OAO TMK
Consolidated Financial Statements
For the Year Ended December 31, 2006

Ernst & Young

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Independent Auditors' Report

The Shareholders and Board of Directors
OAO TMK

We have audited the accompanying consolidated financial statements of OAO TMK and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

Basis for Qualified Opinion

We did not observe the counting of the physical inventories at certain subsidiaries of the Group as of December 31, 2004 with carrying value of US$42,985 thousand, since that date was prior to our appointment as auditors for those subsidiaries of the Group. We were unable to satisfy ourselves as to inventory quantities at that date by other audit procedures. Since opening inventories enter into the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for the year ended December 31, 2005. Our auditors' report on the consolidated financial statements for the year ended December 31, 2005 was modified accordingly.

Qualified Opinion

In our opinion, except for the effect on the corresponding figures of the adjustments, if any, to the results of operations for the year ended December 31, 2005, which we might have determined to be necessary had we been able to satisfy ourselves as to the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 23, 2007

OAO TMK

Consolidated Financial Statements

For the Year Ended December 31, 2006

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Consolidated Income Statement

For the Year Ended 31 December 2006

(All amounts in thousands of US dollars)

	NOTES	2006	2005
Revenue	1	3,384,471	2,938,193
- Goods		*3,360,309*	*2,905,131*
- Services		*24,162*	*33,062*
Cost of sales	2	(2,350,470)	(2,191,768)
Gross profit		1,034,001	746,425
Selling and distribution expenses	3	(179,926)	(147,780)
Advertising and promotion expenses	4	(5,083)	(3,084)
General and administrative expenses	5	(157,718)	(123,188)
Research and development expenses	6	(6,725)	(5,547)
Other operating expenses	7	(27,411)	(26,088)
Other operating income	8	9,029	284
Foreign exchange gain/(loss), net		13,005	(14,627)
Finance costs	9	(76,502)	(78,184)
Finance income		15,819	1,837
Profit before tax		618,489	350,048
Income tax expense	11	(157,885)	(95,880)
Net profit		**460,604**	**254,168**
Attributable to:			
Equity holders of the parent entity		**441,264**	**244,273**
Minority interests		**19,340**	**9,895**
		460,604	**254,168**
Earnings per share attributable to equity holders of the parent entity - basic and diluted (in US dollars)	12	**0.51**	**0.28**

The accompanying notes are an integral part of these consolidated financial statements.

OAO TMK

Consolidated Balance Sheet at December 31, 2006

(All amounts in thousands of US dollars)

	NOTES	2006		2005	
ASSETS					
Current assets					
Cash and cash equivalents	13	143,735		47,845	
Short-term investments	14	174,522		1,659	
Accounts receivable	15	273,871		124,996	
Accounts receivable from related parties	28	12,173		28,407	
Inventories	18	588,552		458,932	
Prepayments and input VAT	16	201,045		145,396	
Prepayments to related parties	28	1,027	**1,394,925**	18	**807,253**
Non-current assets					
Investments in associates and other long-term receivables	17	59,090		32,107	
Long-term receivables from related parties	28	46,339		8,486	
Property, plant and equipment	19	1,967,631		1,547,681	
Investment property	19	2,871		2,004	
Goodwill	20	46,944		37,180	
Deferred income taxes	11	14,297		5,432	
Intangible assets	20	15,678	**2,152,850**	12,835	**1,645,725**
TOTAL ASSETS			**3,547,775**		**2,452,978**
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and advances from customers	21	349,137		196,819	
Accounts payable to related parties	28	6,702		478	
Accrued liabilities and provisions	22	103,484		108,690	
Finance lease liabilities, current maturities	23	187		1,309	
Borrowings	24	364,541		425,546	
Borrowings from related parties	28	-		31,394	
Dividends		1,383	**825,434**	3,012	**767,248**
Non-current liabilities					
Borrowings	24	661,025		164,924	
Finance lease liabilities, net of current maturities	23	244		125	
Deferred income taxes	11	252,002		242,648	
Post-employment benefit	25	20,343		18,009	
Other liabilities	26	18,132	**951,746**	7,343	**433,049**
Total liabilities			**1,777,180**		**1,200,297**
Equity					
Parent shareholders' equity					
Issued capital	30	305,407		305,407	
Accumulated profits	30	1,014,443		638,631	
Reserve capital	30	15,387		15,387	
Additional paid-in capital	30	139,340		137,198	
Foreign currency translation reserve		223,729	1,698,306	85,920	1,182,543
Minority interests			72,289		70,138
Total equity			**1,770,595**		**1,252,681**
TOTAL EQUITY AND LIABILITIES			**3,547,775**		**2,452,978**

The accompanying notes are an integral part of these consolidated financial statements.

OAO TMK

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2006

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							
	Issued capital	**Additional paid-in capital**	**Reserve capital**	**Accumulated profits**	**Foreign currency translation reserve**	**Total**	**Minority interests**	**TOTAL**
At January 1, 2006	**305,407**	**137,198**	**15,387**	**638,631**	**85,920**	**1,182,543**	**70,138**	**1,252,681**
Effect of exchange rate changes	-	-	-	-	137,809	**137,809**	8,341	**146,150**
Total income and expense for the year recognised directly in equity	-	-	-	-	137,809	**137,809**	8,341	**146,150**
Net profit	-	-	-	441,264	-	**441,264**	19,340	**460,604**
Total income and expense for the year	-	-	-	441,264	137,809	**579,073**	27,681	**606,754**
Acquisition of Eurosinara S.r.L. (Note 10)	-	-	-	(4,876)	-	**(4,876)**	-	**(4,876)**
Excess of the fair value of ordinary shares sold to the Group's employees over the offer price of ordinary shares (Note 30 vii)	-	2,142	-	-	-	**2,142**	-	**2,142**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 30 vi)	-	-	-	-	-	**-**	(476)	**(476)**
Acquisition of minority interests (Note 30 v)	-	-	-	(10,812)	-	**(10,812)**	(10,611)	**(21,423)**
De-recognition of minority interests in a subsidiary (Note 30 viii)	-	-	-	(12,663)	-	**(12,663)**	(14,443)	**(27,106)**
Dividends (Note 30 iii)	-	-	-	(17,101)	-	**(17,101)**	-	**(17,101)**
Other distributions to owners (Note 30 iv)	-	-	-	(20,000)	-	**(20,000)**	-	**(20,000)**
At December 31, 2006	**305,407**	**139,340**	**15,387**	**1,014,443**	**223,729**	**1,698,306**	**72,289**	**1,770,595**

The accompanying notes are an integral part of these consolidated financial statements.

OAO TMK

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2006 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							
	Issued capital	**Additional paid-in capital**	**Reserve capital**	**Accumulated profits**	**Foreign currency translation reserve**	**Total**	**Minority interests**	**TOTAL**
At January 1, 2005	**305,407**	**135,770**	**2,376**	**439,856**	**127,844**	**1,011,253**	**74,103**	**1,085,356**
Effect of exchange rate changes	-	-	-	-	(41,924)	**(41,924)**	(2,753)	**(44,677)**
Total income and expense for the year recognised directly in equity	-	-	-	-	(41,924)	**(41,924)**	(2,753)	**(44,677)**
Net profit	-	-	-	244,273	-	**244,273**	9,895	**254,168**
Total income and expence for the year	-	-	-	244,273	(41,924)	**202,349**	7,142	**209,491**
Appropriation of profit to reserve capital (Note 30 ii)	-	-	13,011	(13,011)	-	**-**	-	**-**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 30 vi)	-	-	-	-	-	**-**	(1,192)	**(1,192)**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 30 iv)	-	-	-	(9,423)	-	**(9,423)**	-	**(9,423)**
Acquisition of minority interests (Note 30 v)	-	1,428	-	-	-	**1,428**	(9,915)	**(8,487)**
Dividends (Note 30 iii)	-	-	-	(2,592)	-	**(2,592)**	-	**(2,592)**
Other distributions to owners (Note 30 iv)	-	-	-	(20,472)	-	**(20,472)**	-	**(20,472)**
At December 31, 2005	**305,407**	**137,198**	**15,387**	**638,631**	**85,920**	**1,182,543**	**70,138**	**1,252,681**

The accompanying notes are an integral part of these consolidated financial statements.

OAO TMK
Consolidated Cash Flow Statement
For the Year Ended December 31, 2006
(All amounts in thousands of US dollars)

	NOTE	December 31, 2006	December 31, 2005
Cash flows from operating activities			
Profit before income tax		618 489	350 048
Adjustments for:			
Depreciation of property, plant and equipment	1	112 345	104 842
Amortisation of intangible assets	1	2 347	809
Loss on disposal of property, plant and equipment	7	5 060	4 523
Foreign exchange (gain)/loss		(13 005)	14 627
Finance costs	9	76 502	78 184
Finance income		(15 791)	(1 837)
Gain on sale of investments		(28)	-
Excess of the fair value of ordinary shares sold to the Group's employees over the offer price of ordinary shares	30 vii	2 142	-
Profit share of the associate	8	(1 249)	-
Non-cash donations		-	1 693
Capitalization of previously expensed items		(1 696)	-
Inventory adjustments		(909)	2 325
Bad debt expense	3	1 428	1 555
Operating cash flow before working capital changes		**785 635**	**556 769**
Increase in inventories		(74 946)	(59 890)
(Increase) decrease in accounts receivable		(94 333)	49 019
(Increase) decrease in prepayments		(49 666)	10 933
Increase in accounts payable		24 541	22 284
(Decrease) increase in accrued liabilities		(32 613)	19 451
Increase (decrease) in advances from customers		41 320	(76 975)
Cash generated from operations		599 938	521 591
Income taxes paid		(170 196)	(107 278)
Net cash from operating activities		**429 742**	**414 313**
Cash flows from investing activities			
Purchase of property, plant and equipment		(335 894)	(139 173)
Proceeds from sale of property, plant and equipment		2 990	2 985
Proceeds from sale of investments		166	2 236
Acquisition of Eurosinara S.r.l., net of cash acquired	10	(669)	-
Payments for increases in ownership interests in subsidiaries		(21 719)	(6 755)
Deposits at banks		(140 007)	-
Loans granted		(29 960)	431
Proceeds from repayment of loans		-	663
Loans granted to the controlling shareholder		(783 136)	-
Proceeds from repayment of loans granted to the controlling shareholder		779 695	-
Interest received		8 900	1 505
Net cash used in investing activities		**(519 634)**	**(138 108)**
Cash flows from financing activities			
Proceeds from borrowings		1 458 565	1 079 628
Repayment of borrowings		(1 117 840)	(1 207 059)
Interest paid		(71 764)	(77 814)
Payment under finance lease liabilities		(1 406)	(4 113)
Distribution to owners		-	(472)
Prepayment to entities under common control for the transfer of ownership interest in a subsidiary	28	(45 512)	-
Payments to entities under common control for the transfer of ownership interest in subsidiaries	30 iv	(20 000)	(20 000)
Dividends paid to equity holders of the parent	30 iii	(17 101)	(2 592)
Dividends paid to minority shareholders		(2 351)	(9 328)
Net cash from (used in) financing activities		**182 591**	**(241 750)**
Effect of foreign exchange rate changes on cash and cash equivalents		3 191	(93)
Net increase in cash and cash equivalents		95 890	34 362
Cash and cash equivalents at the beginning of the year		47 845	13 483
Cash and cash equivalents at the end of the year		**143 735**	**47 845**

The accompanying notes are an integral part of these consolidated financial statements.

Corporate Information

These consolidated financial statements of OAO "TMK" and its subsidiaries (the "Group") for the year ended December 31, 2006 were authorized for issue in accordance with a resolution of the General Director on April 23, 2007. The parent company of the Group OAO "TMK" (the "Company") is registered in the Russian Federation. The list of subsidiaries is disclosed in Note 27.

As of December 31, 2006, the Company's main shareholder was TMK Steel Limited, owning 77.02% in the share capital. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

The Company was incorporated as a closed joint stock company (ZAO) on April 17, 2001. The Company was re-registered as an open joint stock company (OAO) on June 16, 2005. The registered office of the Company is 19/25 Alexander Nevsky Street, bldg. 1, Moscow, the Russian Federation. The principal office of the Company is 5 Podsosensky Lane, bldg. 1, Moscow, the Russian Federation.

In 2005 and 2006, there were transactions with an entity under common control with the Group as described below.

Title over 100% ownership interest in Sinara Trading AG, an entity registered in Switzerland, transferred to the Group and control was obtained on May 25, 2005. On February 1, 2006, Sinara Trading AG was re-registered as TMK Global Ltd. TMK Global Ltd. is the Group's distributor of pipe products in countries outside of Russia. This business combination has been accounted for using the pooling of interests method and, as such, the financial statements have been presented as if the transfer of ownership interest in TMK Global Ltd. had occurred from the date of the earliest period presented.

On June 10, 2005, the Group signed an agreement on the purchase of 100% ownership interest in Sinara Handel GmbH, an entity registered in Germany. Sinara Handel GmbH is the Group's distributor of pipe products in countries outside of Russia and the Group's supplier of certain types of raw materials and equipment. Sinara Handel GmbH owns controlling interests in a pipe plant and a metallurgical plant in Romania. Title transferred to the Group and control over Sinara Handel GmbH was obtained by the Group on March 1, 2006. The Group has also applied the pooling of interests method with respect to this acquisition and presented its consolidated financial statements as if the transfer of the controlling interest in Sinara Handel GmbH had occurred from the beginning of the earliest period presented.

As a result of the above-mentioned business combinations with entities under common control with the Group, the Group has re-presented its financial position, results of operations and cash flows for the year ended December 31, 2005.

On August 25, 2006, the Group signed an agreement on the purchase of 75% ownership interest in Open Joint-Stock Company "Orsky Machine Building Plant" for 45,512 thousand US dollars from an entity under common control with the Group. Title transferred to the Group and control over "Orsky Machine Building Plant" was obtained by the Group on January 31, 2007. This purchase of a subsidiary from an entity under common control with the Group will be accounted for using the pooling of interests method. More details are provided in Note 32.

The principal activities of the Group are the production and distribution of seamless and welded pipes for the oil and gas industry and for general use.

The Group employed 49,670 employees as of December 31, 2006 (December 31, 2005: 49,628 employees).

Basis of Preparation of the Financial Statements

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Accounting

Group companies maintain their accounting records in their local currency and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which the particular subsidiary is resident. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in compliance with IFRS. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) use of fair values, (6) business combinations and (7) translation to the presentation currency.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, property, plant and equipment are accounted for at deemed cost at the date of transition to IFRS.

Functional and Presentation Currency

The presentation currency for the purpose of these consolidated financial statements of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the Group's financial statements.

The functional currency of the Group's subsidiaries located in the Russian Federation, Kazakhstan and Switzerland is the Russian rouble. The functional currencies of other foreign operations of the Group are the euro, the United States dollar, the Romanian lei and the UAE dirham.

The Group has applied IAS 21 (revised), "The Effects of Changes in Foreign Exchange Rates", to translate the financial position of the Group as of December 31, 2006 and the results for the year then ended and corresponding figures into its presentation currency, US dollar, as follows:

(a) assets and liabilities for each balance sheet presented (including corresponding figures) are translated at the closing rate at the date of each respective balance sheet;

(b) income and expenses for each income statement (including corresponding figures) are translated at the weighted average exchange rate for each respective period; and

(c) all resulting exchange differences arising from translation of opening net assets at the closing rate and translation of income and expenses at average exchange rates, are recognised as a separate component of equity.

Basis of Preparation of the Financial Statements (continued)

Functional and Presentation Currency (continued)

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. 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. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to profit and loss.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. This requires an estimation of the value in use of the cash-generating units (each individual subsidiary) to which the item is allocated. The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the fair value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment. In 2006, no impairment losses were recognized or reversed (2005: nil).

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". In 2005, the change in estimate of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately 4,892.

Estimates and Assumptions (continued)

Fair Value of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. More details are provided in Note 10.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2006 was 46,944 (2005: 37,180). More details are provided in Notes 10 and 20.

Post-Employment Benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary). In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially. More details are provided in Note 25.

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2006 and 2005, allowances for doubtful accounts have been made in the amount of 9,579 and 8,535, respectively (Notes 15, 17).

The Group makes allowances for obsolete and slow-moving raw materials and spare parts. As of December 31, 2006 and 2005, allowances for obsolete and slow-moving items were 8,113 and 5,897, respectively (Note 18). In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Estimates and Assumptions (continued)

Litigation

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As of December 31, 2006 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 11.

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced and this reduction recognized in profit or loss.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those judgments involving estimates, which has a significant effect on the amounts recognised in the consolidated financial statements:

Judgments (continued)

Consolidation of a Special Purpose Entity

The Group determined that the substance of the relationship between the Group and TMK Capital S.A., a special purpose entity, indicates that TMK Capital S.A. is controlled by the Group. In September 2006, TMK Capital S.A. issued notes due September 2009 for the sole purpose of funding a loan to the Company (Note 24).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2006. The changes in accounting policies result from adoption of the following new or revised standards:

- IAS 19 (amended 2005) “Employee Benefits”:

As of January 1, 2006, the Group adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the years ending December 31, 2006 and December 31, 2005 but has not had a recognition or measurement impact, as the Group chose not to apply the new option to recognise actuarial gains and losses outside of the income statement.

- IAS 21 (amended 2005) “The Effects of Changes in Foreign Exchange Rates”:

As of January 1, 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group’s net investment in a foreign operation are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated and of which Group entity transacts with the foreign operation. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

- IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement”:

The amendment to IAS 39 in 2005:

- required the inclusion of financial guarantee contracts issued;
- permitted the foreign currency risk of a highly probable forecast intra-group transaction to qualify as the hedged item in cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements;
- restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss.

Changes in Accounting Policies (continued)

These amendments did not have an effect on the Group's financial statements.

- IFRIC 4 "Determining whether an Arrangement contains a Lease":

IFRIC 4 provides guidance for determining whether arrangements are, or contain, leases that should be accounted for in accordance with IAS 17, if the arrangements comprise a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. The adoption of this IFRIC Interpretation as of 1 January 2006 has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds":

IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning assets or in undertaking environmental restoration or rehabilitation. As the Group does not currently operate in a country where such funds exist, this interpretation has had no impact on the financial statements.

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's result of operation and financial positions in the period of initial application. The adoption of IFRS 7 "Financial Instruments: Disclosures" will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements. IFRS 7 replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after January 1, 2007.

Significant Accounting Policies

- **Index to Accounting Policies**

Significant Accounting Policies

A) Principles of Consolidation

Subsidiaries

A subsidiary is an entity in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over its operations.

Subsidiaries are consolidated from the date when control over their activities is transferred to the Company and are no longer consolidated from the date that control ceases.

All intragroup balances, transactions and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Where necessary, accounting policies in subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of Subsidiaries

The Group uses the purchase method to account for the acquisition of subsidiaries, except when the acquired entity is under common control with the Group. According to the purchase method, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, irrespective of the extent of any minority interest.

The excess of the purchase consideration over the fair value of the Company’s share of the identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Company’s share of the identifiable net assets of the subsidiary acquired the difference is recorded as a gain in the income statement.

Minority Interest

Minority interest is that portion of the profit or loss and net assets of subsidiaries attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. Minority interests at the balance sheet date represent the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within equity, separately from the parent’s shareholders’ equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary. Any additional losses are allocated to the Group unless there is a binding obligation of the minority to fund the losses.

Significant Accounting Policies (continued)

A) Principles of Consolidation (continued)

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative.

Entering into put options held by minority shareholders in respect of shares of the Group's subsidiaries are accounted for as increases in ownership interests in subsidiaries. Financial liabilities in respect of put options are recorded at fair value at the time of entering into the options, and are subsequently re-measured to fair value with the change in fair value recognized in the income statement.

Acquisition of Subsidiaries from Entities under Common Control

Purchases of subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

These financial statements, including corresponding figures, are presented as if the Company had acquired the subsidiary on the date it was initially acquired by the Predecessor.

B) Cash and Cash Equivalents

Cash is comprised of cash in hand and cash at banks.

Cash equivalents are comprised of short-term, highly liquid investments (with original maturity date of less than 90 days) that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are carried at fair value.

C) Investments and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Significant Accounting Policies (continued)

C) Investments and Other Financial Assets (continued)

The Group determines the classification of its investments after initial recognition. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as *held for trading* if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement. During the period the Group did not hold any investments in this category.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as *held-to-maturity* when the Group has the positive intention and ability to hold to maturity. During the period the Group did not hold any investments in this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Significant Accounting Policies (continued)

D) Trade Receivables

Trade receivables, which generally have a short term, are carried at original invoice amount less an allowance for doubtful debts. An allowance for doubtful debts is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of contract. The Group periodically analyses the aging of trade receivables and makes adjustments to the amount of the allowance. The amount of the allowance is the difference between the carrying and recoverable amount. The amount of the doubtful debts expense is recognised in the income statement.

E) Borrowings

Borrowings are initially recognised at cost, being the fair value of the proceeds received, net of directly attributable transaction costs. In subsequent periods, borrowings are measured at amortized cost using the effective interest rate method. Any difference between the initial fair value of the consideration (net of transaction costs) received and the redemption amount is recognised within interest expense over the period of the borrowings.

The finance cost of the loans, including the issue costs and any discount on issue, is dealt with as a profit and loss charge over the term of the debt at a constant rate on the carrying amount. The carrying amount of the loan is decreased by the unamortized balance of the issue costs.

F) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale. The cost of inventories is determined on the weighted average basis.

The costs of inventories are comprised of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. The cost of work in progress and finished goods includes costs of raw materials, direct labor and other direct productions costs and related production overheads (not including borrowing costs).

The Group periodically analyses inventories to determine whether they are damaged, obsolete or slow-moving or if their net realisable value has declined, and makes an allowance for such inventories.

In preparing consolidated financial statements, unrealized profits resulting from intragroup transactions are eliminated in full.

G) Property, Plant and Equipment

Property, plant and equipment, except for the items acquired prior to January 1, 2003, are stated at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when the cost is incurred if the recognition criteria are met.

(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

G) Property, Plant and Equipment (continued)

The items of property, plant and equipment acquired prior to January 1, 2003, the date of transition to IFRS, were accounted for at deemed cost being their fair value at January 1, 2003.

Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

Land	Not depreciated
Buildings	8 - 100 years
Machinery and equipment	5 - 30 years
Transport and motor vehicles	4 - 15 years
Furniture and fixtures	2 - 10 years

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalized, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

When each major inspection is performed, its cost is recognised as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities. The items of social infrastructure do not meet the definition of an asset according to IFRS. Construction and maintenance costs of social infrastructure facilities are expensed as incurred.

H) Investment Property

Investment property is stated at historical cost, excluding the costs of day-to-day servicing less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of such investment property when the cost is incurred if the recognition criteria are met.

Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

Land	Not depreciated
Buildings	8 - 100 years
Machinery and equipment	5 - 30 years
Transport and motor vehicles	4 - 15 years
Furniture and fixtures	2 - 10 years

Significant Accounting Policies (continued)

H) Investment Property (continued)

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalized, and the assets replaced are retired. Gains and losses arising from the retirement of investment property are included in the income statement as incurred.

I) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense in the income statement.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

J) Goodwill

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

Goodwill is not amortized but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired. As at the acquisition date, any goodwill is allocated to each of the cash-generating units (groups of cash-generating units), expected to benefit from the synergies of the combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit (groups of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (groups of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Significant Accounting Policies (continued)

J) Goodwill (continued)

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate exceeds the cost of the business combination, the identifiable assets, liabilities and contingent liabilities are re-assessed and re-measured. Any excess remaining after reassessment is immediately recognized in profit or loss.

K) Other Intangible Assets

Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is calculated on a straight-line basis over the expected useful life of an intangible asset. Intangible assets are amortized over their useful economic lives of 2 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization expense of intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Research and Development

Research costs are recognised as an expense as incurred. Costs incurred on development (relating to the design and testing of new or improved products) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

Other Intangible Assets

Expenditure on acquired patents, trademarks, licenses and software is capitalized and amortized on a straight-line basis over their expected useful lives.

L) Impairment of Non-Financial Assets (Other than Goodwill)

An assessment is made at each balance sheet date to determine whether there is objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the recoverable amount is assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of the net selling price and value in use.

Significant Accounting Policies (continued)

L) Impairment of Non-Financial Assets (Other than Goodwill) (continued)

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment loss is recognised for the difference between the estimated recoverable amount and the carrying value. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period.

An impairment loss is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Intangible assets not yet available for use are tested for impairment annually.

M) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

N) Employee Benefits

Social and Pension Contributions

In the normal course of business the Group contributes to state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. These contributions are made in compliance with statutory requirements of those countries where the Group's subsidiaries are located. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Significant Accounting Policies (continued)

N) Employee Benefits (continued)

Post-Employment Benefits

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements.

The liability recognised in the balance sheet in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligations.

Actuarial gains and losses are recognised in the income statement in the period in which they occur. The past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested.

O) Value Added Tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

Value Added Tax Payable

Prior to 2006, VAT was payable by the Group to tax authorities upon collection of receivables from customers. VAT on purchases, which had been settled at the balance sheet date, was deducted from the amount of VAT payable. In addition, VAT related to sales which had not been collected, and therefore currently not due, at the balance sheet date was included in the VAT payable line item.

Starting from 2006, VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Significant Accounting Policies (continued)

O) Value Added Tax (continued)

Value Added Tax Payable (continued)

Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Value Added Tax Recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

In addition, prior to 2006, the VAT recoverable line item included VAT related to purchases, which had not been settled at the balance sheet date, and to property, plant and equipment not yet put into operation. However, this amount was reclaimable against VAT related to sales only upon payment for the purchases or putting property, plant and equipment into operation.

P) Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Q) Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Significant Accounting Policies (continued)

Q) Equity (continued)

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed in the financial statements when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

R) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenues from sales of inventory are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenues from rendering of services are recognised in the period when the services are provided.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Index to the Notes to the Consolidated Financial Statements

(All amounts are in thousands of US dollars, unless specified otherwise)

1) Segment Information

The consolidated financial statements of the Group are reported in two segment reporting formats: business and geographical.

There are no sales or other transactions between the business segments.

The Group's primary segment reporting format is the dominant source for disclosure of its operating activities in its financial statements. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Group discloses its sales revenue, gross profit, assets, liabilities and depreciation costs based on the main groups of products segregated into segments: seamless pipes, welded pipes, other operations, unallocated. Unallocated segment assets and liabilities include those assets and liabilities which can not be analyzed by segments, such as cash, short-term investments, goodwill, borrowings and deferred tax assets and liabilities. They also include assets of maintenance workshops servicing production processes of both seamless and welded pipes.

A geographical segment is the Group's secondary segment reporting format for disclosure of its operating activities in its financial statements. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those components operating in other economic environments. The Group discloses its sales revenue, based on the location of the Group's customers. Segment assets, long-term investments and depreciation expenses are disclosed based on the location of the Group's assets.

Primary reporting format – business segments

YEAR ENDED DECEMBER 31, 2006	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
REVENUE	948,955	2,216,145	219,371	-	**3,384,471**
GROSS PROFIT	143,567	877,014	13,420	-	**1,034,001**
SEGMENT ASSETS	435,072	1,857,501	35,130	1,220,072	**3,547,775**
SEGMENT LIABILITIES	49,136	213,874	16,984	1,497,186	**1,777,180**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	5,942	251,181	1,936	112,921	**371,980**
DEPRECIATION AND AMORTIZATION	10,066	84,363	3,986	16,277	**114,692**

YEAR ENDED DECEMBER 31, 2005	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
REVENUE	912,877	1,788,045	237,271	-	**2,938,193**
GROSS PROFIT	128,792	594,836	22,797	-	**746,425**
SEGMENT ASSETS	277,360	1,419,965	40,199	715,454	**2,452,978**
SEGMENT LIABILITIES	14,370	156,162	7,160	1,022,605	**1,200,297**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	1,663	119,640	4,206	13,796	**139,305**
DEPRECIATION AND AMORTIZATION	9,817	77,143	4,080	14,611	**105,651**

(All amounts are in thousands of US dollars, unless specified otherwise)

1) Segment Information (continued)

Secondary reporting format – geographical segments

Distribution of the Group's revenue by geographical area based on the location of customers was as follows:

YEAR ENDED DECEMBER 31, 2006	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
REVENUE	2,308,545	586,190	177,648	183,027	12,853	102,421	13,787	**3,384,471**
SEGMENT ASSETS	3,057,774	465,566	4,494	454	-	19,487	-	**3,547,775**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	333,465	38,194	37	73	-	211	-	**371,980**

YEAR ENDED DECEMBER 31, 2005	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
REVENUE	2,041,502	514,323	77,130	127,410	3,501	126,701	47,626	**2,938,193**
SEGMENT ASSETS	2,061,433	380,292	11,253	-	-	-	-	**2,452,978**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	102,523	36,782	-	-	-	-	-	**139,305**

(All amounts are in thousands of US dollars, unless specified otherwise)

2) Cost of Sales

	2006	2005
DIRECT COST		
Raw materials	1,575,639	1,481,500
Add-on materials of production	82,290	80,731
Labor cost	93,164	76,250
Contracted services	11,701	4,578
Energy	107,508	82,707
TOTAL DIRECT COST	1,870,302	1,725,766
PRODUCTION OVERHEADS		
Salaries and wages	178,332	150,607
Other compensation	8,587	7,669
Travel	1,331	756
Freight	5,822	3,135
Communications	674	356
Professional services	7,462	6,618
Rent/occupancy	310	253
Utilities	68,037	59,841
Depreciation	105,936	98,880
Insurance	285	114
Taxes	14,581	12,692
Repairs and maintenance	24,659	18,449
Supplies	96,420	86,740
Specialised tools	15,451	12,501
Other	563	2,062
Less: capitalized costs	(14,652)	(6,633)
TOTAL PRODUCTION OVERHEAD CHARGES	513,798	454,040
CHANGES IN INVENTORY	(54,306)	(7,138)
COST OF MERCHANDISE	20,232	16,708
INVENTORY ADJUSTMENT		
Book to physical	(1,125)	67
Obsolete and slow-moving	1,569	2,325
TOTAL INVENTORY ADJUSTMENT	444	2,392
TOTAL COST OF SALES	**2,350,470**	**2,191,768**

(All amounts are in thousands of US dollars, unless specified otherwise)

3) Selling and Distribution Expenses

	2006	2005
Salaries and wages	32,591	23,756
Other compensation	864	397
Travel	3,346	2,360
Freight	104,402	88,905
Communications	1,417	1,115
Professional services	13,483	10,399
Rent/occupancy	4,614	4,050
Utilities	119	258
Depreciation	1,504	1,217
Insurance	682	619
Taxes	196	81
Repairs and maintenance	386	170
Supplies	12,967	11,504
Bad debt expense	1,428	1,555
Other	1,927	1,394
TOTAL SELLING AND DISTRIBUTION EXPENSES	**179,926**	**147,780**

4) Advertising and Promotion Expenses

	2006	2005
Media	1,183	784
Exhibits and catalogues	3,094	1,928
Other	806	372
TOTAL ADVERTISING AND PROMOTION EXPENSES	**5,083**	**3,084**

(All amounts are in thousands of US dollars, unless specified otherwise)

5) General and Administrative Expenses

	2006	2005
Salaries and wages	88,595	66,331
Other compensation	5,591	5,550
Travel	8,707	4,466
Freight	1,099	666
Communications	1,084	832
Professional services	26,268	22,344
Rent/occupancy	3,029	2,617
Utilities	3,495	3,445
Depreciation	6,876	5,569
Insurance	358	443
Taxes	2,764	2,367
Repairs and maintenance	2,667	1,550
Supplies	6,154	5,572
Other	1,031	1,436
TOTAL GENERAL AND ADMINISTRATION EXPENSES	**157,718**	**123,188**

6) Research and Development Expenses

	2006	2005
Salaries and wages	4,351	3,018
Other compensation	123	105
Travel	100	58
Freight	108	29
Communications	36	21
Professional services	1,021	866
Utilities	200	121
Depreciation	296	955
Repairs and maintenance	64	69
Supplies	420	297
Other	6	8
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	**6,725**	**5,547**

(All amounts are in thousands of US dollars, unless specified otherwise)

7) Other Operating Expenses

	2006	2005
Loss on disposal of property, plant and equipment	5,060	4,523
Social and social infrastructure maintenance expenses	10,597	11,124
Charitable donations	11,754	7,488
Other	-	2,953
TOTAL OTHER OPERATING EXPENSES	**27,411**	**26,088**

8) Other Operating Income

	2006	2005
Gain on sale of current assets	245	158
Profit share of the associate	1,249	-
Government grants	3,676	-
Other	3,859	126
TOTAL OTHER OPERATING INCOME	**9,029**	**284**

Company's share in the profit of an associate in the amount of 1,249 represents a 20% interest in profit of the associate in 2006. In 2005 the associate did not conduct any selling or production activities.

In compliance with the Federal Act on partial reimbursement of loan interest expenses to Russian exporters of manufactured goods 3,676 were reimbursed by the federal authorities in 2006.

9) Finance Costs

	2006	2005
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	8,038	2,540
Interest expense	68,464	75,644
TOTAL FINANCE COST	**76,502**	**78,184**

(All amounts are in thousands of US dollars, unless specified otherwise)

10) Acquisition of Eurosinara S.r.l.

As at December 31, 2005, the Group had 50% interest in Eurosinara S.r.l, an entity registered in Italy, which is the Group's distributor of pipe products in Southern Europe. On May 16, 2006, the Group purchased the remaining 50% interest in Eurosinara S.r.l for 1,000 thousand euros (1,290 at the exchange rate as of the date of transfer), increasing its interest to 100%.

The acquisition of Eurosinara S.r.l. was accounted for based on provisional values, as the subsidiary, as of the date of authorization for issue of these financial statements, has not completed the preparation of its IFRS financial statements.

The table below sets forth the fair values of Eurosinara's identifiable assets, liabilities and contingent liabilities at the date of acquisition:

	May 16, 2006
Property, plant and equipment	15
Deferred income tax assets	2,785
Other non-current assets	2
Inventories	4,087
Accounts and notes receivable, net	14,642
Cash	621
Other current assets	87
Total assets	**22,239**
Non-current liabilities	701
Current liabilities	31,290
Total liabilities	**31,991**
NET LIABILITIES	**(9,752)**
Fair value of net liabilities attributable to 50% ownership interest additionally acquired on May 16, 2006	(4,876)
Goodwill arising on acquisition	6,166
CONSIDERATION PAID	**1,290**

Eurosinara S.r.l.'s net profit for the period from May 16, 2006 to December 31, 2006 amounted to 1,051.

If the combination had taken place on January 1, 2006, the net revenue and net profit of the Group for the year ended December 31, 2006 would have been 3,383,896 and 460,212, respectively.

Net liabilities of Eurosinara S.r.l. as of May 16, 2006 of 4,876 relating to the 50% interest owned by the Group before the business combination were recorded as a reduction in accumulated profits in the consolidated financial statements for the year ended December 31, 2006.

(All amounts are in thousands of US dollars, unless specified otherwise)

11) Income Tax

	2006	2005
Current income tax	176,046	118,004
Deferred income tax benefit related to origination and reversal of temporary differences	(18,161)	(22,124)
TOTAL INCOME TAX EXPENSE	**157,885**	**95,880**

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2006	2005
Income before taxation	618,489	350,048
Theoretical tax charge at statutory rate in Russia of 24%	148,437	84,011
Tax effect of items which are not deductable or assessable for taxation purposes:		
Reversal of provision for tax fines	-	(1,133)
Other non-deductible expenses	13,587	12,207
Effect of different tax rates in countries other than Russia	(1,680)	(48)
Effect of changes in tax legislation in Romania	(2,312)	-
Effect of currency translation	(516)	(152)
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	369	995
TOTAL INCOME TAX EXPENSE	**157,885**	**95,880**

In 2006, certain changes, introduced in the tax legislation in Romania, resulted in adjustments to the tax base of property, plant and equipment.

Deferred income tax assets and liabilities at December 31 and their movements for the periods ended December 31 were as follows:

	2006	Change recognised in income statement	Change due to business combiation	Foreign currency translation reserve	2005	Change recognised in income statement	Foreign currency translation reserve	2004
Deferred income tax liabilities:								
Property, plant and equipment	(245,197)	22,132	26	(22,116)	(245,239)	18,496	9,495	(273,230)
Accounts receivable	(8,413)	-	-	(717)	(7,696)	-	287	(7,983)
Inventory	(2,091)	372	96	(205)	(2,354)	2,312	133	(4,799)
Undistributed earnings of subsidiaries	(644)	412	-	(78)	(978)	24	37	(1,039)
Other	(345)	(323)	-	(9)	(13)	689	14	(716)
	(256,690)	**22,593**	**122**	**(23,125)**	**(256,280)**	**21,521**	**9,966**	**(287,767)**
Deferred income tax assets:								
Tax losses available for offset	9,374	(1,939)	-	906	10,407	(655)	(401)	11,463
Accrued liabilities	1,932	(459)	-	190	2,201	(2,110)	(123)	4,434
Accounts receivable	4,166	(320)	2,663	200	1,623	605	(49)	1,067
Prepayments and other current assets	304	(243)	-	39	508	(571)	(30)	1,109
Provisions	7,845	1,468	-	586	5,791	3,371	(150)	2,570
Finance lease obligations	3	(312)	-	18	297	(1,263)	(35)	1,595
Trade and other payable	407	(2,627)	-	181	2,853	1,226	(83)	1,710
	24,031	**(4,432)**	**2,663**	**2,120**	**23,680**	**603**	**(871)**	**23,948**
Net tax effect of temporary differences	-	18,161	-	-	-	22,124	-	-
Less: not recognized deferred income tax asset	(5,046)	-	-	(430)	(4,616)	-	(5)	(4,611)
Net deferred income tax liability	**(252,002)**	**18,161**	**2,785**	**(21,435)**	**(242,648)**	**22,124**	**9,090**	**(271,508)**
Net deferred income tax assets	**14,297**	-	-	-	**5,432**	-	-	**2,901**

(All amounts are in thousands of US dollars, unless specified otherwise)

11) Income Tax (continued)

The amounts shown in the balance sheet include the following:

	2006	2005
Deferred tax assets to be recovered after more than 12 months	4,162	5,745
Deferred tax liabilities to be settled after more than 12 months	(245,197)	(245,239)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group is not offsettable against the deferred tax liability of another company. As at December 31, 2006, a deferred tax asset in the amount of 5,046 (2005: 4,616) has not been recorded as it is not probable that sufficient taxable profit will be available to offset the deductible temporary differences to which the asset relates.

Deferred income tax asset not recognized represents a tax loss of one of the Group's subsidiaries incurred in transactions with securities. Such tax loss could be offset only against future taxable profits generated in transactions with securities over a period of 10 years. The Group believes that it is unlikely that this tax loss will be utilized.

As of December 31, 2006, the Group has not recognised deferred tax liability in respect of 886,918 (2005: 370,443) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

12) Earnings per Share

Earnings per share are calculated by dividing the net profit attributable to ordinary shareholders of the parent entity by the weighted average number of ordinary shares in issue during the period.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

	2006	2005
Weighted average number of ordinary shares outstanding	873,001,000	873,001,000
Net profit attributable to the equity holders of the parent entity	441,264	244,273
Earnings per share attributable to the equity holders of the parent entity:		
Basic and diluted (in US dollars)	**0.51**	**0.28**

(All amounts are in thousands of US dollars, unless specified otherwise)

13) Cash and Cash Equivalents

Cash and cash equivalents in hand and balances with banks were denominated in the following currencies:

	December 31, 2006	December 31, 2005
Russian roubles	127,823	31,872
US dollars	10,220	10,962
Euros	3,955	4,391
Romanian lei	1,343	533
Kazakhstani tenge	326	82
Polish zloty	67	-
Swiss francs	-	5
Other	1	-
TOTAL CASH AND CASH EQUIVALENTS	**143,735**	**47,845**

A cash deposit in the amount of 2,118 has been pledged as security for borrowings at December 31, 2006.

14) Short-Term Investments

	December 31, 2006	December 31, 2005
Bank deposits	141,961	-
Issued loans	30,382	-
Deposits to secure bank loans	1,318	1,188
Promissory notes	690	424
Miscellaneous	171	47
TOTAL SHORT-TERM INVESTMENTS	**174,522**	**1,659**

Bank deposits in the amount of 141,961 and issued loans in the amount of 30,382 are denominated in Russian roubles. The deposits to secure bank loans in the amount of 1,318 are denominated in euros.

15) Accounts Receivable

	December 31, 2006	December 31, 2005
Trade receivables	271,789	125,154
Officers and employees	2,170	1,563
Other accounts receivable	9,491	6,791
GROSS ACCOUNTS RECEIVABLE	283,450	133,508
Allowance for doubtful debts	(9,579)	(8,512)
NET ACCOUNTS RECEIVABLE	**273,871**	**124,996**

(All amounts are in thousands of US dollars, unless specified otherwise)

15) Accounts Receivable (continued)

Accounts receivable amounting to 26,508 and 16,470 are denominated in US dollars at December 31, 2006 and December 31, 2005, respectively. Accounts receivable amounting to 25,695 and 26,869 are denominated in euros at December 31, 2006 and December 31, 2005, respectively.

The following summarizes the changes in the allowance for doubtful current debts:

	2006	2005
Balance at the beginning of the year	8,512	8,645
Utilized during the year	(1,262)	(1,219)
Additional increase in allowance	1,452	1,539
Currency translation adjustment	877	(453)
BALANCE AT THE END OF THE YEAR	**9,579**	**8,512**

Bank borrowings are secured by accounts receivable with the carrying value of 54,218 (December 31, 2005: 717) (Note 24).

16) Prepayments and Input VAT

	December 31, 2006	December 31, 2005
Prepayment for services, inventories	58,555	21,739
Prepayment for rent	562	387
Deferred charges	629	1,566
Prepayment for VAT, input VAT	137,417	119,649
Prepayment for income tax	2,236	119
Prepayment for property tax	-	213
Prepayment for other tax	1,205	942
Prepayment for insurance	438	545
Miscellaneous	3	236
TOTAL PREPAYMENTS	**201,045**	**145,396**

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or via direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is fully recoverable within one year.

(All amounts are in thousands of US dollars, unless specified otherwise)

17) Investments in Associates and Other Long-term Receivables

	December 31, 2006	December 31, 2005
Prepayment for property, plant and equipment	36,764	24,018
Investments in associates	5,079	28
Advances to employees	4,032	3,002
Long-term input VAT	3,882	-
Borrowing costs relating to unused borrowing facilities	1,604	2,025
Restricted cash balances for fulfillment guarantees	3,996	1,122
Trade receivables	66	664
Other	3,667	1,271
GROSS INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	59,090	32,130
Allowance for doubtful debts	-	(23)
NET INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	**59,090**	**32,107**

Cash balances of 3,996 and 1,122 have been pledged for a fulfillment guarantee at December 31, 2006 and December 31, 2005, respectively.

Non-current accounts receivables amounting to 19,393 and 7,850 are denominated in foreign currency, mainly euros, US dollars and Romanian lei, at December 31, 2006 and December 31, 2005, respectively.

The following summarizes the changes in the allowance for doubtful non-current debts:

	2006	2005
Balance at the beginning of the year	23	7
Additional (reversal)/increase in allowance	(24)	16
Currency translation adjustment	1	-
BALANCE AT THE END OF THE YEAR	**-**	**23**

(All amounts are in thousands of US dollars, unless specified otherwise)

18) Inventories

	December 31, 2006	December 31, 2005
Raw materials	184,409	161,582
Work in process	149,435	96,307
Finished goods	75,264	72,754
Goods in transit	61,325	43,359
Consigned goods	769	-
Supplies	125,463	90,827
GROSS INVENTORIES	596,665	464,829
Allowance for obsolescence and slow-moving	(8,113)	(5,897)
NET INVENTORIES	**588,552**	**458,932**

As of December 31, 2006, inventories carried at net realizable value were 29,341 (December 31, 2005: 41,176).

As of December 31, 2006, certain items of inventory with a carrying amount of 90,046 (December 31, 2005: 26,457) were pledged as security for borrowings (Note 24).

The following summarizes the changes in the allowance for obsolescence and slow-moving inventories:

	2006	2005
Balance at the beginning of the year	5,897	3,776
Additional increase in allowance	1,569	2,325
Currency translation adjustments	647	(204)
BALANCE AT THE END OF THE YEAR	**8,113**	**5,897**

(All amounts are in thousands of US dollars, unless specified otherwise)

19) Property, Plant and Equipment and Investment Property

The movement in property, plant and equipment for the year ended December 31, 2006 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	TOTAL
COST						
Balance at January 1, 2006	751,801	865,837	33,694	14,501	147,457	**1,813,290**
Additions	-	2,145	99	283	369,447	**371,974**
Assets put into operation	21,520	185,277	7,340	6,389	(220,526)	**-**
Transfer to investment property	(863)	(40)	(23)	(102)	(10)	**(1,038)**
Disposals	(4,727)	(15,293)	(360)	(575)	(2,620)	**(23,575)**
Increase due to business combination (Note 10)	-	-	-	36	-	**36**
Currency translation adjustments	78,103	92,547	4,833	1,566	25,683	**202,732**
BALANCE AT DECEMBER 31, 2006	**845,834**	**1,130,473**	**45,583**	**22,098**	**319,431**	**2,363,419**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2006	(54,229)	(196,216)	(9,207)	(5,957)	-	**(265,609)**
Depreciation charge	(21,632)	(83,219)	(3,969)	(3,337)	-	**(112,157)**
Transfer to investment property	45	16	5	42	-	**108**
Disposals	1,299	9,818	273	441	-	**11,831**
Increase due to business combination (Note 10)	-	-	-	(21)	-	**(21)**
Currency translation adjustments	(6,457)	(21,611)	(1,187)	(685)	-	**(29,940)**
BALANCE AT DECEMBER 31, 2006	**(80,974)**	**(291,212)**	**(14,085)**	**(9,517)**	**-**	**(395,788)**
NET BOOK VALUE AT DECEMBER 31, 2006	**764,860**	**839,261**	**31,498**	**12,581**	**319,431**	**1,967,631**
NET BOOK VALUE AT JANUARY 1, 2006	**697,572**	**669,621**	**24,487**	**8,544**	**147,457**	**1,547,681**

Bank borrowings are secured by properties and equipment with the carrying value of 146,409 (December 31, 2005: 175,143) (Note 24).

(All amounts are in thousands of US dollars, unless specified otherwise)

19) Property, Plant and Equipment and Investment Property (continued)

The movement in property, plant and equipment for the year ended December 31, 2005 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	TOTAL
COST						
Balance at January 1, 2005	772,084	876,729	28,088	12,387	73,973	**1,763,261**
Additions	1,571	291	233	121	137,011	**139,227**
Assets put into operation	16,085	29,230	7,201	3,688	(56,204)	**-**
Transfer to investment property	(1,979)	(102)	-	(308)	-	**(2,389)**
Disposals	(6,934)	(7,181)	(334)	(868)	(1,722)	**(17,039)**
Currency translation adjustments	(29,026)	(33,130)	(1,494)	(519)	(5,601)	**(69,770)**
BALANCE AT DECEMBER 31, 2005	**751,801**	**865,837**	**33,694**	**14,501**	**147,457**	**1,813,290**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2005	(34,483)	(128,233)	(5,914)	(4,067)	-	**(172,697)**
Depreciation charge	(22,413)	(76,562)	(3,771)	(2,867)	-	**(105,613)**
Transfer to investment property	220	11	-	59	-	**290**
Disposals	672	2,467	158	721	-	**4,018**
Currency translation adjustments	1,775	6,101	320	197	-	**8,393**
BALANCE AT DECEMBER 31, 2005	**(54,229)**	**(196,216)**	**(9,207)**	**(5,957)**	**-**	**(265,609)**
NET BOOK VALUE AT DECEMBER 31, 2005	**697,572**	**669,621**	**24,487**	**8,544**	**147,457**	**1,547,681**
NET BOOK VALUE AT JANUARY 1, 2005	**737,601**	**748,496**	**22,174**	**8,320**	**73,973**	**1,590,564**

The movement in investment property for the year ended December 31, 2006 was as follows:

COST	
Balance at January 1, 2006	2,424
Transfer from property, plant and equipment	1,038
Additions	6
Disposals	(2)
Currency translation adjustments	277
Balance at December 31, 2006	**3,743**
ACCUMULATED DEPRECIATION	
Balance at January 1, 2006	(420)
Transfer from property, plant and equipment	(108)
Depreciation charge	(291)
Disposals	2
Currency translation adjustments	(55)
Balance at December 31, 2006	**(872)**
NET BOOK VALUE AT DECEMBER 31, 2006	**2,871**
NET BOOK VALUE AT JANUARY 1, 2006	**2,004**

(All amounts are in thousands of US dollars, unless specified otherwise)

19) Property, Plant and Equipment and Investment Property (continued)

The movement in investment property for the year ended December 31, 2005 was as follows:

COST	
Balance at January 1, 2005	-
Transfer from property, plant and equipment	2,389
Additions	78
Disposals	(1)
Currency translation adjustments	(42)
Balance at December 31, 2005	**2,424**
ACCUMULATED DEPRECIATION	
Balance at January 1, 2005	-
Transfer from property, plant and equipment	(290)
Depreciation charge	(138)
Currency translation adjustments	8
Balance at December 31, 2005	**(420)**
NET BOOK VALUE AT DECEMBER 31, 2005	**2,004**
NET BOOK VALUE AT JANUARY 1, 2005	**-**

The fair value of investment property approximates its carrying amount.

20) Goodwill and Other Intangible Assets

	Patents and trademarks	Goodwill	Information system projects (software SAP R\3)	Other	TOTAL
COST					
Balance at January 1, 2006	338	37,180	11,210	2,661	**51,389**
Additions	25	-	1,726	2,376	**4,127**
Assets put into operation	-	-	245	(245)	**-**
Disposals	(2)	-	-	(504)	**(506)**
Increase due to business combination (Note 10)	-	6,166	-	-	**6,166**
Currency translation adjustments	42	3,598	1,122	401	**5,163**
BALANCE AT DECEMBER 31, 2006	**403**	**46,944**	**14,303**	**4,689**	**66,339**
ACCUMULATED AMORTISATION					
Balance at January 1, 2006	(88)	-	(381)	(905)	**(1,374)**
Amortisation charge	(30)	-	(1,758)	(564)	**(2,352)**
Disposals	1	-	-	282	**283**
Currency translation adjustments	(13)	-	(85)	(176)	**(274)**
BALANCE AT DECEMBER 31, 2006	**(130)**	**-**	**(2,224)**	**(1,363)**	**(3,717)**
NET BOOK VALUE AT DECEMBER 31, 2006	**273**	**46,944**	**12,079**	**3,326**	**62,622**
NET BOOK VALUE AT JANUARY 1, 2006	**250**	**37,180**	**10,829**	**1,756**	**50,015**

(All amounts are in thousands of US dollars, unless specified otherwise)

20) Goodwill and Other Intangible Assets (continued)

	Patents and trademarks	Goodwill	Information system projects (software SAP R\3)	Other	TOTAL
COST					
Balance at January 1, 2005	327	38,565	8,422	3,104	**50,418**
Additions	25	-	3,160	974	**4,159**
Disposals	-	-	(16)	(1,291)	**(1,307)**
Currency translation adjustments	(14)	(1,385)	(356)	(126)	**(1,881)**
BALANCE AT DECEMBER 31, 2005	**338**	**37,180**	**11,210**	**2,661**	**51,389**
ACCUMULATED AMORTISATION					
Balance at January 1, 2005	(66)	-	-	(551)	**(617)**
Amortisation charge	(26)	-	(387)	(421)	**(834)**
Disposals	-	-	-	17	**17**
Currency translation adjustments	4	-	6	50	**60**
BALANCE AT DECEMBER 31, 2005	**(88)**	**-**	**(381)**	**(905)**	**(1,374)**
NET BOOK VALUE AT DECEMBER 31, 2005	**250**	**37,180**	**10,829**	**1,756**	**50,015**
NET BOOK VALUE AT JANUARY 1, 2005	**261**	**38,565**	**8,422**	**2,553**	**49,801**

21) Accounts Payable and Advances from Customers

	December 31, 2006	December 31, 2005
Trade and other payables	178,639	122,910
Advances from customers	101,845	56,412
Accounts payable for property, plant and equipment	66,722	14,871
Issued notes to third parties	342	-
Other	1,589	2,626
TOTAL ACCOUNTS PAYABLE	**349,137**	**196,819**

Trade payables amounting to 134,993 and 69,538 are denominated in foreign currency, mainly US dollars, euros and Romanian lei, at December 31, 2006 and December 31, 2005, respectively.

(All amounts are in thousands of US dollars, unless specified otherwise)

22) Accrued Liabilities and Provisions

	December 31, 2006	December 31, 2005
Payroll liabilities	27,371	19,945
Accrued and withheld taxes on payroll	10,791	7,312
Liabilities for VAT	8,895	18,187
Liabilities for income tax	17,976	12,154
Liabilities for property tax	2,401	989
Liabilities for other taxes	2,306	745
Deferred VAT	437	37,810
Liabilities for unused annual leave, current portion	2,365	1,322
Current portion of non-current liability	716	-
Accrual for tax fines	659	607
Accrual for long-service benefit	4,451	3,318
Environmental provision	-	2,614
Liabilities under put options in a subsidiary (Note 30 viii)	21,387	-
Miscellaneous	3,729	3,687
TOTAL ACCRUED LIABILITIES	**103,484**	**108,690**

Deferred value added tax is only payable to the tax authorities when the underlying receivable is recovered or written off. The rules apply to transactions arranged prior to December 31, 2005.

23) Finance Lease Liabilities

Starting from 2001, the Group entered into lease agreements under which they have a bargain option to acquire the leased assets at the end of lease term ranging from 2 to 7 years. The estimated average remaining useful life of leased assets varies from 6 to 30 years.

The leases were accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows as at December 31:

	2006	2005
Machinery and equipment	-	8,325
Transport and motor vehicles	657	287
	657	**8,612**

The leased assets are included in property, plant and equipment in the consolidated balance sheet (Note 19).

(All amounts are in thousands of US dollars, unless specified otherwise)

23) Finance Lease Liabilities (continued)

Future minimum lease payments were as follows at December 31, 2006:

	Principal	Interest	Total
2007	187	18	205
2008 - 2009	244	5	249
	431	**23**	**454**

In the years ended December 31, 2006 and December 31, 2005, the average interest rates under the finance lease liabilities were 6% and 13%, respectively.

The finance lease liabilities were denominated in the following currencies at December 31:

	2006	2005
US dollars	23	1,246
Romanian lei	408	188
	431	**1,434**

(All amounts are in thousands of US dollars, unless specified otherwise)

24) Borrowings

Short-term and long-term borrowings were as follows as of December 31:

	2006	2005
Current:		
Russian banks	80,524	198,097
International banks	100,011	118,969
Raiffeisen Leasing liability	592	576
Interest payable	16,431	5,166
Current portion of non-current borrowings	168,453	103,100
Unamortized debt issue costs	(1,470)	(362)
	364,541	**425,546**
Non-current:		
Russian banks	198,481	83,630
International banks	51,728	12,171
Bearer coupon debt securities	587,236	173,718
Raiffeisen Leasing liability	151	785
Unamortized debt issue costs	(8,118)	(2,280)
Less: current portion of non-current borrowings	(168,453)	(103,100)
	661,025	**164,924**

Some of the loan agreements provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness, profitability and guarantees issued to other parties. The Group pledged its rights under some contracts in Russia as collateral under loan agreements for 15,600. Proceeds from sales pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

Loans for 268,062 as of December 31, 2006 and 77,203 as of December 31, 2005, inclusive of short-term borrowings, were guaranteed by collateral of property, plant and equipment, inventories, deposits, accounts receivable (Notes 13, 15, 18, 19) and, as of December 31, 2005, by shares of a subsidiary of the Group representing net assets with the carrying amount of 39,213.

Long-term debt is repayable as follows:

	December 31, 2006	December 31, 2005
1 to 2 years	302,322	45,920
2 to 3 years	338,382	10,758
3 to 4 years	11,656	105,169
Over 4 years	16,783	5,357
Unamortized debt issue costs	(8,118)	(2,280)
	661,025	**164,924**

(All amounts are in thousands of US dollars, unless specified otherwise)

24) Borrowings (continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Interest rates	December 31, 2006	December 31, 2005
Russian Rouble	6% - 10.09%	434,917	327,550
US Dollar	6.77% - 20.94% Libor 1 month + 3.75%	471,851	211,279
Euro	4.038% - 9.043% Euribor 3 month + 2.75% Euribor 6 month + 3.5% Euribor 6 month + 5% 5.6% - 8.75%	118,798	42,055
Romanian Lei	Bubor 1month + 4% (*)	-	9,586
		1,025,566	**590,470**

(*) Bubor is the Bucharest bid offer rate.

Bank Loans

In April 2006, the Group repaid early its liabilities under long-term loans to Moscow Narodny Bank in the amount of 47,143. These liabilities were included in non-current borrowings in the amount of 27,788 (net of current portion) in the consolidated balance sheet as of December 31, 2005. The full amount was financed by short-term borrowings.

On August 25, 2005, the Group entered into a 25,000 facility agreement with Moscow Narodny Bank with a maturity date of September 30, 2007. This liability was included in non-current borrowings in the amount of 11,497 (net of current portion) in the consolidated balance sheet as of December 31, 2005. The facility was repaid on August 31, 2006.

In connection with the funding of the TMK Steel Loan (Note 28), the Group incurred the following debt:

On September 29, 2006, the Group entered into a facility agreement with Dresdner Bank that provided for a bridge loan facility in the principal amount of 160,000, with a term of 364 days from the date of signing. The facility was repaid on November 8, 2006.

On September 25, 2006, the Group entered into a syndicated facility agreement with Bank Natexis, as arranger, in an aggregate principal amount of up to 155,000. The facility has a term of 30 months from the date of the first drawdown, which occurred on September 26, 2006. The maturity date of the facility may be extended in certain circumstances at the election of the Group. As of December 31, 2006, the Group has drawn the equivalent of 155,000 under this facility.

24) Borrowings (continued)

Bank Loans (continued)

On October 2, 2006, the Group entered into a medium term facility with Moscow Narodny Bank and Commerzbank in the principal amount of 140,000. The term of the facility was 24 months. The facility was fully drawn. The facility was repaid on November 10, 2006.

Loan Participation Notes

On September 29, 2006, the Group issued 3,000 8.5% loan participation notes with a nominal value of US$100,000 each, due September 2009. The notes were issued by TMK Capital S.A., a Luxemburg special purpose vehicle, for the sole purpose of funding a loan to the Company. The notes have been admitted to trading on the London Stock Exchange. The terms of the notes provide for certain restrictions on the Company's ability to incur liens, to engage in assets sales, to engage in transactions with affiliates and to engage in mergers and similar transactions.

Bearer Coupon Debt Securities

On October 21, 2003, the Group issued 2,000,000 bonds with a nominal value of 1,000 roubles (US$33.31 at the exchange rate as of the date of issuance) each. The bonds mature on October 21, 2006. The interest rate for the first, second and third semi-annual coupons is 14% per annum. The interest rate for the fourth, fifth and sixth semi-annual coupons will be established and announced by the Company within 14 days before the third coupon due date. Early redemption of bonds was made available within 14 days of the third coupon period, from the 534th to the 547th days from the date of issuance. None of the bondholders used their right to recall their bonds. On October 20, 2006, the Group repaid its liabilities under the debt securities.

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 roubles (US$35.95 at the exchange rate as of the date of issuance) each. The bonds mature on March 24, 2009. The interest rate for the first and second semi-annual coupons is 11.09% per annum. The interest rate for the third and fourth semi-annual coupons is 10.09% per annum. The interest rate for the fifth, sixth, seventh and eighth semi-annual coupons will be established and announced by the Company within 5 days before the fourth coupon due date. Early redemption of bonds was available within 5 days of the fourth coupon period, from the 724th to the 728th days from the date of issuance. In December 2006, the Company bought out early the bonds from bondholders for the total amount of 16,587.

On February 21, 2006, the Group issued 5,000,000 bonds with a nominal value of 1,000 roubles (US$35.53 at the exchange rate of the date of issuance) each, with ten coupon periods of 182 days each. The maturity date is February 15, 2011. The interest rate for the first, second, third and forth semi-annual coupons is 7.95% per annum. The interest rate for the fifth, sixth, seventh, eighth, ninth and tenth semi-annual coupons will be established and announced by the Company within 15 days before the fourth coupon due date. Early redemption of bonds is available within 15 days of the fourth coupon period, from the 714th to 728th days from the date of issuance.

(All amounts are in thousands of US dollars, unless specified otherwise)

24) Borrowings (continued)

Unamortized Debt Issue Costs

Unamortized debt issue costs represent agent commission and arrangement costs paid by the Group in relation to the arrangement of loans and issue of notes.

Liability to Raiffeisen Leasing

The liability to Raiffeisen Leasing relates to a lease contract between the Group and Raiffeisen Leasing. The contract was a part of a sale-leaseback transaction. Under the contract, the Group sold certain items of equipment to Raiffeisen Leasing and immediately leased them back. The substance of the transaction represented a borrowing by the Group from Raiffeisen Leasing and has been accounted for as such in the consolidated financial statements.

Unutilised Borrowing Facilities

As of December 31, 2006, the Group had unutilised borrowing facilities in the amount of 310,323 (December 31, 2005: 151,749).

25) Post-Employment Benefits

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. Defined benefits consist of lump-sum amounts payable at the retirement date and certain regular post-retirement payments. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreement. The Group pays the benefits when they fall due for payment.

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2006 and 2005 and amounts recognized in consolidated balance sheets as of December 31, 2006 and 2005 were as follows:

	December 31, 2006	December 31, 2005
Movement in the benefit liability:		
At January 1	(18,009)	(11,649)
Benefit expense	(1,957)	(7,429)
Benefit paid	755	518
Less: current portion of non-current post-employment liability	706	-
Currency translation adjustment	(1,838)	551
At December 31	**(20,343)**	**(18,009)**
Net benefit expense (recognized in cost of sales):		
Current service cost	1,318	1,164
Past service cost	190	-
Net actuarial (gain) loss recognized in the period	(1,033)	5,352
Interest cost on benefit obligation	1,482	913
Net benefit expense	**1,957**	**7,429**

(All amounts are in thousands of US dollars, unless specified otherwise)

25) Post-Employment Benefits (continued)

The following table summarises the components of net benefit expense recognised in the consolidated income statement and amounts recognized in consolidated balance sheets by country:

	Russia		Romania	
	2006	2005	2006	2005
Movement in the benefit liability:				
At January 1	(17,396)	(11,088)	(613)	(561)
Benefit expense	(1,378)	(7,295)	(579)	(134)
Benefit paid	694	471	61	48
Less: current portion of non-current liability	706	-	-	-
Currency translation adjustment	(1,651)	516	(187)	34
At December 31	(19,025)	(17,396)	(1,318)	(613)
Net benefit expense (recognized in cost of sales):				
Current service cost	1,017	1,090	301	73
Past service cost	190	-	-	-
Interest cost on benefit obligation	1,416	843	66	71
Net actuarial (gain) loss recognized in the period	(1,245)	5,362	212	(10)
Net benefit expense	1,378	7,295	579	134

The principal actuarial assumptions used in determining pension obligations for the Group's plan are shown below:

	Russia		Romania	
	2006	2005	2006	2005
Discount rate	7.8%	7.8%	decreasing from 7.49% to 3.53% in the long term	decreasing from 12.14% to 3.53% in the long term
Average long-term rate of compensation increase	6.3%	6.3%	decreasing from 6.0% to 2.0% in the long term	decreasing from 8.6% to 2.0% in the long term

The Group had no plan assets and unrecognized actuarial gains or losses in the year ended December 31, 2006.

26) Other Non-current Liabilities

	December 31, 2006	December 31, 2005
Unused annual leave	12,835	7,022
Other long-term liabilities	5,297	321
BALANCE AT THE END OF YEAR	18,132	7,343

(All amounts are in thousands of US dollars, unless specified otherwise)

27) Principal Subsidiaries

Company	Location	Main activity	Actual ownership interest	Effective ownership interest	Actual ownership interest	Effective ownership interest
			December 31, 2006		December 31, 2005	
OAO "Sinarsky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, sale of electric and heating power and other services	92.43%	92.43%	91.12%	91.12%
OAO "Seversky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services	92.97%	92.97%	91.60%	91.60%
OAO "Volzhsky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	100.00%	100.00%
OAO "Taganrog Metallurgical Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of steel ingots and other products	95.74%	95.74%	95.32%	95.32%
ZAO "Trade House TMK"	Russia	Sale of steel pipes	100.00%	99.92%	100.00%	99.91%
OOO "Skladskoy Kompleks TMK"	Russia	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
TOO "TMK-Kazakhstan"	Kazakhstan	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
OOO "TMK-Trans"	Russia	Transportation services	100.00%	100.00%	100.00%	100.00%
OOO "Blagoustroystvo"	Russia	Services	100.00%	99.99%	100.00%	100.00%
OOO "Sinarsky Trubnik"	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO "SinaraTransAvto"	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO "Sinaraproekt"	Russia	Services	100.00%	100.00%	100.00%	100.00%
TMK Global AG	Switzerland	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
TMK Sinara North America Inc.	USA	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
Eurosinara S.r.l.	Italy	Sale of steel pipes	100.00%	100.00%	-	-
TMK Middle East	UAE	Sale of steel pipes	100.00%	100.00%	-	-
Pokrovka 40	Russia	Assets holding	100.00%	100.00%	-	-
TMK Sinara Handel GmbH	Germany	Sale of pipes, raw materials and equipment	100.00%	100.00%	100.00%	100.00%
SC TMK-ARTROM SA	Romania	Manufacturing of seamless steel pipes	80.56%	80.56%	80.56%	80.56%
SC TMK-RESITA SA	Romania	Manufacturing of billets and other pipe-related goods	99.49%	99.49%	99.49%	99.49%
TMK Eastern Europe	Romania	Sale of pipes and other goods	95.00%	95.00%	95.00%	95.00%
WRJ INWESTYCJE SP Z O.O.	Poland	Investment company	80.00%	80.00%	-	-
TMK Capital S.A.	Luxembourg	Finance raising	0.00%	0.00%	-	-

(All amounts are in thousands of US dollars, unless specified otherwise)

28) Related Parties Disclosures

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2006 and 2005 are detailed below.

In the year ended December 31, 2006, transactions with related parties constituted approximately 1% of the total volume of the Group's sales of goods (2005: 3%).

Interest rates on borrowings from related parties in 2006 were from 4% to 15% (2005: from 7% to 14%).

The following table provides outstanding balances with related parties at the year-end:

	December 31, 2006	December 31, 2005
Cash		
- Entities under common control with the Group	50,567	12,489
- Entities under control of the minority shareholders of the Company	-	5
	50,567	**12,494**
Accounts receivable - current		
- Entities under common control with the Group	12,173	28,284
- Entities under control of the minority shareholders of the Company	-	123
	12,173	**28,407**
Prepayments - current		
- Entities under common control with the Group	1,027	-
- Entities under control of the minority shareholders of the Company	-	18
	1,027	**18**
Accounts receivable - non-current		
- Entities under common control with the Group	**46,339**	**8,486**
Accounts payable - current		
- Entities under common control with the Group	**6,702**	**478**
Borrowings from related parties		
- Entities under control of the minority shareholders of the Company	**-**	**31,394**

(All amounts are in thousands of US dollars, unless specified otherwise)

28) Related Parties Disclosures (continued)

Accounts receivable from related parties amounting to 45,564 and 23,922 are denominated in foreign currency, mainly US dollars and euros, at December 31, 2006 and December 31, 2005, respectively.

The following table provides the total amount of transactions with related parties for the years ended December 31:

	2006	2005
Sales revenue		
- Entities under common control with the Group	**34,333**	**82,521**
Purchases of goods and services		
- Entities under common control with the Group	42,141	32,059
- Entities under control of the minority shareholders of the Company	52	1,318
	42,193	**33,377**
Interest expenses from loans and borrowings		
- Entities under common control with the Group	-	911
- Entities under control of the minority shareholders of the Company	760	1,472
	760	**2,383**
Interest income from loans and borrowings		
- Entities under common control with the Group	**2,147**	**1,135**

On October 1, 2006, as a result of the acquisition by TMK Steel Limited of all ordinary shares held by Dalecone Limited, MDM-Bank ceased to be a related party with the Company.

On October 6, 2006, the Group granted loans to TMK Steel Limited in the aggregate principal amount of 780,000 for the term of up to five years. The loans bore interest of 8.51% per annum and were unsecured. In November 2006, TMK Steel Limited repaid the loans to the Group together with accrued interest of 5,473.

Non-current accounts receivable from related parties include advances paid for the purchase of 75% ownership interest in “Orsky Machine Building Plant” in the amount of 45,512 as of December 31, 2006.

Non-current accounts receivable from related parties also include a long-term portion of receivables for securities sold in the amount of 4,986 as of December 31, 2005. The nominal value of the current portion of the receivables for securities sold was 6,304 as of December 31, 2006 and 2,779 as of December 31, 2005.

28) Related Parties Disclosures (continued)

Compensation of Key Management Personnel of the Group

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totalling 33 persons as at December 31, 2006 (2005: 31). Total compensation to key management personnel included as part of the general and administrative expenses in the income statement amounted to 14,620 for the year ended December 31, 2006 (2005: 7,782), including 1,278 in respect of shares sold by TMK Steel Limited (Note 30 vii).

Compensation to key management personnel consists of contractual salary, performance bonus depending on operating results and payments for medical insurance.

29) Contingencies, Commitments and Operating Risks

Operating Environment of the Group

The Group's principal assets are located in the Russian Federation, therefore, its significant operating risks are related to the activities of the Group in this country.

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Taxation

The major part of the Group tax expense relates to taxation in the Russian Federation.

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

29) Contingencies, Commitments and Operating Risks (continued)

Contractual Commitments and Guarantees

As of December 31, 2006, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,844,993 thousand roubles (70,069 thousand US dollars), 192,897 thousand euros (254,181 thousand US dollars), 10,087 thousand US dollars and 8,828 thousand Romanian lei (3,435 thousand US dollars) for the total amount 337,772 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 32,299 with respect to such commitments.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 47,301 (2005: 57,505).

Insurance Policies

The Group maintains obligatory insurance policies required by the Russian Law and insurance policies in respect of certain assets pledged under loan agreements. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

Legal Claim

During the period, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these consolidated financial statements.

Guarantees of Debts of Others

The Group had guarantees of debts of others outstanding at December 31, 2006 in the amount of 4,562 with maturity in 2007.

30) Equity

i) Share Capital

As of December 31, 2006, the authorized number of ordinary shares of the Company was 873,001,000 (2005: 873,001,000) with a nominal value per share of 10 roubles. All these shares are issued and fully paid.

ii) Reserve Capital

According to Russian Law, the Company must create a reserve capital in the amount of 5% of the share capital per the Russian statutory accounts by annual appropriations that should be at least 5% of the annual net profit per the statutory financial statements. The reserve capital can be used only for covering losses and for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

30) Equity (continued)

iii) Dividends

In July 2006, the Company paid dividends in respect of 2005 in the amount of 17,101 or 0.542 roubles per share. In May 2005, the Company paid interim dividends in respect of 2005 in the amount of 2,592 or 0.084 roubles per share.

In accordance with Russian legislation, dividends may only be declared to the shareholders from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had 457,583 and 327,139 of undistributed and unreserved earnings as of December 31, 2006 and 2005, respectively. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 889,177 and 381,749 as of December 31, 2006 and 2005, respectively.

iv) Transfers of Ownership Interests in Subsidiaries and Distributions to Owners

In December 2004, the Group signed an agreement with an entity under common control with the Group for the purchase of 100% ownership interest in Sinara Trading AG, an entity registered in Switzerland, for the consideration of 8,787 thousand Swiss francs (7,753 at the exchange rate as of December 31, 2004). The title transferred to the Group and control over Sinara Trading was obtained by the Group on May 25, 2005. An amount of 7,717 was paid by the Group prior to December 31, 2004. The Group additionally paid an amount of 472 in 2005. These payments were recorded as a reduction in accumulated profits in the consolidated financial statements.

In June 2005, the Group signed an agreement with an entity under common control with the Group for the purchase of 100% ownership interest in Sinara Handel GmbH, an entity registered in Germany, for the consideration of 40,000. The title to the 100% ownership interest in Sinara Handel GmbH was transferred to the Group on March 1, 2006. An amount of 20,000 was paid by the Group prior to December 31, 2005 and an amount of 20,000 was paid by the Group on March 3, 2006.

Sinara Trading paid dividends in the amount of 7,593 for 2005 in May 2005 to its former owner, before the transfer of Sinara Trading shares to the Group. Sinara Handel accrued dividends to its former owner in the amount of 1,830 for 2004 in the year ended December 31, 2005. The corresponding liability in the amount of 1,758 was included into dividends payable in the consolidated financial statements as at December 31, 2005.

v) Acquisition of Minority Interests in Subsidiaries

In the year ended December 31, 2006, the Company purchased 1.31% of OAO “Sinarsky Pipe Plant” shares, 1.37% of OAO “Seversky Pipe Plant” shares and 0.42% of OAO “Taganrog Metallurgical Plant” shares. The total amount paid for the shares was 21,423.

In the year ended December 31, 2005, the Company purchased 2.43% of OAO “Sinarsky Pipe Plant” shares, 0.48% of OAO “Seversky Pipe Plant” shares and 0.73% of OAO “Taganrog Metallurgical Plant” shares. The total amount paid for the shares was 8,487.

30) Equity (continued)

vi) Dividends by Subsidiaries of the Group to the Minority Owners in Subsidiaries

Dividends declared by subsidiaries of the Group to the minority owners in subsidiaries were recorded as a reduction in minority interests of 476 and 1,192 in the consolidated financial statements for the years ended December 31, 2006 and 2005, respectively.

vii) Excess of the Fair Value of Ordinary Shares Sold to the Group's Employees over the Offer Price of Ordinary Shares

TMK Steel Limited sold 2,650,000 ordinary shares, amounting to approximately 0.3% of the issued and outstanding ordinary shares, to the Group's employees at a price of RUB 123 (approximately US$4.67 as of December 31, 2006) per ordinary share in the employee offering.

The excess of the fair value of ordinary shares sold to the Group's employees over the offer price of ordinary shares in the total amount of 2,142 is recorded as an increase in additional paid-in capital and as salaries and wages in general and administrative expenses in the consolidated financial statements for the year ended December 31, 2006.

viii) De-recognition of Minority Interests in a Subsidiary

In 2006, new regulations were introduced in the Russian Federation in respect of joint stock companies in which a controlling shareholder owns not less than 95% of the share capital as of July 1, 2006. These amendments oblige a controlling shareholder to acquire the company's shares in the case when the minority shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can initiate a forced disposal of the shares held by minority shareholders.

At July 1, 2006, the Group had a 95.74% ownership interest in OAO "Taganrog Metallurgical Plant". At this date, the Group derecognised minority interests of 14,443 and accrued a liability to minority shareholders in the amount of 27,106. The liability was measured based on the highest price for the shares during the period of six months up to the date of its recognition as required by the regulations. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to 12,663 was charged to accumulated profits.

31) Financial Risk Management

The Group's principal financial instruments comprise bank loans and overdrafts, bonds issued, finance leases, loans given, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. During the year the Group did not undertake trading in financial instruments.

Credit Risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk.

31) Financial Risk Management (continued)

Credit Risk (continued)

The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

The Group maintains its available cash in Russian affiliates of international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

Foreign Exchange Risk

The Group exports production and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (Notes 13, 14, 15, 16, 17) and liabilities (Notes 21, 23, 24) give rise to foreign exchange exposure.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management believes that the Group is secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings.

Interest rates on long-term borrowings are fixed, except for 176,394 of variable-rate debt. Interest rates are disclosed in Note 24.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of cash, short-term and long-term investments, short-term accounts receivable and payable, long-term accounts receivable, short-term and long-term loans payable, approximate their fair value.

The fair value of the bonds issued by the Group in March 2005 with a nominal amount of 2,563,241 thousand Russian roubles (97,346) is equal to 2,583,747 thousand Russian roubles (98,125) as of December 31, 2006.

The fair value of the bonds issued by the Group in February 2006 with a nominal amount of 5,000,000 thousand Russian roubles (189,890) is equal to 5,020,500 thousand Russian roubles (190,668) as of December 31, 2006.

The fair value of the bonds issued by the Group in September 2006 with a nominal amount of 300,000 is equal to 310,620 as of December 31, 2006.

The fair value of the bonds was determined based on market quotations.

32) Events after the Balance Sheet Date

On February 20, 2007, Sinara Handel GmbH was re-registered as TMK Sinara Handel GmbH.

On August 25, 2006, the Group signed an agreement on the purchase of 75% ownership interest in Open Joint-Stock Company "Orsky Machine Building Plant" for 45,512 from an entity under common control with the Group. Title transferred to the Group and control over "Orsky Machine Building Plant" was obtained by the Group on January 31, 2007. On February 1, 2007, a management agreement was signed under which the Company took over the authority of the sole executive body of "Orsky Machine Building Plant". Prepayment for 75% ownership interest in the amount of 45,512 was made on November 9, 2006 and is included in long-term receivables from related parties in the consolidated financial statements (Note 28).

On March 5, 2007, the Company purchased 76.33% ownership interest of Joint-Stock Company "Russian Research Institute of the Tube and Pipe Industries" ("Rosniti") for 3,067. "Rosniti" is a scientific research institution engaged in the scientific and technological development of the Russian pipe industry.

In addition to the information disclosed in respect of these acquisitions, IFRS 3 "Business Combinations" requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquirees' assets, liabilities and contingent liabilities. It is impracticable for the Group to disclose this information because the acquired subsidiaries have not completed purchase price allocation in accordance with IFRS 3 "Business Combinations".

In January 2007, the Company purchased additional 0.1% of OAO "Seversky Pipe Plant" shares for 19,990 thousand Russian roubles (759 at the exchange rate at December 31, 2006). The Company's interest in the subsidiary increased to 93.07%.

On February 20, 2007, the Company paid interest in the amount of 7,024 (198,200 thousand roubles at the exchange rate as of the date of payment) for the second semi-annual coupon of 5,000,000 bonds issued on February 21, 2006.

On March 27, 2007, the Company paid interest in the amount of 5,246 (136,805 thousand roubles at the exchange rate as of the date of payment) for the fourth semi-annual coupon of 3,000,000 bonds issued on March 29, 2005.

In March 2007, the Group repaid early its liabilities under long-term loans to Gazprombank in the amount of 4,286 thousand euros (5,648 at the exchange rate at December 31, 2006). These liabilities were included in non-current borrowings in the consolidated balance sheet as of December 31, 2006.

In November 2006, the Group entered into a long-term pre-export finance facility with VTB Bank Europe Plc. in the principal amount of 30,000 with a maturity in 2007-2010. On January 18, 2007, the facility was fully drawn.

In March 2007, the Group entered into a loan agreement with Banca Comersiala Romana in the principal amount of 19.7 million euros (25,959 at the exchange rate at December 31, 2006) with a maturity in January 2008.

32) Events after the Balance Sheet Date (continued)

Share Options Program

On March 2, 2007, the Group adopted a share options program (the "Program"). Under the Program, the members of the Board of Directors, senior executives and certain employees (the "Participants") are granted options to acquire shares in the Company. The Program provides for the grants of options to acquire up to 9,603,011 shares, representing 1.1% of the Company's shares outstanding as of December 31, 2006. All the options were granted to the Participants in March 2007. The options will be exercisable in three phases in June 2007, June 2008 and June 2009, representing 25%, 35% and 40%, respectively, of the total amount of shares subject to the Program.

The exercise price for options under the first phase was fixed at US$8.25 per share. The exercise price for options under the second and third phases will be determined based on the average market price of the shares for the periods from March 2007 to June 2007 and from June 2007 to June 2008, respectively.

The fair value of options granted to be recognized as an expense over the vesting period is 12,683.

In February and March 2007, the Group purchased 491,980 shares of the Company for the total amount of 4,914 (at the exchange rate as of the date of transactions), including 463,180 shares purchased from an entity under common control with the Group for 3,977, for the purpose of realisation of the Program.