of the net selling price and value in use.

Net selling price is the amount obtainable from sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

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

Significant Accounting Policies (continued)

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

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

Impairment loss is reversed if subsequent increase in recoverable amount can be related objectively to event occurring after the impairment loss was recognised. Impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Intangible assets not yet available for use are tested for impairment annually.

L) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that outflow of resources will be required to settle obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of time value of money is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of time value of money and where appropriate, risks specific to the liability. Where discounting is used, increase in provision due to the passage of time is recognised as a finance cost.

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.

Significant Accounting Policies (continued)

M) Employee Benefits (continued)

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

Actuarial gains and losses are recognised in the income statement in the period in which they occurred. Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested.

N) Value Added Tax

The Russian tax legislation partially permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the end of the reporting period, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

O) Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where deferred income tax arises from initial recognition of goodwill or of an asset or liability in transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

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

Significant Accounting Policies (continued)

P) Equity

Share Capital

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

Treasury Shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of treasury shares.

Dividends

Dividends are recognised as a liability and deducted from equity at the end of reporting period only if they are declared before or on the end of the reporting period. Dividends are disclosed in the financial statements when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the financial statements are authorised for issue.

Q) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenues from sales of inventory are recognised when significant risks and rewards of ownership of goods have passed to the buyer. Revenues arise from rendering of services recognised in the same period when the services are provided.

Revenues are measured at fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, revenue is measured at the fair value of goods or services provided.

Index to the Notes to the Consolidated Financial Statements

1) Segment Information…… 33
2) Cost of Sales…… 36
3) Selling and Distribution Expenses…… 36
4) Advertising and Promotion Expenses……... 37
5) General and Administrative Expenses……... 37
6) Research and Development Expenses…….. 37
7) Other Operating Expenses…… 37
8) Share of Profit in Associate and Disposal of Associate…… 38
9) Other Operating Income……... 38
10) Finance Income…… 38
11) Acquisition of Subsidiaries……... 39
12) Income tax…… 42
13) Earnings per Share…… 44
14) Cash and Cash Equivalents…….. 45
15) Trade and Other Receivables…… 45
16) Prepayments and Input VAT…… 45
17) Available-for-Sale Investments and Other Non-Current Assets……... 46
18) Inventories…… 46
19) Property, Plant and Equipment…… 47
20) Goodwill and Other Intangible Assets…….. 49
21) Trade and Other Payables…… 53
22) Accrued Liabilities…… 53
23) Provisions…… 54
24) Interest-Bearing Loans and Borrowings……... 54
25) Employee Benefit Liability…….. 59
26) Principal Subsidiaries…… 61
27) Related Parties Disclosures……... 62
28) Contingencies and Commitments…… 63
29) Equity…… 65
30) Financial Risk Management Objectives and Policies……... 71
31) Subsequent events…… 77

1) Segment Information

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

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

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

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

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

1) Segment Information (continued)

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

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

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

1) Segment Information (continued)

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

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

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

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

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

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

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

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

2) Cost of Sales

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

3) Selling and Distribution Expenses

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

4) Advertising and Promotion Expenses

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

5) General and Administrative Expenses

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

6) Research and Development Expenses

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

7) Other Operating Expenses

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

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

8) Share of Profit in Associate and Disposal of Associate

Share of Profit in Associate

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

Disposal of Associate

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

9) Other Operating Income

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

10) Finance Income

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

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

On January 22, 2009, the Group and Evraz amended the option agreement to reduce the option price from 510,625 to 507,542. In addition interest clause was removed from the option agreement. As a result, the Group recognised gain on extinguishment of debts of 32,251 as finance income for the year ended December 31, 2009 (Note 11).

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

11) Acquisition of Subsidiaries

TOO Kaztrubprom

On June 9, 2008, the Group purchased the 100% ownership interest in Kazakhstan–based TOO Kaztrubprom ("Kaztrubprom") for a cash consideration of 8,437. Kaztrubprom specializes in the threading and finishing of tubing and casing pipes.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of Kaztrubprom at the date of acquisition:

	9 June 2008
Property, plant and equipment	20,271
Other non-current assets	123
Inventories	724
Accounts and notes receivable, net	-
Prepayments	1,197
Cash	9
Total assets	**22,324**
Non-current liabilities	28,197
Deferred income tax liabilities	707
Current liabilities	241
Total liabilities	**29,145**
NET LIABILITIES	**(6,821)**
Fair value of net liabilities attributable to 100% ownership interest	(6,821)
TOTAL CONSIDERATION	8,437
Goodwill arising on acquisition	**15,258**

Goodwill arising from the acquisition of Kaztrubprom relates to synergy from integration of the acquired subsidiary into the Group.

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

Net cash acquired with the subsidiary	9
Cash paid	(8,437)
Net cash outflow	(8,428)

In 2008, the Group paid 8,437 for the purchase of Kaztrubprom. As at December 31, 2008, the Group had no liability in respect of this purchase.

Kaztrubprom's net loss from June 9, 2008 to December 31, 2008 was 6,298.

11) Acquisition of Subsidiaries (continued)

NS Group Inc. and IPSCO Tubulars Inc.

On March 14, 2008, the Group signed a back–to–back purchase agreement with Evraz Group S.A. ("Evraz") to acquire all of the outstanding shares in IPSCO Tubulars Inc. and 51% of outstanding shares in NS Group Inc., both registered and located in the United States, from Svenskt Stal AB ("SSAB"), a Swedish steel company.

As a part of the transaction, on June 11, 2008, the Group entered into a call/put option agreement with Evraz, under which the Group has the right to purchase from Evraz and Evraz has the right to sell to the Group 49% of the outstanding shares in NS Group, Inc. for 510,625. Thus, in substance the Group acquired 100% ownership interest in NS Group Inc., because the Group gained an access to the economic benefits associated with that interest. The Group's call option became exercisable on June 12, 2008. The put option could be exercised by Evraz on or after October 22, 2009. The liability under the call/put option bore interest of 10% per annum.

IPSCO Tubulars Inc. and NS Group Inc. consist of ten production sites including steel–making and pipe– rolling mills, heat–treatment, threading and joints operations.

On June 12, 2008 the Group acquired control over NS Group Inc. and IPSCO Tubulars Inc. As a result, cost of the acquisition of all of the shares in IPSCO Tubulars Inc. and NS Group Inc. for the Group amounted to 1,645,012, including cash consideration of 1,114,177 (net of adjustment for closing working capital of 133,704), a liability in respect of the put option of 510,625, transactions costs of 20,210.

The financial position and results of operations of IPSCO Tubulars Inc. and NS Group Inc. were included in the Group's consolidated financial statements for the year ended December 31, 2008 beginning June 12, 2008.

11) Acquisition of Subsidiaries (continued)

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

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

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

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

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

As at December 31, 2008, the Group had a liability of 510,625 in respect of the call/put option agreement and 662 in respect of transaction costs.

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

On January 22, 2009, the Group and Evraz amended the option agreement to reduce the option price from 510,625 to 507,542. In addition, interest clause was removed from the option agreement. On January 30, 2009 TMK exercised its option for a 49% ownership interest in NS Group. As a result, the Group recognised gain on extinguishment of debts of 32,251 (Note 10).

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

11) 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.

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

Disclosure of Other Information in Respect of Business Combinations

As the acquired subsidiaries did not prepare financial statements in accordance with IFRS before the business combinations, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

It is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

12) Income Tax

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

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

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

12) 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 became effective on January 1, 2009. Respective deferred tax assets and liabilities as at December 31, 2008 were measured using the announced tax rate.

In December 2008, a reduction of income tax rate was announced by the Kazakhstan government from 30% to 20% for 2009 and 17.5% for 2010 year. Respective deferred tax assets and liabilities were remeasured using the announced tax rates as at respective dates.

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

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

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.

12) Income Tax (continued)

As at December 31, 2009, the deferred tax asset for 3,661 (2008: 7,775) relating to tax deductible losses incurred in transactions with securities has not been recognised, as it is not probable that sufficient taxable profit on transactions with securities will be available to offset the deductible temporary differences to which the asset relates. Such tax losses offsets only against future taxable profits generated in transactions with securities over a period of 5 years.

The Group recognised the deferred tax assets for the companies with net loss. The Group believes that this tax loss will be recovered as future taxable profits will exceed recognised tax asset on tax loss.

As at December 31, 2009, the Group has not recognised deferred tax liability in respect of 1,335,353 (2008: 1,480,501) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

From January 1, 2008, the change to the Tax Code in relation to dividends withholding tax became in force (the change # 76-FL is dated 16.05.2007). The major share of dividends due from Russian subsidiaries became tax free from January 1, 2008.

13) Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of the parent entity by the weighted average number of ordinary shares in issue during the period.

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

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

There have been no transactions involving ordinary shares or potential ordinary shares between December 31, 2009 and the date of completion of these financial statements that would have changed significantly the number of ordinary shares or potential ordinary shares as at December 31, 2009 if those transactions had occurred before that date.

14) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

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

The above cash and cash equivalents consist of the following:

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

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

15) Trade and Other Receivables

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

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

16) Prepayments and Input VAT

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

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or via direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is recoverable within one year.

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

Available-for-Sale Investments

The amount of Available-for-sale investments as at December 31, 2009 and 2008 was nil and 191,646 thousand Russian roubles (6,520 at the exchange rate as at December 31, 2008) respectively. Available-for-sale investments were represented by the quoted ordinary shares of VTB Bank, a Russian state-owned bank. The fair value of these shares was determined by reference to published price quotations in an active market. On June 30, 2008 due to the significant and prolonged decline in fair value of VTB shares, the impairment loss of 13,043 representing cumulative loss previously recognised in other comprehensive income was recorded in the income statement. In the second half of 2008, further decline in fair value of VTB shares amounting to 10,632 was recognised in the income statement.

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

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

Other Non-Current Assets

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

18) Inventories

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

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

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

18) Inventories (continued)

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

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

19) Property, Plant and Equipment

The movement in property, plant and equipment for the year ended December 31, 2009 was as follows:

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

19) Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2008 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2008	1,151,250	1,439,470	68,416	32,025	33	582,911	**3,274,105**
Additions	2,570	19,873	473	900	-	956,390	**980,206**
Assets put into operation	159,973	529,108	6,617	6,189	1,194	(703,081)	**-**
Disposals	(6,008)	(26,231)	(1,587)	(609)	-	(929)	**(35,364)**
Assets acquired in business combinations	85,207	289,287	60	2,640	2,541	64,994	**444,729**
Currency translation adjustments	(210,244)	(309,922)	(11,391)	(5,576)	(189)	(134,708)	**(672,030)**
BALANCE AT DECEMBER 31, 2008	**1,182,748**	**1,941,585**	**62,588**	**35,569**	**3,579**	**765,577**	**3,991,646**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2008	(114,043)	(413,876)	(19,560)	(14,283)	-	-	**(561,762)**
Depreciation charge	(33,076)	(144,317)	(5,427)	(5,688)	(436)	-	**(188,944)**
Impairment	-	(59,846)	-	-	-	-	**(59,846)**
Disposals	352	21,542	675	502	-	-	**23,071**
Currency translation adjustments	23,058	88,399	3,750	2,787	1	-	**117,995**
BALANCE AT DECEMBER 31, 2008	**(123,709)**	**(508,098)**	**(20,562)**	**(16,682)**	**(435)**	**-**	**(669,486)**
NET BOOK VALUE AT DECEMBER 31, 2008	**1,059,039**	**1,433,487**	**42,026**	**18,887**	**3,144**	**765,577**	**3,322,160**
NET BOOK VALUE AT JANUARY 1, 2008	**1,037,207**	**1,025,594**	**48,856**	**17,742**	**33**	**582,911**	**2,712,343**

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

At December 31, 2009, the Group conducted an impairment test of property, plant and equipment and determined that carrying value of property, plant and equipment of its Romanian subsidiaries exceeds their recoverable amount. The recoverable amount represents the value in use determined based on discounted future cash flow. The group used pre-tax discount rates of 15.03% for determining the value in use for Romanian subsidiaries. As a result, the Group recognised impairment of property, plant and equipment amounting to 37,017 (2008: 55,680). The entire amount of impairment loss of Romanian subsidiaries was recognised in the income statement.

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

19) Property, Plant and Equipment (continued)

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

Capitalised borrowing costs

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

20) Goodwill and Other Intangible Assets

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

20) Goodwill and Other Intangible Assets (continued)

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2008	781	101,858	17,133	-	-	-	9,354	**129,126**
Additions	213	-	1,637	-	-	-	284	**2,134**
Disposals	(8)	-	-	-	-	-	(1,725)	**(1,733)**
Assets acquired in business combination (Note 10)	208,700	488,225	-	472,300	14,100	8,500	1,565	**1,193,390**
Currency translation adjustments	(156)	(18,689)	(3,039)	-	-	-	(1,413)	**(23,297)**
BALANCE AT DECEMBER 31, 2008	**209,530**	**571,394**	**15,731**	**472,300**	**14,100**	**8,500**	**8,065**	**1,299,620**
ACCUMULATED AMORTISATION AND IMPAIRMENT								
Balance at January 1, 2008	(160)	-	(4,322)	-	-	-	(2,071)	**(6,553)**
Amortisation charge	(54)	-	(2,507)	(48,851)	(974)	(4,332)	(2,111)	**(58,829)**
Impairment	-	(3,512)	-	-	-	-	-	**(3,512)**
Disposals	1	-	-	-	-	-	1,095	**1,096**
Currency translation adjustments	33	542	1,089	-	-	-	483	**2,147**
BALANCE AT DECEMBER 31, 2008	**(180)**	**(2,970)**	**(5,740)**	**(48,851)**	**(974)**	**(4,332)**	**(2,604)**	**(65,651)**
NET BOOK VALUE AT DECEMBER 31, 2008	**209,350**	**568,424**	**9,991**	**423,449**	**13,126**	**4,168**	**5,461**	**1,233,969**
NET BOOK VALUE AT JANUARY 1, 2008	**621**	**101,858**	**12,811**	**-**	**-**	**-**	**7,283**	**122,573**

Customer relationships represent non-contracted interactions with clients. Remaining amortisation period for customer relationships is 7-9 years.

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group.

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (2008: 208,700).

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

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

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

20) Goodwill and Other Intangible Assets (continued)

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

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

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

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

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

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

The calculation of Oilfield service, Kaztrubprom Plant and European division cash generating unit's fair value was most sensitive to the following assumptions:

20) Goodwill and Other Intangible Assets (continued)

Discount Rates

Discount rates reflect the current market assessment of the risks specific to cash generating unit. The discount rates have been determined using the CAPM concept and analysis of industry peers. Reasonably possible change in discount rate could lead to impairment of goodwill.

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

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

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

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

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

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

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

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

Costs and Expenses

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

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

20) Goodwill and Other Intangible Assets (continued)

Costs and Expenses (continued)

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

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

Commodity Prices

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

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

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

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

21) Trade and Other Payables

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

22) Accrued Liabilities

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

23) Provisions

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

24) Interest-Bearing Loans and Borrowings

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

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

24) Interest-Bearing Loans and Borrowings (continued)

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

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

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

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

Covenants reset and covenants compliance during 2009

Certain loan agreements provide for covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness, profitability and guarantees issued to other parties.

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

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

24) Interest-Bearing Loans and Borrowings (continued)

Covenants reset and covenants compliance during 2009 (continued)

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

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

Bank Loans

On May 30, 2008, TMK entered into the IPSCO Bridge Facility Agreement for 1,200,000 to finance the acquisition of a 51% interest in NS Group Inc. and the 100% interest in IPSCO Tubulars Inc. ABN AMRO Bank N.V., Bank of Tokyo Mitsubishi UFJ, Ltd., Barclays Bank PLC, BNP Paribas (Suisse) S.A., ING Bank N.V., Natixis, Nomura International plc. and Sumitomo Mitsui Finance Dublin Limited are arrangers of the facility. In July 2008 the Group partly refinanced this bridge facility using the proceeds from issuance of 600,000 10% loan participation notes due 2011.

In January 2009, the Group entered into agreement with Gazprombank for 2.5 year term borrowing facilities of 1,107,542 to refinance the remaining part of the IPSCO Bridge Facility and acquire 49% of NS Group Inc. from Evraz in accordance with a call/put option concluded between TMK and Evraz in June 2008 in the amount of 507,542. In August 2009, the Group amended agreement with Gazprombank for borrowing facilities of 1,107,542 extending the loan term from 2.5 to 5 years and reducing interest rate. In December 2009, the Group further amended agreement reducing interest rate. The facilities will be repaid by 13 tranches starting from 2011. As at December 31, 2009, the principle outstanding balance of the loan was 1,107,542.

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

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

24) Interest-Bearing Loans and Borrowings (continued)

Bank Loans (continued)

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

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

Loan participation notes

On September 29, 2006, the Group issued 3,000 8.5% loan participation notes with a nominal value of 100,000 US dollars each, due September 2009. On July 25, 2008, the Group issued 6,000 10% loan participation notes with a nominal value of 100,000 US dollars each, due July 2011. The notes were issued by TMK Capital S.A. ("TMK Capital"), a Luxemburg special purpose vehicle. The notes have been admitted to trading on the London Stock Exchange. The terms of the notes provide for certain restrictions on the Company's ability to incur financial indebtedness, liens, to engage in assets sales, to engage in transactions with affiliates and to engage in mergers and similar transactions. The proceeds of the 10% loan participation notes were used for partial repayment of the IPSCO Bridge Facility for the amount of 1.2 billion.

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

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

Bearer Coupon Debt Securities

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 Russian roubles (35.95 US dollars at the exchange rate as at the date of issuance) each, with eight coupon periods of 182 days each. The bonds matured on March 24, 2009. The annual interest rate for the last four semi-annual coupons was 7.6% per annum. On March 24, 2009, the Group repaid its liability under these bonds using the proceeds from the loan provided by VTB.

24) Interest-Bearing Loans and Borrowings (continued)

Bearer Coupon Debt Securities (continued)

On February 21, 2006, the Group issued 5,000,000 bonds with a nominal value of 1,000 Russian roubles (35.53 US dollars at the exchange rate as at the date of issuance) each, with ten coupon periods of 182 days each. The maturity date is February 15, 2011. The interest rate for the first, second, third and fourth semi-annual coupons was 7.95% per annum. The interest rate for the fifth, sixth, seventh and eighth semi-annual coupons is 9.6% per annum. The annual interest rate for the ninth and tenth semi-annual coupon periods is to be established and announced by the Company on any date before the last 10 days of the ninth coupon period. As at December 31, 2009, an aggregate of 5.0 billion Russian roubles (165,321 at the exchange rate as at December 31, 2009) remained outstanding under these bonds series.

Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and arrangement costs paid by the Group in relation to the arrangement of loans and issue of notes.

Unutilised Borrowing Facilities

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

Finance Lease Liabilities

Starting from 2001, the Group entered into lease agreements under which it has a bargain option to acquire the leased assets at the end of lease term ranging from 1 to 20 years. The estimated average remaining useful life of leased assets varies from 4 to 19 years.

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

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

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

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

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

24) Interest-Bearing Loans and Borrowings (continued)

Finance Lease Liabilities (continued)

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows at December 31, 2008:

	Minimum payments	Present value of payments
2009	3,050	1,822
2010-2013	11,028	6,679
after 2013	40,205	32,290
Total minimum lease payments	**54,283**	**40,791**
Less amounts representing finance charges	(13,492)	-
Present value of minimum lease payments	**40,791**	**40,791**

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

25) Employee Benefit Liability

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. Defined benefits consist of lump-sum amounts payable at the retirement date and certain regular post-retirement payments. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreement. The Group pays the benefits when they fall due for payment.

The following table summarises the components of net benefit expense recognised in the consolidated income statement and amounts recognised in the consolidated statement of financial position by country:

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

25) Employee Benefit Liability (continued)

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

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

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

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

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

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

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

26) Principal Subsidiaries

Company	Location	Main activity	Actual ownership interest	Effective ownership interest	Actual ownership interest	Effective ownership interest
			December 31, 2009		December 31, 2008	
IPSCO Tubulars Inc.	USA	Manufacturing of welded steel pipes and other products	100.00%	100.00%	100.00%	100.00%
NS Group Inc.	USA	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	51.00%	51.00%
OAO "Sinarsky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, sale of electric and heating power and other services	94.16%	94.16%	92.95%	92.95%
OAO "Seversky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services	94.22%	94.22%	93.53%	93.53%
OAO "Volzhsky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	100.00%	100.00%
OAO "Taganrog Metallurgical Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of steel ingots and other products	96.06%	96.06%	95.94%	95.94%
OAO "Orsky Machine Building Plant"	Russia	Manufacturing of drilling locks and other products	75.00%	75.00%	75.00%	75.00%
ZAO "Trade House TMK"	Russia	Sales & Distrubution of pipes, raw materials procurement	100.00%	99.92%	100.00%	99.92%
OOO "TMK-INOX"	Russia	Sales & Distrubution of pipes	100.00%	100.00%	0.00%	0.00%
OOO "Skladskoy Kompleks TMK"	Russia	Sales & Distrubution of pipes	100.00%	100.00%	100.00%	100.00%
TOO "TMK-Kazakhstan"	Kazakhstan	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TOO Kaztrubprom	Kazakhstan	Manufacturing of seamless steel pipes	100.00%	100.00%	100.00%	100.00%
OOO "TMK-Trans"	Russia	Logistics	100.00%	100.00%	100.00%	100.00%
OOO "Blagoustroystvo"	Russia	Services	100.00%	99.99%	100.00%	99.99%
OOO "Sinarsky Trubnik"	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO "SinaraTransAvto"	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO "Sinaraproekt"	Russia	Services	0.00%	0.00%	100.00%	100.00%
TMK Global AG	Switzerland	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TMK North America Inc.	USA	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TMK Italia s.r.l.	Italy	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TMK Middle East FZCO	UAE	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
OOO Pokrovka 40	Russia	Assets holding	100.00%	100.00%	100.00%	100.00%
TMK Europe GmbH	Germany	Sales & Distribution of pipes, raw materials and equipment procurement	100.00%	100.00%	100.00%	100.00%
SC TMK-ARTROM SA	Romania	Manufacturing of seamless steel pipes	92.66%	92.66%	80.56%	80.56%
SC TMK-RESITA SA	Romania	Manufacturing of billets	100.00%	100.00%	99.49%	99.49%
WRJ INWESTYCJE SP Z O.O.	Poland	Investment company	100.00%	100.00%	100.00%	100.00%
TMK Capital S.A.	Luxembourg	Financing (SPV)	0.00%	0.00%	0.00%	0.00%
Joint-Stock Company "Russian Research Institute of the Tube and Pipe Industries"	Russia	In-house R&D facility	97.36%	97.36%	97.36%	97.36%
OOO "Predpriyatiye "Truboplast"	Russia	Coating of pipes	100.00%	100.00%	100.00%	100.00%
ZAO "Pipe Repair Department"	Russia	Services for oil and gas industries	100.00%	100.00%	100.00%	100.00%
OOO "TMK-Premium Services"	Russia	Sales & Distribution, premium pipes	100.00%	100.00%	100.00%	100.00%
OOO "Central Pipe Yard"	Russia	Services for oil and gas industries	100.00%	100.00%	100.00%	100.00%
OOO " Accounting services center"	Russia	Accounting shared-services	100.00%	100.00%	100.00%	100.00%
Rockarrow Investments Limited	Cyprus	Stock servicing	100.00%	100.00%	100.00%	100.00%
ZAO "TMK-CPW" *	Russia	Manufacturing of welded steel pipes	51.00%	48.05%	54.00%	50.51%
OOO TMK –SMS Metallurgical Service	Russia	Maintenance and repair of equipment	51.00%	47.58%	51.00%	47.58%

** The Group recorded a liability under that put option in the consolidated financial statements*

Actual ownership interest in subsidiaries differs from the effective ownership interests due to the existence of minority interests in subsidiaries that hold ownership interest in other subsidiaries.

27) Related Parties Disclosures

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2009 and 2008 are detailed below.

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

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

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

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

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

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

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

27) Related Parties Disclosures (continued)

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

Compensation of Key Management Personnel of the Group

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

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

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

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

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

28) Contingencies and Commitments

Operating Environment of the Group

Significant part of the Group's principal assets are located in the Russian Federation and therefore its significant operating risks are related to the activities of the Group in this country.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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

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

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

28) Contingencies and Commitments (continued)

Taxation

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

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

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

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

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

Management believes that the Group’s position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Therefore, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2009.

Contractual Commitments and Guarantees

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

28) Contingencies and Commitments (continued)

Contractual Commitments and Guarantees (continued)

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

Insurance Policies

For Russian subsidiaries the Group maintains obligatory insurance policies required by the Russian Law and insurance policies in respect of certain assets pledged under loan agreements. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

Legal Claims

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these consolidated financial statements.

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at December 31, 2009 in the amount of 4,246 (2008: 6,219).

29) Equity

i) Share Capital

As at December 31, 2009, the authorised number of ordinary shares of the Company was 873,001,000 (2008: 873,001,000) with a nominal value per share of 10 Russian roubles. All these shares are issued and fully paid.

ii) Reserve Capital

According to Russian Law, the Company must create a reserve capital in the amount of 5% of the share capital per the Russian statutory accounts by annual appropriations that should be at least 5% of the annual net profit per the statutory financial statements. The reserve capital can be used only for covering losses and for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

29) Equity (continued)

iii) Dividends

In June 2008, the Company declared a final dividend in respect of 2007 in the amount of 899,191 thousand Russian roubles (38,224 at the exchange rate at the announcement date) or 1.03 Russian roubles per share (0.044 US dollars per share), from which 1,819 thousand Russian roubles (77 at the exchange rate at the transaction date) related to the treasury shares in possession of the Group as at the date of dividends declaration.

In November 2008, the Company declared an interim dividend in respect of 2008 in the amount of 1,527,752 thousand Russian roubles (56,660 at the exchange rate at the announcement date) or 1.75 Russian roubles per share (0.065 US dollars per share), from which 5,871 thousand Russian roubles (218 at the exchange rate at the transaction date) related to the treasury shares in possession of the Group as at the date of dividends declaration.

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

In accordance with Russian legislation, dividends may only be declared to the shareholders from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had 463,768 of undistributed and unreserved earnings recognised in Russian statutory financial statements as at December 31, 2009. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 1,228,862 as at December 31, 2009.

iv) Acquisition of Minority Interests in Subsidiaries

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

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

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

29) Equity (continued)

iv) Acquisition of Minority Interests in Subsidiaries (continued)

In the year ended December 31, 2008, the Company purchased additional 0.24% of OAO "Seversky Pipe Plant" shares, 0.27% of OAO "Sinarsky Pipe Plant" shares. The total cash consideration for the shares amounted to 2,547. The excess in the amount of 191 of the consideration given for the shares over the carrying values of net assets attributable to interest in OAO "Seversky Pipe Plant" was charged to accumulated profit. The excess in the amount of 178 of the carrying values of net assets attributable to interest in OAO "Sinarsky Pipe Plant" over the consideration paid for such minority interest is recorded in additional paid-in capital.

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

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

vi) Minority Interests Put Options

In 2006, new regulations were introduced in the Russian Federation in respect of joint stock companies in which a controlling shareholder owns not less than 95% of the share capital as at July 1, 2006. These amendments oblige a controlling shareholder to acquire the company's shares in the case when minority interest shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can initiate a forced disposal of the shares held by minority interest shareholders. The put and call options under this legislation expired in August 1, 2008.

On July 1, 2006, the Group had a 95.74% ownership interest in OAO "Taganrog Metallurgical Plant". At this date, the Group derecognised minority interests of 14,443 and accrued a liability to minority interest shareholders for 27,106. The liability was measured based on the highest purchase price of these shares by the Group. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounted to 12,663 for year 2006.

In the year ended December 31, 2007, the Company purchased additional 0.2% of OAO "Taganrog Metallurgical Plant" shares for 1,298 and recorded a decrease in the liability under put options by that amount.

On August 1, 2008, after expiration of minority interest put options, the Group recognised minority interests in OAO "Taganrog Metallurgical Plant" for 21,443 and derecognised liability for 20,077. The excess of the amount of the recognised minority interests over the carrying value of the liability amounted to 1,366 and was charged to retained earnings.

At July 2, 2007, the Group had a 95.11% ownership interest in OAO "RosNITI". At this date, the Group derecognised minority interests of 389 and accrued a liability to minority interest shareholders for 389.

29) Equity (continued)

vi) Minority Interests Put Options (continued)

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

In 2007, the Group established ZAO "TMK-CPW", a new subsidiary with 51% ownership. Under the shareholders' agreement, the minority interest shareholder in TMK-CPW owning 49% shares in the subsidiary has a put option to sell its shares to the Group under certain circumstances beyond the Group's control. The Group recorded a liability under that put option in the consolidated financial statements.

In 2008, the share capital of the subsidiary was reduced to the actually paid amount of 714,601,000 Russian roubles. The decision was made by the Shareholder's meeting as at September 30, 2008. The ownership of the Group amounted to 54%. Under the shareholders' agreement, the minority interest shareholder in TMK-CPW owning 46% (2007: 49%) shares in the subsidiary had a put option to sell its shares to the Group under certain circumstances beyond the Group's control. The Group recorded a liability under that put option in the consolidated financial statements.

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

vii) Share-Based Payments

On March 2, 2007, the Group adopted a share options programme (the "Programme"). Under the Programme, the members of the Board of Directors, senior executives and certain employees (the "Participants") were granted options to acquire shares in the Company. The Programme provides for the grants of options to acquire up to 9,603,011 shares, representing 1.1% of the Company's shares outstanding as at December 31, 2006. All the options were granted to the Participants in March 2007.

The options were exercisable in three phases in June 2007, June 2008 and June 2009, representing 25%, 35% and 40%, respectively, of the total amount of shares subject to the Programme.

The exercise price for options under the first phase was fixed at 217.6 Russian roubles per share (7.41 US dollars per share at the exchange rate as at December 31, 2008). The exercise price for options under the second phase was fixed at 226.68 Russian roubles per share (7.72 US dollars per share at the exchange rate as at December 31, 2008). The exercise price for options under the third phase was fixed at 228.60 Russian roubles per share (7.78 US dollars per share at the exchange rate as at December 31, 2008).

29) Equity (continued)

vii) Share-Based Payments (continued)

The weighted average fair value of options granted during 2007 was 1.32 US dollars per share. The fair value of the options granted is estimated at the date of grant using the Black Scholes pricing model, taking into account the terms and conditions upon which options were granted. The fair value of options granted during the year ended December 31, 2007 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	1.62 – 2.07
Expected volatility (%)	14.54
Risk-free interest rate (%)	4.62 – 4.93
Expected life (years)	0.58 – 2.59
Share price on the date of grant (US dollars)	7.78

The historical volatility has been used for valuation of the share options granted in 2007. The expected volatility reflected the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The Programme expired on October 1, 2009.

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

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

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

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

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

In the year ended December 31, 2008, the Group purchased 6,089,182 shares of the Company of the total amount of 27,110 (at the exchange rates at the transaction dates), including 3,050 shares purchased from an entity under common control with the Group for 35 and including 43,532 shares purchased back from the Programme participants for the amount of 383. There were no sales of shares to the Programme participants in 2008. The Programme expired on October 1, 2009.

29) Equity (continued)

ix) Warrants

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

x) Hedges of Net Investment in Foreign Operations

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

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

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

30) Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise bank loans, bonds issued, trade payables, liabilities under put options of minority interest shareholders in subsidiaries and finance leases. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The presented information shows susceptibility of the Group concerning each of these risks. The Board of Directors reviews and establishes policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of its financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on the risk.

Interest Rate Risk

Changes in interest rates affect the market value of financial assets and liabilities of the Group and level of finance charges. Group's interest rate risk management policy is to minimise risk with the aim to achieve financial structure objectives defined and approved in the management's plans. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and the funding of portfolio developments consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and variable rate basis. EURIBOR and LIBOR served as the basis for the calculation of interest rates on loans with variable rate. As these loans accounted for only 5% of the total loan portfolio at the end of 2009 (29% at the end of 2008), the Group considers such risks as not significant and is not using instruments to hedge such interest-rate risks at present. Nevertheless, the Group monitors interest rates and will use instruments to hedge such risk as necessary.

The Group does not have any financial assets with variable interest rate.

30) Financial Risk Management Objectives and Policies (continued)

Interest Rate Risk (continued)

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Basis points	Effect on profit before tax
As at 31 December 2009		
Increase in LIBOR	100	(42)
Decrease in LIBOR	(25)	10
Increase in EURIBOR	100	(1,893)
Decrease in EURIBOR	(25)	473
As at 31 December 2008		
Increase in LIBOR	55	(3,481)
Decrease in LIBOR	(55)	3,481
Increase in EURIBOR	30	(776)
Decrease in EURIBOR	(30)	776

Foreign Currency Risk

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

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

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

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

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

30) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax and other comprehensive income. In 2008 the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during 2008. In estimating reasonably possible changes for 2009 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of reporting period.

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

	As at December 31, 2008					
	Volatility range		Effect on Income Statement		Effect on Statement of Comprehensive Income	
	Low	High	Low	High	Low	High
USD/RUR	9.02%	-9.02%	(16,483)	16,483	(154,298)	154,298
EUR/RUR	8.67%	-8.67%	(22,519)	22,519	-	-
EUR/USD	14.32%	-14.32%	3,472	(3,472)	-	-
USD/RON	19.50%	-19.50%	(26,093)	26,093	-	-
EUR/RON	11.35%	-11.35%	(7,592)	7,592	-	-

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

30) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

As at 31 December 2009	Less than 3 months	3 to 12 month	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	542,063	31,455	-	-	-	-	**573,518**
Accounts payable to related parties	5,949	15,823	-	-	-	-	**21,772**
Interest-bearing loans and borrowings:							
Principal	459,288	1,065,061	730,095	383,903	293,739	869,901	**3,801,987**
Interest	113,008	229,842	207,861	143,831	109,060	69,505	**873,107**
Dividends payable	449	20	-	-	-	-	**469**
Liabilities under put options of minority interest shareholders in subsidiaries	15,836	-	-	-	-	-	**15,836**
Other non-current liabilities	-	-	22	59	-	13,620	**13,701**
	1,136,593	**1,342,201**	**937,978**	**527,793**	**402,799**	**953,026**	**5,300,390**

As at 31 December 2008	Less than 3 months	3 to 12 month	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	507,397	202,537	-	-	-	-	**709,934**
Accounts payable to related parties	1,459	-	-	-	-	-	**1,459**
Interest-bearing loans and borrowings:							
Principal	458,603	1,714,350	82,337	820,778	46,549	54,834	**3,177,451**
Interest	101,004	113,997	85,553	73,017	2,818	9,460	**385,849**
Dividends payable	248	113	-	-	-	-	**361**
Liabilities under put options of minority interest shareholders in subsidiaries	552,989	-	-	-	-	-	**552,989**
Other non-current liabilities	-	-	3,491	67	4	11,654	**15,216**
	1,621,700	**2,030,997**	**171,381**	**893,862**	**49,371**	**75,948**	**4,843,259**

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.

30) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The Group sells goods to some of the biggest Russian and international companies on credit terms. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

As at December 31, 2009, accounts receivable from the three biggest debtors of the Group amounted to 184,756 (December 31, 2008: 153,092). Management determines concentration by reference to receivables from particular customers as percentage of total accounts receivable.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below:

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

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

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

The movement in allowance for doubtful accounts was as follows:

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

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

Capital includes equity attributable to the equity holders of the parent entity.

The Group manages its capital structure and adjusts it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, such as cash and cash equivalents, short-term and long-term investments, short-term accounts receivable and short-term loans approximate their fair value.

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

	31 December 2009		31 December 2008	
	Net carrying amount	Fair Value	Net carrying amount	Fair Value
Financial Liabilities				
Fixed rate long term bank loans	1,953,175	1,934,655	17,597	16,342
Variable rate long term bank loans	158,093	140,903	248,190	212,177
Bonds due 2009	-	-	102,078	102,078
Bonds due 2011	165,321	165,445	170,181	144,229
8.5 per cent loan participation notes due 2009	-	-	300,000	235,500
10 per cent loan participation notes due 2011	186,700	191,834	600,000	324,000

The fair value of the bonds and notes was determined based on market quotations. The fair value of fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at prevailing interest rates of 14%, 10% and 5% per annum for loans denominated in Russian rouble, US dollar and Euro, respectively, as at December 31, 2009.

31) Subsequent events

Bonds and Equity Offerings

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

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

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

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

Russian bond obligations

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

Loan participation notes

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

Bank Loans

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

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

31) Subsequent events (continued)

Bank Loans (continued)

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

Increase of Authorised Share Capital

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

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