Management Discussion and Analysis

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

This review of TMK's operational results and financial condition should be read in conjunction with the consolidated financial statements of TMK and the related notes for the twelve months ended 31 December 2008 and 2007.

The information contained in this section, including information on TMK's development strategy, constitutes forward-looking statements about TMK and inherently involves a degree of uncertainty. When assessing this analysis, various risk factors must be kept in mind, which means that TMK's actual results may differ significantly from the indicators presented in these statements.

Overview

TMK occupies a leading position among manufacturers and suppliers of steel pipes in Russia and is one of the world's largest manufacturers of pipe products. Based on the Company's assessment, in 2008, its share of the world market of seamless pipes, the most profitable segment of TMK's business, remained at the level of 2007 and constituted 6%, while the share of seamless OCTG was 11%.

The development of the global financial and economic crisis has halted the previous years' increases of consumption of steel pipes. As a result, the growth of the world pipe market in 2008 has literally halted while consumption has stayed at the 2007 level. The demand for pipe products, including the most profitable OCTG and line pipes, declined considerably in the second half of 2008. In spite of these negative factors, TMK managed to increase sales volumes in 2008 by 4.5% (up to 3.2 million tonnes) as compared to 2007, including increased volumes of seamless OCTG by 5.6%.

The Company's share of the Russian market for steel pipes increased to 27% as compared to 24% in 2007. The share of the seamless pipes market constituted 46% and 59% of the seamless OCTG pipe market.

In 2008, the Company's sales outside the Russian Federation constituted 547 thousand tonnes of pipe products, produced by TMK's Russian plants, which accounted for 44% of all steel pipe exports from Russia. The share of pipe products sold on foreign markets increased to 37% of the Company's total sales volumes up from 29% in 2007. TMK also strengthened its position on the U.S. market, the world's largest market for pipe products, with the acquisition of the U.S.-based business of IPSCO Tubulars Inc. and NS Group Inc. (hereinafter TMK IPSCO). The volume of TMK IPSCO's sales for the period from 12 June 2008 until 31 December 2008 in the total volume of Company's sales in 2008 constituted 15% or 488 thousand tonnes, including 349 thousand tonnes of seamless and welded OCTG.

Liquidity and capital requirements

The main capital requirements in 2008 were for financing the Strategic Investment Programme and the growth of working capital.

TMK has used cash flows from operating activities and short-term borrowings for financing working capital. Cash and cash equivalents as at 31 December 2008 amounted to USD 143.4 million which is 61.1% more as compared to cash as at 31 December 2007. In 2008, the net cash inflow from operating activities amounted to USD 739.5 million as compared to USD 324.1 million in 2007. However, TMK had a working capital deficit as at 31 December 2008, (the excess of short-term liabilities over current assets) amounting to USD 1,449.2 million. The main reason for the working capital deficit was an increase in the Company's short-term debt: the amount of outstanding short-term debt as at 31 December 2008, doubled to USD 2,217.8 million as compared to USD 1,034.5 million as at 31 December 2007. This was connected with the raising of short-term borrowings to finance the acquisition of IPSCO Tubulars Inc. and NS Group Inc.

TMK is working on changing its debt structure towards increasing the share of long-term borrowings as compared to short-term, in order to bring the maturity of liabilities in line with the turnover of assets. In the beginning of 2009, TMK succeeded in refinancing a significant part of its debt, including:

- In January 2009, TMK took out a series of loans from OAO "Gazprombank" for a total of USD 1.1 billion for 2.5 years to refinance the remainder (USD 600 million) of the syndicated bridge facility taken on for the acquisition of TMK IPSCO and to exercise the call option (USD 507.5 million) on the remaining 49% of shares in NS Group Inc.;
- In March 2009, TMK received a loan from OAO Bank VTB for an amount of USD 90.2 million with the purpose of fulfilling obligations under the rouble bond loan series 02 for the sum of RUB 3 billion which matured on 24 March 2009. In the same period, the Company repaid the bond liability;
- In January – March 2009, TMK refinanced other short-term loans in an aggregate amount of USD 177.9 million raised to finance current activity and replenish working capital.

Given the ongoing financial market crisis and the difficult fundraising environment, TMK's management implements anti-crisis measures aimed at improving liquidity. Given all possible risks connected with the future activity assessment, the Company believes it is able to continue as a going concern in the foreseeable future. TMK also constantly negotiates with banks on refinancing the current debt of the Company. In particular, a preliminary agreement has been made on refinancing of its Eurobonds in the amount of USD 300 million maturing in September 2009.

Changes in the Group structure and acquisitions in 2008

On 14 March 2008, TMK and Evraz Group S.A. concluded an agreement on the acquisition of the US companies and assets of IPSCO Tubular's business from Svenskt Stal AB. On 12 June 2008, TMK completed this transaction and acquired from Evraz Group S.A. 100% of the shares in IPSCO Tubulars Inc. and 51% of NS Group Inc. shares, both companies are located in the USA. TMK and Evraz also concluded an option agreement for the remaining 49% of NS Group Inc., to be exercised in 2009 at an approximate cost of USD 0.5 billion. TMK acquired ten production sites that allowed it to enter the North American pipe market, increase oil and gas pipe production and finishing capacities, including Premium class threaded connections, and expand its product mix. The combined annual production capacity of TMK IPSCO is more than 1 million tonnes of pipes, including about 300 thousand tonnes of seamless pipes, as well as 450 thousand tonnes of billets. Additionally, TMK IPSCO has 450 thousand tonnes of heat treatment capacity, 750 thousand tonnes of threading capacity and the capacity to thread 240 thousand premium connection joints per year.

In March 2008, TMK set up OOO "TMK Oilfield Services" for the management of oilfield services companies belonging to TMK (including "OMZ", "Truboplast", "TMK Pipe Maintenance Department" and "TMK Central Pipe Yard"). The creation of the oilfield services division is in line with TMK's strategic vision of strengthening its position in the oilfield maintenance and procurement services market by enhancing the quality and expanding the range of services it offers. In early July 2008, the TMK Central Pipe Yard line for the production of oilwell tubing was upgraded to provide customers a range of services including, apart from pipe repairs, the production of high technology pipe products.

On 9 June 2008, TMK acquired 100% of the authorized capital of TOO "Kaztrubprom" for USD 8.4 million. "Kaztrubprom", located in Uralsk, Republic of Kazakhstan, specializes in the threading and finishing of tubing and casing pipes for the oil and gas industry. Production capacity is about 60 thousand tonnes of pipes a year. This acquisition will help increase production volumes of high technology products, as well as strengthen the Company's position in such CIS countries as Kazakhstan, Uzbekistan, Turkmenistan and Azerbaijan and in the Russian regions of the Southern Urals, the Northern Caucasus and the Volga Region.

Exchange rates fluctuations

The exchange rate fluctuations between the rouble and both the US dollar and the euro significantly affect the results of operations of TMK, since the prices for the Company's products and expenses are expressed in roubles, US dollars, Euros and Romanian leis.

The table below shows the nominal exchange rate and movement of the rouble against the US dollar and euro:

	30.04.2009	31.12.2008	31.12.2007
US dollar exchange rate	33.25	29.38	24.55
EUR exchange rate	43.84	41.44	35.93
Average exchange rate [RUB/USD] (from the year beginning)	33.84	24.86	25.58
Average exchange rate [RUB/EUR] (from the year beginning)	44.38	36.43	35.02

Source: Central Bank of the Russian Federation

Operating results

The table below shows the consolidated income statement of TMK for the reporting years ended 31 December:

	2008		2007	
	million USD	**% of revenues**	**million USD**	**% of revenues**
Revenue	5,690.0	100.0%	4,178.6	100.0%
Cost of sales	(4,252.5)	-74.7%	(2,890.6)	-69.2%
Gross profit	**1,437.5**	**25.3%**	**1,288.0**	**30.8%**
Selling expenses	(295.2)	-5.2%	(238.2)	-5.7%
Advertising and promotion expenses	(10.1)	-0.2%	(5.3)	-0.1%
General and administrative expenses	(316.7)	-5.5%	(218.3)	-5.3%
Research and development expenses	(15.2)	-0.3%	(10.1)	-0.2%
Other operating expenses	(52.0)	-1.0%	(56.2)	-1.3%
Other operating income	7.1	0.1%	5.0	0.1%
Goodwill impairment loss	(3.5)	-0.1%	-	-
Fixed assets impairment loss	(59.8)	-1.1%	-	-
Financial assets impairment loss	(23.7)	-0.4%	-	-
Foreign exchange gain/loss, net	(99.8)	-1.7%	20.5	0.5%
Finance costs	(272.2)	-4.8%	(102.4)	-2.5%
Finance income	8.7	0.2%	12.6	0.3%
Profit share in associated company	3.0	0.1%	1.0	0.0%
Excess of acquirer's interest in the net fair value of the acquired company's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	-	-	2.2	0.1%
Profit before tax	**308.1**	**5.4%**	**698.8**	**16.7%**
Income tax expense	(109.6)	-1.9%	(192.5)	-4.6%
Net profit	**198.5**	**3.5%**	**506.3**	**12.1%**

Attributable to:				
Equity holders of the parent company	199.4	3.5%	487.1	11.6%
Minority interests	(0.9)	0.0%	19.2	0.5%
	198.5	**3.5%**	**506.3**	**12.1%**

Sales volumes

The following table shows TMK's pipe sales volumes for the reporting years ended 31 December:

	2008	2007	% change	2008	2007
	(thousands of tonnes)			% of total tonnes	
Seamless pipes	**1,980**	**2,039**	**-2.9%**	**61.4%**	**66.0%**
Russia	1,313	1,367	-4.0%	40.7%	44.2%
Non-Russia	667	672	-0.7%	20.7%	21.8%
Welded pipes	**1,247**	**1,049**	**18.9%**	**38.6%**	**34.0%**
Russia	713	824	-13.5%	22.1%	26.7%
Non-Russia	534	225	137.3%	16.5%	7.3%
Total pipes	**3,227**	**3,088**	**4.5%**	**100.0%**	**100.0%**
of which					
Russian sales	2,026	2,191	-7.5%	62.8%	71.0%
Non-Russian sales	1,201	897	33.9%	37.2%	29.0%

Despite the economic crisis during the second half of 2008, TMK was able to increase overall sales volumes in 2008 by 4.5% or by 139 thousand tonnes of pipes, even though the Company's pipe sales volumes in the Russian Federation decreased by 7.5%. This took place due to an increase of sales outside the Russian Federation by 33.9%, which result from the acquisition of the business in America in June 2008. Excluding TMK IPSCO, sales volumes decreased by 11.3% to 2,738 thousand tonnes as compared to 2007.

Accordingly, the share of sales of TMK's pipe products outside the Russian Federation increased to 37.2% but fell to 62.8% on the Russian market. On the whole, the Russian pipe market reflected the negative influence of such factors as a significant increase in the cost of raw materials in the first half of 2008, thus causing an increase in the prices for pipe products; oil and gas companies, TMK's main pipe product customers decreasing their capital expenditures in the 4th quarter of 2008; a fall in demand for large-diameter pipes due to postponements in the construction of some large pipeline projects (gas pipeline "Nord Stream", oil pipeline "Eastern Siberia – Pacific Ocean", etc.); and a reduction in the real sector of economy in the 4th quarter 2008.

In 2008, seamless pipe sales volumes decreased by 2.9% to 1,980 thousand tonnes. The principal factors of the decrease were a decrease of production volumes at TAGMET due to the modernization of seamless production, as well as a fall in demand in the industrial seamless pipe segment in the 4th quarter of 2008.

In the seamless OCTG segment, TMK's share of the Russian market increased to 59% as compared to 58% in 2007. The Company's seamless OCTG sales volumes increased by 5.6% to 970 thousand tonnes. The sales volumes in Russia increased marginally by 1.1% to 728 thousand tonnes but the growth in sales volumes outside Russia was 22.2% up to 242 thousand tonnes as compared to 198 thousand tonnes in 2007. At the same time TMK IPSCO's share in the seamless OCTG sales outside Russia was 41.1%. The sales volume growth in Russia was influenced by a cut in production of seamless pipes as a result of the decommissioning of a part of the outdated capacity for seamless pipe production at TAGMET at the end of 2007. In October 2008, operational testing at the PQF seamless rolling mill, designed to strengthen TMK's position in this segment, was commissioned.

In the seamless line pipe segment, considering that the world and Russian markets in 2008 significantly downsized, TMK's share increased from 14.7% to 15.1% on the world market and from 55.6% to 58.9%, in Russia. At the same time, the relevant pipe sales volumes decreased by 3.9% as a result of a decline in sales on the Russian market by 9.4%, partly compensated by a 9.8% increase in sales of these pipes abroad.

The sales volumes of industrial seamless pipes in 2008 decreased by 14.2% and amounted to 556 thousand tonnes, including 18.2% outside Russia and 10% on the Russian market. The principal factor in the reduction was the decreased demand from the construction and machine-building industries in the 4th quarter of 2008.

Welded pipes sales volumes increased by 18.9% in 2008 and amounted to 1,247 thousand tonnes. The largest growth was shown by the segment of welded OCTG, where sales volumes increased from 10 thousand tonnes in 2007 to 257 thousand tonnes in 2008 due to the acquisition of the business in America.

The slowdown in execution of large pipeline projects caused a reduction in demand for large diameter pipes on the Russian market. The large diameter pipes sales volume was 259 thousand tonnes in 2008 and decreased by 38.0%, including a 34.1% decrease on the Russian market and a 47.6% decrease outside Russia. The share of sales of large-diameter pipes in the total sales volume of TMK also reduced and constituted 8.0% (13.5% in 2007). TMK compensated this reduction by selling increased quantities of welded OCTG, line pipes and industrial pipes.

Welded line pipes sales volumes in 2008 amounted to 244 thousand tonnes and increased by 19.2% as compared to 2007. Sales grew by 10.7% on the Russian market and by 62.0% outside Russia. The major part of this growth was from TMK IPSCO sales which accounted for around 40% of the sales volume outside Russia.

In 2008, the Company sold 487 thousand tonnes of industrial welded pipes, a 16.6% increase as compared to 2007. This was achieved by the doubling of sales volumes outside Russia, with TMK IPSCO's 50% share of sales outside Russia. Sales in Russia decreased by 7.5% principally due to a significant reduction in demand from customers in the construction and machine-building industries.

Revenue

The table below shows TMK's revenues by operating segment for the reporting years ended 31 December:

	2008	**2007**		**2008**	**2007**
	(million USD)		**% change**	*(as a percentage of total revenues)*	
Seamless pipes	3,546.1	2,849.4	24,5%	62.3%	68.2%
Welded pipes	1,876.1	1,118.5	67.7%	33.0%	26.8%
Total revenues from pipes	**5,422.2**	**3,967.9**	**36.7%**	**95.3%**	**95.0%**
Other operations	267.8	210.7	27.1%	4.7%	5.0%
Total revenues	**5,690.0**	**4,178.6**	**36.2%**	**100.0%**	**100.0%**

The table below shows an analysis of the growth in revenue from the sale of pipes in 2008 as compared to 2007:

	Due to change in prices		**Due to change in sales volumes**		**Total**	
	(million USD, other than percentages)					
Seamless pipes	802.3	28.2%	-105.6	-3.7%	696.7	24.5%
Welded pipes	459.3	41.1%	298.3	26.6%	757.6	67.7%
Total change	**1,261.6**	**31.8%**	**192.7**	**4.9%**	**1,454.3**	**36.7%**

Revenue from sales increased by 36.2% in 2008 as compared to 2007 and constituted USD 5,690.0 million. Significant growth was provided by the acquisition of the business in America. Excluding TMK IPSCO, revenues of TMK increased by 7.7% in 2008 and amounted to USD 4,500.0 million.

In 2008, revenue from the sale of seamless pipes increased by 24.5%, or, excluding the revenue of TMK IPSCO, by 11.8%, to USD 3,186.7 million. The share of revenue from the sales of seamless pipes in total revenue constituted 62.3% of the total revenue (68.2% in 2007). The main factor of revenue growth in 2008 as compared to 2007 was an increase in average sales prices for seamless pipes which compensated for the effects of lower sales volumes. In 2008, the average price per tonne in the seamless pipe segment increased by 28.2% to USD 1,791.

In 2008, the revenue from sales of welded pipes increased by 67.7% as compared to 2007. Its share in the overall revenue structure also increased and constituted 33.0% as compared to 26.8% in 2007. Revenue from sales of welded pipes, excluding TMK IPSCO, declined by 2.4% as compared to 2007 to USD 1,092.0 million. The revenue growth from sales of welded pipes was mainly due to an increase in sales volumes and an increase in average sales prices. In 2008, the average price per tonne in the welded pipe segment increased by 41.1% to USD 1,504.

In 2008, revenue from other activities increased by 27.1%, while their share in total revenue decreased to 4.7%. Revenue from other operations includes sales of steel pipe billets and other goods and services. In 2008, the revenue from sales of steel billets increased approximately by 8.8% as compared to 2007, following the acquisition of the business in America. Revenue from sales of steel billets by TMK IPSCO amounted to USD 46.5 million, and its share in total revenues from sales of steel pipe billets was 47.3%. Excluding TMK IPSCO, the revenue of TMK from sales of billets in 2008 declined approximately by 42.7%.

The share of revenue from services in total revenue in 2008 amounted to 1.5% as compared to 0.8% in 2007. One of the main factors of growth was that several service organisations providing services to companies in the oil and gas sector for insulation and anti corrosive coatings on steel pipes, repair of tubing, drill pipes and sucker rods, became part of TMK at the end of 2007.

Cost of goods sold

In 2008, the cost of goods sold increased by 47.1% as compared to 2007 and amounted to USD 4,252.5 million. Excluding business acquired in America, the cost of goods sold increased by 17.5% to USD 3,395.8 million.

The main components of TMK’s cost of production are raw materials, labour and energy expenses.

Raw materials and supplies

The costs of raw materials and supplies include materials used in the production process of pipe products, such as strips, steel sheets, metal scrap, pig iron, ferrous alloys, billets and other materials. In 2008, the costs of raw materials and supplies increased by 37.8% as compared to 2007 and their share in the total structure of TMK’s cost of production amounted to 69.3% as compared to 72.9% in 2007. Excluding TMK IPSCO, the increase of TMK’s cost of raw materials and supplies was 12.7% as compared to 2007.

Prices for certain types of raw materials and supplies may vary depending on the region. In 2008, especially in the first half, considerable growth in the prices for production raw materials was observed. In 2008, as compared to 2007, the average purchase cost of metal scrap increased approximately by 39-42% whilst in the first half of 2008, as compared to 2007, it increased by 41-50%. In the second half of 2008, the prices for scrap dropped considerably in line with the general price for steel. Prices for strips in 2008 as compared to 2007 increased on average by 37-44% and the increase in prices for pig iron by 50-67%.

Labour cost

Labour costs as part of production costs include wages and social security payments of workers directly engaged in the production of finished product and personnel of the main and auxiliary production.

In 2008 labour costs increased by 41.1% as compared to 2007, and their share in the general structure of production cost remained practically unchanged as compared to 2007 amounting to 12.0%. The increase in labour costs was basically due to the inclusion of labour costs of acquired companies, as well as the indexation of wages of Company personnel. The increase in costs, excluding business acquired in America, was 20.1%.

Cost of energy and other utilities

The cost of energy and other utilities increased in 2008 by 20.8%. Its share in the general structure of TMK’s production costs decreased to 6.7% from 8.0% in 2007. This was due to increases in tariffs for energy resources, as well as the inclusion of energy and other utility costs of the American pipe assets. Costs, excluding TMK IPSCO, increased by 11.0% as compared to 2007. Electricity and natural gas prices differ depending on the region. In 2008, the average electricity prices increased approximately by 18.4% and natural gas prices by 25.1%.

Gross profit

The table below shows the profitability of sales (ratio of gross profit to revenue) by product segment for the reporting years ended 31 December:

	2008	2007
Seamless pipes	30.7%	38.4%
Welded pipes	17.5%	16.8%
Other operations	7.8%	2.9%
Gross margin	**25.3%**	**30.8%**

TMK's gross profit in 2008 increased by 11.6% and amounted to USD 1,437.5 million as compared to USD 1,288.0 million in 2007. However, the profitability of sales reduced from 30.8% to 25.3%. A significant increase in gross profit in 2008 resulted from the acquisition of TMK IPSCO, whose share in the gross profit of TMK amounted to 23.2% whilst its profitability of sales constituted 28%. TMK's gross profit, excluding TMK IPSCO, reduced by 14.3% as compared to 2007 and at the same time the profitability of sales constituted 24.5%.

The increase in sales prices in 2008 and the favourable price environment for raw materials in the 4th quarter of 2008, resulted from the global economic crisis, did not compensate for the unprecedented increase of prices for raw materials purchased in the first half of 2008. This factor had a negative influence on profitability of sales of the most profitable seamless pipes which dropped in 2008 from 38.4% to 30.7%.

In 2008, the share of large-diameter pipes significantly decreased and the share of industrial welded pipes, with lower profitability increased. However, as a consequence of the acquisition of American pipe assets, the sales of OCTG significantly increased in the second half of 2008. As a result the profitability of sales in the welded pipe segment increased in 2008 to 17.5%.

The profitability of sales of other goods and services in 2008 increased to 7.8% as compared to 2.9% in 2007. This growth was due to the acquisition of the American pipe assets and service companies providing services to the oil and gas sector.

Operating expenses

In 2008, TMK's selling expenses increased by 24% as compared to 2007 and amounted to USD 295.2 million of which USD 2.0 million are from TMK IPSCO operations in 2008. The growth of selling expenses was connected mainly with the increase in costs for the transportation of finished products which was associated with higher transportation tariffs. The other main reason for the increase in selling expenses was the increase in wages and social security payments, resulted from wage indexing, and the increase in the reserve for doubtful accounts receivable.

TMK's advertising and promotion expenses include the costs of participating in industrial exhibitions, printing product brochures, maintaining the corporate website and advertising in print media. In 2008, the advertising expenses increased as compared to 2007 from USD 5.3 million to USD 10.1 million.

General and administrative expenses in 2008 increased by 45.1% as compared to 2007 and amounted to USD 316.7 million. The increase in these expenses is primarily due to the acquisition of TMK IPSCO whose share in the general and administrative expenses constituted 24%. Wages and social security are the most significant part of TMK's general and administrative expenses and amount to 43.8%; however, in absolute terms, the amount of expenses increased moderately in 2008. The bulk of general and administrative expenses in 2008 was, as in 2007, for professional services by third party organizations and the depreciation of fixed and intangible assets. The structure of general and administrative expenses of TMK IPSCO influenced the structure of TMK's expenses. Thus, the share of depreciation expenses significantly increased to 21.1%, as compared to 3.9% in 2007. TMK IPSCO's share in depreciation is 82.6% of TMK's total depreciation expenses. The increase in general and administrative expenses was also related to an increase in expenses for professional services, in particular audit and legal services. TMK's general and administrative expenses, without taking account of TMK IPSCO, in 2008 increased by 9.8% compared to 2007.

TMK's expenses on research and development in 2008 increased as compared to 2007 and amounted to USD 15.2 million. TMK IPSCO's share of expenses amounted to 2.2% of the total expenses for research and development. The main factor was the increase in expenses on wages and social security as a result of indexation; wages amounted to 60.6% of all expenses on research and development.

Loss from impairment of non-current assets

The Company performed impairment tests on the non-current assets of TMK companies as at 31 December 2008, which indicated that value in use of non-current assets of TMK-Artrom, TMK-Resita and OMZ and a recoverable amount of goodwill allocated to “TMK Pipe Maintenance Department” and “Truboplast" determined based on discounted future cash flows were lower than their carrying values. As a result, the Company recognized a loss from the impairment of non-current assets totaling to USD 63.3 million. The main reason for the impairment loss was the negative influence of the economic crisis that resulted in a decrease in sales volumes forecast and an increase in discount rates.

Foreign exchange loss/gain, net

The functional currency of the Company and its subsidiaries located in the Russian Federation, Kazakhstan and Switzerland is the Russian rouble. The functional currency of the Romanian subsidiaries is the Romanian leu and that of TMK Europe and TMK Italia is the euro. The functional currencies of TMK IPSCO, TMK North America and TMK Middle East are the US dollar and the dirham, respectively. Foreign currency transactions are initially reflected in the functional currency at the exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the balance sheet date. All resulting differences are taken to profit and loss, with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

In 2008, TMK reported losses from exchange rate fluctuations for an amount of USD 99.8 million as compared to a gain from exchange rate fluctuations of USD 20.5 million in 2007. In 2008, due to the global economic crisis, the Russian rouble depreciated against the US dollar by 19.7% as compared to an appreciation of 6.8% in 2007. Against the euro, the rouble depreciated by 15.3% in 2008, whereas in 2007 the depreciation was 3.6%. The exchange rate loss was mainly due to the revaluation into roubles of US dollar and euro-denominated loans and Eurobonds due to the rising exchange rate of the US dollar and the euro against the Russian rouble in the second half of 2008.

Finance costs

Finance costs include accrued interest and the amortization of borrowings issuance costs. In 2008, TMK’s finance costs increased by 165.8% as compared to 2007 and amounted to USD 272.2 million due to the increase of the portfolio of short-term and long-term borrowings by 106.0% from USD 1,538.6 to USD 3,169.9 million in 2008 (see section “Indebtedness”)

Income Tax

As a result of the reduction of pre-tax profit by 56.0%, or by USD 390.7 million, and due to the recalculation of deferred taxes in Russia, profit tax expense, which amounted to USD 109.6 million as compared to USD 192.5 million in 2007, was reduced. In 2008, the maximum rate of profit tax established in the Russian Federation was 24%. In connection with the changes in tax legislation in the Russian Federation, according to which from 1 January 2009 the profit tax rate was established at 20%, the deferred tax assets and liabilities in the statements of the Russian-based plants as on 31 December 2008 were recalculated. Nevertheless, TMK’s effective income tax rate in 2008 amounted to 35.6% as compared to 27.5% in 2007. That change is due to the consolidation of TMK IPSCO and its effective rate of 34.2% and other expenses not deductible for tax purposes.

Net profit

In 2008, TMK’s net profit reduced by 60.8% as compared to 2007 to USD 198.5 million, including USD 167.0 million from the TMK IPSCO consolidation. As a consequence of the negative factors listed in this analysis of TMK’s operations, TMK’s profitability considerably declined in 2008 and was 3.5% against 12.1% in 2007.

Capital resources

Cash flows

The table below shows TMK’s total cash flows for the reporting years ended 31 December:

	2008	2007
	(million USD)	
Profit before tax	308.1	698.8
Non-cash and other adjustments to profit	739.2	220.9
Changes in working capital	(81.2)	(385.7)
Income taxes paid	(226.6)	(212.5)
Net cash flow from operating activities	739.5	321.5
Net cash used in investing activities	(2,024.3)	(568.6)
Net cash flow from financing activities	1,336.9	178.4
Effect of exchange rate changes on cash and cash equivalents	2.2	13.8
Net increase/(decrease) in cash and cash equivalents	**54.3**	**(54.9)**

Net cash received from operating activities

Net cash flow from operating activities doubled in 2008 and amounted to USD 739.5 million from USD 321.5 million in 2007 with cash flow from TMK IPSCO operating activities representing USD 31.5 million. In spite of a reduction in pre-tax profit of 56.0% or by USD 390.7 million, the net cash flow from operating activities before changes in working capital increased by 13.9% and amounted to USD 1,047.3 million as compared to USD 919.7 million in 2007. The decrease in profit before tax is due to the significant increase in depreciation expenses and the recognition of the impairment loss on financial investments and non-current assets, foreign exchange losses and the increase in finance costs.

Net cash used for investing activities

In 2008, net cash flows used for investing activities increased by more than three times as compared to 2007 and amounted to USD 2,024.3 million. The increase resulted from the acquisition of fixed assets, shares of new subsidiaries and the purchase of minority shares in subsidiaries.

In 2008, TMK used USD 1,184.8 million for acquisitions of subsidiaries:

- In June 2008, TMK acquired 100% of shares of IPSCO Tubulars Inc. and 51% of NS Group Inc. shares from Svenskt Stal AB (SSAB). The total amount paid by TMK was USD 1,141.0 million.
- In June and July 2008, TMK paid USD 8.4 million for 100% of the authorized share capital of TOO “Kaztrubprom”.
- In the first half of 2008, TMK paid the remaining USD 16.6 million and USD 8.4 million for the acquisition of 100% of shares in ZAO “Pipe Maintenance Department” and 100% of shares of OOO “Central Pipe Yard” as per the agreement on acquiring service assets from TNK-BP.
- In January-February 2008, TMK paid the remaining USD 10.4 million for acquiring 100% of the shares in the authorized share capital of OOO “Truboplast”.

The increase in cash outflow for investing activities was also influenced by the acquisition of production equipment in 2008 for an amount of USD 840.0 million as compared to 661.7 million in 2007, including TMK’s Strategic Investment Programme.

In 2008, TMK’s expenditure on the purchase of minority shares in subsidiaries more than doubled to USD 5.1 million as compared to USD 2.7 million in 2007.

In 2008, TMK had a net outflow of cash from the placement and return of bank deposits of USD 0.9 thousand as compared to a net inflow of USD 180.2 million in 2007. Interest income represented USD 3.0 million in 2008 and USD 11.7 million in 2007.

Net cash received from financing activities

Net cash received from financing activities in 2008 increased by more than seven times as compared to 2007 and amounted to USD 1,336.9 mainly as a result of increased borrowings. Net receipts from borrowings in 2008 increased by more than four times and constituted USD 1,780.5 million as compared to USD 441.0 million in 2007. This increase was related to the acquisition of businesses in America and the financing of the investment programme. Interest paid on loans amounted to USD 182.6 million and USD 105.6 million in 2008 and 2007 respectively.

In 2008, within the framework of its Option Programme, TMK spent USD 27.1 million towards the purchase of its shares.

In 2008, the Company paid its shareholders 2008 interim and 2007 full year dividends for a total amount of RUB 5,584.5 million (USD 223.6 million). Dividends to minority shareholders in TMK subsidiaries totalled USD 4.5 million.

Indebtedness

The following table gives information on TMK's debt as at 31 December 2008, including loans, borrowings and bonds, by currency and interest rates:

	In roubles	In US dollars	In Euros	In Romanian lei	Total
			(million USD)		
Total debt, of which	**1,207.0**	**1,698.4**	**264.1**	**0.4**	**3,169.9**
Fixed-rate debt	1,207.0	1,039.2	5.4	0.4	2,252.0
Variable-rate debt	-	659.2	258.7	-	917.9

The following table gives information on debt maturity, including loans and other borrowings as of 31 December 2008:

	up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	over 4 years	unamortised debt issue costs	Total
				(million USD)			
Total debt	**2,217.8**	**80.6**	**819.2**	**44.9**	**20.8**	**(13.4)**	**3,169.9**
Interest-bearing loans	1,775.7	80.6	49.0	44.9	20.8	(7.3)	1,963.7
Bearer coupon debt securities	442.1	-	770.2	-	-	(6.1)	1,206.2

As of 31 December 2008, the total volume of TMK's loans and borrowing comprised USD 3,169.9 million as compared to USD 1,538.6 million as of 31 December 2007.

The increase in TMK's debt burden in 2008 is due to the borrowings obtained to finance the acquisition of IPSCO Tubulars Inc. and NS Group Inc., as well as implement the Company's Strategic Investment Programme which includes the large-scale modernisation and increase of production capacities.

The main part of TMK's credit portfolio as at 31 December 2008 consisted of short-term loans and bond issues which made up 70% of the total borrowings or USD 2,217.8 million, twice as much short-term debt as at 31 December 2007.

Bank loans

As of 31 December 2008, the most significant borrowings (broken down by separate loan agreements) included the following:

In May 2008, TMK concluded a credit agreement for a syndicated bridge facility for USD 1.2 billion for 12 months to finance the acquisition of 100% of the shares of IPSCO Tubulars Inc and 51% of the shares in NS Group Inc. The organizers of the syndicated loan were ABN AMRO Bank N.V., Bank of Tokyo-Mitsubishi UFJ Ltd, Barclays Capital, BNP Paribas, ING Bank N.V., Natixis, Sumitomo Mitsui Finance Dublin Limited, Nomura International plc. Loan guarantors were TMK's subsidiaries including Volzhsky, Seversky, Sinarsky and TAGMET. As of 31 December 2008, TMK's debt on this loan was USD 600 million.

In the second half of 2008, TMK companies concluded with Sberbank of RF agreements for the opening of credit lines for a total amount of RUB 9.765 billion for a period of up to 12 months with the purpose of replenishing working capital. As of 31 December 2008, the debt of TMK companies against the given credit lines was RUB 9.765 billion (USD 332.4 million as at the Russian Central Bank exchange rate on 31 December 2008).

In October and November 2008, OAO Bank VTB opened a credit line to TMK companies for a total amount of RUB 7.0 billion, including for OAO TMK RUB 1.5 billion. Loans were taken up for the financing of current activities and the replenishment of working capital. The term of these credit agreements is 12 months. As of 31 December 2008, the debt of TMK companies against the given credit lines was RUB 7.0 billion (USD 238.3 million as at the Russian Central Bank exchange rate on 31 December 2008).

In October 2007 and March 2008, an agreement on the opening of credit lines with limits of RUB 2.0 billion and RUB 1.8 billion was concluded between Volzhsky and Joint Stock Bank "Gazprombank" for the period to 7 August 2009. As of 31 December 2008, the debt against the given credit lines was RUB 3.79 billion (USD 129.0 million as at the Russian Central Bank exchange rate on 31 December 2008).

In November 2008, TMK Trade House and OAO "Uralsib" concluded a general agreement on the opening of a credit line for an amount of RUB 1.8 billion until 13 March 2010. As of 31 December 2008, the loans within these lines were RUB 750 million (USD 25.5 million as at the Russian Central Bank exchange rate on 31 December 2008).

In December 2008, TMK Trade House obtained from OAO Khanty-Mansiiskiy Bank a loan for USD 55 million for a period of one year. As at 31 December 2008, TMK's debt for this loan amounted to USD 55.0 million.

Bonds

On 25 July 2008, TMK Capital S.A., a special purpose entity registered in Luxemburg, granted OAO TMK a loan for a total of USD 600 million at 10% per annum rate with a 25 July 2011 maturity. In order to finance the loan, TMK Capital S.A. issued Eurobonds in the indicated amount with a coupon yield of 10% per annum. TMK's liabilities on this loan are secured by guarantees issued by Volzhsky, TAGMET, Sinarsky, Seversky and TMK Trade House and IPSCO Tubulars Inc. The Eurobonds were registered on the London Stock Exchange. These funds were used for the partial refinancing of a USD 1.2 billion syndicated loan.

As at 31 December 2008, another issue of Eurobonds was also in circulation and was issued by the special purpose entity TMK Capital S.A. for financing a loan of OAO "TMK" for an amount of USD 300 million maturing on 29 September 2009, as well as two issues of rouble bond loans of OAO "TMK", the Series 02 in the amount of RUB 3 billion and Series 03 in the amount of RUB 5 billion maturing on 24 March 2009, and 15 February 2011, respectively.

Capital expenditures

The following table provides information on TMK's capital expenditures by types of activity for the years ended 31 December:

	2008	**2007**	
	(million USD)		**% change**
Seamless pipes	675.4	513.1	31.6%
Welded pipes	182.0	35.0	420.0%
Other operations	11.1	2.3	382.6%
Unallocated costs	113.4	83.2	36.3%
Total capital expenditures	**981.9**	**633.6**	**55.0%**

In 2008, TMK continued its Strategic Investment Programme for the period from 2004 to 2011. Within the framework of the Strategic Investment Programme in 2008, TMK implemented several large investment projects at the production plants, thus completing the main stages of the programme to provide seamless pipe production with its own raw materials and to expand oil and gas pipe production capacity. The successful completion of investment projects allows the Company to expand the range of its products and strengthen its position both on the Russian and international markets.

In 2008, TAGMET continued the construction of a new PQF seamless continuous rolling mill with enhanced operating properties designed for the production of 600 thousand tonnes of pipes a year. In October 2008, operational testing commenced and preparation for quality tests were started. Attaining the rated capacity is planned in the first half of 2009.

Since November 2008, at Seversky, an electric arc furnace with a capacity of 1 million tonnes of steel or 950 thousand tonnes of continuously cast billets for seamless pipes a year was started on a pilot production basis. Industrial operation of the furnace is planned for June 2009. The entire transfer to high-tech electric steel-melting and the closing of open hearth furnaces at Seversky was completed in January 2009.

Since 2007, at Seversky, the reconstruction of the pipe rolling production is in progress, where it is planned to install equipment for an FQM continuous rolling mill. Commissioning of the equipment is expected in 2012. The completion of construction of the whole complex, including the construction of heat treatment facilities and cutting lines for well casing is planned for 2013.

In October 2008, Volzhsky commenced pilot production of the rolling mill producing large-diameter longitudinal welded pipes from 530 to 1,420 mm and wall thickness up to 42 mm with a capacity of 650 thousand tonnes per year. The commissioning of the new rolling mill increased production capacity of the company to 1.2 million pipes a year and strengthen TMK's position on the Russian market. Attaining the rated capacity is planned in the second quarter of 2009. Simultaneously with the rolling mill, a new line for the application of external anti-corrosive coating on longitudinal welded pipes and spiral welded pipes, designed for production of up to 650 thousand tonnes a year of pipes, was commissioned. The quality of the external pipe coating ensures the integrity of pipelines laid under ground for at least 30 years. Earlier at Volzhsky a line for the internal smooth coating of longitudinal and spirally welded piper with diameters from 508 to 1420 mm and a capacity 600 thousand tonnes a year of pipes was commissioned.

In 2008, at Volzhsky, the construction of a new line for heat treatment of pipes with a capacity of 340 thousand tonnes a year was completed and pilot production has begun. It is expected that the project will be finally completed in May 2009.

The implementation of these projects will allow TMK to strengthen its position as leader in the pipe industry in Russia and the CIS and increase its participation in large projects for the construction of trunk gas and oil pipelines.

TMK plans to continue financing its capital expenses from operational cash flows, borrowings and other sources.

According to the results of 2008, after acquiring the American pipe assets and implementation of the main stage of the Strategic Investment Programme, TMK's production capacities have reached 6.5 million tonnes of pipes, including 2.9 million tons of seamless pipes and 3.6 million tons of welded pipes. The production capacity of steel billets is about 3.4 million tons and, at the same time, TMK is fully providing its own continuous cast billets for the production of seamless pipes.

Key financial indices

Net debt and EBITDA

The table given below provides information on the calculation of net debt as of 31 December 2008:

	2008	2007
	(million USD)	
Calculation of net debt		
Including:		
Short-term loans and current portion of long-term loans	2,216.5	1,033.3
Long-term loans, net of current portion	994.2	506.0
Total loans	**3,210.7**	**1,539.3**
Net of:		
Cash	(143.4)	(89.0)
Deposits and short-term promissory notes received	(3.9)	(103.7)
Total cash, deposits and promissory notes received	**(147.3)**	**(192.7)**
Net debt	**3,063.4**	**1,346.6**

Net debt was USD 3,063.4 million in 2008 as compared to USD 1,346.6 million in 2007. The increase was brought on by the significant increase in short-term and long-term loans used for financing the acquisition of the US-based assets, the implementation of the Strategic Investment Programme and working capital needs (see section "Financial debt").

EBITDA is shown below adjusted for exchange rate fluctuations and losses from the impairment of non-current assets for the twelve months ended 31 December:

	2008	2007
	(million USD)	
Net profit	198.5	506.3
Income tax expense	109.6	192.5
Depreciation and amortisation	247.8	140.3
Finance costs	272.2	102.4
Finance income	(8.7)	(12.6)
Effect of exchange rate changes	99.8	(20.5)
Goodwill impairment loss	3.5	-
Fixed assets impairment loss	59.8	-
Financial assets impairment loss	23.7	-
Adjusted EBITDA	**1,006.2**	**908.4**

EBITDA, adjusted for exchange rate fluctuations and loss from impairment of non-current and financial assets, increased in 2008 and amounted to USD 1,006.2 million, including TMK IPSCO, as compared to USD 908.4 million in 2007. Adjusted EBITDA in 2008, excluding TMK IPSCO, amounted to USD 667.8 million.

Development trends

Against the background of the developing economic crisis, the Company expects a weakening in demand for pipes in 2009. By our estimates, the Russian OCTG and oil and gas pipe market may contract by 10-15% in the first half of this year. At the same time, prices have already decreased by 15% to 25% in the first quarter of this year, as compared to the fourth quarter of 2008, and are expected to remain stable for the remainder of the year.

The OCTG and oil and gas pipe market in the USA demonstrates a certain reduction in prices by 25-30% in line with capex cutbacks from oil and gas field operators. Several factors will influence prices going forward; however, the Company does not forecast prices to go below beginning of 2008 levels.

In spite of the negative tendencies in the world economy, TMK expects demand for large-diameter pipe in Russia to pick-up by 10-15% in 2009, on conditions that certain pipe supply contracts will be negotiated. This concerns the continuation of such projects as Bovanenkovo-Ukhta and Nord Stream, as well as the start up of new projects, including the Sakhalin-Khabarovsk-Vladivostok, BTS-2 and Dzhugba-Lazarevskoye-Sochi pipeline systems.

Demand for industrial pipes in the first half of 2009 is expected to remain weak given the negative macroeconomic situation and the fall in demand in many sectors of the manufacturing industry, including construction.

Key risks

Industry risks

Dependence on the oil and gas sector

The Company's main customers are oil and gas companies which generate approximately 70% of revenues. As a result, demand for pipe products, including OCTG, line pipe and large-diameter pipe significantly correlates with oil and gas investment activities which, in turn, is driven by global oil and gas demand. The amount of pipe products required for maintenance and operational needs does not necessarily correlate to oil and gas prices as constant spending on pipes is necessary to maintain oil and gas production, transportation, and distribution systems. Moreover, increasingly difficult drilling conditions lead to an increase in demand for high technology pipe products. However, any reduction in oil prices may have influence on the development of the Company's business.

Change in cost of raw materials and energy

One of the main factors affecting TMK's business results is the price for raw materials including scrap metal, strips, sheet metal, steel billets, and energy.

Raw materials and supplies represent about 69% of the cost of pipes. In 2008, the average purchase price of scrap metal for TMK plants in Russia increased 39-42% as compared to 2007. At the same time, there was a price increase in the first half of the year of 41-50%. Prices for strips increased on average 37-44% and prices for pig iron 50-67% in 2008. The Company held negotiations with its main customers and partially compensated for the additional costs by increasing the prices of its products.

Energy costs make-up about 7% of the cost of production. Through the implementation of its Strategic Investment Programme, TMK has been reducing its consumption of gas and increasing the share of electricity used in pipe manufacturing. The current liberalisation of the Russian electricity market may lead to an increase in prices. However, despite a possible increase in energy prices, TMK maintains its energy-price advantage over its main international competitors. TMK pays special attention to making its production more efficient; among other things, the Company has an energy-saving programme aimed at reducing the share of energy costs through the better use of its energy resources.

Further increases in prices for raw materials and energy costs may have a negative impact on TMK's business results.

Dependence on a small group of customers

Approximately 36% of TMK's total sales volumes came from its top 10 customers in 2008 as opposed to 44% in 2007. In 2008, the largest seamless pipe customers were Surgutneftegas and TNK-BP, while Gazprom was the largest customer in the welded pipe segment.

While this high level of dependence on a small group of customers highlights TMK's strong business relationships with its main customers, this situation does carry a certain risk as it could lead to a higher degree of volatility in TMK's pipe business.

Competition

The global pipe market, specifically the oil and gas segment, is characterized by a high degree of competition, based on the supplier's capacity to satisfy the individual requirements of the end user, provide services for managing the supply chain and offer advantageous commercial conditions. In the Russian and CIS markets, TMK's principal competitors, as far as standard products are concerned, are the ChTPZ Group (Chelyabinsk Pipe Rolling Plant), a seamless and welded pipes manufacturer, and OMK (United Metals Company), a welded pipes producer. On the global seamless pipes market, TMK's main competitors are a limited number of manufacturers of seamless pipe products for the oil and gas industry, such as Tenaris S.A. and Vallourec S.A., which also offer a broad range of higher value-added products and services. The main competitors of TMK IPSCO are U.S. Steel and Maverick. In addition, Chinese and Ukrainian manufacturers, TMK's competitors in the standard grade product segment, are gradually increasing their product mix and expanding their presence in new markets. In these conditions TMK has consolidated its share on the strategic markets of seamless pipes for the oil industry in Russia and the CIS and has strengthened its commercial presence in North America. The position of supplier at the national level allows TMK to conduct an active dialogue with government bodies in Russia and the US on questions concerning the application of trade protection measures of national markets and manufacturers. However, increased competition on domestic and international markets may reduce sales and lead to pricing pressures, negatively impacting TMK's financial performance.

Financial risks

Liquidity risk

TMK's 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 damaging the Company's reputation.

On 30 May 2008, with the purpose of financing the American assets of IPSCO Tubulars Inc. and NS Group Inc., TMK concluded a loan agreement for a syndicated bridge facility of USD 1,200 million for 12 months at a floating interest rate. The organisers of the syndicated facility were ABN AMRO Bank N.V., The Bank of Tokyo-Mitsubishi UFJ, Ltd, Barclays Capital, BNP Paribas, ING Wholesale Banking, Natixis, Sumitomo Mitsui Banking Corporation and Nomura International plc.

This financing has increased TMK's debt burden. As of 31 December 2008, TMK's total debt was USD 3,210.7 million. To refinance the bridge facility, on 25 June 2008 TMK placed a three-year Eurobond loan for USD 600 million with a 10% annual coupon rate. In addition, in January 2009, TMK took out a series of loans from Gazprombank for a total of USD 1.1 billion for 2.5 years, repaid the remaining part of the syndicated bridge facility and also acquired 49% of shares in NS Group Inc. from Evraz Group S.A. in accordance with the "Call/Put"option agreement concluded at the time of the acquisition of the American pipe assets.

The ratio of short-term and long-term borrowings has not changed from the previous year. According to the results of 2008, the share of short-term borrowing was 70% of the total amount of debt. In these difficult economic conditions, TMK is refinancing its liabilities to improve the structure of its loan portfolio. The loans taken out in January 2009 from Gazprombank reduced the share of TMK's short-term debt which, as at 31 March 2009, was 40%. Similarly, the average term of the Company's credit portfolio improved and as at 31 March 2009, was 614 days as compared to 438 days as at 31 December 2008.

Notwithstanding the above, liquidity risks may be aggravated by the following factors:

- A decrease in the Company's cash flow due to the development of the economic crisis;
- An increase of the cost of borrowing for refinancing purposes;
- A temporary reduction in the availability of existing credit lines.

The Company may experience difficulties in refinancing its debt if the negative trends associated with these risks continue to develop. In order to monitor and control liquidity risks exposure, TMK maintains adequate financial resources and access to further liquidity through its continued and mutually profitable relationships with its key strategic stakeholders, primarily Russian state owned banks. However, there is no guarantee that the Company will be able to access bank finance at acceptable terms.

Interest rate risk

TMK's credit portfolio includes loans taken out at floating interest rates which may, or may not, increase as liquidity on the money markets decreases. As of December 31, 2008, loans with floating interest rates represented USD 917.9 million or 28% of the total credit portfolio, including a USD 600 million short-term bridge facility representing 19% of the total credit portfolio. Given the tendency of the Libor rate to fall, hedging of the debt was not considered necessary. As at 31 March 2009, loans with floating interest rates amounted to USD 259 million or 7.5% of the total credit portfolio. Taking into account the moderate share of floating rate loans, the Company considers interest risks negligible and, at present, does not use derivative instruments to hedge such interest rate risks.

TMK is also exposed to interest rate risks when refinancing existing loans. As a result of the financial crisis, the cost of borrowing has been steadily increasing. In 2008, the average interest rate of rouble-denominated loans rose by 435 basis points (bps) and grew a further 202 bps in the first quarter of 2009.

For the same period, the average interest rate of USD-denominated loans decreased by 63 bps, due to the share of the LIBOR-based floating rate bridge loan in the Company's loan portfolio. As at 31 March 2009, the average rate of USD loans increased 496 bps due to Gazprombank loans.

In 2008, the average interest rate of Euro-denominated loans decreased 103 bps. In the first quarter of 2009, the average interest rate on Euro loans decreased 129 bps Q-o-Q. The total amount of these types of loans in the Company's debt portfolio is immaterial.

A further increase in interest rates can lead to an increase in interest expense and may negatively impact TMK's financial results.

Currency risk

Currency risk arises when entities within the group enter into transactions which are denominated in currencies which are not the functional currency of that entity. The transactions can relate to purchases and sales, or they can be items such as loans. They may be transactions with third parties, or they could also be intra-group transactions.

The group manages its currency risk by a considered choice of currency when arranging financing, and so engages in a policy of "economic hedging"; some of this hedging is treated under IFRS as hedging and is reflected as such in the financial statements. The following table compares the management's view of "economic hedging" with the financial reporting treatment.

Type of monetary item	**Economically hedged in the view of management?**	**Treated as hedged in the IFRS financial statements?**
Loans to purchase IPSCO	Yes – dollar loans to buy dollar assets	Yes – hedging net investment in foreign operations (IAS 39)
Loans to purchase foreign capital equipment (e.g. Euro loans to buy equipment from Germany or Italy)	Yes – hedges depreciated replacement cost of equipment	No – equipment carried at depreciated historic cost in functional currency of purchaser
General purpose USD bonds	Yes – in sensible relation to volume of future sales denominated in USD by companies with RUR as their functional currency	No – definitional problems
Intra-company loans	Yes – not external assets or liabilities of group	Yes – IAS 21 -15 and 15A. Part of net investment in foreign operations
Receivables and payables, bank balances, loans etcetera in the functional currency of a group entity	Yes – not foreign currency items	Yes – not foreign currency items
Receivables and payables, bank balances, loans etcetera in foreign currency (= not in functional currency) including inter-company items apart from loans	No	No – IAS 21

The following table shows the volume of export shipments in foreign currencies of Russian and Romanian subsidiaries.

Functional currency	The volume of export shipments (USD, millions)	The volume of export shipments (EUR, millions)
Russian rouble	567.1	68.4
Romanian lei	50.3	115.7

The mentioned volumes of export revenue allow TMK to naturally hedge foreign currency borrowings of Russian and Romanian subsidiaries.

Inflation risk

TMK's main production facilities are located in Russia and a significant part of the Company's expenses are denominated in roubles. The company is experiencing inflationary growth in the cost of raw materials, transportation costs, energy and wages. In 2007 and 2008 inflation in Russia was 11.9% and 13.3% respectively. The Company may not be able to increase prices in order to maintain the existing productivity indices. Thus, high rates of inflation in Russia may increase TMK's costs, reduce profitability and have a negative influence on the Company's business.

Legal risks

Risks associated with changes in tax legislation and the Russian tax system

The following changes may influence the Company's activities:

- Introduction of changes or additions to legislation on taxes and collections:
- Introduction of additional conditions for providing tax benefits;
- Introduction of limitations on tax benefits;
- Increase of tax rates;
- Introduction of new types of taxes.

TMK companies make significant tax payments, in particular, profits tax, VAT, social and pension payments and property tax. Changes in tax legislation may lead to an increase in tax payments and, as a result, to a lowering of the Company's net profit.

In 2000–2008, the Russian Government reviewed the Russian tax system and passed a number of laws to carry out tax reforms. The new laws reduced the number of taxes and the overall tax burden on business and simplified tax legislation. Nonetheless, tax laws continued to give wide latitude to local tax authorities and left a multitude of unresolved problems which may have a negative effect on TMK's operating results.

Risks of changes to environmental law

The main ecological and environmental risks for TMK are related to regulatory measures and are associated with the expected changes and tightening of Russian environmental protection laws which may affect TMK's financial position and operating performance. Russian environmental laws are currently undergoing significant changes. The basis for these changes has been the Russian President's Decree No.889 "On making changes to separate legislative acts of the Russian Federation for the purpose of increasing energetic and ecological efficiency of the Russian economy".

The government expects to use both incentives and compulsory measures to stimulate business activity in the field of environmental protection. Changes to environmental protection laws will chiefly affect the economic mechanisms of business regulations: the environmental aspects of projects will become more expensive and payments for negative environmental impacts will increase.

A planned change in the rate of payments for negative impact on the environment, the use of increasing payment coefficients and the introduction of stricter regulations and standards will be accompanied by closer scrutiny by state monitoring authorities regarding statutory compliance by businesses. Such changes in existing legislation may lead to actual costs and obligations which were unforeseen, namely, to an increase in payments for negative impact, the need to undertake costly measures to meet new legislative requirements, expenses on ecological insurance and compulsory ecological audits.

Other risks

Risks of equipment breakdown and decrease in production

TMK's production facilities are subject to the risk of equipment breakdown as a result of unforeseen events, like fire, explosions and natural catastrophes. Unforeseen breakdowns and suspension of the work of such equipment may force the Company to partially shut down the manufacturing facilities concerned and reduce production at the affected manufacturing lines. The cost of major repairs, if such risks are realised, would have a negative effect on the Company's financial performance. The Company has insurance coverage against losses that may arise in the event of property damage, production-related accidents, job-related illnesses and disasters but the level of such coverage is limited. The Company does not currently have insurance against production stoppages. Funds received under insurance policies may in future not be sufficient to cover all losses incurred by the Company should the aforementioned risks come to pass.

Responsibility Statement

We confirm to the best of our knowledge:

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

Chief Executive Officer OAO TMK
Alexander G. Shiryaev

Chief Financial Officer OAO TMK
Tigran I. Petrosyan

April 29, 2009