MANAGEMENT DISCUSSION AND ANALYSIS

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

This review of TMK's results of operations and financial position should be read in conjunction with the Consolidated Financial Statements of TMK and the related notes for the twelve months ended December 31, 2009 and 2008.

The information contained in this section, including information on TMK's business 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 is one of the largest oil and gas pipe producers operating in Russia, North America, Europe, the CIS and the Middle East.

In 2009, TMK sold 2,769.2 thousand tonnes of pipe products, including 1,649.2 thousand tonnes of seamless pipes and 1,037.2 thousand tonnes of oil country tubular goods (OCTG). The 14.2% year-on-year decrease in sales volumes was driven by the fall in demand brought on by the economic crisis. At the same time OCTG sales decreased by 15.6%.

Russia is TMK's key market and represented 66.9% of total sales volumes in 2009. Although the global economic crisis led to a significant reduction in the consumption of steel pipes in Russia, TMK increased its Russian market share from 27.4% in 2008 to 29.8% in 2009. TMK's share of the Russian seamless pipe market, its key business, was 56.6% and its share of the seamless OCTG market was 69.0%.

In 2009, TMK's sales outside the Russian Federation were 916.1 thousand tonnes or 33.1% of total sales volumes as compared to 37.2% in 2008. TMK exported 443.4 thousand tonnes of steel pipe products from its Russian plants.

Liquidity and capital requirements

TMK used operating cash flows and borrowings to finance its working capital needs and investment activities. As of December 31, 2009, cash balances totalled USD 243.8 million.

In 2009, the net cash inflow from operating activities amounted to USD 852.3 million as compared to USD 739.5 million in 2008. As of December 31, 2009, TMK debt was USD 3,713.2 million. Due to improvements in the loan portfolio structure in 2009, the share of short-term debt decreased from 69.9% as of December 31, 2008 to 41.4% as of December 31, 2009, with the share of long-term debt increasing from 30.1% to 58.6%.

The restructuring of TMK's loan portfolio allowed a significant reduction of its working capital deficit, i.e. excess of short-term liabilities over current assets:

- as of December 31, 2008: USD 1,446.4 million,
- as of June 30, 2009: USD 951.7 million,
- as of December 31, 2009: USD 645.0 million.

This improvement was achieved by the following:

• in January 2009, TMK attracted 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 used for the acquisition of TMK IPSCO as well as to exercise the call option (USD 507.5 million) on the remaining 49% of shares in NS Group, Inc. Under the current loan agreement, the maturities of the loans were extended to 5 years and interest rates reduced;

• in March 2009, TMK received a loan from OAO Bank VTB for an amount of USD 90.2 million with the purpose of repayment of the rouble bond loan series 02 for the sum of RUB 3 billion which matured on March 24, 2009. In the same period, the Company repaid the bond liability;

• in August and September 2009, TMK obtained a series of loans from OAO Bank VTB for an aggregate amount of USD 750 million to redeem USD 300 million Eurobonds due in September 2009 and to partially redeem the 2011 USD 600 million loan participation notes;

• between June and December 2009, TMK entered into several loan agreements with Sberbank for an aggregate amount of RUB 14.2 billion, including 7 year facilities for an aggregate amount of RUB 5.7 billion and 1 to 1.5 year facilities in an aggregate amount of RUB 8.5 billion; the facilities were used to refinance short-term borrowings;

• between September and October 2009, TMK concluded agreements with OAO Gazprombank for the opening of credit lines for a total amount of RUB 5 billion for a period of up to 3 years, and OAO Bank VTB for a total amount of RUB 10 billion for up to 5 years. Half of these facilities are secured by guarantees of the Russian Federation.

TMK continues to carry out a series of measures to maintain sufficient liquidity and improve the structure of its loan portfolio, including constant negotiations with banks concerning the improvement of loan structure and cost of borrowing, capital markets transactions, as well as reducing its operational costs and capital expenditures. Given all possible risks connected with the future activity assessment, the Company expects to continue as a going concern in the foreseeable future.

Changes in the Group structure in 2009

On January 30, 2009, TMK exercised its call option to acquire the remaining 49% of NS Group, Inc. shares from Evraz Group S.A. in accordance with the “Call/Put” option agreement concluded in March 2008. After the acquisition of the 49% of NS Group, Inc., TMK owned 100% of NS Group, Inc.’s authorized capital.

In December 2009, OOO TMK–INOX was established as a part of TMK. TMK-INOX oversees the production and sales of stainless steel pipes produced at VTZ and SinTZ.

During 2009, TMK acquired an additional 1.21% of SinTZ shares, 0.69% of STZ shares, 0.12% of TAGMET shares and 0.51% of TMK-Resita shares for USD 9.3 million. As of December 31, 2009, TMK’s effective equity share in SinTZ, STZ, TAGMET and TMK-Resita stood at 94.16%, 94.22%, 96.06% and 100.00%, respectively. In 2009, as a result of TMK-Artrom’s share capital increase TMK increased its effective equity share to 92.66%.

Recent events

In March 2010, TMK amended an agreement with OAO Bank VTB concerning an August 2009 USD 450 million loan by extending the maturity by three years and lowering the interest rate.

In February 2010, TMK issued USD 412.5 million 5.25% convertible Eurobonds due in 2015. The bonds can be converted into Global Depositary Receipts (1 GDR being equal to 4 ordinary shares) at USD 23.075 per GDR, representing a 30% premium to the reference price. These convertible Eurobonds were issued by TMK Bonds S.A. and guaranteed by TMK’s subsidiaries. The proceeds from the offering were used to refinance TMK's existing short-term indebtedness, including:

• a USD 300 million OAO Bank VTB facility which was due in September 2010;

• a USD 55 million loan from OAO Khanty-Mansiyskiy Bank which was due in December 2010;

• loans provided by Sberbank in the amount of RUB 1.0 billion and RUB 660 million which were due in 2010.

In February 2010, TMK’s Board of Directors made a decision to increase OAO TMK’s charter capital by way of open subscription for 86,166,871 additional ordinary shares, or 9.87% of total charter capital, with par value of 10 roubles and an offering price of 133 roubles per share.

In February 2010, a buy-back option on the outstanding interest-bearing coupon bonds issued on February 16, 2006 took place. The full bonds issue was left outstanding. The new rate for the semi-annual coupons was set at 9.8%.

In March 2010, TMK entered into an agreement with OAO Bank VTB for a one-year loan in the amount of USD 94 million with an option to extend the maturity to a maximum of 5 years. The loan was used, among other purposes, to repay the OAO Bank VTB USD 90.2 million loan.

As of April 1, 2010, TMK’s debt (principal amount only) was USD 3,812.4 million, including short-term USD 752.5 million and long-term USD 3,059.9 million. The share of short-term loans and borrowings had decreased to 19.7%.

Results of operations

The table below shows TMK's consolidated income statement data for the twelve months period ended December 31:

	2009		2008	
	million USD	% of revenue	million USD	% of revenue
Revenue	3,461.0		5,690.0	
Cost of sales	(2,904.6)		(4,252.5)	
Gross profit	**556.4**	**16,1%**	**1,437.5**	**25,3%**
Selling and distribution expenses	(312.6)		(344.1)	
Advertising and promotion expenses	(4.6)		(10.1)	
General and administrative expenses	(203.7)		(267.9)	
Research and development expenses	(10.2)		(15.2)	
Other operating expenses	(33.2)		(52.0)	
Other operating income	16.0		7.2	
Impairment of goodwill	(10.1)		(3.5)	
Impairment of property, plant and equipment	(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	14.2		(99.8)	
Finance costs	(446.9)		(272.2)	
Finance income	43.3		8.7	
Share of profits in associate	1.4		3.0	
Gain on disposal of associate	0.4		-	
(Loss)/profit before tax	**(426.8)**	**(12.3)%**	**308.1**	**5,4%**
Income tax benefit/(expense)	103.0		(109.6)	
(Loss)/profit for the year	**(323.8)**	**(9.4)%**	**198.5**	**3,5%**
Attributable to:				
Equity holders of the parent entity	(315.8)		199.4	
Minority interests	(8.0)		(0.9)	
	(323.8)		**198.5**	

Beginning January 1, 2009, TMK business is represented in three operating segments consisting of:

- Russia: TMK's plants located in Russia and Kazakhstan, oil and gas services division and trading companies in Russia, Kazakhstan, Switzerland and the United Arab Emirates;
- America: TMK's plants and a trading company located in North America;
- Europe: TMK's plants and trading companies located in Europe (excluding Switzerland).

Sales volumes

The following table shows TMK's pipe sales volumes for the twelve months period ended December 31:

	2009	*2008*	*% change*	*2009*	*2008*
	(thousand tonnes)			*(as a percentage of total*	

				tonnes)	
Russia	2,296.5	2,573.7	(10.8)%	83.0%	79.8%
America*	358.0	488.3	(26.7)%	12.9%	15.1%
Europe	114.7	164.5	(30.3)%	4.1%	5.1%
Total pipes	**2,769.2**	**3,226.5**	**(14.2)%**	**100.0%**	**100.0%**

** Sales volumes for 2008 are for the period from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008.*

Sales volumes in 2009 declined 14.2% as compared to 2008 or by 457.3 thousand tonnes. This decline reflected the contraction in demand brought on by the economic crisis.

Sales of pipes products in the Russian segment declined 10.8% as compared to 2008.

The drop in sales volumes was brought on by a slump in demand for oil and gas pipes (line pipe and OCTG) as oil and gas companies cut down their drilling activity and suspended investments in the development of new fields.

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 by 19.8% as a result of the commissioning of a large-diameter longitudinal welded pipe mill at VTZ in late 2008. The implementation of large-scale pipeline projects by Gazprom and Transneft increased large-diameter pipe consumption in Russia by 3.9% in 2009 as compared to 2008.

In 2009, sales of pipe products in the American segment decreased 26.7% as compared to 2008. As the American pipe market significantly declined, sales of all types of pipes dropped even comparing full year 2009 sales volumes to 2008 volumes which relate to the period from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008. The American division's primary business is production of oil and gas pipes, including premium connections. The decline in sales volumes was brought on by a decrease in natural gas prices which resulted in the rig count nearly halved and high levels of inventories caused by the inflow of imported pipe products, especially from China.

The main business of the European segment is production of industrial pipes. In 2009, sales of these pipes declined by 42.4% as demand from the machine-building and automotive sectors dropped as these sectors also suffered from the fall in demand for their products. However, the decline in industrial pipe sales volumes was partly offset by a 26.1% increase in line pipe sales volumes. Nonetheless, overall sales in the European segment decreased by 30.3% in 2009.

Revenue

The table below presents TMK's revenue by operating segment for the twelve months period ended December 31:

	2009	2008	Total change	2009	2008
	(million USD)			*(as a percentage of total revenue)*	
Russia	2,639.2	4,194.8	(1,555.6)	76.3	73.7
America	655.2	1,203.3	(548.1)	18.9	21.2
Europe	166.6	291.9	(125.3)	4.8	5.1

Total revenue	**3,461.0**	**5,690.0**	**(2,229.0)**	**100.0**	**100.0**

The table below provides an analysis of revenue changes in 2009 in comparison with 2008:

	Due to change in prices and product mix	**Due to change in sales volumes**	**Total change**	**Due to change in prices and product mix**	**Due to change in sales volumes**
	(million USD)				
Russia	(1,103.7)	(451.9)	(1,555.6)	(26.3)%	(10.8)%
America	(227.2)	(320.9)	(548.1)	(18.9)%	(26.7)%
Europe	(36.9)	(88.4)	(125.3)	(12.6)%	(30.3)%
Total	**(1,367.8)**	**(861.2)**	**(2,229.0)**	**(24.1)%**	**(15.1)%**

The following table presents revenue by geographical area (based on the location of the customer) for the twelve months period ended December 31:

	2009		**2008**	
	Million USD	**% of total revenue**	**Million USD**	**% of total revenue**
Russia	2,170.6	62.7%	3,399.2	59.7%
America	738.7	21.3%	1,340.2	23.6%
Europe	272.0	7.9%	524.6	9.2%
Central Asia and Caspian Region	134.2	3.9%	183.8	3.2%
Middle East and Gulf Region	61.1	1.7%	152.3	2.7%
Asia and Far East	68.1	2.0%	71.4	1.3%
Africa	16.3	0.5%	18.5	0.3%
Total revenue	**3,461.0**	**100.0%**	**5,690.0**	**100.0%**

Revenue from sales decreased by 39.2% in 2009 as compared to 2008 and constituted USD 3,461.0 million as compared to USD 5,690.0 million the previous year. This decrease was brought on by changes in the prices for pipe products, as well as by the decline in production volumes triggered by the decrease in demand from key customers also affected by the economic crisis. Consequently, the decline in revenue as a result of changes in prices and product mix amounted to USD 1,367.8 million or 24.1%, while changes in sales volumes lead to a USD 861.2 million or 15.1% decline.

The decline in revenue in the Russian segment in 2009, as compared to 2008, amounted to USD 1,555.6 million or 37.1%. The decline in revenue brought on by changes in prices and product mix was USD 1,103.7 million or 26.3%, while changes in sales volumes caused a USD 451.9 million or 10.8% decline.

Revenue from sales in the American segment decreased by 45.6% or USD 548.1 million in 2009 as compared to 2008. Revenue for 2008 is calculated from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008. The decline in revenue attributable to changes in prices and product mix was USD 227.2 million or 18.9%, while attributable to changes in sales volumes amounted to USD 320.9 million or 26.7%.

Revenue from sales in the European segment in 2009 declined by USD 125.3 million or 42.9% when compared to 2008. The decline in revenue attributable to changes in prices and product mix was USD 36.9 million or 12.6%, while the decline triggered by changes in sales volumes was USD 88.4 million or 30.3%.

Cost of sales

In 2009, the cost of sales declined by USD 1,347.9 million or by 31.7% as compared to 2008 and amounted to USD 2,904.6 million. The cost of sales decreased first and foremost as a result of lower sales volumes and a decline in raw material prices. The share of costs of sales as a percentage of revenue increased from 74.7% in 2008 to 83.9% in 2009. This change reflects: (i) consumption of inventories in 2009, which were purchased in 2008 at higher cost as compared to 2009 average prices; and (ii) increased depreciation from the commissioning of new equipment in 2008 and 2009.

The Russian segment’s cost of sales declined by USD 1,062.3 million or by 33.6% in 2009 and amounted to USD 2,100.9 million as compared to USD 3,163.3 million in 2008. In 2009, the share of cost of sales represented 79.6% of revenue in the Russian segment as compared to 75.4% in 2008. The cost of sales declined in the Russian segment mainly as a result of lower production volumes and reduction of raw material prices, as well as from the weakening of the rouble.

The American segment’s cost of sales amounted to USD 667.9 million in 2009, representing a 22.1% decrease over 2008. In 2009, cost of sales represented 101.9% of revenue in the American segment as compared to 71.3% in 2008. The 2008 costs for the American segment are calculated from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008. TMK IPSCO experienced a significant decrease in production in 2009 as a result of the decline in pipe consumption on the North American pipe market. The American segment’s cost of sales change reflects consumption of inventories in 2009, which were purchased in 2008 at higher cost as compared to 2009 average prices.

In 2009, the European segment’s cost of sales decreased by 41.4% and amounted to USD 135.8 million as compared to USD 231.7 million in 2008. The share of cost of sales was 81.5% of revenue in the European segment as compared to 79.4% in 2008.

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

Raw materials and supplies

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

In 2009, TMK’s costs of raw materials and supplies decreased by USD 1,284.0 million, representing a 43.6% decline as compared to 2008. As a result of the declines observed in raw materials prices, production volumes and inventory levels of semi-finished and finished products, the share of raw material expenses in the total structure of TMK’s cost of production decreased from 69.2% in 2008 to 63.3% in 2009.

Prices for certain types of raw materials and supplies varied depending on the region. In 2009 in Russia, the average purchase cost of metal scrap declined by 13–16%, average price for coils declined by 22-40% and the average purchase price for pig iron deceased by 40-49% as compared to 2008. The average purchase cost of metal scrap and coils at TMK IPSCO decreased by 39.0% and 37.3%, respectively, as compared to 2008.

Expenses for consumables such as spare parts for equipment repair and maintenance, fuels and lubricants, refractories and other materials declined by 31.3% in 2009 as compared to the same period of the previous year. This decline was primarily caused by the decrease in repair and maintenance activities following the optimization of the repair program as well as by the weakening of the Russian rouble and Romanian leu against the US dollar and Euro.

Labour cost

Labour costs include wages and social security payments for workers directly engaged in the production of finished product and auxiliary production.

In 2009, labour costs decreased by 23.1% to USD 393.1 million compared to USD 511.2 million in 2008, and their share in production costs amounted to 15.0% as compared to 12.0% the previous year.

In 2009, the Russian segment's labour costs and social security payments decreased by USD 96.1million or 23.6%, and amounted to USD 310.2 million as compared to USD 406.3 in 2008. This decline in labour costs reflected the reduction of both production personnel and wages implemented within the scope of the anti-crisis program begun in the fourth quarter of 2008. The weakening of the Russian rouble against the US dollar also resulted in the reduction of costs in 2009 as compared to 2008.

Labour costs and social security payments in the American segment amounted to USD 63.9 million in 2009, 16.1% less than in 2008. Labour costs for 2008 represent costs from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008. Decrease in labour costs was achieved by the use of furloughs and the implementation of flexible work arrangements, as well as by measures taken to reduce costs under TMK's anti-crisis program.

In 2009, the European segment's labour costs and social security payments declined by 34.0% and amounted to USD 19.0 million as compared to USD 28.8 million the previous year. This decline in labour costs and social security payments was achieved by measures taken to decrease costs and by the weakening of the Romanian leu against the US dollar and Euro.

Cost of energy and other utilities

TMK's cost of energy and other utilities decreased in 2009 by 23.7% and amounted to USD 216.9 million as compared to USD 284.4 million in 2008. Its share in the cost of production increased from 6.7% in 2008 to 8.3% in 2009.

The decrease in energy costs and other utilities was caused by the slowdown in production at TMK facilities and lower capacity utilization as compared to 2008, despite the inclusion of the US assets acquired in June 2008 and the effects of a weakening of the Russian rouble and Romanian leu against the US dollar and Euro.

Energy costs and other utilities in the Russian segment amounted to USD 183.5 million and USD 222.7 million in 2009 and 2008, respectively. Average electricity prices increased by 27.5% and natural gas prices increased by 6.7% as compared to 2008. The weakening of the Russian rouble against the US dollar also resulted in the reduction of costs in 2009 as compared to 2008.

In 2009, energy costs and other utilities in the American segment amounted to USD 16.6 million, or 28.4% less than in 2008. The 2008 American segment's costs are calculated from June 12, 2008, when TMK IPSCO was acquired, to December 31, 2008. Average prices for electricity and natural gas decreased by 20.4% and 23.7%, respectively, as compared to 2008.

Energy costs and other utilities in the European segment amounted to USD 16.8 million and USD 38.6 million in 2009 and 2008, respectively. In Romania, average electricity prices increased by 3.2% and average natural gas prices decreased by 4.1% as compared to 2008.

Gross profit

The table below shows the profitability of sales (ratio of gross profit to revenue) by operating segment for the twelve months ended December 31:

	2009	**2008**
Russia	20.4%	24.6%
America	(1.9)%	28.7%
Europe	18.5%	20.6%

Gross margin	**16.1%**	**25.3%**

In 2009, TMK's gross profit declined by USD 881.1 million or 61.3% as compared to 2008, and amounted to USD 556.4 million. Gross margin reduced from 25.3% in 2008 to 16.1% in 2009. The decline in gross profit and profitability of sales in TMK's operating segments was a result of strong declines in the revenue and cost of sales (as previously discussed). It reflects the decline in sales volumes and prices, low capacity utilization, increases in depreciation and amortisation expenses, and consumption of inventories in 2009, which were purchased in 2008 at higher cost as compared to 2009 average prices.

In 2009, the Russian segment's gross profit decreased by 47.8%, or by USD 493.3 million, and amounted to USD 538.3 million as compared to USD 1,031.6 million in 2008. Gross margin decreased from 24.6% in 2008 to 20.4% in 2009.

The American segment's gross margin decreased to negative 1.9% as compared to 28.7% in 2008. The American segment's gross profit for 2008 was consolidated from June 12, 2008, the date of TMK IPSCO acquisition, to December 31, 2008. The negative gross margin of the American segment was due to the decrease in pipe prices and was adversely affected by the fact that the impact on decreasing of the cost of sales from continuous decline of raw material prices was partially reduced by consumption of previously purchased inventories.

The European segment's gross profit in 2009 declined by 48.8% and amounted to USD 30.8 million as compared to USD 60.1 million in 2008. The gross margin decreased from 20.6% in 2008 to 18.5% in 2009.

Operating expenses

Selling and distribution expenses

In 2009, TMK's selling expenses declined by 9.2% and amounted to USD 312.6 million as compared to USD 344.1 million in 2008.

In 2009, selling expenses in the Russian segment declined by USD 76.4 million, or by 30.0% as compared to 2008. Selling expenses amounted to USD 178.2 million and USD 254.6 million in 2009 and 2008, respectively.

Selling expenses in the American segment amounted to USD 109.8 million, representing a 96.8% increase from USD 55.8 million in 2008. Much of TMK IPSCO's costs are fixed costs, for example, depreciation and amortisation costs in selling expenses. Moreover, TMK IPSCO's expenses are consolidated from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008.

Selling expenses in the European segment amounted to USD 24.5 million and USD 33.7 million in 2009 and 2008, respectively.

The decrease in selling expenses was first and foremost caused by the decrease in the cost for the transportation of finished products to customers by 28.5% in 2009 as compared to 2008, as a result of lower sales volumes. Wages and salaries and social security payments in 2009 decreased by 24.9% as compared to 2008, as a result of the measures taken to decrease expenses under the anti-crisis program started in the fourth quarter of 2008 in response to the global economic crisis. The decrease in selling expenses was also caused by the weakening of the Russian rouble and Romanian leu against the US dollar and Euro.

In 2009, depreciation and amortization expenses included in selling expenses increased by USD 49.5 million or 98.0% and their share in the selling expenses structure was 32.0% as compared to 14.7% in 2008. This increase in depreciation expenses relates to the depreciation of TMK IPSCO intangible assets, particularly, customer relationships, recognised from the date of TMK IPSCO acquisition on June 12, 2008 to December 2008, and for the full year in 2009 (*see Notes to Consolidated Financial Reports – Goodwill and Other Intangible Asset*).

General and administrative expenses

General and administrative expenses in 2009 decreased by 23.9%, or USD 64.2 million, and amounted to USD 203.7 million as compared to USD 267.9 million in 2008.

The decrease in these expenses was primarily due to the measures taken to reduce expenses as a response to the global economic crisis. Wages and social security payments to management decreased by 27.4% in 2009 as compared to 2008. The decline in expenses was also caused by the weakening of the Russian rouble and Romanian leu against the US dollar and Euro.

General and administrative expenses in the Russian segment amounted to USD 145.0 million and USD 225.5 million in 2009 and 2008, respectively.

In 2009, general and administrative expenses in the American segment amounted to USD 49.1 million as compared to USD 28.1 million in 2008. TMK IPSCO expenses in 2008 are consolidated from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008.

The European division’s general and administrative expenses decreased by 32.8%; these amounted to USD 9.6 million and USD 14.2 million in 2009 and 2008, respectively.

Losses from impairment of non-current assets

TMK performed impairment tests on property, plant and equipment and on intangible assets as at June 30 and December 31, 2009, which indicated that the carrying value of the property, plant and equipment of its Romanian subsidiaries and OMZ and the carrying value of goodwill allocated to the acquisition of oilfield services companies (TMK Pipe Maintenance Department and Truboplast) and TMK-Kaztrubprom exceeded their recoverable amounts. As a result, TMK recorded a loss from the impairment of property, plant and equipment of USD 39.7 million and a loss from the impairment of goodwill of USD 10.1 million. At December 31, 2009, as a result of improvement of cash flow projections, TMK determined that the recoverable value of OMZ exceeded its carrying value. As a result, TMK reversed the impairment loss in the amount of USD 2.5 million previously recognised in the six-month period ended June 30, 2009 in respect of property, plant and equipment of OMZ.

Exchange rate fluctuations

The exchange rate fluctuations between the Russian 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 Russian 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:

	16.04.2010	31.12.2009	31.12.2008
US dollar exchange rate	28.93	30.24	29.38
EUR exchange rate	39.44	43.39	41.44
Average exchange rate [RUB/USD] (from the year beginning)	29.79	31.72	24.86
Average exchange rate [RUB/EUR] (from the year beginning)	41.11	44.13	36.43

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 currency of TMK IPSCO, TMK North America and TMK Middle East is the US dollar. 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 2009, the Russian rouble depreciated against the US dollar by 2.9% as compared to 19.7% depreciation in 2008. Against the Euro, the rouble depreciated by 4.7% in 2009 whereas the depreciation in 2008 was 15.3%.

In 2009, TMK recognized a foreign exchange gain in the amount of USD 14.2 million as compared to foreign exchange losses of USD 99.8 million in 2008. In addition, TMK recognised foreign exchange losses of USD 124.1 million and USD 381.9 million in 2009 and 2008, respectively, in the statement of other comprehensive income, representing effective portion of foreign exchanges losses on the hedged financial instruments.

Finance costs

In 2009, TMK's finance costs, including accrued interest and the amortization of borrowings issuance costs, increased by 64.2% and amounted to USD 446.9 million as compared to USD 272.2 million in 2008. This increase was caused by the expansion of the loan portfolio (*see "Indebtedness")*, as well as by higher interest rates for bank facilities as a result of the global financial and economic crisis. As a consequence of the high interest rates of the first half of 2009, TMK's weighted average nominal interest rate as of June 30, 2009 was 12.3%. Interest rates were lowered in the second half of 2009 and the weighted average nominal interest rate stood at 10.7% as of December 31, 2009.

Income Tax

In 2009, TMK reported a pre-tax loss of USD 426.8 million as compared to a pre-tax profit of USD 308.1 million in 2008. As a result, TMK recognised an income tax benefit of USD 103.0 million versus an income tax expense of USD 109.6 million in 2008. Effective income tax rate in 2009 declined to 24.1% from 35.6% in 2008, which reflects a decrease of share of the American division profit (loss) before tax in the total consolidated profit (loss) before tax.

(Loss)/profit for the year

As a result of the above-mentioned factors and TMK's operating results, net losses in 2009 amounted to USD 323.8 million as compared to a net profit of USD 198.5 million in 2008. Net profit/loss margin (ratio of net profit/loss to revenue) declined to negative 9.4% as compared to 3.5% in 2008.

Capital resources

Cash flows

The table below illustrates TMK's total cash flows for the twelve months ended December 31:

	2009	**2008**
	(million USD)	
(Loss)/profit before tax	**(426.8)**	**308,1**
Non-cash and other adjustments to profit	754.9	739.2
Operating cash flow before working capital changes	**328.1**	**1,047.3**
Changes in working capital	557.6	(81.2)
Income taxes paid	(33.4)	(226.6)
Net cash flows from operating activities	**852.3**	**739.5**
Net cash flows used in investing activities	**(899.9)**	**(2,024.3)**
Net cash flows from financing activities	**143.8**	**1,336.9**
Effect of exchange rate changes on cash and cash equivalents	**4.1**	**2.2**

Net increase in cash and cash equivalents	**100.3**	**54.3**

Net cash flows from operating activities

Net cash flows from operating activities in 2009 amounted to USD 852.3 million, up from USD 739.5 million in 2008. Cash flows from operating activities before changes in working capital decreased by 68.7% as compared to USD 1,047.3 million in 2008, and amounted to USD 328.1 million. The decrease was primarily attributable to a pre-tax loss of USD 426.8 million as compared to a USD 308.1 million profit before tax in 2008 as a result of decreased revenues and gross profit, increases in depreciation and amortisation expenses and finance costs, recognition of impairment losses on property, plant and equipment and goodwill which were main contributing factors to generation of a loss before income tax in 2009. The loss was partially offset by a working capital release of USD 557.6 million.

Net cash flows used in investing activities

Net cash used for investing activities deceased by 55.5% as compared to 2008 and totalled USD 899.9 million. This reduction was mainly caused by a 52.9% decrease in capital spending in 2009 or USD 444.7 million, as a result of certain project postponements in TMK's Strategic Investment Program.

In January 2009, TMK exercised its call option for the remaining 49% of shares in NS Group, Inc. for a total amount of USD 507.5 million with Evraz Group S.A. in accordance with the call option concluded with Evraz Group S.A. at the time of the joint acquisition of the American pipe businesses in June 2008.

In 2009, TMK's expenditures on the purchase of minority shares in subsidiaries totalled USD 9.0 million as compared to USD 5.1 million in 2008.

Net cash flows from financing activities

In 2009, TMK was focused on sustaining its financial position. Net cash received from financing activities in 2009 decreased to USD 143.8 million compared to USD 1,336.9 in 2008. The USD 1,193.1 million decrease was caused by the significant reduction in TMK's Strategic Investment Program.

A total of USD 4,190.1 million in loans was drawn in 2009. Loan repayments amounted to USD 3,608.3 million while interest payments totalled USD 444.1 million. In 2009, TMK spent USD 0.3 million towards the purchase of its shares, while receipts from the exercise of options totalled USD 0.8 million. The Company also paid capital lease obligations of USD 2.8 million. In 2009, TMK subsidiaries were partially reimbursed by the federal government for interest costs incurred on loans provided in the aggregate amount of USD 10.5 million.

In 2009, TMK did not pay dividends based on the shareholders vote at the AGM held in June 2009. Dividends to minority shareholders in TMK subsidiaries decreased by 54.4% and amounted to USD 2.1 million.

Indebtedness

The following table gives information on TMK's debt as at December 31, 2009:

	In roubles	**In US dollars**	**In Euros**	**Total**
	(million USD)			
Fixed-rate debt	1,153.2	2,240.8	91.0	3,485.0
Floating-rate debt	-	4.2	224.0	228.2
Total loans and borrowings	**1,153.2**	**2,245.0**	**315.0**	**3,713.2**
Finance lease liability	38.1	-	0.2	38.3

Total debt	**1,191.3**	**2,245.0**	**315.2**	**3,751.5**

The following table gives information on debt maturity, including loans and other borrowings as at December 31, 2009:

	up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	over 4 years	Unamortized debt issue costs (short- and long-term)	Total
				(million USD)			
Interest-bearing loans	1,357.4	541.8	382.3	292.1	838.0	(73.4)	3,338.2
Coupon bearing debt securities	165.3	186.7	-	-	-	(1.9)	350.1
Interest payable	24.9	-	-	-	-	-	24.9
Total loans and borrowings	**1,547.6**	**728.5**	**382.3**	**292.1**	**838.0**	**(75.3)**	**3,713.2**
Finance lease liability	1.6	1.6	1.6	1.6	31.9	-	38.3
Total debt	**1,549.2**	**730.1**	**383.9**	**293.7**	**869.9**	**(75.3)**	**3,751.5**

As of December 31, 2009, TMK's loans and borrowings increased by USD 543.3 million, or 17.1%, and totalled USD 3,713.2 million as compared to USD 3,169.9 million as of December 31, 2008. In 2009, TMK improved the structure of its credit portfolio by extending its maturity profile. As a result, the share of short-term debt in total borrowings decreased from 69.9% as of December 31, 2008 to 41.4%. The main part of TMK's credit portfolio as at December 31, 2009 consisted of long-term loans and debt instruments comprising 58.6% of the total borrowings or USD 2,177.4 million.

TMK's debt burden increased in 2009 due to the exercise of the call option on the remaining 49% of NS Group, Inc. shares in the amount of USD 507.5 million.

Bank loans

As of December 31, 2009, the most significant borrowings (broken down by separate loan agreements) included the following:

In December 2008, TMK obtained from OAO Khanty-Mansiiskiy Bank a loan for USD 55 million for a period of one year. As at December 31, 2008, TMK's debt for this loan amounted to USD 55.0 million. In February 2010, the loan was repaid early using the proceeds of the five-year USD 412.5 million convertible Eurobonds.

Between July and December 2009, TMK entered into several loan agreements with Sberbank for an aggregate amount of RUB 8.5 billion maturity of 1-1.5 years with possible prolongation of up to 3 years, and RUB 5.7 billion loans due 2016 with 12 semi-annual payments starting January 2011. The facilities were used to refinance short-term borrowings. As of December 31, 2009, these loans amounted to RUB 14.2 billion.

In January 2009, TMK entered into a series of agreements with OAO Gazprombank for a total of USD 1.1 billion for 2.5 years. In the second half of 2009, the maturities of the loans were extended to 5 years and interest rates reduced. The proceeds were used 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. As of December 31, 2009, the loan amounted to USD 1.1 billion.

In March 2009, TMK received a loan from OAO Bank VTB for an amount of USD 90.2 million with the purpose of repayment of the rouble bonds amounted to RUB 3 billion which matured on March 24,

2009. As of December 31, 2009, the loan amounted to USD 90.2 million. In March 2010, the loan was refinanced using the proceeds of another loan from VTB.

In August 2009, TMK signed a one-year loan agreement with OAO Bank VTB for an amount of USD 450 million subject to prolongation of up to 5 years. Proceeds from the loan were used to finance the partial buyback of the 2011 USD 600 million Eurobond. As of December 31, 2009, the loan amounted to USD 450 million. In March 2010, TMK signed an agreement decreasing the interest rate and extending the maturity up to 3 years with a possible prolongation of up to 5 years upon request.

In September 2009, TMK took a one-year loan with OAO Bank VTB in the amount of USD 300 million with a prolongation option of up to 5 years. The funds were used to redeem the 2006 Eurobonds due in September 2009. As of December 31, 2009, the loan amounted to USD 300 million. In February 2010, the loan was repaid early using some of the proceeds from the 2015 USD 412.5 million convertible Eurobonds.

In September 2009, TMK and OAO Gazprombank signed an agreement for a three-year credit line of RUB 5 billion with 50% of the amount secured by state guarantees of the Russian Federation. As of December 31, 2009, the loan amounted to RUB 2.4 billion.

In October 2009, TMK signed loan agreements with OAO Bank VTB for five-year credit lines of RUB 10 billion with 50% of the amount secured by state guarantees of the Russian Federation. As of December 31, 2009, the loan amounted to RUB 7.9 billion.

Rouble Bonds

On March 24, 2009, TMK fully redeemed its series 02 interest-bearing bonds for a total amount of RUB 3 billion issued on March 29, 2005, by the means of the loan taken in OAO Bank VTB in March 2009. The coupon of four last semi-annual periods was 7.6% p.a.

On February 21, 2006, TMK issued its series 03 interest-bearing bonds for a total amount of RUB 5 billion due on February 15, 2011. The annual rate of the fifth, sixth, seventh and eighth semi-annual coupons was 9.6%. As of December 31, 2009, all bonds were outstanding. In February 2010, a buy-back option on the outstanding bonds has expired and all bonds were left outstanding. The new rate for the semi-annual coupons was set at 9.8% p.a.

Eurobonds

On July 29, 2008, TMK issued USD 600 million Eurobonds with a coupon yield of 10% per annum. TMK's liabilities under this issue are guaranteed by its subsidiaries. The Eurobonds were registered on the London Stock Exchange. These funds were used for the partial refinancing of a USD 1.2 billion bridge loan.

In July 2009, TMK offered bond holders the option of partially redeeming the 2011 USD 600 million loan participation notes. TMK redeemed notes in the amount of USD 413.3 million. In order to fulfill its obligations, TMK entered into a loan agreement with OAO Bank VTB. As of December 31, 2009, the 2011 Eurobonds debt amounted to USD 186.7 million.

On September 29, 2009, using proceeds from a OAO Bank VTB facility, TMK redeemed the USD 300 million Eurobonds issued on September 28, 2006.

Capital expenditures

The following table provides information on TMK's capital expenditures* in each segment for twelve months ended December 31:

	2009	2008	% change
	(million USD)		
Russia	371.0	916.5	(59.5)%
America	27.4	39.8	(31.2)%
Europe	13.9	23.9	(41.8)%

Total capital expenditures*	**412.3**	**980.2**	**(57.9)%**

** Capital expenditures are defined as additions to property, plant and equipment*

With the onset of the global economic crisis in the fourth quarter of 2008, TMK reviewed its Strategic Investment Programme for the period of 2004 to 2011. As a result, capital expenditures declined by USD 567.9 million or 57.9% to USD 412.3 million in 2009 as compared to USD 980.2 million in 2008. The implementation of three major projects was delayed for at least a year. These projects include the modernization of VTZ seamless rolling operations, deferred from 2009 to 2010, the installation of an FQM mill at STZ, moved from 2012 to 2014, and the construction of an EAF at TAGMET, delayed from 2011 to 2012. Nonetheless, the major part of the Strategic Investment Programme was almost completed with the commissioning of three key projects in 2008:

- commissioning of a PQF mill at TAGMET for the production of high performance seamless pipes,
- modernization of STZ steelmaking operations with the installation of an EAF, and
- commissioning of a large-diameter longitudinal pipe mill at VTZ.

TMK's Strategic Investment Programme focuses on increasing the production of high value-added products, including large-diameter pipes and seamless pipes, and providing the Company with self-sufficiency in steelmaking for its seamless pipe production while increasing production efficiency and product quality.

In 2009, TMK successfully ramped up the production facilities commissioned earlier.

TAGMET's state-of-the-art PQF mill ramped up to plan during the year and allowed the Company to increase its production of high-performance seamless pipes. The PQF was brought online in late 2008.

In early 2009, STZ's steelmaking operations switched to electric arc furnace steelmaking technology and the open-hearth furnaces were decommissioned.

VTZ's large-diameter longitudinal welded mill, commissioned in late 2008, successfully ramped up to produce pipes with diameters ranging from 530 to 1420 mm with wall thickness up to 42 mm. At the same time, a new external anti-corrosive coating line was commissioned while an internal smooth coating line was commissioned earlier.

Throughout the year, the upgrade of STZ's pipe rolling operations, begun in 2007, continued with the delivery of equipment, including the FQM mill.

Other investment projects, implemented in 2009:

- heat treatment equipment with an aggregate annual capacity of 740 thousand tonnes was brought online at VTZ, SinTZ and TAGMET,
- new 100 thousand tonnes capacity heat-treatment facilities were commissioned at the Baytown and Blytheville plants in the US,
- a new degassing mill was commissioned at STZ,
- scrap processing equipment was installed at STZ,
- a waste water treatment facility was launched at SinTZ; the facility is designed for the treatment of industrial waste water using biochemical technology, and
- heat treatment equipment of cold-deformed coiled tubing in nitrogen shielding gas environment was installed and is ramping up at SinTZ.

Key financial indices

Net debt and EBITDA

TMK uses Adjusted EBITDA, which is NOT a measure to be reported under IFRS, to analyse its operating performance. Adjusted EBITDA represents net profit/loss adjusted for depreciation and amortisation, finance costs and finance income, and other non cash items which comprise impairment of assets, effect of foreign exchange changes, gain on disposal of available-for-sale investments, gain on disposal of associate, share of profit in associate, loss on disposal of property, plant and equipment, share-based payments, inventory and doubtful debts allowances, and movement in other provisions. Adjusted EBITDA is not a measurement of TMK's 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 TMK's liquidity. In particular, Adjusted EBITDA should not be considered to be a measure of discretionary cash available to invest in TMK's growth.

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

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

• Adjusted EBITDA does not reflect the impact of income taxes on TMK's operating performance;

• Adjusted EBITDA does not reflect the impact of depreciation and amortisation on TMK's operating performance. The assets which are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, it does not reflect TMK's future cash requirements for these replacements; and

• Adjusted EBITDA does not reflect the impact of other non cash items on TMK's operating performance, such as share of profit in associate, foreign exchange loss/gain, impairment of assets, gain on disposal of available-for-sale investments, gain on disposal of associate, loss on disposal of property, plant and equipment, share-based payments, inventory and doubtful debts allowances, and movement in other provisions.

Other companies in the pipe industry may calculate Adjusted EBITDA differently or may use it for other purposes, limiting its usefulness as comparative measure.

TMK compensates for these limitations by relying primarily on its IFRS operating results and using Adjusted EBITDA only supplementally.

See TMK's Consolidated Financial Statements included elsewhere in this Annual Report.

The table below provides the EBITDA calculation for the twelve months ended 31 December:

	2009	**2008**
	(million USD)	
(Loss)/profit for the year	(323.8)	198.5
Income tax (benefit)/expense	(103.0)	109.6
Depreciation and amortisation	313.1	247.8
Impairment of goodwill	10.1	3.5
Impairment of property, plant and equipment	39.7	59.8
Reversal of impairment of property, plant and equipment	(2.5)	-
Impairment of financial assets	-	23.7
Finance costs	446.9	272.2
Finance income	(41.3)	(8.7)
Gain on disposal of available-for-sale investments	(2.0)	-
Effect of exchange rate changes	(14.2)	99.8
Gain on disposal of associate	(0.4)	-
Share of profit in associate	(1.4)	(3.0)
Loss on disposal of property, plant and equipment	4.0	1.6
Share-based payments	-	6.0
Allowance for net realizable value of inventory	(4.6)	24.7

Allowance for doubtful debts	4.2	7.2
Movement in other provisions	3.3	4.5
Adjusted EBITDA	**328.1**	**1,047.2**

As a result of the above-mentioned factors affecting TMK, adjusted EBITDA in 2009 amounted to USD 328.1 million, 68.7% less than in 2008.

Net Debt represents loans and borrowings and finance lease liabilities less cash and cash equivalents and short-term financial investments. Net Debt is not a balance sheet measure under IFRS, and it should not be considered to be an alternative to other measures of financial position. Other companies in the pipe industry may calculate Net Debt differently and therefore comparability may be limited. Net Debt is a measure of TMK's operating performance that is not required by, or presented in accordance with, IFRS. Although Net Debt is a non IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. TMK believes Net Debt provides an accurate indicator of TMK's ability to meet its financial obligations, represented by gross debt, from available cash. Net Debt allows TMK to demonstrate investors the trend in its net financial position over the periods presented. However, the use of Net Debt assumes that gross debt can be reduced by cash. In fact, it is unlikely that all available cash will be used to reduce gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and its ratio to equity, or leverage, are used to evaluate TMK's financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost. These measures also make it possible to evaluate if TMK's financial structure is adequate to achieve its business and financial targets. TMK management monitors the net debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess TMK's liquidity and financial structure relative to such companies. TMK management also monitors the trends in TMK's Net Debt and leverage in order to optimise the use of internally generated funds versus borrowed funds.

Net debt has been calculated as follows:

	At December 31,	
	2009	**2008**
	(million USD)	
Short-term loans and borrowings	1,535.8	2,214.6
Long-term loans and borrowings	2,177.4	955.3
Total loans and borrowings	**3,713.2**	**3,169.9**
Finance lease liabilities	38.3	40.8
Total debt	**3,751.5**	**3,210.7**
Net of:		
Cash and cash equivalents	(243.8)	(143.4)
Short-term financial investments	(4.1)	(3.9)
Total cash and short-term financial investments	**(247.9)**	**(147.3)**
Net debt	**3,503.6**	**3,063.4**

Net debt increased by 14.4% to USD 3,503.6 million in 2009 as compared to USD 3,063.4 million in 2008. The increase was brought on by the growth of TMK's financial indebtedness by approximately 17.1% *(see "Indebtedness").*

Development trends

In line of the economic recovery and increasing raw material prices, the Company expects pipe demand to return in 2010. Since major Russian oil and gas companies announced plans in late 2009 to increase exploration and production spending, the Russian OCTG and line pipe markets have demonstrated steady growth in the first quarter of 2010. Given the current level of oil prices and the forecast upward trend, TMK expects the positive dynamics observed in oil and gas pipe consumption to remain throughout the year. The Company also expects prices for tubular products to increase in 2010 on the back of rising raw material prices and renewed demand in key markets.

The North American OCTG and line pipe markets are also showing signs of recovery. Against the background of a steady growth in drilling activity, successful prosecution of trade cases against Chinese OCTG imports and the development of shale gas, there has been a significant decrease of pipe inventory. Given this increasing oil and gas drilling activity and the growth in the consumption of tubular goods used in the extraction of hydrocarbons, demand from oil and gas operators is expected to lift volumes. Pipe prices in North America are determined by a combination of several factors, such as natural gas prices, steel prices and drilling activity. All domestic pipe producers announced price increases in the beginning of 2010.

In 2010, TMK expects a significant increase in the demand for large diameter pipes in Russia due to the continuation of such pipeline projects as the Bovanenkovo-Ukhta and Sakhalin-Khabarovsk-Vladivostok gas systems and the oil BTS-2 and ESPO-2 oil pipelines.

TMK expects the demand for industrial pipes to start to recover in the second quarter of 2010, as a result of a general recovery in the economy and the reemergence of consumer demand. Pipe prices in this market segment will correlate with market conditions.

Key Risks

Industry risks

Dependence on the oil and gas industry

Steel pipes used in the oil and gas industry constitute a significant proportion of TMK shipment volumes. In 2009, pipes used in oil and gas production and transportation accounted for approximately 67% of the Company's produced tubular products. As a result, the level of investment activities of oil and gas companies, which has been largely driven by prevailing prices for oil and natural gas and their stability, significantly affects the level of consumption of TMK products. In case of significant and/or sustained decline in hydrocarbon prices oil and gas companies will seek to limit exploration and production expenses, as well as investments in the development of oil and gas transportation infrastructure. As a result of this process, the demand for oil and gas pipes can substantially decrease, which also leads to tightening of competition and a possible drop of market prices for tubular products. Thus, the decline in prices for energy commodities as well as other factors affecting the global oil and gas industry could have a negative impact on the Company's results of operations and financial position.

Increases in the cost of raw materials

The prices for raw materials and supplies are one of the main factors affecting TMK results of operations. The main raw materials used in production processes include scrap and pig iron for steelmaking, steel billets used for the production of seamless pipes and strips and steel plate for the production of welded pipes. In 2009, raw materials and supplies accounted for approximately 63% of total cost of production. The global economic downturn observed in 2009 caused a decrease in demand for raw materials and average purchase prices of TMK plants significantly decreased as compared to average prices in 2008. In particular, the average purchase price of scrap metal for TMK in Russia decreased by 13-16%, prices for pig iron decreased on average by 40–49%, prices for billets fell by 46% and the decline in prices for strips amounted to 22-40% in 2009. Despite the decrease in purchase prices and TMK internal steelmaking capacities, the costs for raw materials continue to have a key influence on the production costs of the Company. The increase in prices for scrap, strips and other raw materials costs adversely affect TMK profit margins and results of operations.

TMK plants also consume significant quantities of energy, particularly electricity and gas. In 2009, energy costs amounted to 8% of the cost of production, despite a significant increase in tariffs for energy resources. A further increase in electricity tariffs may also have a negative impact on the Company's financial results.

Dependence on a small group of customers

Due to a large capacity and a high degree of concentration of the global oil and gas market, TMK's largest customers are oil and gas companies. In 2009, the Company's five largest customers in Russia were Gazprom (excluding Gazprom Neft), Rosneft, Surgutneftegas, TNK BP and LUKOIL, which together accounted for 33% of total pipe shipments in Russia. Such a high proportion of sales to mentioned companies indicates a strong business relationship with key customers. Nevertheless, the increased dependence of pipe sales on a relationship with a single large customer increases the risk of an adverse effect on TMK results of operations in case relationships with any of these customers deteriorate.
At the same time, TMK IPSCO cooperates with a wide range of distributors in North America, each of whose share in total TMK shipments is not significant.

Competition

The global market for steel pipe products is highly competitive. In various segments of the pipe market the Company competes primarily against large pipe producers such as Tenaris, Vallourec, Sumitomo and TPCO. In the Russian and CIS markets, TMK faces competition in primarily from ChTPZ Group and OMK. In the United States, our subsidiary TMK IPSCO faces competition primarily from local producers: Tenaris, U.S. Steel and V&M Star, as well as from imported OCTG and line pipe products. Several key competitors have announced new capacity additions for late 2010. The position of a supplier at the national level allows TMK to conduct an active dialogue with government bodies in Russia and the United States on questions concerning the application of trade protection measures of national markets and manufacturers. However, increased competition on the Company's key markets may reduce sales and lead to pricing pressures, which could adversely affect TMK's financial position and results of operations.

Financial risks

Liquidity risk

TMK is significantly leveraged, primarily as a result of acquisition of TMK IPSCO assets in 2008 and the implementation of the Company's Strategic Capital Expenditure Programme in 2004-2009. Significant portion of the acquisition and capital expenditure was financed using short-term debt. As at December 31, 2009, TMK's total debt amounted to USD 3,713.2 million as compared to USD 3,169.9 million at the end of 2008. In 2009, TMK exercised the option to purchase the remaining part in NS Group, Inc. (now part of TMK IPSCO) from Evraz Group S.A. for USD 507.5 million, which was the main reason for the growth of total debt in 2009.

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

- Loans from Gazprombank in the aggregate amount of USD 1,107.5 million received in January 2009 with a subsequent extension of the final maturity from 2.5 to 5 years and a reduction in the interest rate;
- Loans from VTB Bank in the aggregate amount of USD 750 million, which TMK used to redeem its 2006 Eurobonds and partially buy back 2011 Eurobonds;
- Loans from Sberbank in an aggregate amount equivalent to 14.2 billion roubles, including a 5.7 billion rouble loan with a final maturity of 7 years;
- Loans from Gazprombank and VTB Bank in the aggregate amount of 10.3 billion roubles, as part of RUB 5 billion and RUB 10 billion agreements with maturities of 3 and 5 years, respectively, and 50% guaranteed by the Russian government

As a result of these activities, TMK's short-term indebtedness reduced from 70% as of December 31, 2008 to 41% as of December 31, 2009.

In 2010 the Company continued to improve its loan portfolio structure and terms of financing. In February 2010, the Company placed convertible bonds in the amount of USD 412.5 million with the possibility of conversion into OAO TMK depositary receipts. The proceeds were used to repay short-term debt of the Company. At the same time, TMK reached an agreement with VTB Bank to extend a USD 450 million loan to 3 years maturity. As a result, in view of this agreement, the share of short-term debt decreased to only 19.7% as at March 31, 2010.

Active liquidity management allowed TMK to significantly improve the weighted average term of the loan portfolio, which stood at 970 days on March 31, 2010 as compared with 744 and 438 days as at December 31, 2009 and 2008, respectively.

Thus, in 2009 and early 2010, the Company improved its liquidity and significantly increased the maturity of the loan portfolio. Nevertheless, further development of the global crisis may adversely affect the Company's operating cash flow, which can put pressure on TMK's liquidity, increase borrowing costs, temporary reduce the availability of credit lines and lead to unavailability of financing on acceptable terms.

Compliance with covenants

A part of the Company's loan agreements and public debt securities currently include certain financial covenants, including a ratio of financial debt to EBITDA or to net tangible assets limit. Some covenants limit the Company's ability to increase the total debt amount. Other covenants may impose restrictions in respect of certain transactions. A breach of a financial or other covenant in existing debt facilities, if not resolved by means such as obtaining a waiver from the relevant lender, could trigger a default under the Company's obligations. Prior to December 31, 2009, the Group obtained waivers from the relevant lenders of financial covenants as of December 31, 2009.

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. In March 2010, the Group negotiated with relevant lenders the reset of financial covenants for 2010 in way which allows the Group to comply with the covenants in 2010. Nevertheless, TMK may not comply with relevant covenants in case of future deterioration on global financial markets.

Interest rate risk

TMK's loan portfolio includes loans taken out at floating interest rates. As of December 31, 2009, loans with floating interest rates represented USD 228.1 million or 6% of the total TMK credit portfolio. EURIBOR is an underlying rate in most current credits with floating interest rates. During 2009, under the influence of the financial crisis, EURIBOR rates declined steadily, reaching their lows in the second half of the year, which reduced the Company's interest expense on the relevant loans. As at March 31, 2009, loans with floating interest rates amounted to USD 172.3 million or only 4.5% of the total credit portfolio. Taking into account the insignificant share of floating rate loans, TMK considers interest risks negligible and, at present, does not use derivative instruments to hedge such interest rate risks.

The effect of interest rate risk on TMK financial position in 2009 was different. In the first half of the year, while refinancing its short-term loans, TMK was faced with rising fixed interest rates on the back of the ongoing financial crisis. However, in the second half of 2009, the Company reduced the cost of a large part of its debt, including loans from Gazprombank in a total amount of USD 1,107.5 million. In general, the average interest rate of credit resources in 2009 moderately increased as compared to 2008. Thus, at the end of 2009, the average interest rates of rouble and dollar denominated loans rose by 74 and 304 basis points (bps), respectively, as compared to the beginning of the year. On the other hand, interest rates on loans attracted in euros decreased at the end of 2009 by 163 basis points, which was mainly caused by the reduction of EURIBOR floating rates.

As at March 31, 2009, the average interest rate of TMK loans is further decreasing. Nevertheless, an increase of interest rates in the future may increase the Company's interest expense which will adversely affect TMK's financial performance.

Currency risk

TMK products are typically priced in roubles for Russian sales and in US dollars and euros for CIS, US and other international sales. The Group's direct costs, including raw materials, labour and transportation costs, are largely incurred in roubles, and, with the acquisition of TMK IPSCO, in US dollars. Other costs, such as interest expense, are currently incurred largely in US dollars and euros, and capital expenditures are incurred principally in roubles, euros and US dollars. As a result of the onset of the global economic crisis in the second half of 2008, the Russian rouble significantly depreciated against the US dollar and reached RUB 36.43 to USD 1.00 in February 2009. Further in 2009, the rouble recovered somewhat from its February 2009 lows, standing at RUB 30.24 to USD 1.00 as at December 31, 2009. In 2009 as a whole, the Russian rouble depreciated against the US dollar and euro by 3% and 5%, respectively. TMK incurred losses from spot rate changes in 2009 in the amount of USD 109.9 million, including gains in the amount of USD 14.2 million recognised in the income statement and losses of USD 124.1 million recognised in other comprehensive income. Gains in the income statement were primarily attributable to the fact that in January-February 2009 the Company attracted loans nominated in foreign currency, when the exchange rate was at its high, and the income arose from these relevant loans. Losses from foreign exchange difference in balance, which relates to hedging, arose from the revaluation of loans attracted for the acquisition of TMK IPSCO assets and the effect of revaluation of the option exercised in January 2009.

Though the rouble has recovered somewhat from its lows, it remains considerably volatile. As TMK debt is currently largely denominated in US dollars, the possible devaluation of the ruble against the dollar in the future could adversely affect the Company's financial position.

In addition, fluctuations in the value of the Romanian lei against the euro and the US dollar may adversely affect the results of TMK Romanian operations. Exports from TMK-Artrom and TMK-Resita are priced largely in US dollars and euros, while direct costs are incurred largely in lei and US dollars. The mix of revenues and costs with respect to Romanian operations is such that appreciation in real terms of the lei against the euro and the US dollar tends to result in an increase in the costs of TMK-Artrom and TMK-Resita relative to their revenues which can adversely affect profit margins.

Inflation risk

A significant amount of TMK production activities are located in Russia, and a majority of direct costs are incurred in Russian roubles. The Company tends to experience inflation-driven increases in certain costs, such as raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. In 2009, inflation rate in Russia decreased significantly and reached 8.8% as compared to 13.3% in 2008. In spite of forecasts of further decreases of inflation rate, TMK may not be able to increase the prices that the Company receives from the sale of pipe products sufficiently in order to preserve existing operating margins.

Inflation rates in the United States, with respect to TMK IPSCO operations, are historically much lower than in Russia. For example, in 2008, US inflation was 3,8%, and deflation in 2009 reached 0,3%. Accordingly, high rates of inflation, especially in Russia, could increase TMK costs, decrease operating margins and materially adversely affect the Company's business, financial position and results of operations.

Legal risks

Changes in tax legislation and tax system

TMK subsidiaries make significant tax payments, in particular, profit tax, VAT, social and pension payments and property tax. Changes in tax legislation could lead to an increase in tax payments and, as a result, to a lowering of the Company's net profit. As significant part of TMK operations is located in Russia, the main risks relate to changes in the legislation of the Russian tax system. The Russian Government continually reviews the Russian tax system and passes a number of laws to carry out tax reforms. The new laws reduce the number of taxes and the overall tax burden on business while simplifying tax legislation. For example, since 2009, profit tax in Russia was reduced from 24% to 20%. Despite measures to improve the tax system, tax legislation continues to give wide latitude to local tax authorities and leaves a multitude of unresolved problems which may have a negative effect on TMK's operating results.

Changes in environmental law

TMK meets the requirements of national environmental regulations at its Russian plants as well as the directives and regulations of EU and national Romanian legislation as has plants located in Europe. The main ecological-and-economical risks for TMK are related to expected changes and tightening of Russian environmental protection laws. Environmental legislation in Russia is currently undergoing significant change as the government attempts to improve it and make it similar to environmental legislation in the European Union. Changes to environmental protection laws or regulations with respect to environmental impacts may require further expenditures install new technologic or pollution control equipment. Stricter regulations will also lead to increases in the rate of payments for negative impact on the environment and the use of increasing payment coefficients. Compliance with the regulations will be accompanied by stricter control by state monitoring authorities. Such changes in existing legislation may lead to additional costs and obligations which were unforeseen, which could have a material adverse effect on TMK financial position and results of operations

With the acquisition of TMK IPSCO, the Company is now responsible for compliance with US environmental laws, which differ significantly from the Russian environmental protection system. The Company estimates that the environmental legislation of the European Union and the United States will not undergo any material changes in the near future. Although the Group does not anticipate any significant environmental matters in those countries, if such matters arise, the cost of compliance could have a material adverse effect on our business.

Other risks

Equipment failures or production curtailments or shutdowns

TMK production capacities are subject to the risk of equipment failures due to unanticipated events, such as fires, explosions and adverse weather conditions. Unanticipated failures could require the Company to close part of the relevant production facility or cause to reduce production on one or more of production lines. The cost of relevant repairs could have a negative effect on TMK profitability and cash flows. We currently maintain insurance against losses that may arise in case of property damage, accidents, transportation of goods, occupational diseases and natural disasters. The Company also maintains corporate product liability and directors and officers' liability insurance policies. Nevertheless, any recoveries under insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

The ongoing turmoil in the global financial and credit markets and worldwide economic downturn

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

Insurance against all potential risks and losses

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

Ability to effect staff alterations and shortages of skilled labour

TMK's 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 the Company does not have any specific legal social obligations or responsibilities with respect to these regions, the ability to effect alterations in the number of TMK employees may nevertheless be subject to political and social considerations. Any inability to make planned reductions in the number of employees or other changes to operations in such regions could have an adverse effect on the Company's results of operations and prospects.

Despite the effects of the global economic crisis, competition for skilled labour in the steel pipe industry remains relatively intense, and labour costs continue to increase moderately, particularly in the CIS, Eastern Europe and the United States. TMK expects 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 the Company's business, financial position and results of operations.

Furthermore, any work slowdowns, stoppages, strikes or other labour-related developments could have an adverse effect on our business, financial position and results of operations.

Responsibility Statement

We confirm to the best of our knowledge:

1. The consolidated financial statements of OAO "TMK" presented 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 23, 2010