MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Overview of TMK's Business

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

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

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

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

As a result of growing demand in all pipe products markets, TMK's total consolidated revenue increased by 61% and amounted to U.S.$5,578 million as compared to total consolidated revenue of U.S.$3,461 million in 2009. Adjusted EBITDA[1] almost tripled from U.S.$328 million in 2009 to U.S.$942 million in 2010 due to increased sales volumes and better capacity utilisation. Adjusted EBITDA margin improved from 9% in 2009 to 17% in 2010.

Certain Factors Affecting TMK's Results from Operations

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

The Recent and Current Economic Environment

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

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

TMK is a company with global presence and geographically diversified production facilities, although most of its operations are based in Russia and 62% of its revenue is generated from Russian customers. Consequently, TMK is exposed to both macroeconomic trends in global as well as Russian economy.

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

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

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

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

Global and Russian Oil and Gas Industry

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

TMK 2010 Development Highlights

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

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

TMK sold a non-core asset:

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

TMK continued to expand its global presence:

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

Leverage Level and Liquidity Profile

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

	December 31, 2010	June 30, 2010	December 31, 2009	June 30, 2009	December 31, 2008
	in millions of U.S. dollars				
Net debt [1]	3,711	3,555	3,504	3,561	3,064
Adjusted EBITDA [2]	942	597	328	776	1,047
Net-debt-to-EBITDA ratio [3]	3.9	6.0	10.7	4.6	2.9
Share of short-term loans and borrowings [4]	18%	23%	41%	54%	69%
Working capital excess/(deficit) [5]	595	147	(645)	(952)	(1,446)

Since late 2008, a combination of factors related to the global financial and economic crisis has adversely affected TMK's operating performance. As a result, the Company's Adjusted EBITDA decreased from U.S.$1,047 million in 2008 to U.S.$328 million in 2009. On the other hand, TMK's net debt increased significantly primarily as a result of: (a) borrowings undertaken in connection with the Company's acquisition of TMK IPSCO, which comprised IPSCO Tubulars, Inc. and NS Group, Inc., in 2008 and the further exercise of an option to purchase the remaining 49% interest in NS Group, Inc.; and (b) the continued capital investment programme. The Net-Debt-to-EBITDA ratio reached an historic high of 10.7 as of 31 December 2009.

Prior to getting the access to international capital markets TMK has relied on cash provided by operations and short-term debt to finance its working capital and other capital requirements. In addition, a bridge financing attained for acquisition of U.S. operations coincided with the global economic crisis and the Company's financial position worsened. Since the onset of the global economic downturn, TMK has been actively implementing certain cost-optimising measures as part of its programme to manage the consequences of the financial crisis, and concentrated on cuts in its operating costs and optimising its working capital and operating performance. At the same time, TMK has been negotiating extensions of credit terms and refinancing its short-term indebtedness. As a result of refinancing TMK's debt on a long-term basis, the share of TMK's long-term debt increased from 59% at the end of 2009 to 82% at the end of 2010. TMK has also successfully negotiated lower interest rates on certain borrowings. Consequently, its weighted average nominal interest rate as of 31 December 2010 decreased to 7.86% as compared to 10.72% as of 31 December 2009.

[1] Net debt calculation — See "Selected financial data".
[2] Calculated on a rolling twelve-month basis. Adjusted EBITDA — See "Selected financial data".
[3] Net-Debt-to-EBITDA ratio is defined as Net Debt at the end of the given measurement date to Adjusted EBITDA for the 12 months immediately preceding the given measurement date.
[4] Share of short-term loans and borrowings is calculated as based on the information presented in the Consolidated Statement of Financial Position.
[5] Working capital is calculated as current assets at the end of the given measurement date net of current liabilities.

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

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

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

Issuance of Convertible Eurobonds

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

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

As disclosed in Note 25 of TMK Consolidated Financial Statements, TMK determined that the convertible bonds represent a combined financial instrument containing two components: (i) a bond liability and (ii) an embedded derivative representing a conversion option in foreign currency combined with an issuer call ("embedded conversion option"). Generally, conversion options are recognised as a part of equity, however, IFRS requires that in the specific case when the conversion option is denominated in currency other than issuing entity's functional currency, no equity component can be recognised prior the conversion of the bond. As a result, in accordance with IFRS, TMK recognised a bond liability of U.S.$368 million (net of transaction costs of U.S.$9 million) and the liability under embedded conversion option of U.S.$35 million at the initial recognition date.

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

Nevertheless TMK's management believes that IFRS accounting treatment of the conversion option of the bond does not reflect the expected outflow of resources under the conversion rights. The conversion option, whether exercised or expired, will not result in cash outflows from the Company. In the event of the bond not being converted, the liability under the conversion option will be recognised as a gain in TMK's income statement. In the event of the exercise of the option, the liability will be transferred to equity (together with the carrying value of the converted bonds); no gain or loss will be recognised on the transaction. Additionally, the accounting treatment of the conversion option requires TMK to recognise changes in the fair value of the embedded instrument in the income statement. The price and volatility of TMK's GDRs have significant impact on fair value of the embedded derivative. In the event the GDRs perform well, the Company's liability under the conversion option will increase and result in losses in the income statement. The changes in fair value may be material in comparison to TMK's net profit and may cause distortions in the income statement. As such, for management discussion and analysis purposes, in addition to net profit (loss) as reflected in the

31 December 2010 consolidated income statement, TMK has decided to present in this management's discussion and analysis, adjusted net profit (loss) so that it does not reflect gains or losses on the changes in fair value with respect to the embedded derivative component of the convertible bond. Such adjusted net profit (loss) figure is an alternative performance measure that is not reflected in TMK's consolidated financial statements and has not been audited or reviewed in accordance with ISA.

Issuance of Capital

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

Results of Operations

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

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

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

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

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

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

Revenue

Sales Volumes

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

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

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

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

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

Russia. In 2010, the Russian division achieved a year-on-year 30% increase in sales volumes. It mainly resulted from an increase in pipes supplied to the oil and gas companies as previously postponed projects revived in 2010. TMK's sales volumes of large diameter pipe grew by 125% in 2010 in comparison with 2009. TMK managed to increase production and supplies of large diameter pipe in 2010 as a result of the successful commissioning of the large diameter mill at Volzhsky in 2008. Sales of OCTG and line pipe in the Russian division in 2010 grew by 10% and 49%, respectively. The PQF mill put into operation at TAGMET contributed to this increase. However growth in OCTG and line pipe sales was partly offset by restricted production capacities and a slowdown in sales resulted from reconstruction of a seamless hot-rolling mill at Volzhsky plant. TMK is a leading pipe producer in the Russian seamless OCTG market accounting for a 60%

market share in 2010. Given the on-going competition, sales volumes of industrial pipe, which are not TMK's first-strategy, were slightly above last-year sales.

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

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

Revenue

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

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

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

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

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

Russia. Revenue generated by sales of pipe products in the Russian division increased by 51% in 2010 as compared to 2009 mainly due to increased sales volumes and selling prices for pipe products. The portion of an increase in revenue attributable to changes in sales volumes accounted for U.S.$765 million. Changes in selling prices and product mix contributed U.S.$389 million to total growth in the Russian division revenue.

Other revenue grew by U.S.$34 million mainly due to an increase in revenue from pipe-related services rendered, such as protective coating, repair and field services. The effect of translation from the functional to presentation currency[1] accounted for a U.S.$171 million increase.

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

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

Cost of Sales

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

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

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

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

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

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

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

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

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

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

Raw materials and consumables

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

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

The increased share of large diameter pipe in TMK's product mix had an impact on cost of raw materials as purchase prices of steel plates and coil used in production of this type of pipe are higher than raw material costs of other pipe products. Prices for certain types of raw materials and supplies varied depending on the region. In 2010, in the Russian division, the average purchase cost of metal scrap increased by 16%, average price for coils increased by 28% and the average purchase price for pig iron increased by 57% as compared to 2009. The average purchase cost of metal scrap and coils in the American division increased by 59% and 28%, respectively, as compared to 2009. Average purchase costs for metal scrap in the European division were higher by 53% in 2010 than those in 2009.

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

Labour costs

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

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

Energy and utilities

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

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

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

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

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

Depreciation

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

Other costs

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

Change in own finished goods and work in progress

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

Gross Profit

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

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

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

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

America. Outstanding sales and production growth in the American division positively affected gross profit through the overall revenue growth, as well as improved production overhead absorption rates resulted from extended and more efficient utilisation of production capacities. However, these positive developments were partially offset by the combined effect of changes in selling prices and product mix as selling prices in the

USA started to recover only in the second half of 2010. The combination of all the factors allowed the American division to earn U.S.$301 million of the gross profit in 2010 as compared to U.S.$13 million loss in 2009.

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

Operating Expenses

Selling and distribution expenses

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

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

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

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

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

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

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

General and administrative expenses

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

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

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

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

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

America. Dramatically improved operational and selling activity in the American division in 2010 as opposed to poor results in 2009 had an impact on staff costs. Increase in salaries and wages, bonuses and related taxes to management contributed U.S.$11 million to the total growth of general and administrative expenses. In 2009 intangible asset "Backlog" was fully depreciated that caused U.S.$4 million expenses decline in 2010. Changes in other general and administrative expenses had an effect of U.S.$1 million increase.

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

Foreign Exchange Gain/Loss, net

The functional currency of the Company and its subsidiaries located in the Russian Federation, Kazakhstan and Switzerland is the Russian ruble. The functional currency of the Romanian subsidiaries is the Romanian lei and that of TMK Europe and TMK Italia is the Euro. The functional currency of TMK IPSCO, TMK North America and TMK Middle East is the US dollar.

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

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

Loss on Changes in Fair Value of Derivative Financial Instrument

In February 2010, TMK issued U.S.$413 million 5.25% convertible bonds due 2015 convertible into TMK's GDRs. The bonds are convertible into GDRs at a conversion price of U.S.$23.075 per GDR. The convertible bonds represent a combined financial instrument containing two components: (i) a bond liability and (ii) an embedded derivative representing a conversion option in foreign currency combined with an issuer call. In accordance with IFRS, TMK recognised a bond liability of U.S.$368 million (net of transaction costs of U.S.$9 million) and the liability under embedded conversion option of U.S.$35 million at the initial recognition date.

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

Finance (costs)/income, net

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

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

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

Income Tax

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

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

Net Income/(Loss) for the Year

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

Liquidity and Capital Resources

Cash Flows

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

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

Operating Activities

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

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

Investing Activities

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

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

Financing Activities

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

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

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

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

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

Dividends

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

Indebtedness

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

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

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

	Loans and borrowing maturity profile				
	< 1 year	1 - 3 years	> 3 years	unamortised debt issue costs	Total debt
	(in millions of U.S. dollars)				
As of December 31, 2010:	706	1,222	1,968	(24)	3,872
As of December 31, 2009:	1,549	1,114	1,164	(75)	3,752

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

Bank Loans

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

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

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

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

Russian Bond Issuances

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

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

Eurobonds

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

Convertible Bonds

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

Capital Expenditures

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

	2010	2009	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	in %
Russia	229	371	(142)	(38)%
America	36	27	9	33%
Europe	5	14	(9)	(64)%
TOTAL CAPITAL EXPENDITURES [1]	**270**	**412**	**(142)**	**(34)%**

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

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

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

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

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

Development Trends

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

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

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

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

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

Selected financial data

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

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

Net debt has been calculated as of:

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

PRINCIPAL RISKS AND UNCERTAINTIES

Industry risks

Dependence on the oil and gas industry

The oil and gas industry is the principal consumer of steel pipe products worldwide and accounts for most of TMK sales, in particular sales of OCTG, line pipes and large diameter welded pipes. In 2010, sales volumes of pipes used in oil and gas industry (mainly OCTG, line pipes and large diameter pipes) accounted for approximately 75% of the Company's produced tubular products. The oil and gas industry has historically been volatile and downturns in the oil and gas markets can adversely affect demand for our products which largely depends on the number of oil and gas wells being drilled, completed and reworked, the depth and drilling conditions of wells and on the construction of oil and gas pipelines. The level of such industry specific activities in turn depends on the level of capital spending by major oil and gas companies. The level of investment activities of oil and gas companies, which are largely driven by prevailing prices for oil and natural gas and their stability, significantly affects the level of consumption of TMK products. In case of significant and/or sustained decline in oil and natural gas prices energy companies could reduce their levels of expenditures. As a result, the demand for oil and gas pipes can substantially decrease, which also leads to tightening of competition and a possible decrease of market prices for tubular products. Thus, the decline in oil and gas exploration, drilling and production activities and in prices for energy commodities could have a negative impact on the Company's results of operations and financial position.

Increases in the cost of raw materials

The Company requires substantial quantities of raw materials to produce steel pipes. The principal raw materials used in production processes include scrap, pig iron, ferroalloys and refractories for use in steelmaking operations, steel billets used for the production of seamless pipes and steel coils and plates for the production of welded pipes. The demand for the principal raw materials we utilise is generally correlated with macroeconomic fluctuations, which are in turn affected by global economic conditions.

In 2010, the costs of raw materials and consumables accounted for 68% of total cost of production. The prices for raw materials and supplies are one of the main factors affecting TMK results of operations. These prices are influenced by many factors, including oil and gas prices, worldwide production capacity, capacity utilisation rates, inflation, exchange rates, trade barriers and improvements in steelmaking processes. After a considerable decline in prices on the back of decreased demand in 2009, prices for principal raw materials increased during 2010 as compared to 2009 with the return of market demand. Prices for certain types of raw materials and supplies varied depending on the region. In 2010 at Russian division, the average purchase cost of metal scrap increased by 16%, average price for coils increased by 28% and the average purchase price for pig iron increased by 57% as compared to 2009. The average purchase cost of metal scrap and coils at American division increased by 59% and 28%, respectively, as compared to 2009. Average purchase costs for metal scrap at European division were higher by 53% in 2010 than those in 2009. As a result of both increases in prices for raw materials and increased sales volumes, our costs of raw materials and consumables increased from U.S.$1,660 million in 2009 to U.S.$2,975 in 2010.

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

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

Dependence on a small group of customers

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

TMK large diameter welded pipe business is largely dependent on one of our largest customers, Gazprom, and is subject to increasing competitive pressures. Gazprom is one of the Company’s largest customers for 1,420 mm diameter welded pipes used for construction of gas trunk pipelines. Increased competition in the supply of large-diameter pipes or a change in relationships with Gazprom could negatively affect TMK competitive position in the 1,420 mm diameter pipe market, resulting in decreased revenues from sales of these products and adversely affecting the Company’s business, financial position and results of operations. Additionally, large diameter welded pipe business depends significantly upon the level of construction of new oil and gas pipelines in Russia and the CIS. The delay, cancellation or other changes in the scale or scope of significant pipeline projects, or the selection by the sponsors of such projects of other suppliers could have an adverse effect on TMK sales of large diameter welded pipes, and thus on the Company’s results of operations and financial position.

Competition

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

Financial risks

Liquidity risk

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

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

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

Compliance with covenants

Certain of the Company's loan agreements and public debt securities currently include financial covenants. For example, some covenants are set in relation to leverage, total indebtedness and tangible net worth, and impose financial ratios that must be maintained. Other covenants impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness. A breach of a financial or other covenant in existing debt facilities, if not resolved by means such as obtaining a waiver from the relevant lender, could trigger a default under TMK obligations.

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

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

Interest rate risk

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

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

Currency risk

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

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

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

Inflation risk

A significant amount of TMK production activities are located in Russia, and a majority of direct costs are incurred in Russian roubles. The Company tends to experience inflation-driven increases in certain costs, such as raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. In 2010, inflation rate in Russia reached 8.8% and generally corresponded with 2009 rate. In spite of the intention of the Russian government to decrease inflation rates in the coming years, inflation may increase in the future. TMK may not be able to increase the prices that the Company receives from the sale of pipe products sufficiently in order to preserve existing operating margins.

Inflation rates in the United States, with respect to TMK IPSCO operations, are historically much lower than in Russia. In 2010, U.S. inflation reached 1.5%. Accordingly, high rates of inflation, especially in Russia, could increase TMK costs, decrease operating margins and materially adversely affect the Company's business and financial position.

Legal risks

Changes in tax legislation and tax system

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

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

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

In addition, the Russian oil industry is subject to substantial taxes, including significant resources production taxes and significant export customs duties. Changes to the tax regime and customs duties rates may adversely affect the level of oil and gas exploration and development in Russia, which can adversely affect demand for TMK products sold in Russia.

Changes in environmental law

TMK meets the requirements of national environmental regulations at its Russian plants, the directives and regulations of EU and national Romanian legislation at its Romanian plants and, with the acquisition of TMK IPSCO the U.S. environmental laws.

The main ecological-and-economical risks for the Company are related to expected changes and tightening of Russian environmental protection laws. Environmental legislation in Russia is currently undergoing significant change. The imposition of a new environmental law and regulation system may require further expenditures to modernize production operations, install pollution control equipment, perform site clean-ups and reclamation, pay fees and fines or make other payments if not in compliance with new environmental laws and regulations. Stricter regulations will also lead to increases in the rate of payments for negative impact on the environment and the use of increasing payment coefficients. Compliance with the regulations will be accompanied by stricter control by state monitoring authorities. Such changes in existing legislation may lead to additional costs or unforeseen environmental liabilities, which could have a material adverse effect on TMK financial position and results of operations

With the acquisition of TMK IPSCO, the Company is now responsible for compliance with stringent U.S. laws on the environment. The environmental protection regime in the United States is more onerous than what TMK faces with respect to operations in Russia and other countries and compliance with these U.S. laws may expose the Company to additional costs. The Company estimates that the environmental legislation of the European Union and the United States will not undergo any material changes in the near future. Romania's admission into the European Union, which occurred in 2007, resulted in increased environmental liabilities for our Romanian operations. TMK Romanian subsidiaries may be required to adopt and implement more stringent environmental and labor laws in the future. There can be no assurance that the European Union will not impose new environmental regulations or that Romanian state authorities will not change national environmental laws in the future.

Although the Company does not anticipate any significant environmental matters in the United States and Romania, if such matters arise, the cost of compliance could have a material adverse effect on our business.

Other risks

Equipment failures or production curtailments or shutdowns

TMK production capacities are subject to the risk of equipment failures due to unanticipated events, such as fires, explosions and adverse weather conditions. Manufacturing processes depend on critical pieces of steel-making and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of unanticipated failures could require the Company to close part of the relevant production facility or cause to reduce production on one or more of production lines. Any interruption in production capability may require TMK to make significant and unanticipated capital expenditures to affect relevant repairs, which could have a negative effect on the Company's profitability and cash flows. TMK currently maintains insurance against losses that may arise in case of property damage, accidents and transportation of goods. The Company also maintains corporate product liability and directors and officers' liability insurance policies. Nevertheless, any recoveries under insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

Insurance against all potential risks and losses

TMK does not carry insurance against all potential risks and losses that may arise in connection with the quality of the Company's products, property damage, work-related accidents and occupational illnesses, natural disasters and environmental contamination. TMK currently maintains no business interruption insurance. Losses or liabilities arising from these or other events could increase TMK costs and could adversely affect the Company's business, financial position and operating results.

Ability to effect staff alterations and shortages of skilled labor

TMK Russian subsidiaries are in many regions the largest employers in the cities in which they operate, such as Volzhsky, Taganrog, Kamensk-Uralsky and Polevskoy. While the Company does not have any specific legal social obligations or responsibilities with respect to these regions, the ability to effect alterations in the number of TMK employees may nevertheless be subject to political and social considerations. Any inability to make planned reductions in the number of employees or other changes to operations in such regions could have an adverse effect on the Company's results of operations and prospects.

Competition for skilled labor in the steel pipe industry remains relatively intense, and labor costs continue to increase moderately, particularly in the CIS, Eastern Europe and the United States. TMK expects the demand and, hence, costs for skilled engineers and operators will continue to increase, reflecting the significant demand from other industries and public infrastructure projects. Continual high demand for skilled labor and continued increases in labor costs could have a material adverse effect on the Company's business, financial position and results of operations.

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

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

31 March 2011