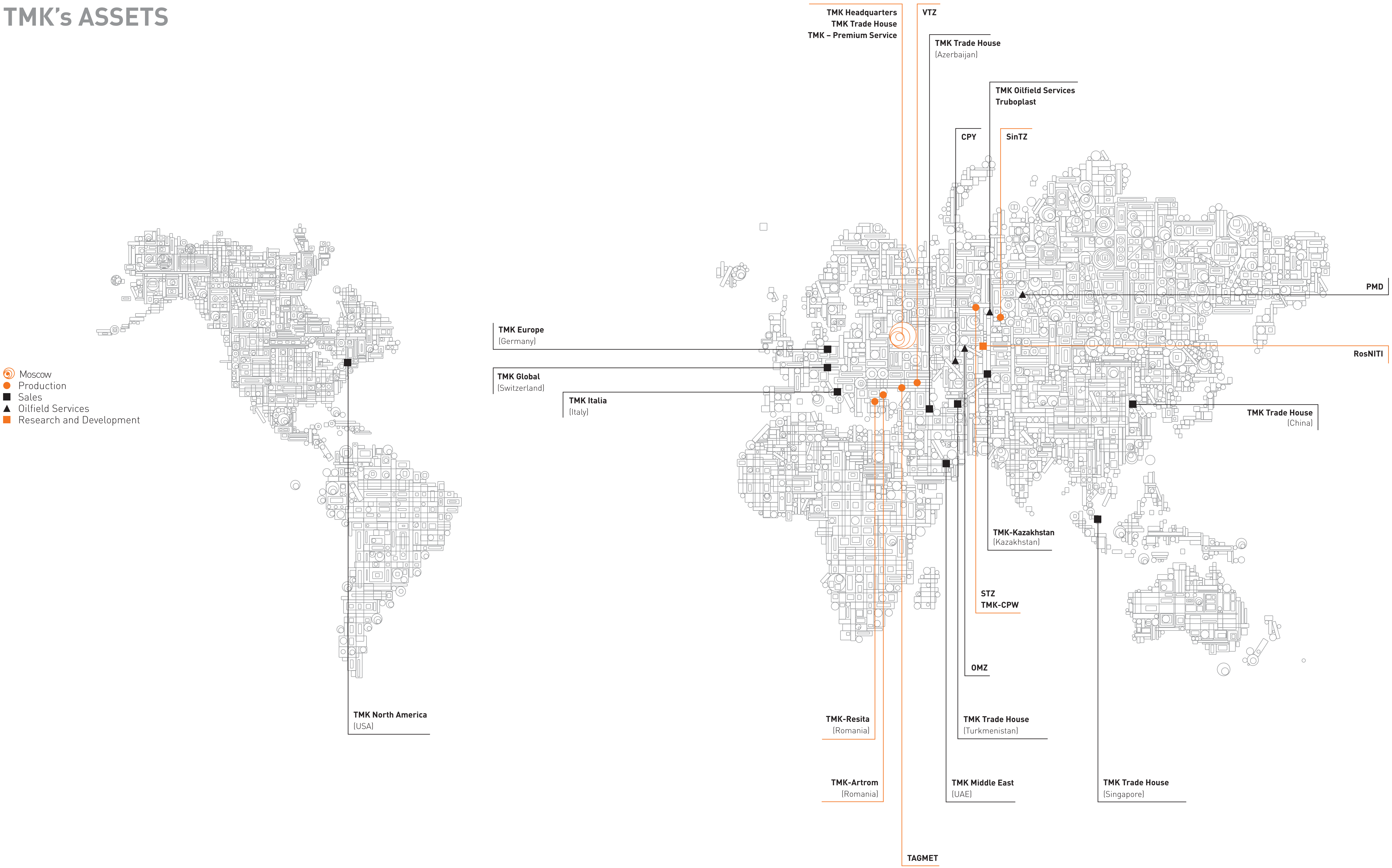
ANNUAL REPORT 2007

STRATEGIC GROWTH

TMK's ASSETS



TMK Headquarters
TMK Trade House
TMK – Premium Service
VTZ
TMK Trade House
(Azerbaijan)
TMK Oilfield Services
Truboplast
CPY
SinTZ
PMD
TMK Europe
(Germany)
RosNITI
TMK Global
(Switzerland)
TMK Italia
(Italy)
TMK Trade House
(China)
Moscow
Production
Sales
Oilfield Services
Research and Development
TMK-Kazakhstan
(Kazakhstan)
STZ
TMK-CPW
OMZ
TMK North America
(USA)
TMK-Resita
(Romania)
TMK Trade House
(Turkmenistan)
TMK-Artrom
(Romania)
TMK Middle East
(UAE)
TMK Trade House
(Singapore)
TAGMET

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COMPANY PROFILE

TMK is Russia's largest manufacturer and supplier of pipes. TMK ranks as one of the top three pipe producers globally and delivers its products to customers in more than 60 countries. TMK's customers include major Russian and international oil and gas corporations such as Gazprom, TNK-BP, Surgutneftegas, Rosneft, LUKOIL, Shell Group, Agip, Total, Exxon Mobil, Occidental Petroleum, ONGC, Saudi Aramco, Sonatrach, and KOC.

The TMK group of companies encompasses the Volzhsky Pipe Plant, Sinarsky Pipe Plant, Seversky Tube Works[1], Taganrog Metallurgical Works[2], TMK-Artrom, TMK-Resita, and a number of oilfield service companies.

TMK follows international standards of corporate governance. Four of the ten members of the Board of Directors are independent directors.

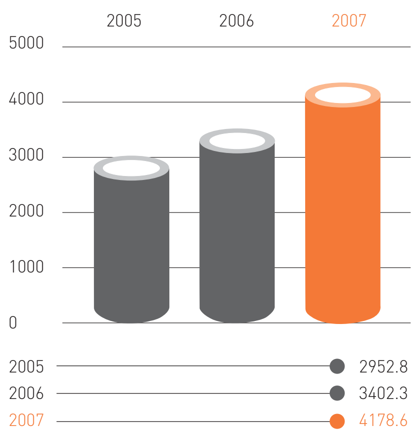
TMK's product line includes a broad range of seamless and welded pipes for various applications, primarily for the oil and gas sector.

TMK shares are traded on the London Stock Exchange as GDRs and in Russia on the RTS and MICEX exchanges.

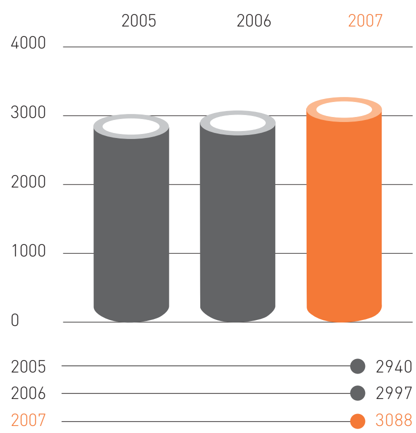
[1] Named as Seversky Pipe Plant in the "Consolidated Financial statements" section of the current report
[2] Named as Taganrog Metallurgical Plant in the "Consolidated Financial statements" section of the current report

KEY INDICATORS

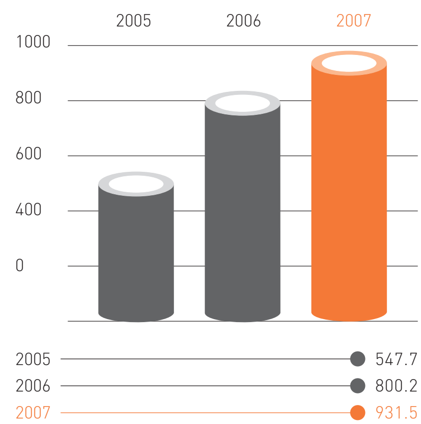
NET SALES
million USD



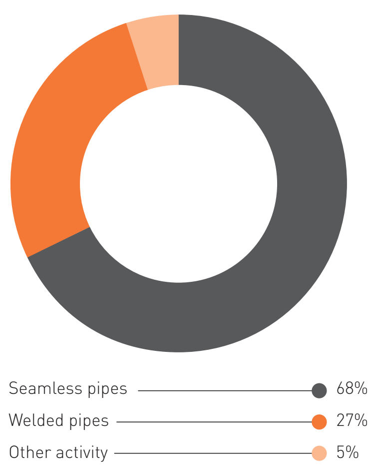
SALES VOLUME
thousand tonnes



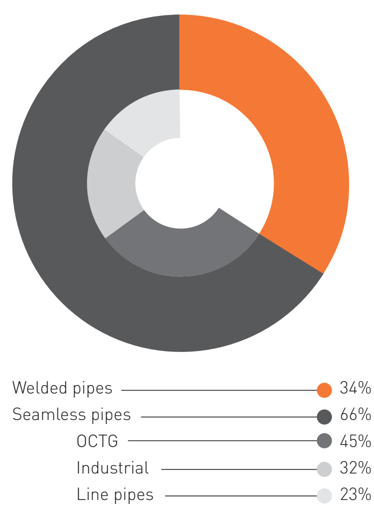
EBITDA[1]
million USD



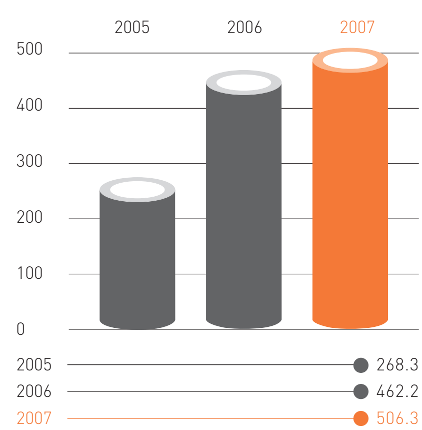
SALES STRUCTURE
in 2007



SALES VOLUME STRUCTURE
in 2007



NET PROFIT
million USD



Financial results are adjusted taking into account the acquisition of Orsky Machine Building Plant from a company under common control with TMK.

[1] The method for calculating EBITDA is shown in the appendix on page 153.

CHAIRMAN'S LETTER

Dear shareholders,

In 2007, TMK followed the Strategy it has developed up to 2015, and furthered its plans for delivering goods to customers, modernising its production facilities, launching new manufacturing capacity, and developing new lines of business.

Despite increasing competition on the pipe market, we continued to improve our key financial indicators and increased revenues and net profit. We invested record amounts last year to carry out the measures foreseen by our Strategic Investment Programme. TMK developed its oilfield services business by acquiring Orsky Machine Building Plant, Truboplast, Pipe Maintenance Department, and Central Pipe Yard. To manage these assets, an oilfield services division was created as an independent business of TMK, which will help to create strong positions for TMK on the market for oilfield services and improve the quality of services directly in oil producing regions. The creation of this division is fully in line with our strategic vision of TMK as a global supplier of high-technology products and services to the oil and gas industry.

Also, with the aim of improving customer services and reaching a new level of quality of advanced Premium threaded connections, a specialised company, TMK-Premium Service, was set up. It offers customers a range of premium threaded connections for the development of deposits with complex geological structures, including for exploration and production drilling in deepwater and high-pressure environments.

For the near future, our efforts to achieve our strategic goals will be undertaken in conditions of increasing competition on the global markets. TMK is meeting the new challenges by putting greater efforts into its research and development division. Last year, TMK was joined by Russia's only pipe-industry research institute – RosNITI. The corporate R&D centre created around this nucleus of innovation will give TMK an important competitive advantage: the ability to create high-tech products at lower cost and to expand the range of high-quality services it offers its customers. TMK's stable market position is also assured by such factors as the favourable geographic location of its manufacturing capacities and optimal logistics arrangements with its own distribution network in key regions where TMK products are in demand.

The year 2007 was TMK's first in its new role as a public company. Our securities were an attractive investment instrument over the year and for this reason, additional opportunities were created for investors: in addition to being quoted on the LSE and the RTS exchange, TMK shares were listed on the MICEX stock exchange. We should also note that TMK shares were moved to a higher category list on RTS and the shares were included on the MSCI Russia, RTS, and MICEX MC indexes. TMK's investment appeal has significantly increased; this is reflected in the fact that both Standard & Poor's and Moody's raised TMK's ratings this year.

We pay a great deal of attention to implementing the latest corporate governance standards in the Company's everyday practice and ensuring an adequate level of information disclosure. A factor in the Company's successful work this past year has been the productive activity of the Board of Directors and its Committees, each of the latter chaired by independent directors. Our results in this field in our first year on the stock market were recognised with the prize «For active corporate policy in the field of information disclosure», from news agencies authorised by the Federal Financial Markets Service.

The financial results enable the Company to carry out its dividend policy and ensure that at least 25% of consolidated net profit is paid out as share income. Based on the Company's 2006 performance, the annual general meeting of shareholders approved a dividend of 17 cents per ordinary share.

In all regions where it has a presence, TMK faithfully follows the principles of social responsibility, ensuring that its environmental activity meets Russian and international standards, increasing its contribution to the local social and economic development and creating opportunities for personal and professional growth for its employees. All companies of TMK have an Environmental Policy in place, a document that establishes the priority of environmental safety and determines the Company's goals and objectives in this field. The principles stemming from this activity are also implemented in investments which in addition to raising quality and expanding the product range, are aimed at saving resources and using technologies that limit the environmental impact of manufacturing.

In conclusion, I should like to thank everyone in the Company for their teamwork, professionalism and dedication, without which the results achieved in 2007 would not have been possible. Thanks to the hard work, experience and knowledge of its employees, TMK continues to successfully develop and reliably meet its obligations to its business partners, the government, and society. Special thanks must be given to all of our partners and clients for the trust they have shown in the Company. I look forward to making our business relationship even more effective in the coming year.

Dmitriy Pumpyanskiy
Chairman of the Board of Directors

CEO'S LETTER

The year 2007 could be said to have been a durability test for TMK. At a time of somewhat slower growth in the demand for pipes in a number of segments and high inflation in Russia, TMK's management has demonstrated effective work and the ability to get results despite market and macroeconomic difficulties and restrictions on production capacities.

In the past year, we improved the sales structure of our products by increasing the share of seamless pipes. This occurred even though our production facilities for manufacturing seamless pipes were operating at full capacity; nevertheless, we were able to achieve the maximum effect, increasing sales of this product by 5.8% year-on-year. However, the lack of capacities prevents us from making full use of the favourable situation in the seamless pipe market. This is why TMK's Strategic Investment Programme is primarily focused on increasing seamless pipe production. We forecast increasing demand for oil and gas pipes and will strive to be in a position to fully meet market demand for these products in order to generate maximum benefits from growth in this segment.

One of the factors inhibiting TMK's growth in the seamless pipe market in 2007 was the shutdown of part of the obsolete capacity at TAGMET in connection with the modernisation of its pipe rolling facilities. In the second half of 2008, TAGMET's pilger mills will be replaced by a state-of-the-art PQF continuous pipe rolling mill.

In the welded pipes market our most substantial business is the large-diameter welded pipe segment. In the second half of 2007, as Gazprom and Transneft deferred the implementation dates of a number of pipeline projects, we reduced our output of these products. Nonetheless, we consider the deferral of the projects to be a positive factor as we plan to launch a leading-edge mill in 2008 to produce thick-walled large-diameter longitudinal welded pipes, thus significantly strengthening our competitive position in the time leading up to the implementation of the deferred projects.

Because of the reduction in demand in North America, global producers redirected part of their product flow to alternative markets. Within the context of worsening exports, we were able to demonstrate flexibility and increased our share of pipe sales in the Russian market, our main market.

The effectiveness of TMK's work can be seen in the trends of our key economic indicators: in 2007 EBITDA rose by 16.4% against 2006 to USD 931.5 million, while revenues rose by 22.8% to USD 4,178.6 million. The average selling price per tonne for our products rose by more than 20% last year.

One of the Company's strategic goals is to create maximum added value by implementing advanced technologies; milestones toward this goal included the launch of a new CPE unit at TMK-Artrom, the installation of a cogging mill at Sinarsky Pipe Plant and the start of production of large-diameter welded pipes with smooth interior coating at Volzhsky Pipe Plant.

The trend in TMK's product mix continued to move to high value-added technologically sophisticated products such as Oil Country Tubular Goods (OCTG). OCTG pipes accounted for 31.4% of total manufactured products in 2007.

As part of the implementation of the Company's comprehensive cost-reduction programme, a modern continuous billet caster was installed at TMK-Resita which, in conjunction with analogous equipment installed at the end of 2006 at Seversky and TAGMET, allowed us to fully supply the production of seamless pipes with our own billets and reduce dependence on price fluctuations in the steel market.

In the past year the Company has opened up new sales markets such as Australia, the United Kingdom, and a number of countries in the Middle East and Central Asia with the aim of meeting the strategic goal of increasing profitability by strengthening global presence. A new warehouse was opened and foreign trade representations were established in Singapore and Turkmenistan. In addition, we are actively enhancing our market positions in the CIS by increasing shipments of seamless line pipes, cold-drawn pipes, pump and compressor pipes and ball-bearing pipes.

Last year, we also laid the foundations for the development of an important new line of business – oilfield services. This service division will allow us to significantly increase the share of added value in our revenue structure and create additional benefits for our customers.

We are consistently reinforcing our position in the market for high-technology pipe products. With this aim we created TMK-Premium Service, a designer and supplier of oil-and-gas threaded pipes with Premium-class hermetic threaded connections. In the next few years TMK looks forward to becoming one of the leading suppliers in the Russian and CIS Premium connection markets.

The expansion of our product line, greater product quality, improved services and leadership in the Russian oil and gas pipe market allow us to develop long-term relationships with our key partners. One example of this was the signing, in 2007, of long-term cooperation agreements with companies such as Rosneft and Surgutneftegas and the extension of an agreement with TNK-BP.

Our dedication to high standards has meant that we are paying increased attention to ethical ways of doing business based on active social, environmental and charitable activities. One of the key areas to which the Company has been giving its sustained attention is its responsibilities toward society and TMK's employees.

We recognise the new challenges that we face from increasing competition in the global market and, as a leader and pacesetter in the industry, we understand that reaching our goals is only possible if we constantly improve the quality of our products to meet the needs and expectations of our clients. The key elements to our market success are our highly-qualified personnel, the latest technologies and equipment, and the use of leading-edge international standards and experience.

To sum up, the results of the year just past show that we have established a solid foundation for the continuing sustained growth of the Company.

Konstantin Semerikov
Chief Executive Officer

KEY EVENTS OF 2007

JANUARY TMK and Corinth Pipeworks S.A., the largest pipe manufacturer in Greece, established a joint venture, ZAO TMK-CPW for the production of longitudinal welded pipes with diameters of 168 to 530 mm to be used in the oil and gas, machine building and construction industries.

TMK acquired OAO Orsky Machine Building Plant which specialises in the production of tool joints, tubing couplings and pump barrels for portable drilling units and in services to companies in the oil and gas sector.

FEBRUARY TMK and the SMS Group, one of the world's leading producers of metallurgical and pipe mill equipment, signed a Strategic Partnership Agreement for the period up to 2015 with the aim of coordinating their long-term joint activity to develop and implement in the Company's plants the best technologies and equipment of the SMS Group for the manufacturing of steel and pipes.

TMK and Magnitogorsk Iron & Steel Works, the largest iron and steel works in Russia, signed a Strategic Partnership Memorandum aimed at satisfying the oil and gas industry's demand for high-technology pipe products made from flat steel.

A session of the Presidium of the Council of State of the Russian Federation devoted to Industrial Policy took place in Volgograd. Within the framework of the session then-Russian Federation President V.V. Putin visited the Volzhsky Pipe Plant.

A new continuous casting machine was put into operation at TMK-Resita.

A modern cross piercing elongator (CPE) pipe mill was brought on line at the TMK-Artrom pipe plant.

MARCH OAO Russian Pipe Industry Research Institute (RosNITI), the largest pipe sector research and development centre in Russia, joined TMK. It forms the basis for a unified innovation management centre – the corporate Research and Technology Centre.

TMK shareholders approved the Share Option Programme.

TMK and Haeusler AG (Switzerland) signed a contract on the supply of equipment for manufacturing large-diameter longitudinal welded pipes.

TMK and OAO NK Rosneft concluded a contract on long-term strategic partnership.

APRIL TMK shares were moved from the C Trading List to the B Trading List on the RTS exchange.

TMK shares were admitted to trading on the MICEX stock exchange.

TMK bonds were placed on the top-level A Trading List of FB MICEX.

MAY TMK and SMS Demag, part of the SMS Group, signed a contract for the supply of equipment to upgrade the continuous casting machine at Volzhsky Pipe Plant.

TMK and Surgutneftegas concluded a strategic partnership agreement involving the production and supply of pipe products.

JUNE TMK held its first post-IPO Annual General Meeting of Shareholders.

JULY Standard & Poor's raised TMK's credit rating to BB– with stable outlook and on the Russian national scale to ruAA– with, stable outlook. The rating of priority unsecured bonds was raised to BB– and to ruAA– on the Russian national scale.

Moody's raised TMK's credit rating to Ba3, stable outlook, and on the Russian national scale to Aa3.ru with stable outlook. The rating of priority unsecured bonds was also raised to B1 with stable outlook.

AUGUST TMK shares were included on the MICEX MC index. The MICEX stock exchange began publication of the index.

TMK shares were placed on the B Trading List of the MICEX stock exchange.

TMK established TMK-Premium Service, a specialised company created to strengthen the Company's position on the Premium threaded connection market.

SEPTEMBER TMK won the "2007 Leader in Socially Responsible Business" award presented at the third pan-Russian competition "Best Russian Human Resources Service".

Representation offices of TMK Trade House opened in Singapore and Turkmenistan.

OCTOBER TMK became the first in Russia to begin production of premium seamless pipes for jackup rigs used by Gazprom in its arctic shelf development projects.

TMK took first place among Russian companies in Hewitt Associates' study "Best Employers in Russia 2006/2007".

NOVEMBER TMK acquired Truboplast, Russia's largest producer of protective and insulating coatings for steel pipes used in the oil and gas industry.

The Interfax and AK&M news agencies declared TMK the winner of the annual contest "Active Corporate Policy in the Field of Information Disclosure".

TMK began production of specialised corrosion-resistant seamless line pipes used for the extraction and transportation of gas in challenging operating environments.

TMK and Danieli, one of the world's leading suppliers of equipment to the steel industry, signed a contract for the supply of a Fine Quality Mill (FQM) hot-rolling mill to Seversky Tube Works.

TMK announced the completion of the first stage of its Option Programme.

Construction of a Premium Quality Finishing (PQF) continuous pipe rolling mill began at Taganrog Metallurgical Works (TAGMET).

TMK declared "Leader in Environmental Protection in Russia" at the 2007 Russian National Ecology Conference entitled "New Priorities in National Environmental Policy in the Real Sector of the Economy"

DECEMBER ● Seversky Tube Works and SMS Demag signed a joint-venture agreement establishing OOO TMK-SMS Metallurgical Services, specialising in maintenance scheduling, analysis and monitoring services for all types of steelmaking equipment.

TMK and TNK-BP extended their global cooperation agreement to 2012.

TMK acquired service assets from TNK-BP: ZAO Pipe Maintenance Department (subsequently renamed TMK-Pipe Maintenance Department) and OOO Central Pipe Base (subsequently renamed TMK-Central Pipe Yard).

An Extraordinary General Meeting of Shareholders of OAO TMK approved the payment of interim dividends for the first nine months of 2007 in the amount of USD 0.15 per share.

KEY EVENTS AFTER 2007

JANUARY ● Volzhsky Pipe Plant launched new smooth internal coating equipment for large-diameter pipes.

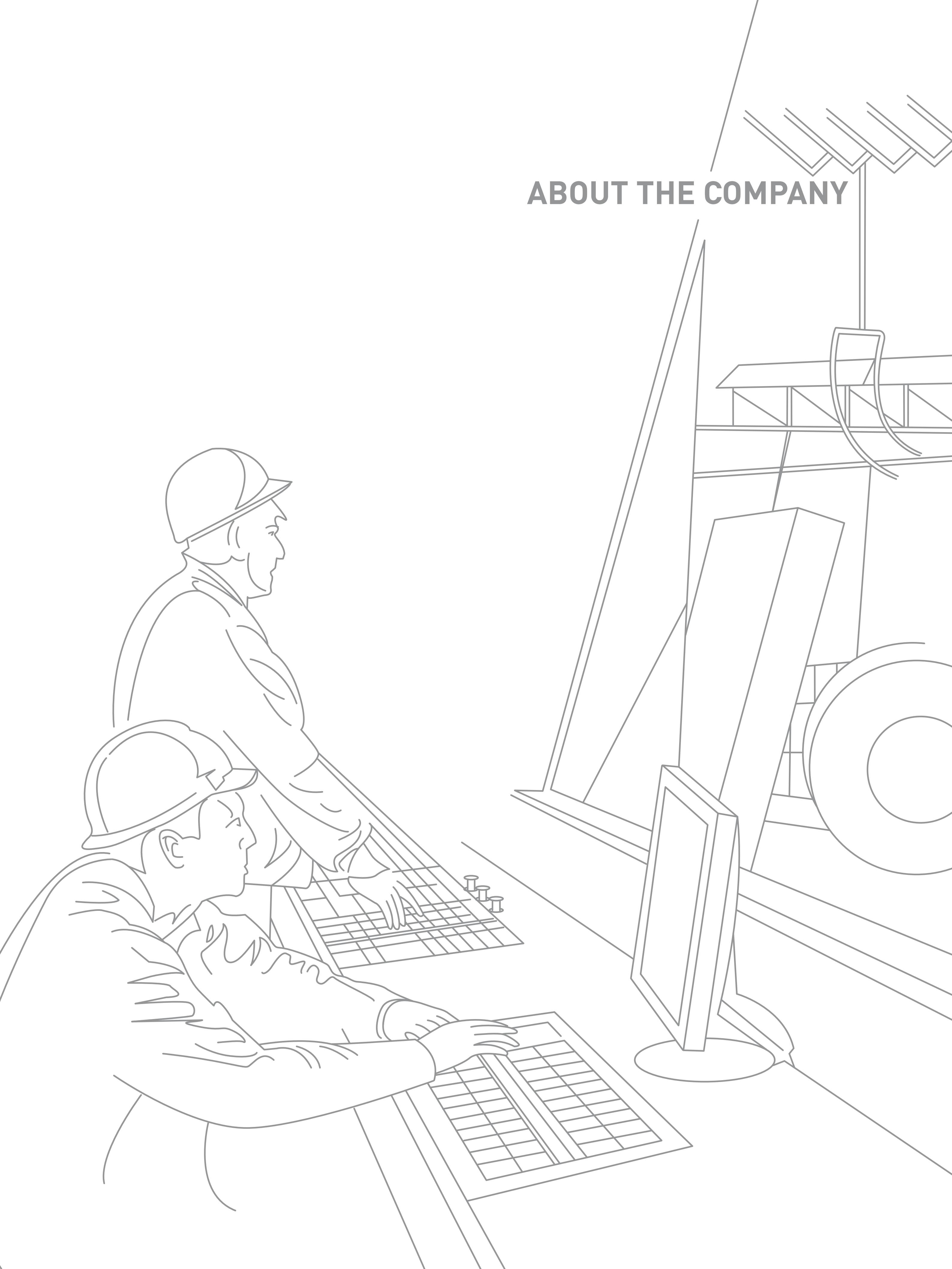
FEBRUARY ● TMK finalised TMK-Resita's privatisation with all of its investment obligations fulfilled 2 years ahead of schedule.

MARCH ● TMK announced the creation of OOO TMK Oilfield Services. The new company assumed management of TMK's oilfield service assets.

TMK announced it had reached an agreement to acquire IPSCO Tubulars U.S. assets and NS Group Inc.

TMK began shipments of large-diameter pipes for the onshore section of the Nord Stream gas pipeline.

ABOUT THE COMPANY



ABOUT THE COMPANY

STRUCTURE

TMK includes production, service and commercial enterprises, as well as a division specialised in research and development.

In 2007, TMK made active strides toward developing its oilfield services line of business adding to the group a number of enterprises that provide pipe repair and maintenance services, apply anti-corrosion and insulating coatings and manufacture and sell tool joints, tubing couplings, etc. TMK also created a specialised company to work on the Premium threaded connections market.

TMK's organisational structure, representing the main production, trade and service companies within TMK, and showing TMK ownership in these companies as at 31 December 2007, is shown below.

TMK

Production	**Oilfield Services**	**Sales**	**Premium Threaded Connections**	**Research and Development**
Volzhsky Pipe Plant **100%**	Orsky Machine Building Plant **75%**	TMK Trade House **100%**	TMK – Premium Service **100%**	RosNITI **97.4%**
Seversky Tube Works **93.3%**	Truboplast **100%**	TMK Global **100%**		
Sinarsky Pipe Plant **92.7%**	TMK Pipe Maintenance Department **100%**	TMK North America **100%**		
Taganrog Metallurgical Works **95.9%**	TMK Central Pipe Yard **100%**	TMK Middle East **100%**		
TMK-Artrom **80.6%**		TMK Europe **100%**		
TMK-Resita **99.5%**		TMK Italia **100%**		
TMK-CPW **51%**		TMK-Kazakhstan **100%**		
		TMK Warehouse Complex **100%**		

PRODUCTION

In 2007, TMK had seven manufacturing plants:

- *OAO Volzhsky Pipe Plant (Volzhsky or VTZ)* – Volzhsky (Volgograd region, Russia) – produces seamless pipes and spiral welded large-diameter pipes for the oil and gas industry, the power generation, mechanical engineering, oil refining and chemical industries, and the public utilities sector. Volzhsky is one of the largest pipe plants in Russia and one of only three Russian plants to produce 1,420 mm pipes for high-pressure transportation gas pipelines in commercial volumes. The largest customer for these products is Gazprom. Volzhsky's current production capacities are: 700 thousand tonnes of seamless pipes, 550 thousand tonnes of welded pipes and 900 thousand tonnes of steel per year.

- *OAO Seversky Tube Works (Seversky or STZ)* – Polevskoi (Sverdlovsk region, Russia) specialises in the production of seamless and welded pipes primarily for the oil and gas industry. Seversky produces seamless well casings and line pipes, arc-welded line pipes, general-purpose industrial seamless pipes, and industrial welded pipes for the power and machine building sectors. Seversky's production capacities are: 340 thousand tonnes of seamless pipes, 520 thousand tonnes of welded pipes and 800 thousand tonnes of steel per year.

- *OAO Taganrog Metallurgical Works (TAGMET)* – Taganrog (Rostov region, Russia) – produces drill pipes, casing and line pipes, industrial seamless pipes and electric welded pipes for the oil and gas sector, the machine-building, mechanical engineering and power industries.
  TAGMET also performs its own research and development work on pressure-tight Premium connections for drill pipes, casing and tubing string. TAGMET's production capacities are: 345 thousand tonnes of seamless pipes, 705 thousand tonnes of welded pipes and 600 thousand tonnes of steel per year.

- *OAO Sinarsky Pipe Plant (Sinarsky or SinTZ)* – Kamensk-Uralsky (Sverdlovsk region, Russia) – produces drill pipes, casings, tubing and line pipes for the oil and gas sector, and seamless steel pipes for the power, chemical and machine-building industries.
  Sinarsky does not have any in-house steelmaking capacity and obtains steel billets from Volzhsky, Seversky, TAGMET and third-party suppliers. Sinarsky's production capacity is 600 thousand tonnes of seamless pipes per year.

- *TMK-Artrom* – Slatina (Olt county, Romania) – one of Romania's largest manufacturers of pipes, produces industrial seamless pipes, including pipes for the machine-building and automotive industries. The majority of the plant's output is intended for export, mainly to the EU, the USA and Canada.
  Pipe billets are mainly supplied by TMK-Resita and Volzhsky. A new cross piercing elongator (CPE) mill was commissioned in February 2007, bringing TMK-Artrom's production capacity to 200 thousand tonnes of seamless pipes per year.

- *TMK-Resita* – Resita (Caras-Severin county, Romania) – produces steel billets as well as heavy round-profiles, blooms and square billets. The bulk of its output is delivered to TMK-Artrom.
  TMK-Resita's production capacity is 450 thousand tonnes of steel per year.

- *ZAO TMK-CPW* – Polevskoi (Sverdlovsk region, Russia) – is a joint venture between Seversky and Humbel Limited, a subsidiary of Corinth Pipeworks Ltd, specialising in the production of longitudinal electric resistance welded (ERW) pipes for oil and gas, construction and mechanical engineering applications. The annual JV production capacity amounts to 220 thousand tonnes per year.

OILFIELD SERVICES

- *OAO Orsky Machine Building Plant (Orsky or OMZ)* – Orsk (Orenburg region, Russia) – Russia's largest producer of API-certified tool joints for drill pipes and drilling accessories for oilfield equipment.

- *OOO Truboplast* – Ekaterinburg (Sverdlovsk region, Russia) – manufactures protective and insulating coatings for steel pipes used in the oil and gas industry.

- *ZAO TMK Pipe Maintenance Department (PMD)* – Nizhnevartovsk district (Khanty-

Mansi autonomous area, Tyumen region, Russia) – specialises in the application of anti-corrosion coatings for steel pipes and the repair of drill pipes and sucker rods and provides technical assistance in the handling and installation of pipe columns.

- *OOO TMK Central Pipe Yard (CPY)* – Buzuluk (Orenburg region, Russia) – specialises in the repair of drill pipes and sucker rods, and provides technical assistance in the handling and installation of pipe columns.

SALES

- ***ZAO TMK Trade House,*** registered in Russia, sells TMK products on the Russian market, and is a sales agent for TMK products on foreign markets, acting as a party in contracts with foreign customers. ZAO TMK Trade House has branches and representative offices in China, Azerbaijan, Turkmenistan, and Singapore.

- ***TMK Global AG,*** registered in Switzerland, is the Company's official distributor outside the CIS. TMK Global AG operates a network of trade representatives, agents and distributors and has subsidiaries in the UAE and the USA.

- ***TMK Europe GmbH,*** registered in Germany, and ***TMK Italia s.r.l.,*** registered in Italy, distribute TMK's products in Europe.

- *TOO TMK-Kazakhstan* is responsible for sales in Kazakhstan.

- *OOO TMK Warehouse Complex* sells the Company's products from its warehouse in the Moscow region.

TMK sells products from warehouses in Russia, the USA, the UAE, and through a network of trading representatives and distributors.

PREMIUM THREADED CONNECTIONS

- *OOO TMK-Premium Service*, Moscow, Russia, develops and sells Premium threaded connections and high-technology oil and gas threaded pipes, and provides product support services in Russia, the CIS and internationally.

RESEARCH AND DEVELOPMENT

- *OAO Russian Pipe Industry Research Institute (RosNITI)* – Chelyabinsk, Russia – is Russia's largest research institute devoted to the scientific and technological development of the Russian pipe industry.

MARKET POSITION AND COMPETITIVE ADVANTAGES

The trend in increased consumption of steel pipe that has been evident since the turn of the century continued in 2007. The growth of the world pipe market in 2007 was about 7% according to TMK data. The main regions of growth were Russia, the Middle East, Africa and China.

The Russian pipe market grew faster than the economy overall in 2007. According to TMK, in 2007, the steel pipe market in Russia grew by 13% compared to 2006. The growth in size of the market occurred against a backdrop of increased demand from Russian oil and gas companies, which continued to increase oil and gas exploration and production spending. In addition, major new large-diameter pipeline projects and high replacement needs affected the higher rates of growth in pipe consumption.

TMK is the Russian market leader by far and one of the key players on the global pipe market. TMK's global market presence is supported by its extensive international distribution network. Sales are made through TMK Trade House and a number of other distributors. TMK has an extensive sales territory and supplies products to more than 60 countries around the world. In addition to direct sales, the Company's products are distributed by 83 official dealers in Russia and the CIS. To further expand its market presence, TMK opened representative offices in Turkmenistan and Singapore in 2007.

TMK's main markets are Russia, Europe, the Middle East, North Africa, South and

Southeast Asia, the USA and the CIS. TMK entered new markets in 2007, including Australia, the UK, Jordan, Qatar, Mongolia, Serbia, Croatia and Mexico. In order to meet rising demand for pipes from the oil and gas sector in the Middle East, a finished product warehouse was opened in Dubai, UAE.

TMK has a strong industry structure of customers, in which the main customers for TMK products are oil and gas companies. A significant part of TMK's pipe product output is also used by public utilities and construction companies.

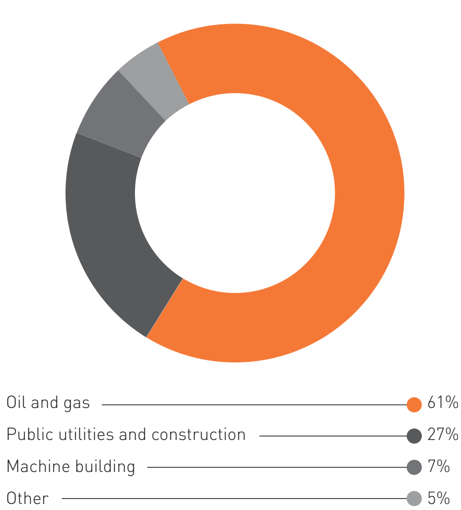
On the Russian market, the largest costumers for TMK's seamless pipes are TNK-BP, Surgutneftegas, Rosneft, LUKOIL and Gazpromneft. In 2007, they accounted for 36% of total seamless pipe shipments. The main customers for TMK's welded pipes are Gazprom and TNK-BP which together accounted for 32% of total sales of welded pipes. TMK's 10 largest customers accounted for 44% of all sales in 2007. TMK's products are also used by major international oil and gas companies, including Shell Group, Agip, Total, Exxon Mobil, Occidental Petroleum, and national oil companies like ONGC, Saudi Aramco, Sonatrach, and KOC.

A substantial portion of TMK's products is sold through participation in major international and Russian pipeline construction projects. Among others, TMK has supplied pipe products to construction projects for the Caspian Pipeline Consortium, the Baltic pipeline system, the Yamal–Europe pipeline, the expansion of the Urengoi gas pipeline, the Sakhalin-1 project, and the reconstruction of the SATs-IV gas pipeline system (Kazakhstan). In addition, throughout 2007, TMK delivered pipes for TNK-BP's Uvatsky project.

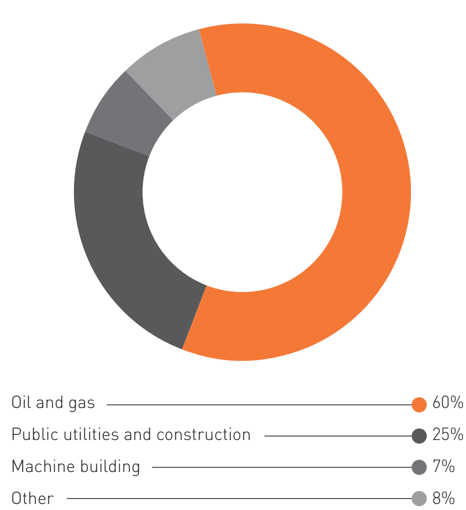
In March 2008, shipments of pipes for the onshore section of the Nord Stream gas pipeline began and the first shipments of pipes for the construction of the Kenkiyak–Kumkol gas pipeline are scheduled for April 2008.

TMK's sales team scored an important achievement in 2007 when it began shipments of pipe products to major oil and gas companies Kuwait Oil Company, Chevron and the Iraqi South Oil Company. In addition, strategic agreements were signed with Lukoil Overseas and Stroytransgas Engineering on the joint implementation of projects for the delivery of oil pipe products.

TMK's CUSTOMER STRUCTURE
in 2006



TMK's CUSTOMER STRUCTURE
in 2007



In 2007, TMK qualified various types of products with 13 major companies, including SKF (Sweden), SNC-Lavalin (Canada), PetroSA (South Africa), and RWE (Germany). In total, TMK qualified products with 46 international companies, including Shell, Saudi Aramco, KOC, KNPC, Agip KCO, PDVSA, the Karachaganak Field Development Project, Technip-Coflexip, and Saipem. TMK continues to actively seek qualification from major global oil and gas companies to broaden the international recognition of its products.

In 2007, TMK sold 3.1 million tonnes of steel pipes, including 2.0 million tonnes of seamless pipes of which 45% were OCTG. Pipes for the oil and gas industry and premium-class products were respectively 65% and 28% of total pipe sales volumes in 2007. TMK accounted for 85% of Russian production of seamless OCTG pipes and 61% of sales of OCTG pipes on the Russian market.

In 2007, TMK remained second globally in terms of production volumes. In Russia, TMK is the undisputed leader in the manufacturing of pipe products in terms of production volumes and more importantly, in all high-margin pipe market segments. In 2007, TMK held 24% of the Russian steel pipe market and accounted for 52% of all Russian pipe exports. 29% of the Company's pipe products were sold outside of Russia last year.

Seamless pipe market (OCTG)
Seamless pipes for the oil and gas industry include OCTG (drill, casing and tubing string) and line pipes. The main demand drivers for these pipes include drilling activity and well repair, the changing conditions of oil and gas production, and the trends in the exploration and production budgets of oil and gas companies. Another factor determining demand for OCTG and line pipes is the increasingly complex conditions under which oil and gas are produced. Global production of oil and gas at existing fields is declining, forcing oil and gas companies to open up new regions in more complex operating environments, characterised by high sulphur levels, extreme temperatures and high-pressures. Wells are not only becoming deeper and requiring a greater number of pipes, but the aggressiveness of the environment is commanding the use of technologically sophisticated premium-class pipe products.

In view of the current oil prices, the development of difficult deposits becomes economically feasible. As a result, the proportion of wells in complex operating environments is increasing.

According to Lehman Brothers, global E&P spend in 2007 amounted to USD 332 billion (up 15% versus 2006). By their forecasts, global E&P spend will rise by 11% in 2008.

TMK is the dominant producer of value-added seamless pipes for the oil and gas industry in Russia, with 61% domestic (11% global) seamless OCTG market share and 54% (10% global) seamless line pipe market share.

TMK is a key supplier to virtually all major oil and gas companies operating on the Russian market.

Large-diameter pipe market
Large-diameter welded pipes are predominantly used in long distance oil and gas transportation. Size and specifications prevent large-diameter pipes from being shipped over long distances, making them project driven regional products.

TMK's main sales markets for large-diameter pipes are Russia and the other CIS countries. The main distinguishing feature of the Russian market is the fact that oil and gas deposits are located relatively far from the regions of consumption. In addition, the lack of direct access to main export buyers makes it necessary to build additional pipelines to bypass transit states.

The Russian market for large-diameter pipes grew by more than 20% in 2007 compared to 2006. Demand for large-diameter pipes was uneven over the year, with shipments from Russian manufacturers dropping sharply in the second half of the year. This situation was brought on by Gazprom postponing the completion of a number of major projects until 2008–2009, including the Nord Stream, Unecha–Primorsk and Burgas–Alexandroupolis pipeline projects.

Although traditionally working with Gazprom, TMK managed to offset this decline in large-diameter demand on the Russian market by increasing shipments to other CIS markets, primarily to Kazakhstan and Turkmenistan. In view of the increase in volumes of large-diameter pipes shipped to other CIS markets, TMK's Russian large-diameter market share dropped slightly to about 12%.

Industrial seamless pipe market

The market for industrial seamless pipes is more stable and less cyclical than the market for oil and gas pipes. Seamless industrial pipes have broad industrial applications and can be used in the petrochemical, power generation, machine building, automotive, and aerospace industries.

According to TMK estimates, the global industrial seamless market grew by 5% in 2007 as opposed to the previous year. The main regions of consumption of these pipes were China, Europe and South-East Asia. The biggest growth in the industrial seamless market was seen in China (+12%), whereas the North American market showed a noticeable decline.

TMK is active in the industrial seamless pipe market, both in the CIS (including Russia) and in Europe, where the TMK-Artrom plant is one of the leading manufacturers of industrial seamless pipes for the automotive industry.

The Russian industrial seamless pipe market grew faster than the rest of the economy, increasing by 10% in 2007 year-on-year. The greatest growth in consumption occurred in the hot- and cold-rolled general purpose pipes segments and in the stainless steel pipes segment. The market for boiler and bearing pipes remained at 2006 levels.

TMK is Russia's second largest manufacturer of industrial seamless pipes and occupies 26% of the Russian market.

Industrial welded pipe market

Industrial welded pipes make up one of the lowest-margin and most highly competitive segments. These pipes are for basic applications (agriculture, construction, water supplies, etc.) and are produced by virtually all metals companies.

According to TMK, the Russian market for industrial welded pipes rose by almost 11% in 2007. However, the low barriers to entry in this segment and the intensive competition from Ukrainian and Chinese producers had a negative impact on both the price and the profitability of this product.

Competition

The domestic and foreign pipe product markets are characterised by strong competition which is also affected by the trend to consolidation in the pipe industry. In addition, competition from manufacturers of pipes from substitute materials is also growing.

TMK's main competitors in Russia are OMK and the ChTPZ Group; its global competitors include Tenaris, Vallourec, Sumitomo, and China's TPCO and Baoshan pipe plants.

The competition is further increased by the effect of protectionist policies in a number of world regions with high consumption of pipe products, which take the form of trade barriers to the import of Russian pipe products.

Given that pipe manufacturing is a material-intensive industry and that, on average, steel makes up about 70% of the cost of production of seamless pipes, the main factor affecting the competitiveness of pipe products is the price paid for steel billets. TMK is constantly striving to reduce its dependence on purchased feedstock by increasing the proportion of in-house steel billets.

COMPETITIVE ADVANTAGES

Leader in the seamless OCTG pipes segment, a consolidated world business with high entry barriers

TMK is responsible for 10% of the world's OCTG output, the most lucrative seamless pipe segment, and qualified as an official supplier to a number of global oil and gas companies, including Shell, Saudi Aramco, KOC, KNPC and Agip KCO.

The global seamless pipe market is characterised by:

- high entry barriers, including:
  - The capital-intensive nature of production.
  - The technological sophistication of the production process and products.
  - High technical requirements as to reliability, consistency and integrity of threading and couplings, especially in the OCTG segment.
  - Availability of highly skilled specialists and the general level of development of the home country's economy.
  - The need to be certified by state industrial bodies and qualified as an official supplier by oil and gas majors.
- A high degree of concentration in a market dominated by a small number of large international producers;
- High margins relative to other pipe products.

In Russia, TMK is the leader in the seamless pipe market and has strong long-term relationships with many leading oil and gas companies, including Rosneft, ITERA, Surgutneftegas, TNK-BP, Salym Petroleum Development N.V., and Wintershall.

Specialisation in seamless pipes, with steadily growing demand over the medium term

The structure of TMK products is oriented to supplying the production chain of the global oil and gas sector with modern high-technology pipes with high value added. Seamless pipes account for 66% of TMK's production. TMK's position on the Russian market for seamless pipes is fairly strong: TMK satisfies more than two-thirds of the needs of the majority of oil and gas companies. Seamless line pipes and OCTG pipes are the most attractive segments due to their high margins and high demand forecast.

Innovative solutions and R&D investments

The industrial production of products anticipating future costumer needs is the foundation of TMK's innovation activity.

In 2007, TMK began implementing the R&D Strategy approved in 2006. In order to implement this Strategy, a single plan for all TMK plants was adopted with RosNITI responsible for its implementation.

The successful implementation of the New Product Programme will result in an improvement in pipe manufacturing technology and better operating characteristics, quality and saleability of products.

The technical and technological development of TMK enterprises in order to raise efficiency and improve manufacturing processes is a key strategic initiative of the Company.

Technological integration in the value chain of customers in Russia and the CIS; strengthening long-term partnerships with key clients

TMK strives to maximise its presence in the value chain of major clients in Russia and the CIS; this is achieved primarily by developing long-term partnerships with strategic clients, based on joint development of new types of pipe products and the signing of long-term supply contracts.

In 2007, TMK signed long-term strategic partnership agreements with Rosneft, Surgutneftegas and TNK-BP. These partnerships involve the coordination of medium-term and long-term joint activity on developing new types of pipe products and the supply of steel pipes used in oil and gas production. The development of a partnership approach to doing business, in which both parties are interested in a successful long-term relationship, is a key objective of the Company.

Expanding the range of services and creating additional benefits for clients is a priority in customer relations.

Advantageous geography and specialised plants; operating flexibility

The Volzhsky and TAGMET plants are strategically located in the south-west of Russia, near the Black Sea shipping routes, the Volga River and transit routes to the Caspian region, giving TMK a strong export platform. Sinarsky and Seversky, as well as TMK-CPW, are located in the Urals region, on the border of Europe and Asia, near transport routes linking Russian industrial centres with the oil and gas regions of Western and Eastern Siberia and Central Asia.

TMK's two Romanian plants, TMK-Artrom and TMK-Resita, have proven themselves to be ideally located to serve the European market following Romania's accession to the European Union.

Based on the plants' geographic distribution, TMK effectively assigns orders to its subsidiaries depending on the location of the client, and coordinates and supports reliable and economically efficient shipments of feedstock for steel production and pipe manufacturing.

Balanced order portfolio by type and region

TMK offers the broadest product range in Russia and the CIS and is actively expanding its service offering. For these reasons, the Company's products are able to satisfy the pipe requirements of a wide range of customers which in the final analysis increases sales.

TMK has a balanced order portfolio (optimal in terms of customer structure), which eliminates the risk of a substantial failure in sales targets.

An optimal ratio is also maintained in the regional structure of shipments.

Competitive cost of production

Favourable scrap conditions, in-house steelmaking capacities and self-sufficiency in steel billets combined with strategic relationships with coil and plate suppliers and an integrated logistics management system ensure TMK's competitiveness.

Three of TMK's four Russian pipe plants have in-house steelmaking capabilities, which provides a greater degree of quality and production cost control over the steel used to manufacture pipes and reduces the cost of purchased billets. TMK-Resita, located in Romania, also benefits from in-house steelmaking capabilities.

TMK continually increases the amount of billets supplied from its other plants to Sinarsky, which does not have internal steelmaking capabilities, thus reducing Sinarsky's dependence on billets purchased from third-party suppliers.

The favourable location of Company plants helps reduce transportation costs.

Relatively low energy costs create a structural competitive advantage for Russian manufacturers. TMK's gas and electricity costs per unit of output, as well as its raw materials costs for seamless pipes, are lower than its global peers.

KEY RISKS

INDUSTRY RISKS

Dependence on the oil and gas sector
TMK's main customers are oil and gas companies. As a result, demand for pipe products depends to a significant degree on their investment activity which in turn is determined by the global demand for oil and gas. At the same time, the amount of pipes purchased by oil and gas companies for maintenance and operational needs is not correlated to oil and gas prices as spending on pipes is necessary to maintain oil and gas production, transportation, and distribution systems.

A reduction in prices on the products of the oil and gas sector may lead to a reduction in demand for pipes. However, increasingly difficult drilling conditions are fuelling demand for high-technology pipe products which on balance, makes it possible to compensate for the Company's losses from the decline in the oil and gas sector. As a result, a reduction in energy prices may have only a limited effect on the Company's business.

Dependence on a small group of customers
Approximately 44% of TMK's total 2007 sales volume came from its top 10 customers. The five largest customers accounted for more than one-third of total seamless pipe shipments. The main customer for TMK's welded pipes is Gazprom.

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

To reduce this risk, TMK entered into long-term strategic partnership with its major customers including, Surgutneftegas, TNK-BP, Wintershall, ITERA, Rosneft and Salym Petroleum Development N.V.

Competition
The global pipe market, specifically the oil and gas segment, is characterised by a high degree of competition, based on price, quality and services. In the Russian and CIS markets, TMK's principal competitors are the ChTPZ Group (Chelyabinsk Pipe Rolling Plant), a seamless and welded pipes manufacturer, and OMK (United Metals Company), a welded pipes producer. On the global seamless pipes markets, TMK's main competitors are Tenaris SA and Vallourec SA, which also offer a broad range of higher value-added products and services. In addition, Chinese and Ukrainian manufacturers are gradually increasing capacity and product quality. Increased competition on domestic and international markets may reduce sales and lead to pricing pressures, negatively impacting TMK's financial performance.

Change in the cost of raw materials and energy resources
One of the main factors affecting the competitiveness of TMK's pipe products is the price for scrap metal, strips, sheet metal, steel billets, and energy. Raw materials and supplies represent about 73% of the cost of pipes and increases in domestic prices on scrap metal, strips, and sheet metal could have a negative impact on TMK's business results.

Energy costs make-up about 5% of the cost of production. As part of its Strategic Investment Programme, TMK plans to reduce its consumption of gas and increase the share of electricity used in pipe manufacturing. The liberalisation of the Russian electricity market may lead to an increase in prices. However, despite the possible increase in energy prices, TMK maintains its energy-price advantage over its main international competitors. TMK pays special attention to making its production more efficient; among other things, the Company has an energy-saving programme aimed at reducing the share of energy costs through the better use of its energy resources.

FINANCIAL RISKS

Currency risk

TMK's products and costs are priced in different currencies depending on the sales region. Prices are primarily set in roubles, euros, Romanian lei and US dollars. The mix of revenues and costs is such that the appreciation in real terms of the Russian rouble versus the US dollar tends to result in an increase of TMK's costs versus revenues, while real depreciation of the rouble tends to decrease costs versus revenues.

In order to mitigate currency risks, TMK is optimising the structure of its foreign-currency borrowing costs in such a way that they compensate for fluctuations in export revenues.

With the aim of minimising currency risks, an assessment methodology and a policy for managing this risk were developed in 2007.

Interest risk

TMK's credit portfolio includes loans taken out at a floating interest rate which may increase if liquidity on the money markets decreases. At the end of 2007 the Company had floating interest-rate loans based on Libor and Euribor of about USD 290 million.

Such loans account for 19% of the Company's credit portfolio and therefore TMK considers these risks to be immaterial and does not use derivative instruments to hedge such interest-rate risks. Nevertheless, TMK continues to monitor interest risks and will use derivatives for hedging purposes should it be necessary.

Credit risk

The Company's exposure to credit risks results from the fact that a portion of products are sold with a deferral of payment. Such deferrals are provided to certain major Russian and international companies.

To minimise this risk, the Company set-up an Accounts Receivable and Accounts Payable Committee and developed regulations and procedures to prevent arrears and ensure effective collection.

LEGAL RISKS

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

In 2000–2002, the Russian Government reviewed the Russian tax system and passed a number of laws to carry out tax reforms. The new laws reduced the number of taxes and the overall tax burden on business and simplified tax legislation. Nonetheless, the new tax laws continued to give wide latitude to local tax authorities and left a multitude of unresolved problems which may have a negative effect on TMK's operating results.

Risks of changes to environmental law

Russian environmental laws are currently undergoing significant changes aimed at improving them and bringing them closer to European laws and regulations. The government expects to use both incentives and compulsory measures to stimulate business activity in the field of environmental protection.

Changes to environmental protection laws will chiefly affect the economic mechanisms of business regulations: the environmental aspects of projects will become more expensive and payments for negative environmental impacts will increase. The introduction of stricter regulations and standards will be accompanied by closer scrutiny on the part of state monitoring authorities regarding statutory compliance by businesses. Such changes may lead to unforeseen costs and obligations.

The main ecological and environmental risks for TMK and its plants are associated with the expected changes and tightening of Russian environmental protection laws which may lead to additional costs to meet new requirements and may affect TMK's financial position and operating performance.

OTHER RISKS

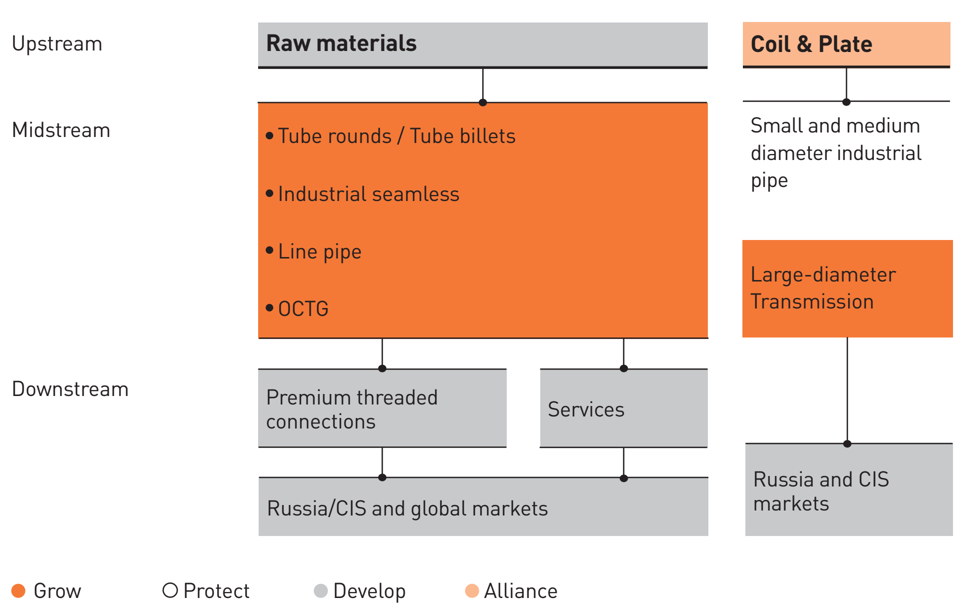
Risks of equipment breakdown and decrease in production
The Company's manufacturing facilities are subject to the risk of equipment damage as the result of unforeseen events, like fires, explosions and natural catastrophes. The Company's manufacturing depends on equipment, any breakdown of which could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

STRATEGY

As the leader of the Russian pipe industry and one of the leading global producers of seamless pipes, TMK strives to further reinforce its position both domestically and internationally. To this end, TMK has established the following key strategic goals:

- **To increase profitability** by strengthening its global presence, developing its services and creating additional benefits for customers.
- **To create maximum added value** by implementing leading technologies and carrying out a comprehensive cost-optimisation programme.

TMK's DEVELOPEMENT FOR THE NEXT FEW YEARS



TMK places an emphasis on expanding production of seamless pipes, including the making of significant investments in the development of this segment and also on achieving sustainable growth and maintaining its market share in the welded pipe segment.

OCTG and line pipe are, and will remain, TMK's core production segments. TMK's focus on this high-margin segment creates a more optimal manufacturing structure and increases profitability as a whole.

TMK's strategic vision includes:
- Focus on manufacturing higher-growth and higher-margin products (seamless pipes, especially OCTG).
- Enhancing seamless and welded pipe product mix to increase product margins and revenues per tonne.
- Expanding seamless pipe production by significantly investing in technologically advanced production processes.
- Increasing output of large-diameter welded pipes for the oil and gas industry.
- Protecting TMK's industrial welded pipes market share, without significant capital investments.
- Pursuing joint ventures and R&D partnerships to further enhance premium product segment.
- Strengthening customer relationships and collaboration to develop innovative products and offer high-value-added services.
- Expand TMK's global footprint through acquisitions and strategic alliances.

SEAMLESS PIPE PRODUCTION

Strategies and key challenges of seamless pipe production:
- Broaden TMK's premium product mix in order to reach the level of global leaders.
- Strengthen TMK's position as a leading supplier of OCTG and line pipe on the Russian and CIS markets and continue building up TMK's position on the global market.
- Increase seamless pipe production capacity and efficiency through the implementation of TMK's Strategic Investment Programme.
- Modernise steelmaking production and secure raw material availability.

TMK plans to meet these challenges using its in-house technical resources, through acquisitions and alliances, and by deepening its collaboration with customers to jointly develop innovative products. TMK plans to increase its presence as a leading supplier of OCTG and line pipe in Russia, the CIS, and globally. Achievement of these goals will be helped by the implementation of technical upgrades as part of the investment programme, the creation of alliances with suppliers of metal raw materials and the acquisition of companies that supply metal feedstock.

WELDED PIPE PRODUCTION

Strategies and key challenges of the welded pipe segment:
- Increase production of large-diameter transmission pipes.
- Consolidate and protect TMK's position in the industrial welded pipe market.
- Improvement of supply management for flat products used in the production of large-diameter pipes.

TMK plans to meet these challenges by expanding its range of large-diameter pipes to include longitudinal welded pipes to the product mix, by concluding long-term supply contracts with major customers, and by creating strategic alliances with feedstock suppliers.

2007 STRATEGIC INITIATIVES

In 2007, TMK successfully carried out the following strategic initiatives:

Strengthening its global presence
- TMK expanded its presence on foreign markets. In 2007, TMK entered eight new national markets, including Australia; TMK Trade House offices were opened in Singapore and Turkmenistan.

Development of oilfield services; additional benefits for TMK customers

- TMK-Premium Service was created to expand TMK's high-technology OCTG segment with Premium threaded connections. The comprehensive development of Premium threaded connections on the basis of in-house research, design and manufacturing facilities, in conjunction with the organisation of an after-sales services system and the creation of innovative products in collaboration with oil and gas companies will allow TMK to substantially improve the structure of its OCTG product mix and increase profitability.
- A number of oilfield service companies joined TMK: OMZ, Truboplast, PMD, and CPY.

Long-term partnership agreements

- Contracts on long-term strategic partnership were signed with Rosneft, Surgutneftegas and TNK-BP in 2007. TMK's strategic partnerships with major oil companies involve the coordination of medium-term and long-term operations on shipments of steel pipes by TMK enterprises, and the joint development of new types of pipe products.

Wide-scale investments in the upgrading and modernisation of enterprises

- OAO RosNITI, Russia's largest pipe sector research and design centre, joined TMK in 2007. RosNITI served as the foundation for a unified innovation management centre, the TMK Research and Technology Centre.
- A Strategic Partnership Agreement for the period up to 2015 was signed with SMS Group (Germany), one of the world's leading producers of metallurgical and pipe rolling equipment. TMK and SMS Demag AG (part of the SMS Group) agreed on the delivery of equipment to increase the production of high-quality continuous casting billets to Volzhsky, used to manufacture premium class seamless pipes.
- The OOO TMK-SMS Metallurgical Services company was setup to advise Seversky on metallurgical equipment maintenance planning, analysis and control, using the technology and expertise of SMS Demag in this field.
- A contract with the Italian metallurgical company Danieli was signed for the supply of a Finish Quality Mill (FQM) to Seversky.
- An agreement was signed with Switzerland's Haeusler AG for the delivery of a large-diameter longitudinal welded pipe mill to Volzhsky.

Creation of strategic alliances

- TMK and Humbel Limited, a subsidiary of Corinth Pipeworks SA (Greece), created the joint venture ZAO TMK-CPW. Located at Seversky, the TMK-CPW joint venture manufactures pipes that are widely used in oil and gas production for infield pipelines and, after additional finishing, as standard type drill casing.

Optimisation of the system for delivering raw materials for pipe manufacturing

- TMK and Magnitogorsk Iron & Steel Works (MMK) signed a memorandum on strategic cooperation. MMK is one of the main suppliers of flat products for welded pipes to TMK subsidiaries. The companies have a joint R&D programme to develop and introduce new types of products.

STRATEGIC INVESTMENT PROGRAMME

TMK's ***Strategic Investment Programme,*** planned for the period 2004–2010, is a key element in reaching the Company's operational development goals. TMK is currently in the middle stages of the programme, having invested USD 735 million from 2004 to 2007. Total investments under the programme in 2007 were of USD 477 million.

TMK's investment programme is primarily aimed at:

- Increasing the production of seamless pipes.
- Increasing the efficiency of manufacturing processes by modernising and expanding

pipe production facilities and steelmaking equipment.
- Raising production quality and expanding TMK's product mix.
- Increasing the proportion of high value-added products.
- Reducing the environmental impact of operations.

From 2004 to 2007, 70% of funds expended under the investment programme were aimed at expanding production and improving the quality of seamless pipes, including the modernisation of facilities producing steel for seamless pipes which accounted for half of all investments. Capital investments were made on increasing thermal processing and finishing capacities (18%) and on the production of large-diameter pipes (6%), on modernising monitoring and testing equipment (3%) and on improving environmental protection systems (3%).

STRUCTURE
of TMK's investment programme for 2004-2007

Modernise production of steel and seamless pipes — 49%
Increase production capacity for heat-treatment and finishing of pipes — 18%
Upgrade testing and control facilities — 3%
Enhance environmental protection systems — 3%
Increase large-diameter welded pipe production capacity — 6%
Increase seamless pipe production capacity — 21%

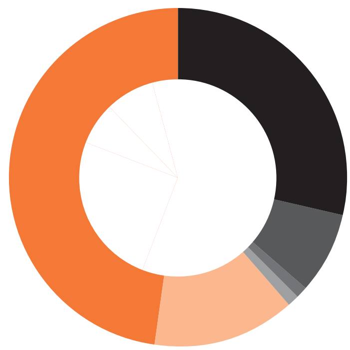
IMPLEMENTATION OF TMK'S STRATEGIC INVESTMENT PROGRAMME IN 2007

- In 2007 work was completed on replacing the burner equipment at Volzhsky which will make it possible to maintain annual output of billets at 900 thousand tonnes.
- Large-diameter epoxy and hydrothermal pipe coating equipment was installed at Volzhsky.
- As part of the modernisation and reconstruction of seamless pipe production, the pipe-rolling mill in Volzhsky shop No. 1 was reconstructed.
- A piercing mill was commissioned at Seversky and a cogging mill in Sinarsky's pipe-rolling shop 80.
- Presses for hydro testing oilfield pipes were installed at Sinarsky and TAGMET
- A waste treatment unit was launched at Sinarsky, making it possible to purify acidic and chemically contaminated production effluent and preventing negative impacts on surface water and groundwater.
- A continuous-casting machine was put into operation at TMK-Resita and the installation of ladle vacuum degassing equipment completed.
- A CPE pipe-rolling mill was launched at TMK-Artrom.
- Projects have been implemented to improve product quality, expand the product range and improve the quality of pipe finishing, control measures and monitoring procedures.

PLANS FOR THE INVESTMENT PROGRAMME FOR 2008–2010

About half of the total investment in 2008–2010 under the Strategic Investment Programme will be used to expand production capacities and improve the quality of seamless pipes, while 29% will be allocated to the modernising of steelmaking facilities. There will be significant growth in investments to increase large-diameter pipe production capacity (14% of investments planned for 2008–2010). Targeted work continues

STRUCTURE
of TMK's investment programme for 2008–2010



Modernise production of steel and seamless pipes — 29%
Increase production capacity for heat-treatment and finishing of pipes — 7%
Upgrade testing and control facilities — 1%
Enhance environmental protection systems — 1%
Increase large-diameter welded pipe production capacity — 14%
Increase seamless pipe production capacity — 48%

on increasing thermal processing and finishing capacities (7% of investments).

Through the implementation of its Strategic Investment Programme, TMK expects seamless pipe capacity to increase by 50% and large-diameter welded pipe capacity by 150% and to more than double heat treatment capacity.

PRODUCTS

TMK produces a broad range of pipe products used by companies in various sectors. Oil and gas companies are key clients but TMK products are also used in the chemical, power, machine-building, automotive and aerospace industries. TMK produces seamless and welded pipes and steel billets and also provides a range of associated services, including anticorrosion and insulating coating of pipes, assistance in the running of Premium connections and joints, and pipe repair services. TMK works constantly to research and design new types of products, primarily high-technology premium-class products to better meet the needs of its customers.

TMK's strategy is to expand its range of high-technology, high value-added pipes and also increase its output of OCTG with Premium connections with improved technical characteristics intended for use in the production and transportation of oil and gas under difficult conditions.

The production of premium-class products will be significantly increased in the future.

SEAMLESS PIPES

The main advantages of seamless pipes lie in the high degree of structural uniformity of the metal and their greater strength and resistance to loads and pressures which allows them to be used in critical structures and various mechanical engineering applications. TMK is Russia's largest producer of seamless pipes and one of the top three worldwide.

TMK's range of seamless pipes includes:
- **OCTG**, including drill pipes, casing for work-overs, and tubing string. ***Drill pipes*** are used for lowering and raising the drill bit, transmitting rotational force, creating axial load on the tool, and sending drilling mud or compressed air into the bottom hole. ***Casing pipes*** are used to brace oil and gas wells during their construction and use. ***Well repair pipes*** are used to fix leaks (repair casings) in the production casing string of oil and gas wells. ***Tubing string*** is used during the exploitation of oil and gas wells to transport liquids and gases inside the casing string, for repairs and round-trip lowering and raising operations.
- **Seamless line pipes** are used in the construction of oil and gas pipelines

for the short-distance transportation of crude oil, oil products and natural gas from the deposit to storage reservoirs, oil terminals, and loading and distribution centres.
- **Seamless industrial pipes** are mainly used in the machine-building, chemical and petrochemical industries, in power generation and the automotive industry, and are also used for the construction of pipelines requiring high-tech pipes for the transportation of water, gas and air under high pressure.

WELDED PIPES

TMK produces small- and medium-diameter longitudinal welded pipes and large-diameter (530 mm) spiral welded pipes for main pipelines. In 2007 TMK began the production of welded OCTG. TMK produces welded pipes with diameters ranging from 8 mm to 2,520 mm and a wall thickness of 1 mm to 25 mm.

Longitudinal welded pipes are made from steel plate with only one weld seam. This type of pipe is widely used in various sectors, primarily as a construction material in the oil industry and also in construction and public utilities.

Spiral welded pipes are manufactured by welding a steel coil.

In March 2007, TMK and Haeusler AG signed a contract for the supply of equipment for manufacturing large-diameter longitudinal welded pipes with an annual production capacity of up to 650 thousand tonnes of high-durability pipes, effectively doubling TMK's existing large-diameter production capacity.

STEEL BILLETS

Steel billets are used in the production of seamless pipes and other rolled products. TMK has the capacity to produce continuous-casted billets making it possible to supply the bulk of feedstock requirements for seamless pipe production. Steel billets are produced at Volzhsky, Seversky, TAGMET and TMK-Resita.

OTHER PRODUCTS

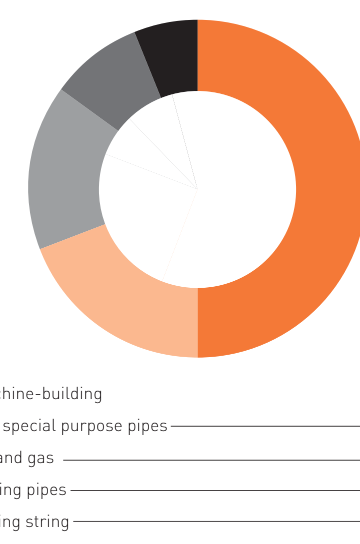
TMK also produces oilfield equipment parts and gas cylinders at OMZ and anticorrosion and thermal insulating coatings for steel pipes at Truboplast and PMD.

DEVELOPMENT OF NEW TYPES OF PRODUCTS

TMK is constantly striving to expand its output of high-quality pipe products of special grades and characteristics. TMK created a New Product Programme based on expected customer requirements. Running from 2007 to 2009, the Programme takes into account existing long-term strategic cooperation agreements between TMK and its major customers, including Surgutneftegas, TNK-BP and Rosneft, and the technical cooperation programme with Gazprom.

Under the New Product Programme, TMK plans to develop and start production of about 100 new types of products, primarily for the machine-building industry and specialised applications.

PRODUCTION OF NEW TYPES OF PRODUCTS
by pipe type



PRODUCT QUALITY STANDARDS

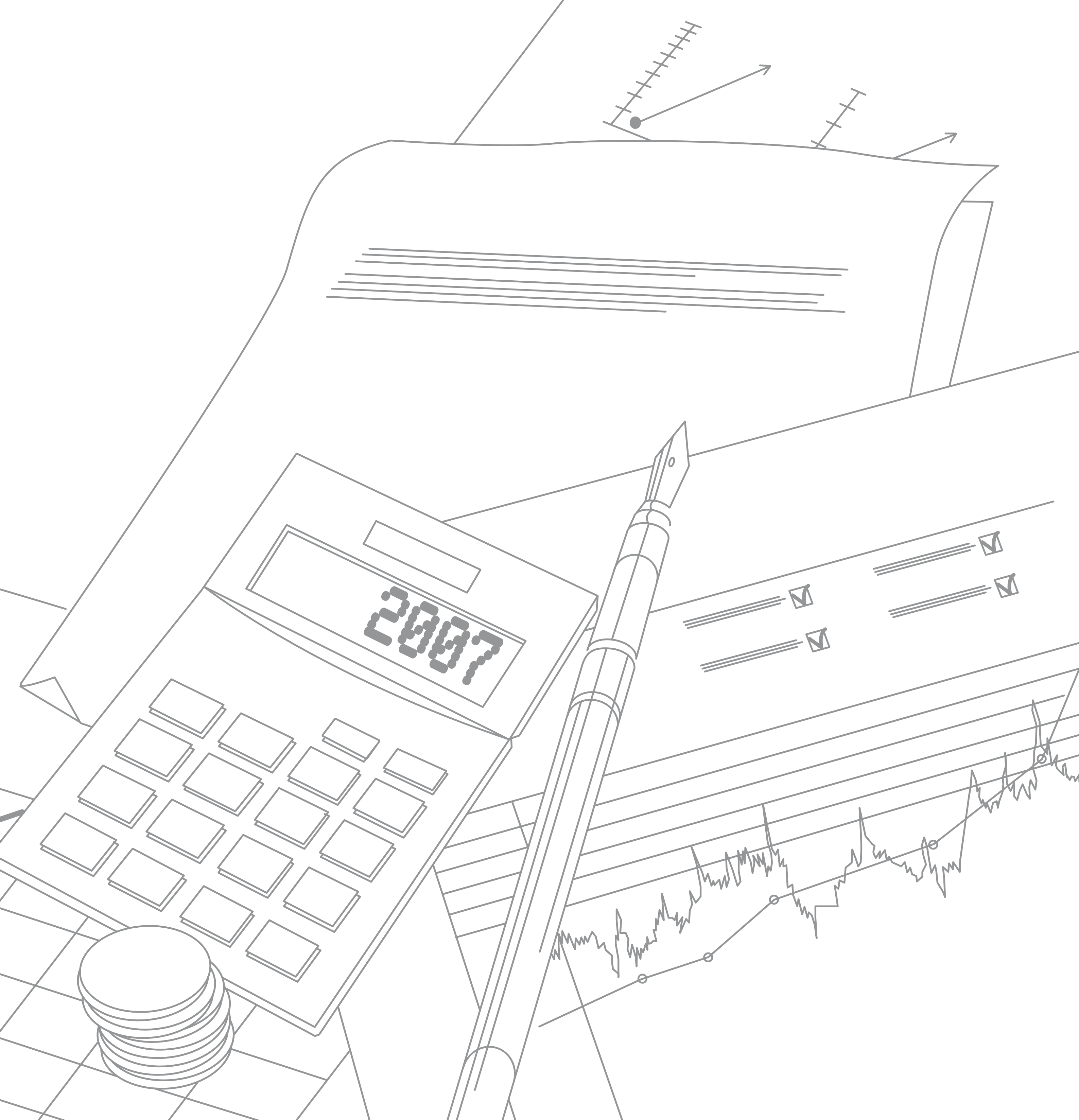
All of TMK's products are manufactured in accordance with a variety of international, national, regional and industry standards and technical conditions, including those set by the following bodies:

- American Petroleum Institute (API);
- American Society for Testing and Materials (ASTM);
- American Society of Nondestructive Testing (ASNT);
- Deutsches Institut fur Normung (DIN);
- Technischer Überwachungs-Verein (TÜV);
- Association francaise de normalisation (AFNOR)
- International Organization for Standardization (ISO);
- European Committee for Standardization (CEN) ;
- Interstate Council for Standardization (MGS);
- The Russian Federal Agency on Technical Regulation and Metrology;

The compliance of the Quality Management System and TMK's products with foreign, national, regional, and industry standards and technical conditions is also confirmed by such well-known certification bodies as:

- Germanischer Lloyd
- TÜV Suddeutschland;
- LANDESMATERIAL PRUFAMT Sachsen-Anhalt Magdeburg for the U-sign, according to UZVO prescription;
- Technological and Test Institute for Construction Prague-Czech Republic for construction tubes;
- Quality certification bureau Quality Management Institute (QMI, Canada);
- Bureau Veritas Quality International (BVQI);
- RW TÜV (Germany);
- TÜV CERT NORD (Germany);
- DVGW (Germany);
- Product testing laboratory (University of Brescia, Italy);
- Romanian State Inspection in Constructions for the test laboratories authorisation.

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

This financial review is based on and should be read in conjunction with the audited consolidated financial statements of TMK and the related notes elsewhere in this annual report. The financial review compares TMK's consolidated results for the fiscal year ended December 31, 2007 with its results for the fiscal year ended December 31, 2006.

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

OVERVIEW

TMK ("the Company") is the leading producer and supplier of steel pipes in Russia and one of the world's largest producers of steel pipes, with an estimated 6% of the global seamless pipe market. TMK's share of the global OCTG market was approximately 11% in 2007. While implementing its investment programme under conditions of ongoing production and compensating for the downtime associated with continuing construction, in 2007 TMK was able to increase sales of products by 3% to 3.1 million tonnes, including 2.0 million tonnes of seamless pipes, of which 0.9 million tonnes were OCTG.

TMK retained its leading position on the Russian steel pipe market in 2007. It had an estimated 24% of the Russian steel pipe market, 45% of the seamless pipe market, and its share of the OCTG market was 61%.

TMK is Russia's largest exporter of pipe products accounting for about 52% of all Russian steel pipe exports. In 2007, sales outside Russia accounted for about 29% of total sales.

ACQUISITIONS

In August 2006, TMK signed a contract to acquire 100% of the ordinary voting shares in OAO Orsky Machine-Building Plant (OMZ), equal to 75% of the charter capital in OMZ, for USD 45.5 million from Sinara Group SA, a company under common control with TMK. Title to this shareholding and control over OMZ passed to TMK on 31 January 2007. To account for this acquisition, TMK used the method of pooling of interests and presented financial statements as if the transfer of the controlling shareholding in OMZ had occurred on the date of the acquisition of these shares by Sinara Group SA.

In January 2007, Seversky and Corinth Pipeworks SA, a major Greek welded-pipe manufacturer, entered in a joint venture, ZAO TMK-CPW, to produce longitudinal welded pipes, primarily for the oil and gas industry. TMK's share in the joint venture is 51%.

In March 2007, TMK acquired 76.34% of OAO Russian Pipe Industry Research Institute (RosNITI) for USD 3.1 million. This acquisition will help TMK to develop its manufacturing technologies. In June and July 2007, a further 21.02% of RosNITI was acquired for a total of USD 0.9 million. Thus, as at December 31, 2007 the share of ownership in RosNITI was 97.36%.

In August 2007, TMK signed a contract to purchase 100% of OOO Truboplast for USD 24.0 million from entities under common control with TMK who themselves acquired this interest in July 2007. On September 28, 2007, a management contract was signed under which TMK receives the powers of and, in effect, becomes the CEO of Truboplast. Title to the 100% share in Truboplast passed to TMK in November 2007. To account for this acquisition, TMK used the method of pooling of interests and presented financial statements as if the transfer of the controlling shareholding in Truboplast had occurred on the date of the acquisition of these shares by the aforementioned entities under common control with TMK.

In August 2007, TMK established OOO TMK-Premium Service to specialise in the development, manufacturing, sales, and servicing of pipes and Premium connections, the most attractive and profitable OCTG segment.

In September 2007, TMK concluded a contract to acquire service assets from TNK-BP: 100% of OOO Central Pipe Base (subsequently renamed TMK-Central Pipe Yard) and 100% of ZAO Pipe Repair Department (subsequently renamed TMK-Pipe Maintenance Department). The transaction to acquire 100% of Central Pipe Base and 100% of Pipe Repair Department was completed in the fourth quarter of 2007. The cost of acquisition was approximately USD 81.8 million. Title and control over the service assets passed to TMK at the end of December 2007.

In December 2007, TMK and SMS Demag AG, one of the world's largest manufacturers of steelmaking equipment, signed an agreement to establish an enterprise TMK-SMS Metallurgical Services. TMK's share in the entity is 51%.

TMK occasionally acquires shares in its subsidiaries. In the year ended December 31, 2007, TMK purchased an additional 0.25% of OAO Sinarsky Pipe Plant, 0.32% of OAO Seversky Tube Works, and 0.21% of OAO Taganrog Metallurgical Works, for a total of USD 5.4 million. As of December 31, 2007, TMK effectively held 92.68% of OAO Sinarsky Pipe Plant, 93.29% of OAO Seversky Tube Works, and 95.94% of OAO Taganrog Metallurgical Works.

RECENT EVENTS

On March 14, 2008, TMK and the Evraz Group announced the purchase of IPSCO's pipe business from SSAB. TMK acquired 100% of IPSCO Tubulars Inc. and 51% of NS Group Inc. for approximately USD 1.2 billion. TMK also entered into a call/put option for the remaining 49% of NS Group Inc., which will be exercisable in 2009 for USD 0.5 billion. This transaction will allow TMK to enter the North American pipe market, increase production of oilfield pipes, including premium threaded connections, significantly expand its product range and realise production and operating synergies between the Russian and American plants.

ANALYSIS OF 2007 RESULTS

The results of operations of TMK are affected by currency rates fluctuations, particularly between the rouble and both the US dollar and the euro, and between the Romanian lei and both the US dollar and the euro. The appreciation of the Russian rouble against the US dollar resulted in increases in revenue and expense items of TMK subsidiaries using the Russian rouble as their functional currency.

The table below shows the nominal exchange rate and movement of the rouble to the US dollar and euro for the reporting years ended December 31:

	2007	2006
US dollar exchange rate as at December 31	24.55	26.33
Nominal exchange rate (RUB/USD)[1]	25.57	27.18
Change in the nominal exchange rate of the rouble to the US dollar	(5.9)%	(3.9)%
Nominal exchange rate (RUB/EUR)[1]	35.01	34.11
Change in the nominal exchange rate of the rouble to the euro	2.6%	(3.3)%

Source: Central Bank of the Russian Federation.

[1] Weighted-average value of nominal exchange rates for each day of the period concerned.

The table below shows the consolidated income statement as a percentage of revenues for the reporting years ended December 31:

	2007		2006	
	Amount	% of revenues	Amount	% of revenues
	(million USD, other than percentages)			
Revenue	4,178.6	100.0%	3,402.3	100.0%
Cost of sales	(2,890.6)	(69.2)%	(2,353.6)	(69.2)%
Gross profit	**1,288.0**	**30.8%**	**1,048.7**	**30.8%**
Selling expenses	(238.2)	(5.7)%	(180.4)	(5.3)%
Advertising and promotion expenses	(5.3)	(0.1)%	(5.1)	(0.1)%
General and administrative expenses	(218.3)	(5.2)%	(166.6)	(4.9)%
Research and development expenses	(10.1)	(0.2)%	(6.7)	(0.2)%
Other operating expenses	(56.2)	(1.3)%	(29.1)	(0.9)%
Other operating income	8.6	0.2%	9.6	0.3%
Foreign exchange gain, net	20.5	0.5%	13.0	0.4%
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	2.2	0.1%	–	–
Finance costs	(105.0)	(2.5)%	(77.3)	(2.3)%
Finance income	12.6	0.3%	15.8	0.5%
Profit before tax	**698.8**	**16.7%**	**621.9**	**18.3%**
Income tax expense	(192.5)	(4.6)%	(159.7)	(4.7)%
Net profit	**506.3**	**12.1%**	**462.2**	**13.6%**
Attributable to:				
Equity holders of the parent company	487.1	11.7%	442.1	13.0%
Minority interests	19.2	0.5%	20.1	0.6%
	506.3		**462.2**	

SALES VOLUME

Despite the full usage of capacity and the necessary shutdown of obsolete equipment due to wide scale modernisation, TMK was able to increase sales of pipe products by 3.0% in 2007 over 2006. Sales of seamless pipes, the most profitable type of product, rose by 5.8%.

	2007	2006	% change,
	(thousand tonnes, other than percentages)		
Russia	1,367	1,266	8.0%
Foreign	672	662	1.5%
Seamless pipes	**2,039**	**1,928**	**5.8%**
Russia	824	839	(1.8)%
Foreign	225	230	(2.2)%
Welded pipes	1,049	1,069	(1.9)%
Total pipes	**3,088**	**2,997**	**3.0%**
of which			
Russian sales	2,191	2,105	4.1%
Foreign sales	897	892	0.6%

Demand for pipes was uneven over the year and the second half of the year saw a drop in demand for certain types of pipes.

The largest growth in sales of seamless pipes in 2007 occurred in the seamless oilfield line pipe segment, these pipes are used for infield transportation of oil and gas from wells to connectors and refineries. Favourable pricing conditions and increased demand for line pipes made it possible to increase sales by 21.6% over 2006 to 472 thousand tonnes. Sales of seamless line pipes on the domestic market rose by 32.6% (to 337 thousand tonnes) in 2007 as compared to 2006.

Sales of seamless OCTG dropped by 2.9% to 919 thousand tonnes and their share in total sales was 29.8%, which was due to the full load factor in seamless production capacity, the reconstruction of manufacturing facilities at TAGMET and the less favourable situation on world markets.

Sales of industrial seamless pipe rose by 9.1% in 2007 versus 2006 and amounted to 648 thousand tonnes. Sales of industrial seamless pipe on foreign markets increased by 11.0% in 2007 compared to the previous year, amounting to 339 thousand tonnes, due to the commissioning of a CPE mill at TMK-Artrom making it possible to increase sales of pipe products from the Romanian pipe mill by 69.3%.

Increasing competition on the Russian market for welded pipes affected TMK's sales of these pipes which decreased by 1.9%.

One important factor was the reduction in sales of large-diameter pipes due to the shift on foreign markets for such pipes toward demand for longitudinal welded pipes which TMK plans to begin manufacturing from the second half of 2008.

Intense competition on the Russian market for welded line pipes and welded industrial-purpose pipes was also a factor in the decrease in sales. The 8.4% decline in sales of welded industrial-purpose pipes on the domestic market, to 344 thousand tonnes, was due to a fall in demand in the second half of 2007 related to a reduction in the financing of public utilities. At the same time, sales of industrial-purpose welded pipes outside Russia jumped by 42.7%, to reach 73 thousand tonnes.

REVENUE

TMK's revenue grew by 22.8% to USD 4,178.6 million in comparison with 2006. The revenue growth was driven mainly by the growth of seamless segment revenues (which increased by 28.7%).

REVENUE BY PRODUCTION SEGMENT

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

	2007	2006	% change, 2007 to 2006	2007	2006
	(million USD, other than percentages)			(as a percentage of total revenues)	
Seamless pipes	2,849.4	2,213.4	28.7%	68.2%	65.1%
Welded pipes	1,118.5	949.0	17.9%	26.8%	27.9%
Other operations	210.7	239.9	(12.2)%	5.0%	7.0%
Total revenues	**4,178.6**	**3,402.3**	**22.8%**	**100.0%**	**100.0%**

Revenues from the sale of seamless pipes increased in 2007 not only in absolute terms but also in the share of total sales revenues, from 65.1% in 2006 to 68.2% in 2007. The increase in revenues from the sale of seamless products in 2007 compared to 2006 was mainly due to pricing. Prices on seamless pipes have risen significantly recently due to the increase in demand from the oil and gas industry and the industrial sector. In 2007 the average revenue per tonne in the seamless pipe segment increased by 21.7% to USD 1,397 per tonne, compared to USD 1,148 per tonne in 2006.

Revenues from the sale of welded pipes rose by 17.9% while their share in total revenues dropped from 27.9% in 2006 to 26.8% in 2007. In 2007, the average revenue per tonne in the welded pipe segment increased by 20% to USD 1,066 per tonne as compared to USD 888 per tonne in 2006. This was primarily due to an increase in steel prices in the first half of 2007.

The table below shows an analysis of the growth in revenue from the sale of pipes resulting from changes in prices and from changes in volume of pipe products sold in the given periods.

2007 compared to 2006	Seamless pipes	Welded pipes	Total	Seamless pipes	Welded pipes	Total
		(million USD, other than percentages)				
Change in prices	480.9	190.8	671.7	21.7%	20.1%	21.3%
Change in volumes	155.1	(21.3)	133.8	7.0%	(2.2)%	4.2%
Overall change	**636.0**	**169.5**	**805.5**	**28.7%**	**17.9%**	**25.5%**

In 2007, revenues from other operations contracted both in absolute terms by 12.2% as compared to 2006 and 5.0% as a percentage of total revenues compared to 7.0% in 2006. The main reason for the reduction in revenues from other operations was the drop in sales of steel billets as a result of their increased use by TMK mills. In 2006–2007 continuous casting machines were put into operation at Seversky, TAGMET and TMK-Resita, making it possible to produce steel billets of the necessary quality and the required specifications for use in the production of seamless pipes at Sinarsky, Seversky, TAGMET, and TMK-Artrom as well as to reduce purchases from external sources.

GROSS PROFIT

TMK's gross profit in 2007 improved by 22.8% compared to 2006 due to overall price increases on products, which rose at approximately the same rate as raw materials prices, growth in sales and increased manufacturing efficiency.

The major components of the cost of production are raw materials, labour and energy costs.

Raw materials and supplies

Raw materials and supplies are the main component of TMK's cost of production, accounting for 72.9% of all production costs in 2007 which is lower than the 2006 figure of 73.6%. Spending on raw materials and add-on materials of production is incurred mainly in acquiring strips and steel sheet, metal scrap, pig iron, ferrous alloys, billets and other materials used in production. Raw material costs and the cost of add-on materials of production rose by 21.4% in 2007 compared to 2006. The increase in raw materials expenses reflected the increasing trend in prices of certain types of materials in the first half of 2007.

Prices for certain types of materials may differ depending on the Russian region and the type of material. Average prices on certain types of steel billets acquired on the Russian market rose by approximately 37% in 2007 over 2006. The main growth in purchase prices for steel billets occurred in the first half of 2007. However, this did not have a substantial effect on the Company's results since TMK is practically self-sufficient in steel billets. The main raw material for steel production remains metal scrap, the price of which rose significantly in 2007. The price paid for scrap rose in average by 19–34% (depending on the region) with prices rising by 14–34% in the first half of the year and by another 2–11% in the second half. Prices for strips rose by 3–7% (depending on the region) and pig iron prices rose by 28–33% (depending on the region) with growth concentrated in the first half of 2007. TMK plans to fundamentally reduce its consumption of pig iron from 2008 when open-hearth furnaces will be replaced with electric arc furnaces at TAGMET and Seversky.

Labour costs
Labour costs constitute the second largest component of production costs. In both 2007 and 2006, they accounted for 12% of all production costs.

Labour costs rose by 24.4% in 2007 as compared to 2006, due to an inflation-driven increase in average wages as well as an increase in the proportion of highly-qualified personnel contracted for the installation of new equipment. In addition, due to the shortage of qualified employees on the regional labour markets, wages at TMK's Russian factories were raised in order to remain competitive and reduce the turnover of highly qualified personnel.

The average number of employees at TMK decreased slightly in 2007 as compared to 2006, to 48,483 employees. TMK is conducting a personnel optimisation programme at its Russian plants. The reduction in employee numbers under the programme (by 3,501 employees) was partially offset by an increase of 183 employees brought on by the acquisition of new companies in 2007.

Costs of energy and other utilities
Energy and other utilities accounted for about 8% of the total cost of production.

Energy and utilities costs rose by 31.5% in 2007 as compared to 2006 due to a combination of rising energy prices and increased production. Depending on the region, average electricity prices rose by 7–15%, while average natural gas prices rose by 19–22%. Energy costs were significantly affected by the substantial production increase at TMK's Romanian plants (TMK-Artrom – 65%, TMK-Resita – 20%) due to the comissionning of new equipment at the start of 2007.

The table below shows the ratio of gross profits to revenues (gross margin) by product segment for the reporting years ended December 31:

	2007	2006
Seamless pipes	38.4%	40.0%
Welded pipes	16.8%	15.1%
Other operations	2.9%	8.1%
Gross margin	**30.8%**	**30.8%**

Seamless pipes. Gross margin in the seamless pipe segment in 2007 decreased from 40.0% to 38.4% as a result of a change in sales structure: seamless line pipes, which have relatively lower margins than OCTG, accounted for a larger proportion of sales. In 2007 seamless line pipes represented 23.1% (472 thousand tonnes) of seamless pipe sales as compared to 20.1% (388 thousand tonnes) in 2006.

Welded pipes. Gross margin in the welded pipe segment increased from 15.1% to 16.8% in 2007. As a result of the favourable situation on the welded pipe market and the shift in demand to large-diameter pipes, the gross margin in the welded pipe segment in the first half of 2007 was 18.1%. In the second half of the year, gross profit per tonne in the welded pipe segment dropped by 10.2% compared to the first half of the year. This was associated with the deferral of a number of major Gazprom projects and a deterioration of the pricing environment in the industrial welded pipe segment. As a result, the gross margin in the welded pipe segment dropped to 15.6% in the second half of 2007.

Other operations. Gross margins from other operations were lower in 2007 than in 2006. This was mainly due to the changes in the segment's structure as a result of a drop in sales of steel billets. In addition, there was an increase in the share of billets produced at TMK-Resita which have lower margins than billets produced at Volzhsky.

ADMINISTRATIVE AND SELLING EXPENSES

General and administrative expenses

In 2007, General and administrative expenses increased by 31.0% to USD 218.3 million. This increase was mainly due to higher labour costs and professional services, specifically audit services and legal advisers, growth in business travel and transport expenses and also expenses on repairs and maintenance in connection with the administrative buildings repairs at the TMK plants.

Selling expenses and advertising and promotion expenses

Selling expenses in 2007 rose by 32.0% against 2006, mainly due to an increase in transport expenses and professional services for customs support and cargo expediting as well as on labour costs, which were in turn due to the increase in tariffs and prices for services, rates, and the expansion of business activity.

The costs of participating in industrial exhibitions and trade fairs, preparing displays and stands, printing TMK product brochures, maintaining the corporate website, and advertising in print media constitute the bulk of TMK's advertising and promotion expenses. Advertising expenses in 2007 were 3.9% higher than in 2006 and went from USD 5.1 million to USD 5.3 million.

Research and development expenses

In 2007, TMK's research and development expenses increased by 50.7% over 2006 and were equal to USD 10.1 million. The increase in expenses on research and development is primarily associated with the acquisition of the RosNITI research institute and the increase in the scale of research.

Foreign exchange gain, net

TMK's functional currency and that of its subsidiaries located in the Russian Federation, Kazakhstan, and Switzerland, is the Russian rouble. The functional currency of the Romanian subsidiaries is the Romanian leu and that of TMK Europe and TMK Italia is the euro. The functional currencies of TMK North America and TMK Middle East are the US dollar and the dirham, respectively. Monetary assets and liabilities expressed in a foreign currency are translated to the corresponding functional currency of TMK and its subsidiaries at the exchange rate as at the date at the end of the corresponding reporting period. Changes in the value of such assets and liabilities as a result of exchange rate fluctuations are recognised in TMK's financial statements under "Exchange rate gains (losses)".

In 2007, TMK reported net exchange rate gains of USD 20.5 million compared to net gains of USD 13.0 million in 2006. Exchange rate gains were mainly due to the result of the revaluation into roubles of US dollar denominated loans and Eurobonds, and thus reflecting the reduction in the value of the dollar relative to the Russian rouble in 2007.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition

The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition in 2007 was USD 2.2 million, as the result of the acquisition of 76.34% of RosNITI in March 2007 and 100% of OOO Central Pipe Base at the end of December 2007.

Finance costs

Finance costs, including the accrual of interest and the amortisation of costs related to loans and borrowings, were 35.8% higher than in 2006 and amounted to USD 105.0 million in 2007. Finance costs increased from 2006 to 2007 mainly due to the significant expansion of the portfolio of short- and long-term borrowings.

NET PROFIT

In 2007, TMK's net profit increased by 9.5% as compared to 2006 and amounted to USD 506.3 million.

In 2007, income tax expenses were USD 192.5 million, compared to USD 159.7 million in 2006, the increase being due to the increase in pre-tax profits. The effective tax rate, determined as income tax expense expressed as a percentage of pre-tax profits, increased from 25.7% in 2006 to 27.5% in 2007 as a result of a one-time write-off of a tax asset related to employee benefits arising from collective agreements which are not deductible for tax purposes (on the basis of clarifications received from the tax authorities in 2007).

LIQUIDITY AND CAPITAL RESOURCES

Capital requirements

The main capital requirements in 2007 were for financing the Strategic Investment Programme and the growth of working capital.

TMK has traditionally used cash flows from operating activity and short-term borrowings to finance working capital. TMK is trying to change its debt structure to include more long-term loans, in order to bring the maturity of liabilities into line with the maturity of assets. However, the amount of TMK's outstanding short-term debt as at December 31, 2007 increased to USD 1,033.3 million compared to USD 368.2 million as at December 31, 2006. This was due to the growth in working capital and a change in market conditions, a growth in supply and an improvement in short-term financing terms in comparison with long-term borrowings.

Cash flows

The table below shows TMK's total cash flows for 2007 and 2006:

	2007 (million USD)	2006
Profit before tax	**698.8**	**621.9**
Non-cash and other adjustments to profit	223.5	171.8
Changes in working capital	(385.7)	(188.3)
Income taxes paid	(212.5)	(172.5)
Net cash flow from operating activities	**324.1**	**432.9**
Net cash used in investing activities	**(568.6)**	**(522.2)**
Net cash flow from financing activities	**178.4**	**181.7**
Effect of exchange rate changes on cash and cash equivalents	**11.2**	**3.8**
Net (decrease)/increase in cash and cash equivalents	**(54.9)**	**96.2**

Operating activities. Net cash flow from operating activity equalled USD 324.1 million and USD 432.9 million in 2007 and 2006, respectively. Prior to the change in working capital, net cash flow from operating activity increased by 16.2%, from USD 793.7 million in 2006 to USD 922.3 million in 2007. However, net cash flow from operating activity fell in 2007 in comparison with 2006 mainly due to the fact that working capital increased faster than production, sales and profits. The significant increase in the accounts receivable balance (by 89.2%) as at December 31, 2007 as compared to December 31, 2006 was mainly attributable to the growth of trade receivables due from Gazprom and its subsidiaries (hereinafter collectively "Gazprom"). More than 70% of Gazprom's outstanding debt (USD 265 million) as at December 31, 2007 was repaid in the period from January 1 to May 1, 2008. In addition, Gazprom's debt as at May 1, 2008 (including debt arising since the beginning of the year) has decreased by more than 30%. Inventory balances as at December 31, 2007, as compared to December 31, 2006, rose by 31.8%, which was due to an overall increase in revenue and the implementation of the investment programme, which required the creation of additional stocks of raw and other materials.

Investing activities. Net cash used in investing activity increased by 8.9% in 2007 year-on-year and equalled USD 568.6 million. The cash flows used in investing activities were directed towards the acquisition of fixed assets, shares in new subsidiaries and the buyout of minority shareholdings in subsidiaries.

The main increase was on the acquisition of production equipment worth USD 661.7 million in 2007 as part of TMK's Strategic Investment Programme, compared to USD 338.5 million in 2006.

TMK also purchased ordinary shares issued by VTB bank as part of an initial public offering of shares on the stock exchange for an amount of USD 30.2 million in May 2007. TMK had a net inflow of cash in 2007 from the placement and return of bank deposits in the amount of USD 180.2 million and cash income from interest in the amount of USD 11.7 million.

During 2007, TMK paid USD 72.4 million in accordance with the agreements to acquire OAO RosNITI, OOO Truboplast, TMK- Pipe Maintenance Department and TMK-Central Pipe Yard.

Financing activities. Net cash flow from financing activities in 2007 decreased by 1.8% year on year, and equalled USD 178.4 million. Cash flows from financing activities were formed from net receipts on borrowing in the amount of USD 441.0 million and USD 330.8 million in 2007 and 2006, respectively. TMK paid USD 105.6 million and USD 61.6 million in loan interest in 2007 and 2006, respectively. In the second half of 2007, during the first stage of the Stock option programme, TMK purchased its own shares for USD 28.3 million and sold 1,873,457 of its shares to Company employees (the programme participants) for USD 15.9 million.

Dividends. In August 2007, TMK paid dividends for 2006 in the amount of USD 146.4 million including dividends to minority shareholders in TMK subsidiaries of USD 1.4 million. In 2006 TMK paid a total of USD 20.7 million in dividends for 2005 including USD 2.6 million to minority shareholders in TMK subsidiaries.

Indebtedness

The following table gives information on TMK's debt as at December 31, 2007, including loans, bonds and other borrowings by currency and interest rates.

As of December 31, 2007, USD 262 million of total debt was secured by collateral of plant and equipment, inventories, deposits, and accounts receivable.

	In roubles	In US dollars	In euro (million USD)	In Romanian lei	Total
Total debt, of which	**929.9**	**447.3**	**160.2**	**1.2**	**1,538.6**
Fixed-rate debt	929.9	303.5	0.3	—	1,233.7
Variable-rate debt	—	143.8	159.9	1.2	304.9

The following table gives information on debt maturity, including loans and other borrowings, as of December 31, 2007:

	up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years (million USD)	over 4 years	unamortised debt issue costs	Total
Interest-bearing loans and borrowings	816.3	43.6	39.5	9.3	14.9	(3.2)	920.4
Bearer coupon debt securities	218.3	404.0	—	—	—	(4.1)	618.2
Total debt	**1,034.6**	**447.6**	**39.5**	**9.3**	**14.9**	**(7.3)**	**1,538.6**

The Company's total debt on loans and borrowings at the end of 2007 was USD 1,538.6 million. The increase in TMK's debt burden is connected mainly with the implementation of the Strategic Investment Programme, which includes a large-scale modernisation and increase in production capacity.

Bank loans

As of December 31 2007, the most significant borrowings (broken down by specific loan agreements) included the following:

On September 6, 2006, TMK Trade House entered into an agreement with Joint-Stock Commercial Bank Rosbank on the opening of a credit line with a debt limit of RUB 1,300 million. The agreement is valid until September 5, 2008. In October 2007, funds in the amount of RUB 700 million were received under the credit line for the period up to March 27, 2008, and in the amount of RUB 600 million for the period up to April 21, 2008. As of December 31, 2007, the debt of TMK Trade House on this credit line equalled RUB 1,300 million (USD 53.0 million).

In September 2006, Seversky and TAGMET entered into ECA-covered credit facilities with Bayerische Hypo- und Vereinsbank Aktiengesellschaft worth a total of EUR 91.7 million maturing in 2013. As of December 31, 2007, total debt equalled EUR 19.8 million (USD 28.9 million).

On September 25, 2006, OAO TMK and TMK Trade House concluded a syndicated facility agreement with ZAO Bank Natexis (Moscow), as arranger, in an aggregate principal amount of USD 155.0 million. The facility was issued in US dollars and euros (at the cross rate of the Bank of Russia on the drawdown date) for the period up to March 26, 2009. The facility is repaid in 21 equal monthly payments, beginning July 2007. On December 31, 2007, debt on this facility agreement equalled EUR 10 million (USD 14.6 million) and USD 97.1 million.

On July 30, 2007, Volzhsky and the Joint-Stock Commercial Savings Bank of the Russian Federation ("Sberbank") concluded an agreement on opening a RUB 1,000 million revolving credit line maturing on January 25, 2008. As of December 31, 2007, the debt on this credit line equalled RUB 1,000 million (USD 40.7 million). The debt was fully repaid on January 25, 2008.

On August 29, 2007, Volzhsky and Sberbank concluded an agreement on opening a RUB 1,200 million revolving credit line maturing on February 26, 2008. As of December 31, 2007, the debt on this credit line equalled RUB 1,200 million (USD 48.9 million). The debt was fully repaid by the due date.

In October 2007, Volzhsky and Joint-Stock Bank Gazprombank entered into an agreement on opening a RUB 2,000 million credit line maturing on September 25, 2009. As of December 31, 2007, debt on this credit line equalled RUB 1,350 million (USD 55.0 million). The credit line was used in full as of March 31, 2008.

Bonds
On September 29, 2006, TMK Capital S.A., a special purpose entity registered in Luxembourg, granted TMK a loan worth a total of USD 300 million at 8.5% per annum and with a period to maturity of September 29, 2009. In order to finance the loan, TMK Capital S.A. issued Eurobonds in the indicated amount with a coupon yield of 8.5% per annum. TMK's liabilities on this loan are secured by guarantees issued by Volzhsky, TAGMET, Sinarsky, Seversky and TMK Trade House. The issue of the Eurobonds was registered on the London Stock Exchange. The terms of the loan agreement between TMK and TMK Capital S.A. place several limitations on the ability of TMK companies to create financial liabilities, pledge property, sell assets, conclude transactions with affiliates, and participate in M&A transactions and similar operations. As at December 31, 2007, total debt on the bonds equalled USD 300 million.

TMK issued rouble bonds in 2005 and 2006, the receipts from which were used for capital investments and restructuring of the loan portfolio:

Series 02 bonds worth RUB 3 billion.
On March 29, 2005, TMK issued documented interest-bearing non-convertible bonds worth a total of RUB 3 billion maturing on 24 March, 2009. The bonds were issued for trading on FB MICEX. The interest rate for the first and second six-month coupon periods equalled 11.09% per annum. The interest rate for the third and fourth six-month coupon periods equalled 10.09% per annum. The interest rate for the fifth, sixth, seventh and eighth six-month coupon periods equalled 7.6% per annum. Notices on early redemption of the bonds as part of offers was possible during the last five days of the fourth coupon period, from the 724th to the 728th day from the date of issue of the bonds with the use by the issuer of the offer on the 728th day. In the offer TMK satisfied requests for purchase of 9,380 bonds at par value. On December 31, 2007, the debt on bonds equalled RUB 2.6 billion (USD 0.1 billion).

Series 03 bonds worth RUB 5 billion.
On February 21, 2006, TMK issued documented interest-bearing non-convertible bonds worth a total of RUB 5 billion maturing on 15 February 2011. The bonds were issued for trading on FB MICEX. The interest rate for the first four six-month coupon periods was 7.95% per annum. On December 31, 2007, the debt on bonds equalled RUB 5.0 billion (USD 0.2 billion). Pursuant to the decision on the bond issue, TMK is required to give holders the right to redeem the bonds within the last 10 days of the fourth coupon period. The bonds will be redeemed on the last day of the fourth coupon period or on the third day of the next coupon period. In February 2008, TMK gave the bond holders the right to redeem the bonds

at par value. A request on the sale of RUB 4 million in bonds, or 0.08% of the bond issue, was received by the agent of the offer – OAO Bank Uralsib – which purchased the bonds to be redeemed. Furthermore, the interest rates on coupon yield from the fifth to the eighth six-month coupon periods were established in February 2008 in the amount of 9.6% per annum, and a decision was taken on the acquisition of the bonds of the holders who filed a notice on their intention to sell the bonds within the last 10 days of the eighth coupon period according to the procedure and on the terms stipulated by the Decision on the securities issue. The interest rate for the ninth and tenth six-month coupon periods will be established within 10 days after the redemption of the coupon for the eighth coupon period.

Capital expenditures
From 2004 to 2010, TMK implements its Strategic Investment Programme aimed at increasing seamless pipe production, increasing the efficiency of production facilities, improving the quality and product range, and increasing the production of high value-added products.

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

	2007	2006	% change 2007 and 2006
	(million USD)		
Seamless pipes	513.1	271.5	89.0%
Welded pipes	35.0	5.9	493.2%
Other operations	2.3	1.9	21.1%
Unallocated costs	83.2	95.3	(12.7)%
Total capital expenditures	**633.6**	**374.6**	**69.1%**

2007 was a record-setting year for TMK in terms of investments in fixed assets, which increased by approximately 69.1% over 2006 and totalled USD 633.6 million. Behind this significant growth is the implementation of several major investment projects at TMK plants as part of the Company's Strategic Investment Programme.

In 2007, the construction of a new PQF (Premium Quality Finishing) pipe-rolling mill with an annual capacity of 600 thousand tonnes of high technology pipes began at TAGMET. The implementation of this project will make it possible to produce premium class seamless steel pipes with improved performance characteristics that meet both Russian and international standards. The commissioning of the mill is scheduled for July 2008.

The commissioning of a 1 million tonne capacity electric arc steelmaking furnace at Seversky is scheduled for July 2008.

In 2007, work on the upgrading of Seversky's pipe rolling facilities was started and an agreement was concluded for the supply of a Fine Quality Mill (FQM) from Danieli, a world leader in the design, manufacturing and installation of equipment for the steel industry. The commissioning of the new mill is scheduled for 2010.

Volzhsky's heat treatment capacity is undergoing upgrading. This project is scheduled for completion by the end of 2008 and will make it possible to increase heat treatment to 600 thousand tonnes of pipes per annum.

In 2008, TMK plans to begin production of large-diameter longitudinal welded pipes at Volzhsky using leading edge roll bending technology. HAEUSLER AG of Switzerland, one of the world's biggest producers of welded pipe production equipment, will supply the new 650 thousand tonne annual capacity facility. Production from this mill will allow TMK to participate in all pipeline construction projects, including the offshore section of Nord Stream and other high-pressure environments.

In 2007, TMK-Artrom's CPE rolling mill reached its rated capacity of 100 thousand tonnes of seamless pipes per annum.

In November 2007, TMK-Resita completed work on the commissioning of a new continuous casting mill, allowing it to increase its steel billets production capacity.

TMK plans to continue financing most of its capital expenditure needs through operating cash flows, existing cash balances, debt financing and other sources as appropriate.

In 2007, TMK's production capacity amounted to approximately 4.1 million tonnes of pipes, including 2.2 million tonnes of seamless pipes. TMK has its own steelmaking capacity and is 95-100% sufficient in the production of steel billets required for seamless pipe production. TMK's steelmaking capacity approximated 2.7 million tonnes of steel and production equalled around 2.3 million tonnes of steel. TMK has set itself a goal of acquiring new rolling mill capacity for the production of seamless pipes using its own steel billets. TMK also has its own capacity for processing scrap metal which allows for additional savings through the purchase of lower quality scrap metal and subsequent processing at Company plants.

NET DEBT AND EBITDA

Net debt nearly doubled in 2007 to USD 1,346.6 million as compared to USD 748.6 million in 2006. Most borrowings were used to finance the Strategic Investment Programme and to meet working capital needs.

The table below gives information on the calculation of net debt[1] as at December 31:

	2007	2006
	(million USD)	
Calculation of net debt		
Including:		
Short-term loans and current portion of long-term loans	1,033.3	371.7
Long-term loans, net of current portion	506.0	662.9
Total loans	**1,539.3**	**1,034.6**
Net of:		
Cash	(89.0)	(144.0)
Deposits and short-term promissory notes received[2]	(103.7)	(142.0)
Total cash, deposits and promissory notes received	**(192.7)**	**(286.0)**
Net debt	**1,346.6**	**748.6**

[1] The method for calculating net debt is given in the appendix on p. 154

[2] Line "Deposits and short-term promissory notes received" includes promissory notes received as at December 31, 2007 in the amount of USD 103.6 million included in the line "Trade and other receivables" of the consolidated financial statements.

The net debt to EBITDA ratio increased to 1.45 in 2007, as compared to 0.94 in 2006. EBITDA increased by 16.4%, and equalled USD 931.5 million in 2007 compared to USD 800.2 million in 2006. The table below gives information on the calculation of EBITDA[1] as at December 31:

	2007 (million USD)	2006
Net profit	506.3	462.2
Income tax expense	192.5	159.7
Depreciation and amortisation	140.3	116.8
Finance costs	105.0	77.3
Finance income	(12.6)	(15.8)
EBITDA	**931.5**	**800.2**

[1] The method for calculating EBITDA is given in the appendix on p. 154

Development trends
TMK's main objectives are to strengthen its position as the leading Russian manufacturer of pipe products and establish itself as a leading global producer of seamless pipes. TMK continues to concentrate on high growth and profitability segments such as seamless pipes, especially OCTG and Premium threaded connections. TMK will also optimise its seamless and welded pipe production facilities in order to increase profits and revenue per tonne as well as allocate significant investments to the modernisation and expansion of production of seamless pipes and increase the output of large-diameter welded mainline pipes for the oil and gas industry.

The year 2008 promises to be a turning point for TMK due to the completion of major investment projects – the completion of the PQF continuous mill at TAGMET, the start of production of large-diameter longitudinal welded pipes at Volzhsky, and the commissioning of an electric arc steelmaking furnace at Seversky. Despite the significant increase in production capacity brought on by this new equipment, TMK's management only expects a slight increase in sales volumes in 2008, as these projects will be completed in the second half of the year and will necessitate several months to achieve full operational capacity.

TMK's management does expect an improvement in the Company's financial results in 2008 but the rapid increase observed in steel prices may dampen the Company's profit growth.

Based on the main trends on the pipe market in 2007, TMK's management expects that the oil and gas industry will retain its significant influence on the pipe market.

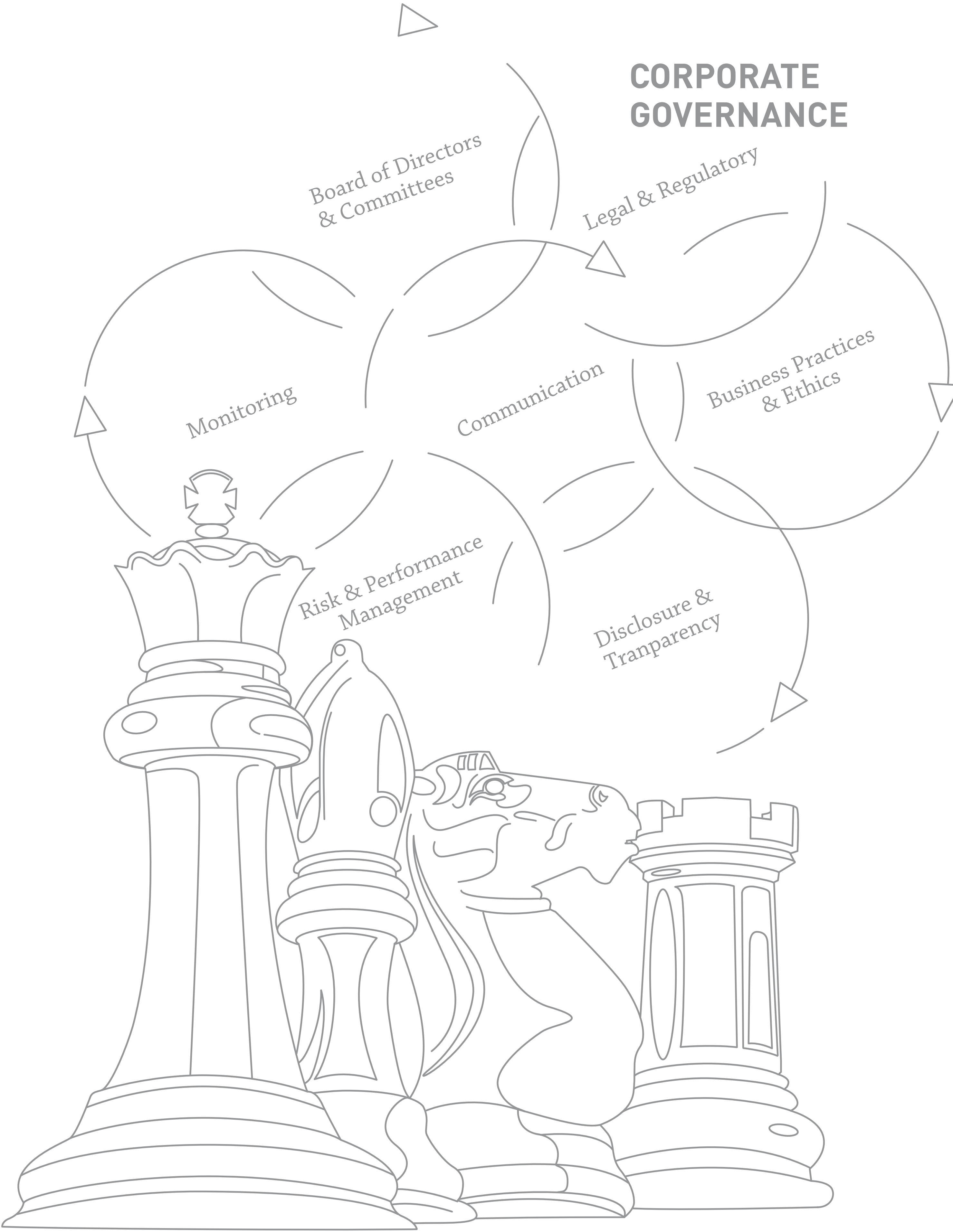
According to TMK's estimates, the situation on the large-diameter welded pipe market still depends on a number of major Gazprom projects that were postponed from 2007 to 2008. However, TMK expects demand to remain high for large-diameter pipes in Central Asian markets. Demand from oil and gas companies is expected to remain high in all other segments of the oil and gas pipe market in 2008.

The positive structural changes and improvement in the investment climate in the machine-building industry are expected to lead to a growth in demand for machine-building pipes. According to expert estimates, the rate of growth in consumption of pipes by the machine-building industry will remain at a level of up to 10%.

To strengthen TMK's position on the Russian and international markets for high-technology pipes, the Company plans to double production of OCTG pipes with Premium threaded connections.

The Company also expects demand for oilfield services to increase in the oil and gas sector in 2008. In order to increase TMK's presence in this sector, an oilfield services division was created in early 2008. Comprised of OAO Orsky Machine Building Plant, OOO Truboplast, TMK-Pipe Maintenance Department and TMK-Central Pipe Yard, TMK Oilfield Services was especially created for this purpose. Promotion of its oilfield services division will allow TMK to hedge against pricing volatility on commodity markets and increases the share of added value in the Company's revenue structure.

CORPORATE GOVERNANCE



CORPORATE GOVERNANCE

FOUNDATIONS OF THE CORPORATE GOVERNANCE SYSTEM

TMK adheres to all requirements of written legislation and strives to maintain the high standard of corporate governance expected of companies whose shares are listed on the London and Russian stock exchanges, as well as the recommendations of corporate governance best practices, including the Corporate Code of Conduct recommended by the Federal Comission for the Securities Market (now Federal Financial Markets Service) of Russia.

The steady improvement in the quality of corporate governance is one of the drivers behind the Company's successful development and is a prerequisite for the continued growth in its shareholder value.

OAO TMK's corporate governance system is based on the following principles:

1. Shareholders are given a real opportunity to exercise their rights associated with participation in OAO TMK:

- shareholders are given a reliable and effective means of accounting for their title to shares and the possibility of prompt and unhindered disposal of their shares;
- shareholders have the right to participate in the management of OAO TMK by taking decisions on its most important operating issues at the General Meetings of Shareholders;
- shareholders are given the opportunity to participate in the profits of OAO TMK;
- shareholders have the right to receive complete and reliable information on OAO TMK on a regular and timely basis;
- Shareholders owning an equal number of one type of share are guaranteed equal treatment. All shareholders are entitled to effective protection in case of a violation of their rights.

2. The Board of Directors is responsible for the strategic management of OAO TMK's operations and the effective monitoring of the activities of its executive bodies and the members of the Board of Directors affiliated with its shareholders:

- the Board of Directors determines OAO TMK's development strategy and exercises effective control over its financial and economic activity;
- the membership of the Board of Directors of OAO TMK ensures the most effective possible performance of the duties placed on it;
- the meetings of the Board of Directors are called on a regular basis in accordance with a specially designed plan and may be held through joint attendance or conference call depending on the importance of the issues to be discussed;
- the Board of Directors has created committees for preliminary consideration of the most important issues within its competence;
- the Board of Directors supports and monitors the effective work of the executive bodies.

3. OAO TMK makes it possible for the executive bodies to perform effective management of the Company's day-to-day activity reasonably, in good faith and exclusively in the interests of OAO TMK. The executive bodies are subordinate to the Board of Directors and its shareholders.

- OAO TMK has a collegial executive body (Management Board) which is responsible for resolving the most complex management issues in OAO TMK's everyday operations;
- the membership of the executive bodies of OAO TMK ensures the most effective possible performance of the duties placed on them;
- the executive bodies act in accordance with the consolidated budget of income and expenses of TMK;
- remuneration of the CEO and the members of the Management Board corresponds to their qualifications and takes into account their actual contribution to the performance results of OAO TMK.

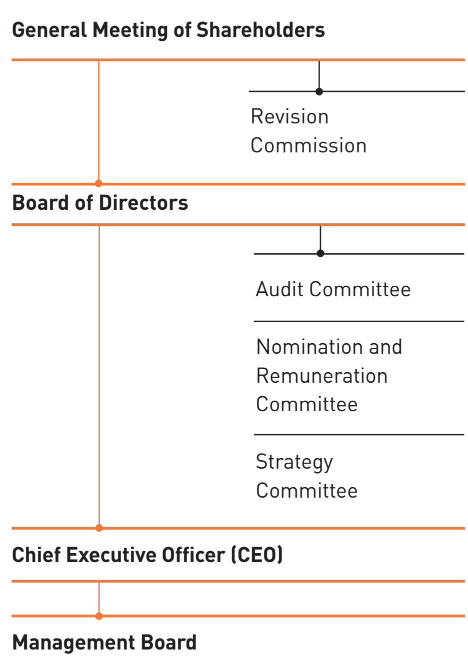
4. OAO TMK ensures the timely disclosure of complete and reliable information on its operations, including on its financial position, economic indicators, ownership structure and management, in order to give its shareholders and investors the ability to take well-informed decisions.

5. OAO TMK controls the use of confidential and insider information.

6. The Company ensures effective monitoring of its financial and business activity in order to protect the rights and lawful interests of shareholders.

All OAO TMK officials and employees (including the members of the Board of Directors, CEO, members of the Management Board and the Audit Committee) must perform their activity in accordance with the Code of Ethics of OAO TMK as adopted by the Board of Directors in 2006.

OAO TMK's corporate governance system is shown in the following diagram:



TMK is making every effort to improve the Company's information transparency. For example, in May 2007, a new corporate Internet portal was launched which includes the OAO TMK website and the websites of its subsidiaries. The portal includes a Russian-language website at the address: www.tmk-group.ru and an English-language site at the address: www.tmk-group.com.

In 2007, the Company also received an award "For robust corporate information disclosure policy" established by the authorised agencies of the Federal Financial Markets Service of Russia – Interfax and AK&M.

BOARD OF DIRECTORS

MAIN DUTIES

The Board of Directors of OAO TMK performs the following main functions:

- setting priorities for OAO TMK's operations and for improvements to corporate governance;
- calling annual and extraordinary meetings of shareholders;
- making decisions on the placement of shares and other issuable securities in those cases stipulated by the TMK Charter;
- approving annual budgets and strategic development plans, as well as overseeing the use of the Company's assets through the prior approval of major transactions and other transactions stipulated by the TMK Charter and Russian legislation;
- appointing and removing the Chief Executive Officer of OAO TMK and members of the Management Board.

The Board of Directors monitors the performance of all the Company's business units and is responsible for creating and maintaining an effective system of internal controls at OAO TMK.

Issues within the competence of the Board of Directors may not be delegated to the Chief Executive Officer, the Management Board or the General Meeting of Shareholders.

The liability of the members of the Board of Directors is insured against improper actions and other insured events as stipulated by the D&O and POSI policies.

MEMBERS

The Board of Directors has ten members four of whom are independent directors according to the criteria defined in the Regulations on the Board of Directors and corporate governance best practices. All members of the Board of Directors have been members uninterrupted since 2005.

No changes took place in the membership of the Board of Directors in 2007.

As of 31 December 2007, the members of Board of Directors of OAO TMK were:

Dmitriy Alexandrovich Pumpyanskiy
Chairman of the Board of Directors, non-executive director

Born: 1964

Graduated from Urals State Technical University, Candidate of Science (Engineering), Doctor of Science (Economics).

Positions in other organisations: President of ZAO Sinara Group, member of the Board of Directors of OAO Volzhsky Pipe Plant, member of the Board of Directors of OAO TAGMET, member of the Board of Directors of OAO Seversky Tube Works, member of the Board of Directors of OAO Sinarsky Pipe Plant, member of the Board of Directors of OAO Joint-Stock Commercial Bank of Support to Commerce and Business (SKB-Bank), Chairman of the Board of Directors of ZAO Sinara Group, member of the Board of Directors of OAO Sinara Transport Machines, member of the Bureau of the Board of Directors of Russian Union of Industrialists and Entrepreneurs.

Previous positions held: Chief Executive Officer of OAO TMK, First Deputy Chief Executive Officer of OAO Sinarsky Pipe Plant, and Chairman of the Board of Directors of OAO Sinarsky Pipe Plant.

Share in the charter capital of OAO TMK: 0.0075%.

Holding of ordinary shares in OAO TMK: 0.0075%[1].

Piotr Dmitrievich Galitzine
Independent director, member of the Strategy Committee

Born: 1955

Graduated from Massachusetts Institute of Technology, received an MBA from New York University.

Positions in other organisations: Chief Executive Officer of ZAO BASF in Russia and the CIS, Head of the Representative Office of BASF SE in Russia.

Previous positions held: Director of Galitzine Consulting Ltd.

Share in the charter capital of OAO TMK: 0.0011%.

Holding of ordinary shares in OAO TMK: 0.0011%.

Andrei Yurievich Kaplunov
Non-executive director, member of the Nomination and Remuneration Committee

Born: 1960

Graduated from Moscow Finance Institute, Candidate of Science (Economics).

Positions in other organisations: Vice President of ZAO Sinara Group, Chairman of the Board of Directors of OAO Seversky Tube Works, Chairman of the Board of Directors of OAO Volzhsky Pipe Plant, Chairman of the Board of Directors of

[1] Information on the beneficiary owners of OAO TMK is given in the section "Share capital" of this Annual Report on page 68.

OAO TAGMET, Chairman of the Board of Directors of OAO Sinarsky Pipe Plant, member of the Board of Directors of OAO Joint-Stock Commercial Bank of Support to Commerce and Business (SKB-Bank), member of the Board of Directors of ZAO Sinara Group, member of the Board of the Interregional Non-State Big Pension Fund.

Previous positions held: Deputy Chief Executive Officer for Organisational Development of OAO TMK, Deputy Chief Executive Officer of Administration of OAO TMK.

Share in the charter capital of OAO TMK: 0.0074%.

Holding of ordinary shares in OAO TMK: 0.0074%.

Adrian Cobb
Non-executive director, member of the Audit Committee

Born: 1949

Graduated from the University of Durham (United Kingdom), a Fellow of the Institute of Chartered Accountants of England and Wales.

Positions in other organisations: Advisor to the President of ZAO Sinara Group, member of the Board of Directors of ZAO Sinara Group.

Previous positions held: Senior Financial Advisor of Shell Exploration and Production Services B.V., Chief Financial Officer of the Caspian Pipeline Consortium.

Share in the charter capital of OAO TMK: 0.001%.

Holding of ordinary shares in OAO TMK: 0.001%.

Josef Marous
Independent director, Chairman of the Strategy Committee, member of the Nomination and Remuneration Committee

Born: 1949

Graduated from Johann Wolfgang Goethe University, Frankfurt-am-Main.

Positions in other organisations: Head of the Representative Office of Thyssen Krupp AG in Russia, member of the Board of Directors of OOO Thyssen Krupp Elevator, member of the Board of Directors of OOO Thyssen Krupp Materials, member of the Board of Directors of OOO Polisius.

Previous positions held: Chairman of the Committee of Automobile Parts Manufacturers.

Share in the charter capital of OAO TMK: 0.0016%.

Holding of ordinary shares in OAO TMK: 0.0016%.

Sergey Timofeyevich Papin
Non-executive director

Born: 1955

Graduated from Donetsk Polytechnical Institute.

Positions in other organisations: Vice President of ZAO Sinara Group, member of the Board of Directors of ZAO Sinara Group, member of the Board of Directors of OAO Urals Railway Engineering Plant, member of the Board of Directors of ZAO Intourist-Sinara, member of the Board of Directors of OAO Burgas Vacation Hotel, member of the Board of Directors of OAO Sinara Transport Machines, member of the Board of Directors of OAO Arkhyz-Sinara, member of the Board of Directors of OAO Lyudinovo Locomotive Works.

Previous positions held: Deputy Chief Executive Officer for External and Special Projects of OAO TMK, Vice President and Director of the Department for Government Relations, Advertising and Public Relations of ZAO KB GUTA-Bank.

Share in the charter capital of OAO TMK: 0.008%.

Holding of ordinary shares in OAO TMK: 0.008%.

Geoffrey Townsend
Independent director, Chairman of the Audit Committee

Born: 1949

Graduated from St. Catherine's College (Oxford), a Fellow of the Institute of Chartered Accountants of England and Wales.

Positions in other organisations: member of the Board of Directors of OAO Raspadskaya.

Previous positions held: Partner and independent consultant at KPMG; partner at Deutsche Treuhand-Gesellschaft.

Share in the charter capital of OAO TMK: 0.0017%.

Holding of ordinary shares in OAO TMK: 0.0017%.

Igor Borisovich Khmelevsky
Non-executive director

Born: 1972

Graduated from Sverdlovsk Legal Institute.

Positions in other organisations: Vice President of ZAO Sinara Group, member of the Board of Directors of ZAO Sinara Group, Director of TMK STEEL LIMITED, Director of BRAVECORP LIMITED, Director of TIRELLI HOLDINGS LIMITED, member of the Administrative Board of SC T.M.K.-ARTROM SA, Director of TMK Global AG, Director of SINARA CAPITAL MANAGEMENT SA, Director of FERDBERG SERVICES LIMITED.

Previous positions held: Deputy Chief Executive Officer for Legal Work of OAO TMK, Head of the Department of Legal Issues of ZAO SINARA Group.

Share in the charter capital of OAO TMK: 0.0093%.

Holding of ordinary shares in OAO TMK: 0.0093%.

Alexander Georgievich Shiryaev
Non-executive director, member of the Strategy Committee

Born: 1952

Graduated from Sverdlovsk Institute of National Economy.

Positions in other organisations: Chief Executive Officer of ZAO Sinara Group, member of the Board of Directors of OAO Joint-Stock Commercial Bank of Support to Commerce and Business (SKB-Bank), member of the Board of Directors of ZAO Sinara Group, member of the Board of Directors of OAO Urals Railway Engineering Plant, member of the Board of Directors of OAO Central Stadium, member of the Board of Directors of OAO Arkhyz-Sinara, member of the Board of Directors of OAO Sinara Transport Machines, member of the Board of Directors of OOO SINARA-INVEST.

Previous positions held: Vice President of ZAO SINARA Group, Deputy Chief Executive Officer of Finance and Economics of OAO TMK, Deputy Chief Executive Officer of Finance and Economics of ZAO TMK Trade House, Deputy Chief Executive Officer of Development of ZAO SINARA Group.

Share in the charter capital of OAO TMK: 0.0112%.

Holding of ordinary shares in OAO TMK: 0.0112%.

Mukhadin Abdurakhmanovich Eskindarov
Independent director, Chairman of the Nomination and Remuneration Committee, member of the Audit Committee

Born: 1951

Graduated from Moscow Finance Institute, Doctor of Science (Economics), Professor.

Positions in other organisations:
Rector of the Finance Academy under the

Government of the Russian Federation, member of the Board of Directors of OAO Bank of Moscow, member of the Board of Directors of OAO Rosbank.

Previous positions held: First Vice Rector, Finance Academy under the Government of the Russian Federation.

Share in the charter capital of OAO TMK: 0.0019%.

Holding of ordinary shares in OAO TMK: 0.0019%.

RESULTS OF OPERATIONS IN 2007

As was the case last year, the Board of Directors was actively involved in the strategic management of OAO TMK's operations. Meetings were held regularly at which key issues concerning the priority directions of the Company's activities were discussed.

In 2007, the Board of Directors held 65 meetings, 10 of which were held through joint attendance. All members of the Board of Directors were present at all meetings.

The Board of Directors considered the following important issues concerning OAO TMK's priority lines of business in 2007:

- approval of investment projects;
- approval of staff and the size of the stock options for participants in the Stock option programme of OAO TMK, and approval of the schedule of performance of measures to implement the Stock option programme;
- approval of the Regulations on the Internal Audit Service of OAO TMK;
- approval of the reports on the work of the Board Committees of OAO TMK;
- consideration of the medium-term development strategy for TMK's commercial operations for the period 2007-2011;
- the state of environmental, occupational and industrial safety at TMK companies;
- results of the work of the Internal Audit Service of OAO TMK in 2007;
- approval of various asset management transactions;
- approval of the Company's new website.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has created three standing committees:
- the Audit Committee;
- the Nomination and Remuneration Committee;
- the Strategy Committee.

The Committees were created to improve the efficiency of the work of the Board of Directors and for preliminary consideration of issues that require more in-depth study. Joint meetings of the committees are held on certain issues.

Information on the attendance of members of the committees of the Board of Directors at the Committee meetings is given in the table below:

	Audit Committee (15 meetings)	Nomination and Remuneration Committee (14 meetings)	Strategy Committee (11 meetings)
P.D. Galitzine			6
A.Yu. Kaplunov		14	
A. Cobb	15		
J. Marous		12	11
G. Townsend	15		
A.G. Shiryaev			11
M.A. Eskindarov	7	12	

AUDIT COMMITTEE REPORT

Membership and meetings

The members of the Audit Committee in 2007 were G. Townsend (chairman), A. Cobb and M. Eskindarov. G. Townsend and M. Eskindarov are independent directors, while A. Cobb is a non-executive director. A. Cobb is an employee of companies which, while not being subsidiaries or associates of OAO TMK, are controlled by D. Pumpyanskiy.

The non-compliance of A. Cobb with the criteria on independence of the members of the Board of Directors means that the Committee is not in full compliance with the provisions of C.3.1 of the Combined Code. However, article 3.2 of the Regulations on the Audit Committee of the Board of Directors of OAO TMK permits his membership. We believe that his work in companies controlled by D. Pumpyanskiy does not compromise his independence in substance. Furthermore, his work experience as a CFO in companies working in CIS countries and in preparing financial statements according to international standards counterbalances his lack of formal independence.

The members bring varied and complimentary experience to the Committee: a former partner at a Big Four company, a former oil industry CFO and a professor of a leading economics university.

The Committee usually meets twice between scheduled meetings of the Board of Directors. The second of these meetings is usually held on the same day as meetings of the Strategy and the Nomination and Remuneration Committees.

The Committee members normally attend the meetings of the other Board Committees. Moreover, joint committee meetings are held on issues that fall under the competence of more than one committee.

Role and authority

The Committee's activity is governed by Russian legislation, the Charter and the Regulations on the Board of Directors of OAO TMK, as well as the Regulations on the Audit Committee of the Board of Directors of OAO TMK which were adopted by the Board of Directors on 30 June 2005 and amended on 13 October 2006. The Regulations are available on TMK's website. These documents are in general compliance with section C3 of the Combined Code and The Smith Guidance, and are actually broader in scope.

Point 6.2 of the Regulations grants the Committee the right to request any information it requires for the discharge of its duties from management, the Revision Commission and the external auditors of OAO TMK.

The Regulations on the Committee stipulate the Commission's right to seek independent advice when the Committee deems it necessary (point 2.15 of The Smith Guidance). The Committee did not feel the need to receive such advice during the year.

Process

Audit Committee meetings are normally open to other members of the Board of Directors, and invitations to attend the meetings are also sent to the management of OAO TMK. The Committee does hold closed meetings with the external auditor from which management and non-Committee members of the Board of Directors are excluded. Furthermore, the Committee chairman has free access to the external audit partner.

The Committee approves the annual agenda designed to cover all areas falling under its responsibility, which can be expanded if necessary. The Committee Chairman meets with the CFO and external audit partner of OAO TMK on a regular and informal basis to discuss emerging issues.

The Committee chairman prepares a report on the work undertaken and future work plans for each regular meeting of the Board. On an ad hoc basis, the chairman also presents materials to the Board of Directors on critical issues.

Furthermore, the Committee prepares an annual report on its activities for the Board of Directors.

Financial statements
The Committee has reviewed the consolidated financial statements for 2006, for the first six months of 2007 and, in 2008, for 2007, and recommended their adoption by the Board of Directors.

Possible changes in the accounting policy or issues arising form the application of the accounting policy were discussed with management and the external auditor.

The external auditor presented its audit plan to the Audit Committee in advance, and discussed matters relating to its scope. Upon conclusion of the audit, the external auditor presented a summary of findings including a list of audit adjustments that had been made and potential audit adjustments that had not been made (passed audit adjustments).

Internal control and risk management
The management has created a Risk Management Committee, and determined its membership. The scope of the Risk Management Committee's responsibilities include financial and accounting risks and preparation of financial statements. The Committee reports regularly to the Board of Directors and the Audit and Strategy Committees.

The work of the Risk Management Committee is ongoing.

External auditor
The Audit Committee holds regular meetings with the external auditor. Some of these meetings are held without the presence of management or Board members. Furthermore, there is regular informal information exchange between the Committee chairman and the audit partner. After the completion of the audit, the auditor presents a letter of recommendations (management letter) describing issues which arose during the audit and proposed remedies. The letter for the 2006 audit was discussed with the audit committee in 2007, and the letter for 2007 will be discussed in the second half of 2008.

TMK's practice concerning awarding contracts for non-audit services to the external auditor is extremely restrictive. The overwhelming majority of fees is for services directly concerned with the performance of the annual audit or for other services where the opinion of the auditor is required.

The external auditor has adequate procedures for rotation of audit partners and senior audit staff.

The Audit Committee has established a procedure for the appointment/reappointment of the external auditor which commences eight months before the annual general meeting at which the auditor is appointed. The procedure is designed to identify and resolve potential problems with quality, service level and remuneration in a timely manner so that a search for a new auditor could, if necessary or desirable, be completed before the annual general meeting.

The Committee has recommended to the Board of Directors that it reappoint Ernst & Young as external auditor for the 2008 financial year.

Committee oversight of the external audit of the financial statements for 2007
This section describes the Audit Committee's oversight of the external audit of the Company's consolidated financial statements for 2007 and the parent company financial statements prepared according to Russian accounting standards for 2007. Most of this work was carried out in 2008.

The external auditor discussed its audit plans with the Committee before commencement of the audit. During the course of the audit the external auditor discussed potential problems and their resolution with the Audit Committee.
At the conclusion of the audit, the external auditor presented to the Audit Committee:
• a summary on the audit adjustments proposed by the auditor and accepted by OAO TMK;

- a summary on the audit adjustments proposed by the auditor and not accepted by OAO TMK; The external auditor considers the non-acceptance of these proposed adjustments to be immaterial in the context of forming an opinion on the economic performance and financial status of the Company from the financial statements;

As a result of its work on the oversight of the external audit, the Audit Committee believes that the audit was performed professionally and that there are no obvious conflicts of interest, and recommends to the Board of Directors that the financial statements be submitted for the approval of shareholders at the annual General meeting.

Internal audit
An internal audit function has been created at both OAO TMK and at the plant level. The activity of the Internal Audit Service is governed by internal documents approved by the Board of Directors.

Internal audit activities at the plant level are planned, coordinated and controlled by OAO TMK's Internal Audit Service.

Internal audit plans, results and action plans on performance of adjustments are agreed with the appropriate level of management. There is constant oversight of the implementation of action plans.

The Internal Audit Service presents its internal audit plan and reports on the results of audits to the Audit Committee. Moreover, the plan and a summary of the results of internal audit are provided to the Board of Directors on an annual basis. The consideration of the internal audit reports is a standing agenda item at Committee meetings and is performed before each scheduled meeting of the Board of Directors.

Performance evaluation
OAO TMK is a young company and its corporate governance procedures are necessarily new. Furthermore, the business model of the company is not static; acquisitions, joint ventures, the broadening of the product palette (through the addition of premium connections and value added services etcetera), changes in corporate information systems and the attraction of additional finance all require constant reexamination of corporate governance structures and procedures.

In this light, the Committee sees evaluation of its performance as a continuous activity.

There is also an annual performance evaluation as part of the evaluation of the Board of Directors and its committees.

OVERVIEW OF THE WORK OF THE NOMINATION AND REMUNERATION COMMITTEE

The Committee's work is performed on the principles of protecting the interests of shareholders and investors, objective analysis, independence of appraisals, compliance with the legislative and regulatory framework, regular cooperation between the Committee and the management bodies and management of the Company, and oversight of the decisions and recommendations made. The Committee's activity is governed by the Regulations on the Committee and its work plans, which are augmented as necessary with issues of primary importance for TMK.

The Committee's **key assignments** in 2007 were:
- preparation of recommendations for the Board of Directors on appointment of directors and key specialists of the Company;
- determination of the terms and evaluation of the results of the activity of Company directors;
- oversight of and, if necessary, adjustments to the remuneration system;
- supervision of the human resources and social policies;
- improvements of structures and mechanisms of internal cooperation between the Company and subsidiaries;
- monitoring and evaluation of the Company's corporate governance system.

The Committee had the same members as in 2006, which facilitated the continuity and consistency of its work. The Committee Chairman is an independent director and the Committee includes only non-executive directors of the Company. Two of the three members of the Nomination and Remuneration Committee are independent members of the Board of Directors.

The members of the Nomination and Remuneration Committee are:

Mukhadin Abdurakhmanovich Eskindarov	Chairman of the Committee and member of the Audit Committee, independent director
Josef Marous	Chairman of the Strategy Committee, independent director
Andrei Yurievich Kaplunov	non-executive director

The Committee held 14 meetings in 2007, including one general meeting with all Board Committees and one joint meeting with the Strategy Committee. The number and frequency of Committee meetings were determined by its duties and the needs of the Board of Directors, and in general made possible the timely resolution of the tasks facing the Company.

In order to prepare recommendations for the Board of Directors, the Committee considered the following main groups of issues in 2007:
- Organisational structure and system of corporate governance;
- Performance evaluation and system of incentives;
- Key appointments of senior managers of the Company and subsidiaries;
- Social programmes and occupational safety.

The Committee cooperated regularly with the CEO of OAO TMK and senior management of the Company were invited to most Committee meetings. This made it possible to receive additional information and facilitated the objectivity and practical applicability of the Committee's decisions and recommendations.

The following results and areas of activity of the Committee were the most important for TMK's operations and development during the reporting period:

- Approval of overall staff numbers and wages for management accounting and changes to the wages and salary budget of a number of TMK companies taking account of the situation on the job market;
- Analysis of the targeted changes to the structure and system of corporate governance at TMK, issue of recommendations on the formation of an adequate regulatory framework reflecting the requirements on interaction of TMK companies (including international subsidiaries) when performing corporate-wide procedures.
- Organisation of the development of corporate standards in the areas of human resources management and organisation development for subsequent roll-out at new companies joining the TMK group.
- Consideration of the results of the activity of the temporary working group formed in the Committee to improve the management system, including the proposals developed by the working group on the possibility of gradually introducing a divisional structure at TMK, creation of a service division, and the reduction of paperwork (by 42% on average) between OAO TMK and the plants.
- Based on the new Regulations on the management reserve and the Regulations on assessment and recruitment of candidates for the management reserve, it has been recommended that TMK implement a uniform approach to assessment, recruitment and training of a management personnel reserve at TMK plants.
- Recommendations have been prepared on the formation of a consolidated expense budget on the development of the management reserve at TMK.

- A development plan for the system of internal communications at TMK, which includes a number of corporate-wide projects and initiatives, has been considered and recommended.
- Proposals on improving the terms of liability insurance for Company management and Board members have been considered.
- In accordance with the scope of its responsibilities and competence, the Committee submitted recommendations to the Board of Directors on the approval of candidates for the posts of director, Managing Director, and Chief Executive Officer of TMK companies, as well as on their individual employment contracts, KPI and remuneration terms.
- The Committee developed and assessed the administration and effectiveness of the Stock option incentive programmes for members of the Board of Directors, members of the executive bodies and senior managers of the Company and its subsidiaries. When determining remuneration policies, the Committee and the Board of Directors tried to ensure a clear correlation between the achievement of the Company's strategic goals, execution of business plans and remuneration.
- The Committee paid special attention to the methodological basis for evaluating the effectiveness of the work of the members of the Board of Directors and management in improving the Company's capitalisation (with account taken of market trends and the indicators of main competitors).
- The achievement by Company senior managers of individual KPIs and their reports on the meeting of planned indicators were considered. Recommendations of the Committee for the Board of Directors on payment of remuneration were formed.
- Based on an analysis by Company management of the job market in the regions of presence of TMK companies, recommendations on measures to strengthen the social security of employees of the plants and to improve their working and living conditions were prepared.

The Committee's priority assignments in 2008-2009 include:

- Oversight of the implementation of the next stage of the existing Stock option programme. Development of proposals on further development of long-term incentive programmes, including those based on Stock option plans.
- Improving the system of management of TMK subsidiaries and associates, regulation and strengthening of the corporate procedures that need to be performed in relation to new assets acquired by TMK in 2007.
- Evaluation of the effectiveness of the divisional management model. Oversight of the formation of a Service Division, including the composition and specialisation of the organisational structure, system of management, principles and mechanisms for cooperation with other TMK companies.

The Committee's priorities in the area of social and human resources policy will be the following:

- optimisation of staff numbers of TMK companies using labor management best practices, combining of professions, and installation of the latest equipment and technologies;
- recruitment and training of personnel, ensuring the development of the commercial activity of TMK companies abroad;
- staffing support for the investment programme of TMK and resolution of the business tasks involved in the implementation of a corporate information system at the plants in 2007.

OVERVIEW OF THE WORK OF THE STRATEGY COMMITTEE

The Strategy Committee assists the Board of Directors in forming TMK's development strategy. The Committee's activity is governed by the Regulations on the Committee approved by the Company's Board of Directors. In 2007, the Committee worked according to the work plan for the year, which was regularly updated and augmented as necessary.

All Committee members are non-executive members of the Board of Directors. Two of the three Committee members are independent members of the Board of Directors. The membership of the Committee did not change in 2007. Its members are:

Josef Marous	Chairman of the Committee, member of the Nomination and Remuneration Committee, independent director
Piotr Dmitrievich Galitzine	independent director
Alexander Georgievich Shiryaev	non-executive director

The Committee held 11 meetings in 2007. All Committee members regularly took part in the Committee meetings and were actively involved in its work. Members of the executive bodies and senior managers of the Company were invited to some Committee meetings which made it possible to receive additional information and to make more considered and constructive recommendations to the Board of Directors. The close cooperation with other Company Committees was reflected in a number of joint meetings.

The Committee's main assignments include the consideration of proposals and preparation of recommendations for the Board of Directors on:

- the priority areas of the Company's operations, including the budgets of various levels, future plans, Company strategies, and development programmes.
- improving the budgeting system and the process of investment planning, oversight and analysis system.
- key performance indicators and the system of management of the Company's operations.
- the Company's investment policy.
- the strategy for working with shareholder's and borrowed capital.
- asset and liquidity management policies..
- the strategy for increasing capitalisation.
- the Company's dividend policy.
- determining the procedure for settlements between the Company and the organisations in which the Company has an equity share;
- the mergers and acquisitions policy.

In 2007, the Committee considered and prepared recommendations on the following main lines of business:

- the investment activity of TMK.
- execution of plans and budgets of Company enterprises.
- merger & acquisition transactions, creation of joint ventures.
- corporate activity on organisation development.
- the Company's sales strategy.
- the dividend policy.
- the results of the work of Group companies and planned measures.

A number of issues were considered in 2007 at joint meetings of the Board Committees (Audit Committee, Nomination and Remuneration Committee, and Strategy Committee):

- the consolidated TMK budget and the main labour and wage indicators for 2008;
- the state of environmental, occupational and industrial safety at TMK companies;
- the creation of the Management Company for the Service Division;
- discussion of the Annual Report of OAO TMK for 2006;
- the results of TMK investment activity in 2007 and investment plans for 2008;
- development prospects of the oilfield services market;
- establishment of long-term partnerships with suppliers;
- the work of OAO TMK with the Russian Pipe Industry Development Fund.

When preparing recommendations to the Board of Directors of the Company, the Committee members were guided by the principle of applicability to the Company's everyday activity and receiving a quantitative and/or qualitative result in the near future and in the medium term.

The Strategy Committee's prospective and priority assignments for 2008 include:

- strategic development plans for 2008-2015;

- strategic initiatives to increase production in highly profitable segments;
- Strategic Investment Programme.

EXECUTIVE MANAGEMENT

The CEO and the Management Board of OAO TMK are responsible for the everyday management of OAO TMK's activity. The CEO performs the duties of the Chairman of the Management Board.

The work of the CEO and the Management Board of OAO TMK is aimed at ensuring the Company's sustained development and the steady increase in shareholder value which is supported by the clear assignment of competences and the balanced remuneration of the executive bodies.

No changes were made to the membership of the Management Board of OAO TMK in 2007. As of 31 December 2007, the Management Board had 14 members, including the following persons:

Konstantin Anatolievich Semerikov
Chief Executive Officer of OAO TMK

Born: 1959

Graduated from the Moscow Steel and Alloys Institute.

Previous positions held: Executive Director of OAO TMK, Chief Executive Officer of ZAO TMK Trade House, Deputy Chief Engineer and Deputy Chief Executive Officer of Production of OAO TMK, Mayor and Head of the City Government of Taganrog, Commercial Director, Director of Production and member of the Management Board of OAO TAGMET.

Share in the charter capital of OAO TMK: 0.0213%.

Holding of ordinary shares in OAO TMK: 0.0213%.

Anatoly Illarionovich Brizhan
Managing Director of OAO SinTZ

Born: 1942

Graduated from Kirov Urals Polytechnical Institute.

Previous positions held: Chief Executive Officer of OAO Sinarsky Pipe Plant.

Share in the charter capital of OAO TMK: 0.0057%.

Holding of ordinary shares in OAO TMK: 0.0057%.

Alexei Sergeevich Degai
Managing Director of OAO STZ

Born: 1958

Graduated from Kirov Urals Polytechnical Institute.

Positions in other organisations: Chief Executive Officer of OAO TMK-CPW.

Previous positions held: Chief Executive Officer of OAO STZ.

Share in the charter capital of OAO TMK: 0.0039%.

Holding of ordinary shares in OAO TMK: 0.0039%.

Alexander Grigorievich Lyalkov
Deputy Chief Executive Officer of Production of OAO TMK

Born: 1961

Graduated from Volgograd Polytechnical Institute.

Positions in other organisations: First Deputy Chief Executive Officer of Production Issues of ZAO TMK Trade House.

Previous positions held: Managing Director of OAO VTZ, Chief Executive Officer of OAO VTZ.

Share in the charter capital of OAO TMK: 0.004%.

Holding of ordinary shares in OAO TMK: 0.004%.

Nikolai Ivanovich Fartushny
Managing Director of OAO TAGMET

Born: 1949

Graduated from the M.I. Arsenichev Dneprodzerzhinsky Red Banner of Labour Industrial Institute.

Previous positions held: Chief Executive Officer of OAO TAGMET, Technical Director – Deputy Chief Executive Officer of OAO TAGMET.

Share in the charter capital of OAO TMK: 0.0058%.

Holding of ordinary shares in OAO TMK: 0.0058%.

Sergei Ivanovich Agafonov
Deputy Chief Executive Officer of Supplies of OAO TMK

Born: 1964

Graduated from the Vakhrushev Sverdlovsk Mining Institute.

Positions in other organisations: Deputy Chief Executive Officer and Director of Supplies of ZAO TMK Trade House.

Previous positions held: Deputy Director of Work with Companies of the Fuel and Energy Complex of OAO TMK Trade House, Chief Executive Officer, Director of Finance and Economics of ZAO Kuznetsky Ferroalloy Trade House, Chief Executive Officer of ZAO TMK Trade House.

Share in the charter capital of OAO TMK: 0.0034%.

Holding of ordinary shares in OAO TMK: 0.0034%.

Sergei Ivanovich Bilan
Deputy Chief Executive Officer of Marketing of OAO TMK

Born: 1962

Graduated from Rostov Institute of Railway Transportation Engineers and the Budget and Treasury Academy of the RF Ministry of Finance.

Positions in other organisations: First Deputy Chief Executive Officer of ZAO TMK Trade House.

Previous positions held: Deputy Chief Executive Officer – Director of the Marketing Directorate of OAO TMK, Deputy Chief Executive Officer of Marketing of OAO TMK.

Share in the charter capital of OAO TMK: 0.0044%.

Holding of ordinary shares in OAO TMK: 0.0044%.

Oleg Vladimirovich Borisov
Deputy Chief Executive Officer of Security – Director of the Economic Security Service of OAO TMK

Born: 1953

Graduated from Sverdlovsk Higher Military Political Tank and Artillery Academy.

Previous positions held: Director of the Security Department of ZAO Sinara Group.

Share in the charter capital of OAO TMK: 0.0043%.

Holding of ordinary shares in OAO TMK: 0.0043%.

As at 31 May 2008 O.V. Borisov is no longer an employee of OAO TMK.

Leonid Grigorievich Marchenko
Deputy Chief Executive Officer – Chief Engineer of OAO TMK

Born: 1951

Graduated from Kirov Urals Polytechnical Institute.

Previous positions held: Deputy Chief Executive Officer of Technical Development –

Chief Engineer of OAO TMK, First Deputy Chief Executive Officer – Chief Engineer of OAO TMK, First Deputy Chief Executive Officer – Chief Engineer of OAO Sinarsky Pipe Plant.

Share in the charter capital of OAO TMK: 0.0055%.

Holding of ordinary shares in OAO TMK: 0.0055%.

Vladimir Bronislavovich Oborsky
Executive Director of OAO TMK

Born: 1961

Graduated from Frunze Military Academy and Frunze Kiev Higher Combined Arms Command Academy.

Positions in other organisations: Chief Executive Officer of ZAO TMK Trade House.

Previous positions held: Director of the Department for Work with AK Transneft and Companies of the Gas Industry, Head of the Division for Work with AK Transneft and Companies of the Gas Industry of ZAO TMK Trade House, Deputy Chief Executive Officer of Sales of OAO TMK.

Share in the charter capital of OAO TMK: 0.0082%.

Holding of ordinary shares in OAO TMK: 0.0082%.

Natalia Borisovna Khonina
Chief Accountant of OAO TMK

Born: 1952

Graduated from Gorky Urals State University.

Positions in other organisations: Chief Accountant of ZAO TMK Trade House.

Previous positions held: Chief Accountant of ZAO Sinara Group.

Share in the charter capital of OAO TMK: 0.0036%.

Holding of ordinary shares in OAO TMK: 0.0036%.

Vladimir Vladimirovich Shmatovich
Deputy Chief Executive Officer of Strategy and Development of OAO TMK

Born: 1964

Graduated from Moscow Finance Institute and University of Notre Dame (USA).

Previous positions held: Deputy Chief Executive Officer of Finance of OAO TMK, Deputy Chief Executive Officer of Finance and Economics of OAO TMK, Deputy Chief Executive Officer of Finance and Economics of ZAO TMK Trade House, Deputy Chief Executive Officer – Director of Finance and Economics of OOO RusPromAuto, Manager of Upstream Business Units of Udmurtia of OAO TNK-BP Management, Director of Financial Control in the Finance Unit of OAO Sidanco, Deputy Chief Executive Officer of Finance and Economics of OAO Udmurtneft, Chief Executive Officer of OAO Aeromashinvest.

Share in the charter capital of OAO TMK: 0.0039%.

Holding of ordinary shares in OAO TMK: 0.0039%.

Adrian Popescu

Born: 1961

Graduated from Traian Vuia Politehnica University, Romania.

Positions in other organisations: President of SC T.M.K.-ARTROM S.A., President of SC TMK-Resita SA.

Share in the charter capital of OAO TMK: 0.0029%.

Holding of ordinary shares in OAO TMK: 0.0029%.

Tigran Ishkhanovich Petrosian
Deputy Chief Executive Officer of Finance and Economics of OAO TMK

Born: 1968

Graduated from Yerevan State University.

Positions in other organisations: Deputy Chief Executive Officer of Finance and Economics of ZAO TMK Trade House.

Previous positions held: Deputy Chief Executive Officer of Economics, Director of the Economics and Planning Directorate of OAO TMK.

Share in the charter capital of OAO TMK: 0.0045%.

Holding of ordinary shares in OAO TMK: 0.0045%.

RESULTS OF OPERATIONS OF THE MANAGEMENT BOARD IN 2007

The issues considered by the Management Board in 2007 covered all areas of TMK's current operations. In 2007, the Management Board held eight meetings at which inter alia, the following key issues were considered:

- comprehensive costs savings programme at TMK companies;
- outsourcing at OAO TMK;
- state of occupational safety and health at TMK companies;
- shipping schedule for 2008;
- consolidated IFRS results for 2006 and the Company's performance results for the reporting periods;
- risk management policy of OAO TMK and the impact of strategic risks on financial performance;
- work of the TMK-CPW joint-venture;
- work of OOO TMK-Premium Service;
- youth programme of OAO TMK for 2007-2010;

REMUNERATION

OAO TMK strives to make the principles of remuneration of the members of the Board of Directors and executive bodies of OAO TMK simple, transparent, and understandable to shareholders. The Nomination and Remuneration Committee is responsible for developing the principles and criteria for determining the amount of remuneration, compensation and other payments to members of the Board of Directors, the CEO and the members of the Management Board. The remuneration paid should be fair compensation to the members of the Board of Directors, CEO and the members of the Management Board for the work they perform and should take into account the long-term interests of shareholders.

Based on the evaluation performed by the Nomination and Remuneration Committee in 2007, the current system of remuneration and incentives for members of the Board of Directors and executive bodies is fair, ensures adequate payments for work in the Board of Directors and its Committees, and takes into account the long-term interests of the shareholders. The Committee has recommended that the Board of Directors maintain the existing structure and amount of remuneration in 2007-2008.

BOARD OF DIRECTORS

In accordance with the Regulations on the Board of Directors of OAO TMK, the following approach has been established for the remuneration of members of the Board of Directors: the right to receive remuneration and compensation of expenses associated with the performance of the duties entrusted to them is given only to directors who are not executives of OAO TMK. At present the Board of Directors consists only of independent directors and directors who are not executives of OAO TMK.

The remuneration to be paid includes:

- a fixed base remuneration;
- additional remuneration for performance of the duties of Chairman of the Board of Directors, and Chairman or member of a Board Committee.

Fixed remuneration is paid on a monthly basis (1/12 of the fixed annual amount).

Additional remuneration for the performance of the duties of Chairman of the Board of Directors, Committee Chairman or a member of a Board

Committee is paid every six months (half of the approved annual additional remuneration).

The standard contracts with the Chairman and members of the Board of Directors stipulating the payment of remuneration and compensation of expenses to the members of the Board of Directors were approved by a decision of an Extraordinary General Meeting of Shareholders held in March 2007.

In 2007, the aggregate remuneration of the members of the Board of Directors was USD 4,598.4 thousand.[1] In addition, members of the Board of Directors participated in the Stock option programme (see the section "Stock option programme").

EXECUTIVE BODIES

The remuneration paid to the CEO and the members of the Management Board consists of:

- fixed salaries, determined according to the employment contract and paid on a monthly basis;
- variable salaries (bonuses), KPI-based and established individually according to the duties performed (for example, EBITDA, shipment indicators, etc.) and approved by the Board of Directors every year.

A bonus is paid to the CEO and members of the Management Board if they achieve their key performance indicators, based on the adoption of the relevant decision by the Board of Directors.

In 2007, the aggregate remuneration of the CEO and the members of the Management Board was USD 14,491.5 thousand. In addition, the CEO and the members of the Management Board participated in the Stock option programme (see the section "Stock option programme").

STOCK OPTION PROGRAMME

By decision of the Extraordinary General Meeting of Shareholders held on 2 March 2007, the Stock option programme of OAO TMK was established as part of the improvements to the system of incentives. The Stock option programme was split into three stages with completion dates in 2007, 2008 and 2009 and stipulates the possibility for members of the Board of Directors and senior management of OAO TMK to purchase up to 1.1% of the total number of ordinary shares of OAO TMK over the course of three years.

The principles of the Stock option programme are:

- transparency for shareholders and participants, highly regulated;
- differentiated approach to programme participants depending on their impact on OAO TMK's capitalisation;
- uniform price formation rules on options, option periods and deadlines for their realisation at each stage of the Stock option programme for all participants;
- introduction of additional conditions to the programme to protect against the use of insider information by participants.

The first stage of the Stock option programme was completed in 2007.

Expenses on the Stock option programme presented in the IFRS financial statements for 2007 were USD 6.733 million. These expenses were determined on the basis of the fair value of the options when they were provided to programme participants.

As at 19 November 2007 the members of the Board of Directors owned 444,275 shares, or 0.05% of OAO TMK's charter capital. Members of the Management Board own 711,338 shares, or 0.0815% of OAO TMK's charter capital.

EXTERNAL AUDITOR

By decision of the general meeting of OAO TMK of 27 June 2007, OOO Ernst & Young (License E002138, approved by Order No. 223 of the RF Ministry of Finance of 30 September 2002, issued for a five-year

[1] At the exchange rate of RUB 25.577/USD

term; extended by RF Ministry of Finance Order No. 573 of 17 September 2007 until 30 September 2012) was approved as the Company's auditor for 2007.

The procedure for appointing the external auditor includes preliminary discussion of the candidate at a meeting of the Audit Committee based on the proposals of the management of OAO TMK, the recommendation of the Board of Directors on the appointment of the external auditor for the next financial year and the approval of the proposed candidate at the annual general meeting of shareholders.

OAO TMK places significant restrictions on awarding contracts to perform non-audit related services to the external auditor. The overwhelming majority of non-audit fees relate to mandatory procedures connected with the preparation of securities prospectuses and the share of remuneration paid to the external auditor for these services in 2007 equalled less than 15% of the total remuneration paid for the performance of the annual audit.

INTERNAL CONTROL AND RISK MANAGEMENT

TMK's approach to internal control

TMK's internal control procedures were established to:

- protect TMK's assets;
- ensure compliance with legislative requirements and the requirements of TMK's internal regulations;
- ensure the provision of complete and reliable financial statements to shareholders.

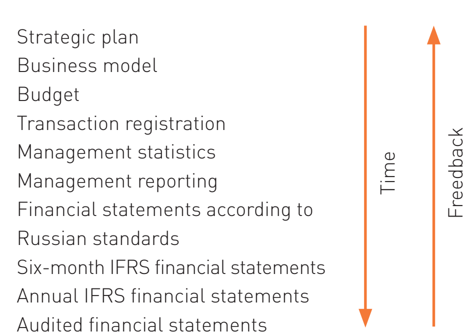
Operational controls at transaction level are based on authorisation of all transactions in advance and at the appropriate level; large, non-routine or higher risk transactions are subject to a higher level of authorisation than small, normal-course-of-business or low-risk transactions.

- Major transactions are considered by the Board of Directors of the subsidiaries or the Board of Directors of OAO TMK;
- The size of transactions which must be approved by the Board of Directors is lower in comparison with legislative requirements;
- The group has significant volumes of trading within the consolidated group; transfer pricing policy is designed to be fair and not to disadvantage minority shareholders of the subsidiaries ;
- the amount of transactions with related parties that are not part of the consolidated group is minimal. These transactions are approved by a majority vote of independent directors;
- Major investment projects are controlled at the level of OAO TMK and approved and monitored by the Board of Directors of the Company.

High-level controls are achieved by constant monitoring by management using the philosophy of management by exception; a variety of reporting tools is used to identify deviations from plan or expected performance and such deviations are investigated; the tools used are selected to identify deviations as soon as practically possible.

The following diagram shows the order of planning and control processes from strategy development to the preparation of audited financial statements.

Each stage is based on the information of the previous stage, and follow up for the previous stage is also ensured.



This approach to corporate-wide control procedures, together with the effective use of operational supervision, means that management can identify problems in a timely manner and take corrective measures when necessary. If all stages lead to one and the same result, management receives additional assurance that the financial statements (internal and external) are consistent and present reliable information on the Company's performance.

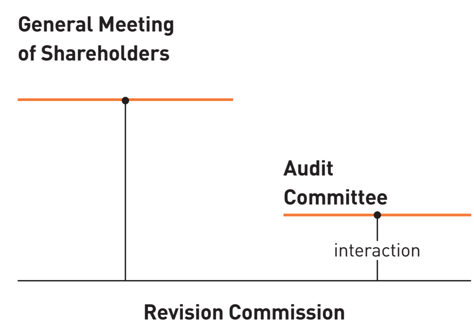
The Risk Management Committee, headed by senior management, continues to perform risk analysis. Risk analysis includes identification of risks, assessment of the damage which could be caused as a result of the actualisation of the risk, the probability or frequency of the appearance of such events, and provides the tools for taking the appropriate measures to mitigate risks and minimise the probability or frequency of their appearance.

Alignment of interests. Over the year, TMK made changes to the system of remuneration of members of the Board of Directors, Management Board and a number of other senior managers, in order to improve the alignment of interests of these persons and shareholders. The payment of an additional bonus that depends not only on the results of individual activity, but also on share performance, was introduced for managers and senior managers. A Stock option programme was introduced for them and the members of the Board of Directors. Once participants in the option scheme have exercised their option, they are prohibited from disposing of their shares for up to three years. The new schemes significantly reduce the intrinsic risk of the participants adopting a short-term approach.

ORGANISATION OF INTERNAL CONTROLS

TMK has established a multi-tier system of internal controls and risk management based on three key bodies: the Revision Commission, the Internal Audit Service and the Risk Management Committee. The Audit Committee of the Board of Directors of OAO TMK promotes the efficiency of the performance of the system of internal controls and risk management by assessing the system and making the relevant recommendations.

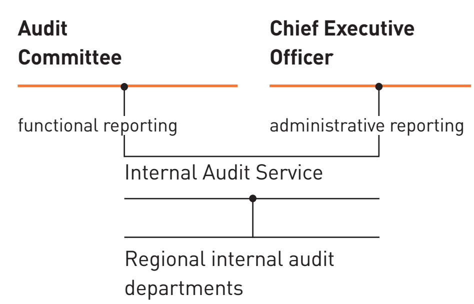
The **Revision Commission** exercises control over the Company's financial and business activity on behalf of shareholders through the verification of the reliability of the data of accounting, financial and management reporting; compliance of the Company's financial and business activity with the established norms, rules and other requirements; and analysis of the Company's financial position and its solvency.



The deliverable of the verification is an opinion on the reliability of the data of the financial statements and other financial documents and information on any violations discovered.

The Revision Commission held three meetings in 2007.

The **Internal Audit Service** (IA) performs internal audits of all areas of activity of Company divisions and enterprises.



The main objective of the IA is to provide an objective and independent assessment of the risk management, internal control and corporate governance processes to enhance their reliability and effectiveness. The IA reaches these objectives through the performance of audits.

To make sure it has sufficient independence to implement these tasks, the head of the IA is administratively subordinate to the CEO of OAO TMK and functionally subordinate to the Audit Committee of the Board of Directors of OAO TMK.

The regional internal audit departments at the TMK plants are functionally subordinate to the IA, and the directors of these departments are employees of OAO TMK.

The IA performs its audits in accordance with the annual audit plan, which is approved by the CEO of OAO TMK after consideration and endorsement by the Audit Committee. Regional internal audit departments of TMK plants prepare quarterly plans on the audit of the structural divisions of the company based on the priority control assignments approved for them in the annual plan. After being endorsed by the head of the IA, the quarterly plans are approved by the Managing Directors of the TMK plants.

In 2007, the IA concentrated its efforts on reviews of the quality and effectiveness of the most important business processes at TMK, beginning with the Company's leading functional and product-oriented lines of business, specifically:

- review of the quality and productivity of investment business processes related to the reconstruction and upgrading of existing production facilities;
- review of the quality and effectiveness of production (operating) business processes of TMK companies (audit of systems for accounting and internal control over the movement of metal through the production process, compliance with the norms on the metal consumption rate, etc.);
- internal audit of the activity on the sale of TMK's products through its proprietary distribution network (sale in Russia, the CIS and in other foreign countries).

The Internal Audit Service paid special attention to the effectiveness of the system of internal control over computer data processing (audit of information technology).

The IA performed 153 internal audits in 2007. The results of the audits are considered and implemented at the level of the TMK plants, the senior executive management of the Company, and the Audit Committee of the Board of Directors of OAO TMK.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee is a collegiate consultative body under the CEO.

The Committee's objective is to reduce the risks inherent in TMK's activity through the formation of a uniform risk management policy and development and implementation of the methodological principles for risk identification, assessment and management. The Committee is subordinate to the Chief Executive Officer and the Audit Committee. The Chairman of the Risk Management Committee reports on the status of risk management work to the Audit Committee at least once per quarter.

The key results of the Committee's work in 2007 are:

- Formulation of a list of strategic, financial, operating and other risks;
- Assessment of the impact of strategic risks on the Company's value, and making recommendations on mitigating strategic risks. Presenting results to the Management Board of OAO TMK;
- Preparation of a list of possible accidents involving the main production equipment,

with an indication of possible reasons and consequences of these risk events. Assessment of production risks;
- Analysis of existing insurance coverage of the companies of OAO TMK. Identification of the current level of insurance coverage of the assets of Company enterprises;
- Organisation of oversight and realisation of insurance coverage;
- Development of the "Risk management policy" and its approval by the Management Board of OAO TMK;
- Identification of risks and the building of risk maps for the Company.

OAO TMK has also set up departments at the divisional level to establish and maintain effective control procedures within the framework of a division. These divisions include: the Risk Management Department, the Accounting and Audit Department, the Analysis and Internal Control Department, the Economic Security Service and other departments.

Effective risk assessment and control are essential for the full realisation by the Company of its possibilities, increasing its competitiveness and reducing the time spent eliminating the consequences of possible mistakes.

ASSESSMENT AND ENHANCEMENT OF CORPORATE GOVERNANCE

The Board of Directors of OAO TMK monitors the corporate governance system very closely and is constantly looking for ways to improve corporate governance practices.

In 2007, the Nomination and Remuneration Committee assessed corporate governance in 2006-2007. This assessment included an evaluation of the work of the Board of Directors, CEO, Management Board and specialised collegiate bodies (Committees) of OAO TMK. The results of the assessment were presented and approved at a meeting of the Board of Directors.

The Committee assessed both the corporate governance system and the activity of the management bodies of OAO TMK as satisfactory. The management system ensures the growth in capitalisation of OAO TMK, protection of the interests of all shareholders and investors, reliability of accounting and reporting, adequate risk management, makes it possible to take prompt decisions on production and sales issues and to control their execution, and is characterised by a balanced structure of management bodies of all levels, professionalism and efficiency.

Furthermore, the Committee assessed the work of the Board of Directors and the Board Committees as satisfactory, and the work of the Chairman of the Board of Directors, CEO and members of the Management Board as satisfactory and productive.
The Committee's priority assignments and tasks to improve the corporate governance system at OAO TMK include:
- further improvement of the level of disclosure of information required by shareholders and investors, elimination of shortcomings in information disclosure, including through an improvement in the level of disclosure of information on social and environmental issues;
- effective work of the risk management system, ensuring the performance by OAO TMK of its current and strategic plans in accordance with current practices and the risk management work programme adopted at the Company, including risk management at the level of the departments and subsidiaries.
- completion of formation of a reserve of management and other key personnel at the Company;
- accumulation of the experience of the organisation and increasing the number of shareholders who attend the general meetings of shareholders;
- inclusion of regular consideration of the functioning of the corporate governance system of subsidiaries in the work of the Management Board;
- implementation of the corporate procedures and standards of OAO TMK in the new companies that have joined TMK;
- preparation of an international quality social report.

SHARE CAPITAL

SHARE CAPITAL

STRUCTURE OF SHARE CAPITAL

As at 31 December 2007, the paid-in share capital of OAO TMK consisted of 873,001,000 registered ordinary shares.

The par value of one share is 10 roubles. OAO TMK does not have any outstanding or declared preferred shares. Information on shareholders holding more than 10% of shares is given below.

Structure of share capital

As at 31 December 2006		As at 31 December 2007	
TMK Steel Limited[1]	47.02%	TMK Steel Limited[1]	46.98%
Bravecorp Limited[1]	13.8%	Bravecorp Limited[1]	13.8%
Tirelli Holdings Limited[1]	16.2%	Tirelli Holdings Limited[1]	16.2%
Subsidiaries of OAO TMK	–	Subsidiaries of OAO TMK	0.13%
Free-float	22.98%	Free-float	22.89%

[1] D.A. Pumpyanskiy is the principal beneficiary of the companies TMK Steel Limited, Bravecorp Limited and Tirelli Holdings Limited

Company shareholders may vote on all items on the agenda of the General Meetings of Shareholders. All shares of OAO TMK have the same par value and grant identical rights to shareholders.

Of the 22.89% of shares of OAO TMK in free-float, nearly 90% are in the form of Global Depositary Receipts (GDR) circulating on the London Stock Exchange. The members of the Management Board and the Board of Directors of the Company hold options on the purchase of shares under the Stock option programme of TMK.

The table below gives information on the Company's cross-shareholdings as at 31 December 2007.

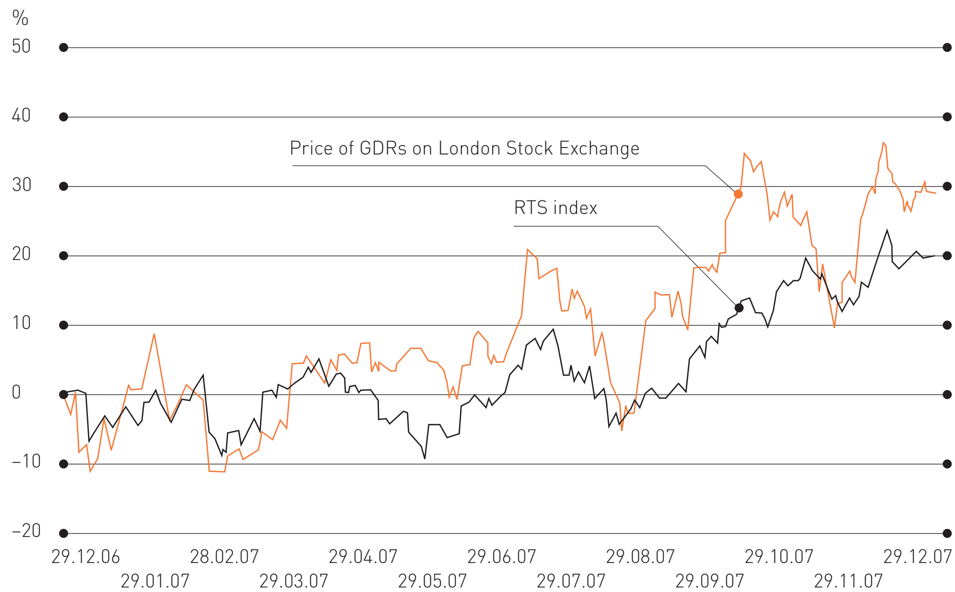
Cross-shareholdings

Company	% in the charter capital of OAO TMK
ZAO TMK Trade House	0.01%
Rockarrow Investments Limited (wholly owned subsidiary of ZAO TMK Trade House)	0.12%

Information on the shares of affiliates owned by Company management is given below.

- Konstantin Anatolievich Semerikov: 0.02% of shares in OAO TAGMET.
- Anatoly Illarionovich Brizhan: 0.001% of shares in OAO SinTZ.
- Alexei Sergeevich Degai: 0.0025% of shares in OAO STZ.

RTS index and TMK's GDR perfomance
in 2007



Source: RTS, London Stock Exchange

LISTINGS OF COMPANY SHARES

The Company's shares are traded on the Russian RTS and MICEX stock exchanges, as well as in the form of Global Depositary Receipts on the London Stock Exchange.

A steady positive growth trend was seen in the quotations of TMK shares during 2007 due to investor expectations regarding the effect of the implementation of the Company's Strategic Investment Programme. The price per GDR of OAO TMK on the London Stock Exchange increased by 28.6% in 2007. The growth in the RTS index over the same period was 19.2%.

The cost of the Company's shares is included in the calculation of the stock indexes: RTS with a weight of 0.83%, RTS-Metals and Mining with a weight of 5.48%, MICEX technical index with a weight of 1.02%, MICEX MC with a weight of 5.48%, MICEX Metals and Mining with a weight of 10.67%, and MSCI Russia with a weight of 0.5% as at 7 May 2008.

DIVIDENDS

On 21 January 2007 the Board of Directors of OAO TMK approved the Regulations On the Dividend Policy of OAO TMK (hereinafter the "Regulations"), which were developed in accordance with Russian legislation, the Charter of OAO TMK and its internal documents. The main objective of the dividend policy is to establish a transparent and efficient mechanism for determining the total amount of dividends and to introduce the procedure governing their payment. The dividend policy aims to increase OAO TMK's capitalisation, heighten its investment appeal and increase the prosperity of shareholders.

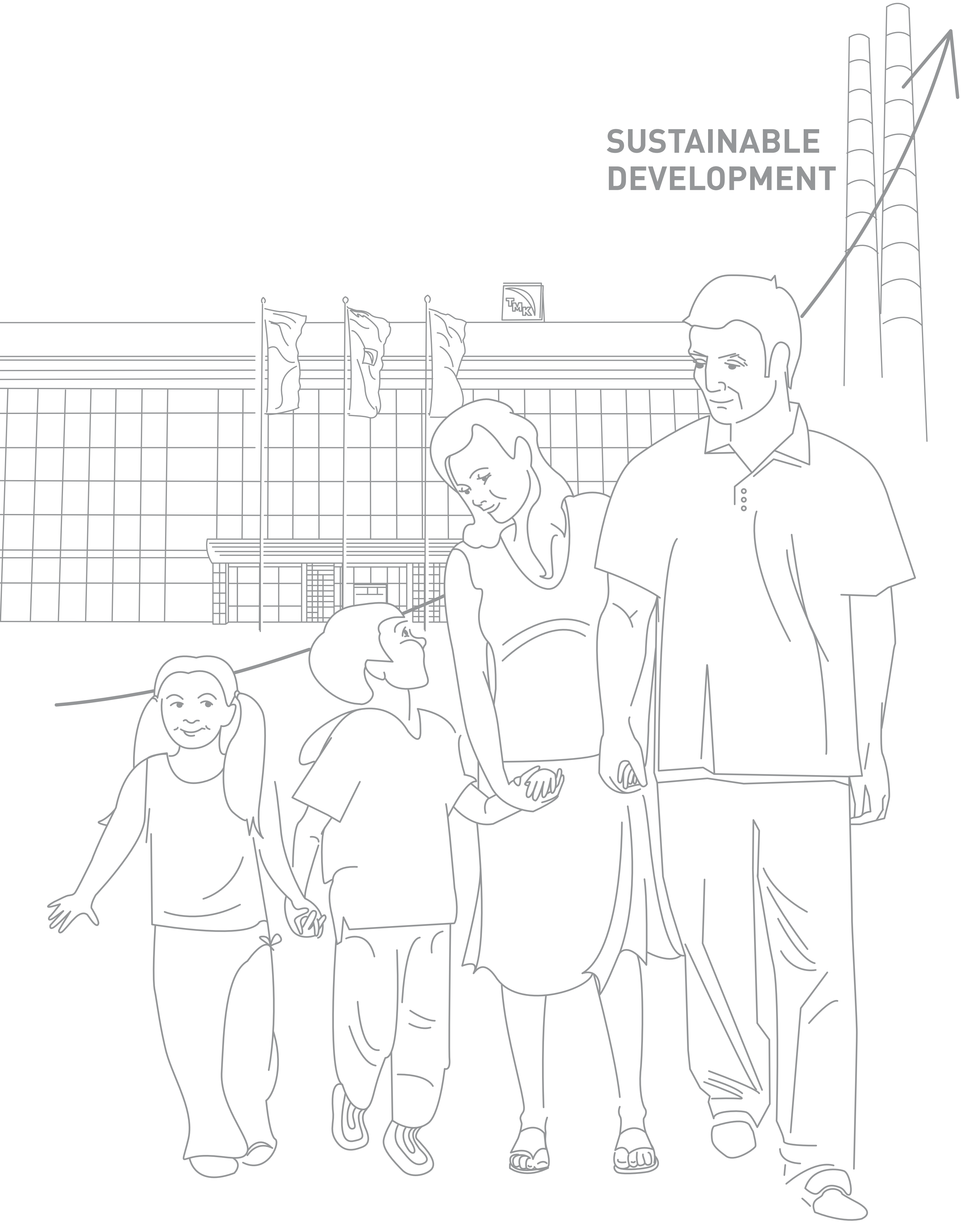
In accordance with the Regulations, OAO TMK's target is to pay dividends amounting to at least 25% of annual IFRS consolidated net profits. The actual percentage is based on the net profits for the reporting period, production development needs, the Company's investment plans, the availability of external funding and other relevant factors.

The decision on three-month, six-month and nine-month dividend is taken by a shareholders' meeting within three months after the end of the respective quarter. The decision on annual dividends is taken at the annual General Meeting of Shareholders.

The dividend policy is published on the Company's website: http://www.tmk-group.ru (Russian version) and http://www.tmk-group.com (English version).

In June 2007, OAO TMK announced a 2006 dividend of USD 145.6 million, or USD 0.17 per share. In addition, on 25 December, 2007, the Company's shareholders approved the payment of interim dividends for the nine months ended 30 September, 2007 in the amount of USD 128.14 million, or USD 0.15 per share.

SUSTAINABLE DEVELOPMENT



SUSTAINABLE DEVELOPMENT

Today TMK is a confident and steadily developing company that is open to innovation and integration into the global economy, which would not be possible without its adherence to the principles of sustainable development. TMK is governed in its operations by the requirements of international standards. Thanks to an open dialogue with a wide range of interested parties, TMK achieves high levels of development in all industries and creates the prerequisites for economic and social reforms in the regions.

For TMK, social responsibility is the maintaining of a balance between the pursuit of high production results and the professional and personal growth of employees, creating a good standard and quality of life, economic and cultural advancement of the regions and development of reliable and effective modern technologies.

TMK adheres to a well considered environmental policy, which is an integral part of its strategic development. The Company's environmental policy is based on the following principles: environmental and social responsibility, efficiency and effectiveness of environmental protection activity, openness and availability for a dialogue with interested parties.

TMK's responsibility is manifested in its special attention to all aspects of the Company's activity.

QUALITY MANAGEMENT

The Company's Quality Management System (QMS) is constantly being improved.

TMK plants have quality management systems in place that meet the requirements of ISO 9001:2000. The Quality Management System is intended to ensure that TMK products meet quality standards. Compliance to the standard is confirmed through annual supervisory audits by authoritative international certification associations. The management systems in place at TMK plants have been certified by Germanischer Lloyd Certification (TMK-Resita and TMK-Artrom), TÜV NORD Cert Germany (VTZ), Bureau Veritas Quality International (STZ), and the Quality Management Institute (SinTZ and TAGMET).

ISO QMS certification and API monogram licenses

	ISO		API				
	9001:2000	ISO/TS 16949	Spec Q1	Spec 5L	Spec 5CT	Spec 5D	Spec 7
VTZ	+		+	+	+		
STZ	+		+	+	+		
TAGMET	+		+	+	+	+	
SinTZ	+	+	+	+	+	+	+
OMZ	+		+				+
TMK-Artrom	+		+	+	+		
TMK-Resita	+						

In 2007, SinTZ's QMS met the requirements for suppliers to the automotive industry: a factory certification system based on ISO/TS 16949. Similar work was begun in 2007 at VTZ. Such certificates allow TMK plants to remain the leading suppliers of pipe products to the automotive industry, a promising line of business considering the current growth in production of automobiles and auto parts.

Furthermore, the quality management systems of the plants also meet industry standards of the oil and gas and petrochemical industries – API Spec Q1, the requirements of which expand considerably on ISO 9001 with respect to performance of product testing, control of nonconforming product, performance of internal audits, customer relations, system documentation, training, etc. The plants have received licenses to place the API monogram on products in accordance with the requirements of API Q1, API Spec 5L, Spec 5CT, API Spec 5D, Spec 7.

TMK products have been certified for compliance with the requirements of technical documentation: technical specifications (TS), and for compliance with the requirements of intergovernmental, Russian, foreign and international standards, including: GOST, GOST R, API, DIN EN, ASTM.

Under conditions of increased competition, the fundamental principle of all TMK divisions and subsidiaries is the principle of the quality management system – "Focus on the customer" – which means TMK strives to satisfy product requirements set by customers, the law, and regulatory acts, and which follow from the purpose of the products themselves.

In 2007, putting the principle of Management Leadership into practice, it was decided to continue improving TMK's management system as it applies to quality, by implementing a number of special projects, the most important of which are:

1) Creation of a corporate quality management system that covers all TMK companies. This will make it possible to structure activity to set corporate quality goals and to combine the efforts of the Company's production, service, and R&D companies to ensure customer satisfaction and improved efficiency of the processes performed at various Company enterprises that affect quality.

As a result of project implementation in 2008 we plan to achieve:

- improved efficiency of interaction between TMK divisions and companies;
- timely identification of the threat of non-performance of customer orders due to the failure to meet quality indicators, and development of measures aimed at correcting this situation and preventing it from happening again;
- receipt of a unified corporate certificate of compliance with ISO 9001, encompassing all areas of TMK's operations.

2) Creation of a corporate regulatory framework and technical information.

Most of the work on this project was performed in 2007. Following a trial period in 2008, TMK will be able to ensure the use of up-to-date versions of key documents for all Company enterprises and employees.

3) Participation in the work of international, industry and national standardisation bodies, formation of Company policy on standardisation.

TMK's activity on standardisation includes participation in the work of technical committees (international, intergovernmental and national), support and financing of the development of standards, and constant improvement of the Company's regulatory and technical documents.

TMK set up effective cooperation with API in 2007. TMK became the first and only Russian member of the API with voting rights. Our company takes part in the work of the Manufacturers Advisory Group, Quality Committee, the working groups on the development of API standards and the conferences of API.

Plans for expanding cooperation with European standardisation organisations like the Deutsches Institut für Normung (DIN) were developed in 2007 and will be implemented in 2008.

4) Implementation of the "Qualified Supplier" project.

In 2007, as part of the implementation of the principle of the Quality Management System

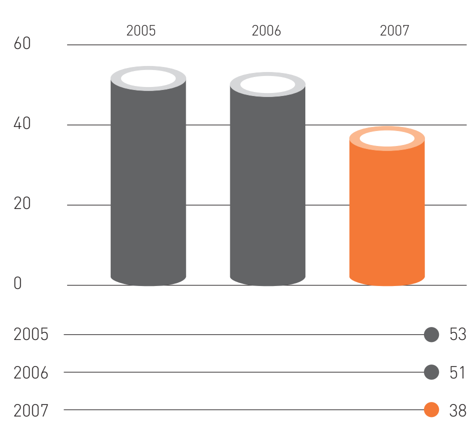
"Supporting mutually beneficial cooperation with the supplier", TMK introduced the practice of preliminary screening of suppliers. Under the qualification process, a supplier receives information on TMK's current requirements and strategies in the area of procurement of materials and product quality improvement. In this way, TMK is assured of a steady supply of high-quality materials for the manufacturing of its products.

5) Formation of a system for assessing customer satisfaction and work on quality complaints.

As part of the implementation of a corporate quality management system, the process of receiving customer feedback to improve customer satisfaction and loyalty as well as to improve the competitiveness of TMK's products on local and international markets has been developed and is constantly being improved.

In 2007, TMK ensured that customers were aware of the complaint procedures, this shortened the time needed to review and address complaints, thereby improving the Company's operations and increasing the liability of personnel for the quality of manufactured products. This resulted in a steadily decreasing number of legitimate complaints and claims from customers.

TREND OF CUSTOMERS' CLAIMS



One of the main areas of the work to prevent complaints related to the quality of raw materials is the presence of third-party inspectors during their production, certification and shipment to TMK plants. The required procedures were developed in 2007 and applied for third-party inspections for shipments of sheet steel from OAO MK Azovstal, OAO Ilyich Iron & Steel Works and OAO Severstal to VTZ. The procedures allowing a third-party inspection team at OAO MMK in Magnitogorsk were started in 2008.

In 2007, TMK adhered to the following quality obligations:

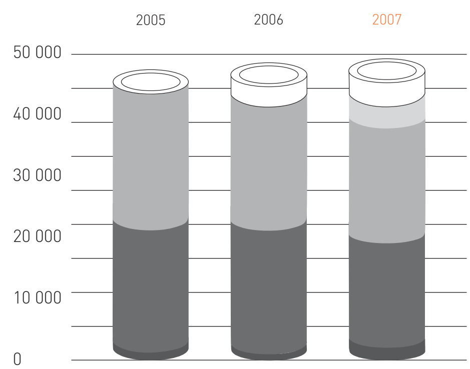
- ensuring constant communication with customers in order to assess customer satisfaction and loyalty;
- establishment of long-term relationships with suppliers;
- continuous training of all directors, specialists, and employees in new methods, management systems and technologies in order to improve product quality;
- involvement and incentives for each employee to strive for continual improvement.

In 2007, as a result of the aforementioned actions, the effective functioning of the quality management systems at TMK plants and the formation of a corporate quality management system, TMK continued to manufacture products that meet the latest international, national and industry standards. The compliance of TMK's quality management system and products with national, regional and industry standards is confirmed by recognised foreign and international certification bodies. Furthermore, in 2007, TMK plants continued to successfully meet the requirements of international customers. (see the "Product quality standards" section).

HUMAN RESOURCES POLICY

TMK believes that being socially responsible means, above all, taking responsibility and care for the people who work at the Company. Relations

NUMBER OF TMK EMPLOYEES
in 2005–2007



	2005	2006	2007
Moscow	456	556	586
Ural federal district	22 980	22 394	19 722
Southern federal district	23 408	22 905	22 503
Volga federal district			2568
Foreign enterprises	82	2826	3104

with employees are built on the principle of mutually beneficial cooperation: TMK creates stable working conditions and decent living conditions for its employees and their family members, and they, in turn, contribute to business development.

TMK is one of the largest employers in Russia, uniting the potential of more than 45,000 highly qualified employees in the Russian Federation and more than 3,000 employees in Romania, Switzerland, Azerbaijan, Kazakhstan, the USA, China, the UAE, Turkmenistan, and Singapore.

TMK has created an effective system of human resources management based on the principles of partnership relations with employees which gives them the opportunity to take an active part in the development of the Company and facilitates the achievement of the Company's strategic mission and business strategies.

TMK's human resources policy is based on a uniform regulatory framework which takes the regional and national specifics of the Company's activity into account:

- TMK's human resources policy for 2006-2010 was approved by the Board of Directors in 2005 and has been subsequently updated;
- TMK's social policy;
- The set of organisational documents, orders and guidelines regulating the training and professional development of personnel, the training of a human resources reserve, motivational methods and procedures and incentives for employees, etc.

For the Company, business ethics mean more than mere compliance with the norms of the Russian labour legislation. They also involve adherence to the principles of the Universal Declaration of Human Rights and the UN Global Compact. TMK's Corporate Code of Conduct stresses the unacceptability of any form of discrimination towards employees for political, religious, national or any other reason during hiring, setting of wages and career advancement.

BASIC PRINCIPLES OF HUMAN RESOURCE MANAGEMENT

TMK's human resources policy is focused on resolving current and strategic business objectives. Taking into account the constant advancement of the business, the recruitment and retaining of qualified specialists and promising young employees is becoming one of the key areas of human resource management.

TMK recognises the value of young specialists to the future of the Company. Over the past few years, the share of young employees at Company enterprises has been around 30%, and the average age of employees is below 40. TMK is developing a special incentive programme for them and gives them ample opportunities for training and professional development.

Relations between employees and the employer are regulated through the conclusion of collective bargaining agreements. The collective bargaining agreements cover all employees of the Company's production enterprises located in Russia and Romania: SinTZ, STZ, VTZ, TAGMET, OMZ, Truboplast, TMK-Artrom and TMK-Resita.

STAFF TURNOVER

The Company's staff turnover over the past few years has not exceeded 9%, which attests to the stability of the workforce at the Company plants. The following factors affected staff turnover:

- the situation on the regional job market
- the active recruitment of young employees
- the implementation of the Company's restructuring programme

The highest rate of staff replacement was seen in the enterprises of the Urals region, and was due to the specifics of the region – a high concentration of production and industrial companies, higher economic growth rates than the Russian average and intense competition on the job market. The timely measures taken by the Company led to a reduction in staff turnover at the Urals plants in the second half of 2007.

A programme aimed at securing and maintaining staff, especially highly qualified employees, is now being developed at the Company's enterprises.

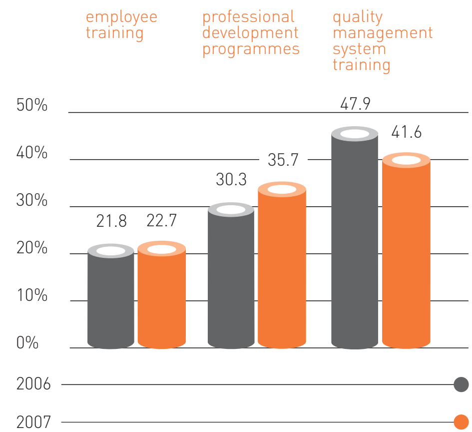
TRAINING AND DEVELOPMENT OF STAFF

To create a solid base for continued growth and adherence to best practices, the Company has developed a set of programmes for training, retraining and professional development of staff in the following areas:

- Creation of a management reserve. This is a keystone programme of TMK, aimed at creating a group of competent and loyal managers;
- Regular training pursuant to the training standards approved by Company enterprises, to systematically improve the qualifications of personnel;
- Training of staff based on the requirements of state supervisory bodies, as well as corporate and international standards.

DYNAMICS OF THE TRAINING STRUCTURE

of the employees of TMK plants by type of programme



In 2007, around 30,000 employees of the Russian plants received training under these programmes, which is 4% more than in 2006. In 2007, an average of 70% of staff received training, which illustrates TMK management's heightened attention to the level of staff qualification and compliance with technical and production processes requirements.

TMK sees its employees as its capital and considers expenses on personnel not so much as costs, but rather as long-term investments in the Company's development.

In 2007, the costs of staff training programmes at TMK's Russian enterprises totalled USD 2.2 million, or 29% more than the same indicator in 2006. As part of the realisation of investment projects stipulating the delivery and installation of high tech imported equipment, more than 700 people received training at the Russian plants in 2007.

STAFF WAGES AND INCENTIVES

The most important objective of the Company's human resources policy is the creation of an effective system of incentives and wages to ensure the interest of employees in the quality performance of their job duties, a proactive and creative approach to work and a desire for career advancement and self-improvement.

The Company's existing remuneration system is based on an assessment of the labour input of each employee and the performance of the department.

TMK's management regularly promotes the Company's policy and goals, and tries to ensure that each employee has a clear sense of belonging, understands his importance for the Company and his impact on overall performance, and receives adequate remuneration for his labour.

The creation of a decent and reasonable wage system is an important and effective method of motivating personnel. The wage policy is based on the following principles:

- ensuring market competitiveness;
- meeting the requirements of labour legislation of the countries in which the Company has a presence, agreements, collective bargaining agreements and local regulatory acts;
- indexation of wages to account for inflation and raising wages depending on an increase in productivity.

OCCUPATIONAL AND INDUSTRIAL SAFETY

TMK recognises and accepts its obligations to comply with global occupational and industrial health and safety standards.

The Company's operations can be associated with a high level of occupational risk and work-related illnesses. The following measures were taken to mitigate these risks:

- constant monitoring of compliance with State Health and Safety Standards. Company plants have implemented an Occupational and Industrial Safety System in accordance with the international standard OHSAS 18001:1999 "Occupational Health and Safety Systems". In this regard, SinTZ, STZ and TAGMET have been certified according to the standard OHSAS 18001:1999; VTZ – GOST 12.0.006-2002, which is included in OHSAS 18001; OMZ, TMK-Artrom and TMK-Resita will be certified according to OHSAS 18001:1999 in 2009.
- development of occupational and industrial safety programmes aimed at preventing injuries and work-related illnesses, as well as modern medical rehabilitation treatments. In 2007 more than 3,000 people received travel vouchers for rest and recuperation at the Company's expense.
- training in progressive safety standards and norms.

In 2007, TMK's Russian enterprises spent more than USD 8.8 million to implement and improve occupational and industrial safety measures, to develop good production practices and to create better working conditions. As a result of the measures undertaken, the number of employees suffering from occupational illnesses has been reduced.

SOCIAL PROTECTION

Social protection of employees is one of the priorities of TMK's human resources policy. In order to coordinate the management of the Company's social programmes, a Public Social Partnership Council has been in operation at TMK since 2005.

Social programmes are being implemented at TMK in the following areas:

- health;
- physical fitness and sport;
- housing programmes.

TMK feels that our investments in health care and recreation for employees' children are especially important and productive. In 2007, the Company provided travel vouchers to the best health camps of Russia to more than 5,000 children of TMK employees.

With the help of TMK companies, physical fitness and sport programmes are being implemented in the regions. This includes both support for local sports teams and the development of sporting infrastructure at the Company's enterprises.

TMK plants hold youth and family tournaments in various sports and through a variety of events such as the ''Olympiads'', "Papa, Mama and me – an athletic family" and "Young talent".

One of the basic elements of TMK's corporate human resources policy is the reslisation of housing programmes for employees of its plants. Construction and guarantees to financial institutions are the main ways for resolving the housing question of Company employees.

NON-MATERIAL INCENTIVE PROGRAMMES

TMK's human resources policy is built on a balanced combination of material and non-material incentives.

The Regulations On Moral Incentives for TMK Employees, which determine the terms and procedure for providing incentives to employees in the form of corporate awards, operate within the framework of non-material remuneration of Company employees. In 2007, 242 Company employees received certificates of merit and were recognised with titles and medals, prizes and industry awards.

SOCIAL PROGRAMMES AND CHARITY

As a modern company, TMK's activities are based on international ethical norms and standards of doing business. TMK recognises the importance of making a solid contribution to the creation and development of decent and healthy living conditions for its employees, their family members and society in general.

TMK builds an open dialogue aimed at resolving the most pressing social problems by interacting with the authorities and public funds and organisations. Underlying TMK's socially oriented activity are multilateral agreements on socio-economic cooperation with regional and municipal administrations. Charity activity is built on trust and transparency, attention to each individual person and the society as a whole.

TMK's social and charity priorities are:
- support for children;
- support for youth;
- support for veterans.

CHILDREN ARE OUR FUTURE

TMK considers the Company's charity programmes aimed at children's healthcare, the promotion of creative activity and education, and the physical and spiritual development as strategically important areas of its activity.

TMK's social and charity activity is aimed at maintaining and supporting family values and traditions. With this in mind, Company enterprises give women workers additional benefits and compensation, over and above that stipulated by legislation.

Several children's programmes were implemented in 2007 with the help of TMK companies. TMK companies regularly provide employees' children with the opportunity for treatment at children's health camps at reduced prices, as well as the opportunity for training on a contractual basis at higher educational institutions in relevant professions.

TMK plants provide considerable assistance to children's social institutions in the cities of their presence: in Taganrog – Child care centre, "Peresvet" Russian Orthodox Patriotic Military Club, in Volzhsky – the department of the Russian Children's Fund and municipal children's hospitals, in Kamensk-Uralsky the pipe plant is financing the construction of a kindergarten, in Polevskoi, financial aid is given to pre-schools and two municipal orphanages.

YOUTH ARE OUR HOPE

The Company's plants have partnership agreements with industry-related initial and advanced vocational education institutions. Right now, more than 3,000 young specialists working at the plants are taking correspondence courses in colleges and institutes of higher education. The plants regularly conduct internships of young specialists who are included in the management staff reserve.

TMK tries to support and promote the projects of young specialists to increase the efficiency of production and the quality of products, and create favourable conditions for young specialists to continuously add to their knowledge and the opportunity for them to successfully apply this knowledge in practice.

TMK's partners in the performance of staff training, retraining and professional development programmes are UGTU-UPI and MISiS which conduct training in professions that are required for production. For example, SinTZ received financing under the national education project for the implementation of the innovative educational programmes of UGTU-UPI and the Kamensk-Uralsky Polytechnical College.

OUR VETERANS ARE OUR PRIDE

TMK values the professional contribution of its employees to the Company's development. As an employer that takes responsibility for its employees, TMK takes care of its veterans and pensioners through the provision of a set of social benefits and programmes:

- provision of material assistance to pensioners;
- financing health resort services and additional medical care.

REGIONAL DEVELOPMENT

TMK companies facilitate the active development of infrastructure in the cities where they have a presence, providing financial aid to existing social infrastructure assets and investing in the construction of new assets, implementing charity and sponsorship projects to support national culture, sport, and the physical and spiritual health of the nation.

CORPORATE CITIZENSHIP

One of the key areas of development of TMK's charity activity is getting Company employees involved in social activity aimed at resolving pressing social problems. This activity is intended to make employees feel that they are directly involved in worthy deeds and that they can make a difference. For example, in 2007, Company employees gave blood for the children of the cancer and haematology centre of the Regional Children's Hospital No. 1 (Ekaterinburg). Since 2001 the annual charity event "An Hour for Childhood" has been held at VTZ during which plant employees provide material assistance to local children's institutions. The amount of each employee's contribution is equal to his wages for one hour of work.

COOPERATION WITH NON-PROFIT ORGANISATIONS

TMK works actively with non-profit organisations (NPO), because it understands their importance for the development of the social infrastructure. This type of partnership gives provides a positive experience in resolving pressing social issues. For example, the Company works closely with the Sinara Charity Fund in the Sverdlovsk region. With the help of the Fund, the Company performs large-scale, socially important, projects in the areas of its presence, and actively seeks new ways of providing charity assistance. A tender for grants was held in the Sverdlovsk region in 2007 among more than 80 non-profit organisations and eight municipalities of the region. Based on the results of the tender, 20 projects in four priority areas (Healthy Children, Modern Education, Cultural Heritage, and Native Land) received grants.

ENVIRONMENTAL PROTECTION

Environmental protection is an important prerequisite for the development of a modern business and one of the leading areas of competition in the global economy. TMK recognises its social duty to protect the environment in the regions of its presence and implements a balanced, transparent environmental policy. Environmental protection is an integral part of the Company's activity and one of the priorities in the Company's strategic development.

In its activity TMK:
adheres to:
- the environmental principles of the UN Global Compact;
- the Social Charter of Russian business (supported and implemented);
- the Kyoto Protocol to the UN Framework Convention on Climate Change;

meets:
- the requirements of legal regulatory acts and international standards on environmental protection

The Company's environmental policy is based on the following principles:
- environmental and social responsibility;
- effective and productive environmental protection activity;
- openness and willingness to engage in a dialogue with interested parties.

The objective of TMK's environmental policy is to do business in a stable, responsible and competitive way, ensuring environmental protection under conditions of dynamically expanding production.

ENVIRONMENTAL MANAGEMENT SYSTEM

An Environmental Management System conforming to ISO 14001-2004 has been introduced and is functioning successfully at all TMK plants. The Environmental Management System ensures the constant improvement of environmental protection management activity.

In 2007, the certification bodies performed audits at STZ, TAGMET, VTZ, SinTZ, and TMK-Artrom. Based on the audit results, all the plants received certificates of compliance of existing environmental management systems with the requirements of international environmental standard ISO 14001:2004. In December 2007, TMK-Resita also passed a certification audit and OMZ is preparing for certification in 2008.

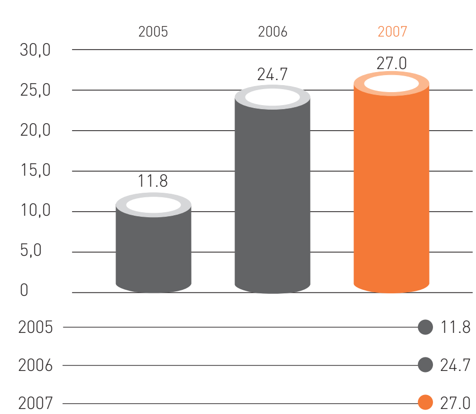
The introduction of an environmental component to management makes it possible to achieve established target indicators in land, surface water and air conservation.

In December 2007, the Board of Directors of OAO TMK considered and approved the results of the Company's environmental protection work.

ENVIRONMENTAL INVESTMENTS

Man-made pressure on the environment is constantly being reduced with account taken of modern technological advances and the economic expedience of the following actions:
- technical re-equipment of production based on the best available environmentally friendly technologies;
- improvement of the environmental performance of existing production facilities – improvement of primary production technology, development and implementation of engineering and process solutions, use of environmentally friendly materials;

ENVIRONMENTAL PROTECTION INVESTMENTS
million USD



• construction and reconstruction of environmental protection assets.

TMK's investments in environmental protection measures in 2007 equalled USD 27 million, or 8.5% more than in 2006. Current environmental protection costs equalled USD 19.6 million and costs on capital repair of primary fixed assets in the area of environmental protection were USD 3.24 million. Total costs on environmental protection increased in 2007 by 26.6% year on year and amounted to USD 49.8 million.

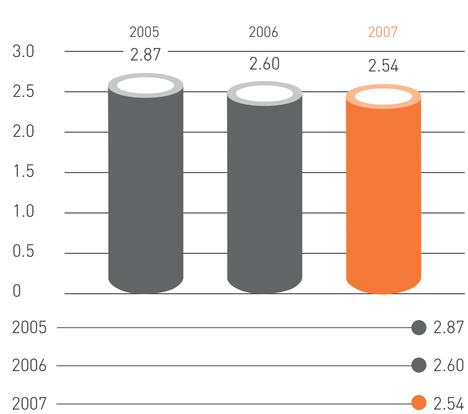
AIR CONSERVATION

TMK takes a systematic approach to reducing emissions of pollutants into the atmosphere, including solid particles and greenhouse gases.

At no point during the reporting year did atmospheric emissions exceed established norms. Per-unit atmospheric emissions of TMK's Russian plants fell by 2.3% in 2007 year on year and equalled 2.54 kg/tonne of production. Due to an increase in production, gross atmospheric emissions of the Company's Russian plants increased by 2.4% over last year's level and equalled 12.5 thousand tonnes.

At TMK-Artrom and TMK-Resita atmospheric emissions met the requirements established by the legislation of the EU.

PER-UNIT ATMOSPHERIC EMISSIONS
kg per tonne of product output



EMISSIONS OF GREENHOUSE GASES AND ENERGY SAVINGS

In its operations TMK takes due account of the obligations Russia accepted when it ratified the UN Framework Convention on Climate Change (FCCC). TMK has a Programme for Implementing Market Mechanisms for Regulating Greenhouse Gas Emissions in place which stipulates a systematic approach to managing these emissions. As part of the Programme implementation, an inventory of greenhouse gas emissions (from 1990 to 2007) was taken and an evaluation of prospective emissions, taking into account expected production growth to 2012, was performed. Per-unit greenhouse gas emissions in 2007 fell by 2.3% year on year.

In order to meet the obligations accepted by the EU under the Kyoto Protocol, the Company's plants in Romania were issued quotas on greenhouse gas emissions supported by certificates.

In 2007, the Board of Directors of OAO TMK approved the Energy Saving Programme at TMK Plants for 2008-2012. The Programme stipulates the performance of measures aimed at conserving heat and electricity and reducing the expenditure of natural gas and compressed air. The effectiveness of the Programme will be measured using both economic and environmental indicators, in particular indicators on greenhouse gas emissions.

WATER CONSUMPTION AND WATER CONSERVATION

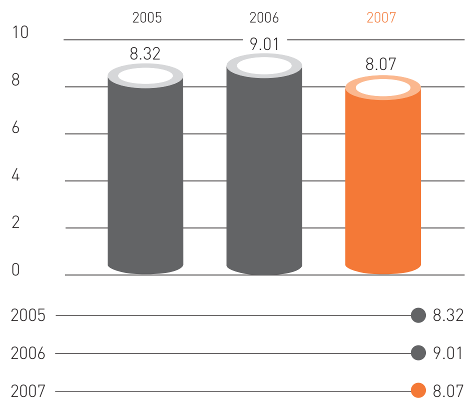
TMK's goal is to reduce water consumption and decrease the amount of effluent discharged into bodies of water.

Despite the acquisition of new assets and increased production, an overall reduction in water consumption by 1.39 million m^3, or 1.9%, in comparison with the previous year was achieved in 2007. Of total water off-take, 25% is transferred to other customers.

As in previous years, the amount of water taken from natural sources, totalling

AMOUNT OF WATER TAKEN FROM NATURAL SOURCES[1]

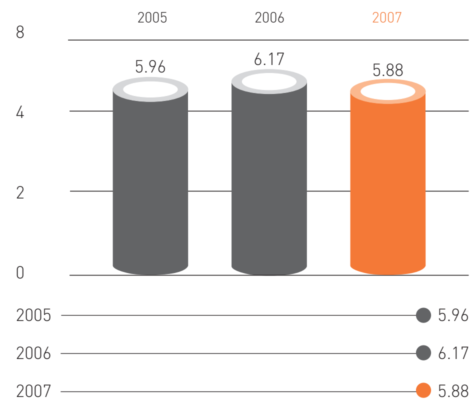
m³ per tonne of product output



[1] Figures are adjusted taking into account assets acquired in 2006-2007.

AMOUNT OF WASTE-WATER EMISSIONS[1]

m³ per tonne of product output



[1] Figures are adjusted taking into account assets acquired in 2006-2007.

43.8 million m³ in 2007, did not exceed the established limits. Per-unit water off-take from natural sources fell by 10.4% in 2007.

The amount of water used for production needs in 2007 equalled 37.8 million m³, or 2% more than in 2006, but per-unit water use for production needs in 2007 fell by 3% compared to 2006.

Taking into account TMK's foreign companies, 31.9 million m³ of effluent was discharged into surface water bodies in 2007. The per-unit amount of discharge of effluent into surface water bodies for TMK as a whole fell by 4.7% compared to 2006, and equalled 5.88 m³/tonne of production.

Water recycling systems are in place at TMK's plants to ensure that natural resources are used rationally. The use of water recycling systems is mandatory in the reconstruction of production facilities.

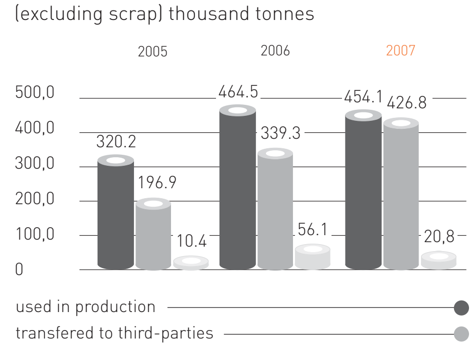
WASTES AND LAND CONSERVATION

Improving the production waste management system is a corporate-wide environmental protection priority. It includes: reduction in the amount of wastes discharged into the environment, processing of previously accumulated production wastes, including those containing metal and the reclamation of mined land.

Work continued in 2007 on the implementation of TMK's corporate Waste Management Action Plan which includes systematic work on the search for ways to reduce the amount of waste produced and discharged: oily cinders, electric furnace steelmaking slag, arc furnace gas purification dust, outgoing emulsions and mixtures, skimming pit mud, refractory wastes, etc.

WASTE MANAGEMENT

(excluding scrap) thousand tonnes

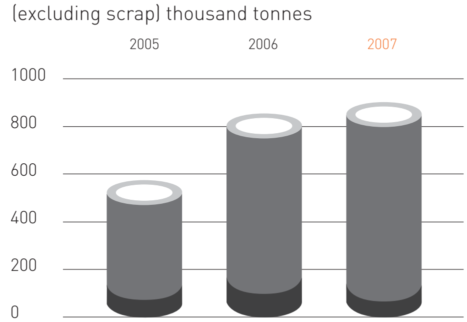


Due to large-scale construction and reconstruction of production facilities and the acquisition of a new asset (OMZ), the amount of wastes produced by TMK plants increased by 4.5% in 2007 as compared to 2006 and equalled 840.5 thousand tonnes. As in previous years, the established limits were not exceeded in 2007. Wastes disposed of at TMK's own disposal sites were reduced by 8.7% in 2007, and those transferred to third-party organisations for disposal by 54%. At the same time, the amount of wastes transferred for the use of third-party organisations increased by 36%. This attests to the successful resolution of the following tasks: minimisation of waste disposal and maximisation of waste recycling. All scrap metal formed during the production process is put back into production and 50% of all other wastes are used at the companies.

The plants have 12 registered disposal sites at which 4,655 thousand tonnes of production wastes are stored. In 2007, TMK companies began actively recycling the accumulated wastes. Recycling of accumulated wastes is performed at VTZ and TAGMET by specialised organisations. As in previous years, STZ processes ash using its own resources.

VOLUME OF WASTE CREATED AND DISPOSED

(excluding scrap) thousand tonnes



	waste displosed at TMK's own disposal sites	waste produced by TMK plants
2005	97.2	533.2
2006	103.8	804.5
2007	94.8	840.5

Land reclamation projects have been rolled out at VTZ, SinTZ and STZ, and are under development at TAGMET. OMZ and TMK's plants in Romania do not have any mined land.

COMPLIANCE WITH ENVIRONMENTAL LEGISLATION

The Russian plants pay for atmospheric emissions, discharge of effluent and disposal of wastes. TMK's environmental impact fees, paid in roubles, decreased by 0.7% in 2007 and totalled to 1.17 million USD.

There is no compensatory mechanism in the form of payments for environmental pollution under European legislation. Payments are only foreseen in the form of fines if the established limits are exceeded. No fines were charged to the Romanian plants of TMK in 2007.

In 2007, state supervisory bodies performed seven audits of the Russian plants of TMK companies (VTZ, SinTZ and TAGMET), and 22 audits at the plants of TMK-Artrom and TMK-Resita. The reasons for the citations and reprimands issued were addressed and eliminated by the established deadlines. The fines charged for minor violations totalled USD 6,000.

The Russian companies of TMK meet legislative requirements on the organisation of sanitary protection zones. VTZ has begun to develop sanitary protection zones. All other plants are in the process of designing sanitary protection zones, with account taken of the strategic development of production.

COOPERATION WITH NON-GOVERNMENTAL ORGANISATIONS

TMK works with non-governmental organisations on improving Russian environmental protection legislation through the formation of a consolidated position for leading Russian manufacturers and notification of the Company's plants of upcoming changes in Russian legislation.

Work was performed in 2007 in the Environmental Management Committees of the RUIE and the Chamber of Commerce and Industry of the Russian Federation, the Environmental Committees of the Russian Steel Consortium and the Committee on the Environment and Sustainable Development of the International Chamber of Commerce in order to achieve the established goals.

The Company expressed its views on more than 10 draft laws and regulatory documents, effective environmental legislation and problem areas in environmental protection and social responsibility.

PUBLIC ACKNOWLEDGEMENT

In 2007, the Company won a competition held as part of the Russian National Environmental Conference "New Priorities in National Environmental Policy in the Real Sector of the Economy". TMK was awarded the title "Environmental Leader in Russia – 2007" for achievements in environmental conservation and organisation of activities to improve the level of environmental protection. The CEO of OAO TMK, Konstantin Anatolievich Semerikov, was awarded a medal "For Distinguished Environmental Activity".

These awards are a testament to the public recognition of TMK's activity in the area of rational use of natural resources and use of environmentally friendly technologies to significantly improve the standard of life and health of the residents in the regions where Company plants operate.

Two plants were also given awards – VTZ and TAGMET. VTZ was given a certificate as a laureate in the nomination "Top 100 organisations in Russia. Ecology and environmental management" of the Independent Public Board of the "Gold Medal – European Quality" competition and a certificate as a laureate of the "National Environmental Prize – 2007" competition in the nomination "Environmental management" for the project on implementation and operation of an environmental management system at VTZ. TAGMET was awarded the title "Environmental leader in Russia 2007".

In future, TMK's environmental activities will continue to be aimed at strengthening its reputation as a leading company, distinguished by its modern, positive and responsible approach to environmental issues.

Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2007

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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, 2007, 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.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 21, 2008

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CONSOLIDATED INCOME STATEMENT

for the year ended December 31, 2007 (All amounts in thousands of US dollars)

	Notes	2007	2006
Revenue	1	4,178,644	3,402,313
• Sales of goods		4,144,680	3,378,151
• Rendering of services		33,964	24,162
Cost of sales	2	(2,890,616)	(2,353,613)
Gross profit		1,288,028	1,048,700
Selling and distribution expenses	3	(238,176)	(180,361)
Advertising and promotion expenses	4	(5,286)	(5,143)
General and administrative expenses	5	(218,275)	(166,620)
Research and development expenses	6	(10,139)	(6,725)
Other operating expenses	7	(56,225)	(29,076)
Other operating income	8	7,568	8,309
Foreign exchange gain, net		20,460	13,023
Finance costs	9	(104,997)	(77,295)
Finance income	9	12,608	15,819
Share of profit in associate	8	971	1,249
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	10	2,214	-
Profit before tax		698,751	621,880
Income tax expense	11	(192,442)	(159,632)
Net profit		**506,309**	**462,248**
Attributable to:			
• **Equity holders of the parent entity**		**487,152**	**442,115**
• **Minority interests**		**19,157**	**20,133**
		506,309	**462,248**
Earnings per share attributable to equity holders of the parent entity (in US dollars)	12		
• **Basic**		**0.56**	**0.51**
• **Diluted**		**0.56**	**0.51**

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

CONSOLIDATED BALANCE SHEET

as at December 31, 2007 (All amounts in thousands of US dollars)

	Notes	2007		2006	
ASSETS					
Current assets					
• Cash and cash equivalents	13, 28	89,045		144,010	
• Financial investments	14	116		174,543	
• Trade and other receivables	15	523,525		274,424	
• Accounts receivable from related parties	28	17,632		11,647	
• Inventories	18	782,373		593,434	
• Prepayments and input VAT	16	223,731		199,960	
• Prepaid income taxes		14,658	**1,651,080**	2,695	**1,400,713**
Non-current assets					
• Investments in an associate		1,481		5,079	
• Available-for-sale investments	17	29,417		–	
• Intangible assets	21	20,715		15,700	
• Accounts receivable - related parties	28	221		2,270	
• Property, plant and equipment	19	2,684,252		2,007,880	
• Investment property	20	28,091		2,871	
• Goodwill	21	101,382		46,944	
• Deferred tax asset	11	18,404		14,915	
• Other non-current assets	17	140,763	**3,024,726**	54,321	**2,149,980**
TOTAL ASSETS			**4,675,806**		**3,550,693**
LIABILITIES AND EQUITY					
Current liabilities					
• Trade and other payables	22	295,177		248,560	
• Advances from customers		89,578		102,732	
• Accounts payable to related parties	28	14,924		5,278	
• Accrued liabilities	23	147,184		85,100	
• Provisions	24	4,674		3,024	
• Interest-bearing loans and borrowings	25	1,033,322		368,175	

	Notes	2007		2006	
• Borrowings from related parties		–		3,550	
• Dividends payable	30	129,116		1,383	
• Income tax payable		4,059	**1,718,034**	17,976	**835,778**
Non-current liabilities					
• Interest-bearing loans and borrowings	25	505,977		662,933	
• Deferred tax liability	11	279,034		259,696	
• Provisions	24	15,973		13,437	
• Employee benefit liability	26	21,862		20,343	
• Other liabilities		28,317	**851,163**	5,297	**961,706**
Total liabilities			**2,569,197**		**1,797,484**
Equity	**30**				
Parent shareholders' equity					
• Issued capital		305,407		305,407	
• Treasury shares		(10,752)		–	
• Additional paid-in capital		97,338		98,539	
• Reserve capital		15,387		15,387	
• Retained earnings		1,239,993		1,028,664	
• Foreign currency translation reserve		357,510		225,110	
• Net unrealised losses		(2,187)	2,002,696	–	1,673,107
Minority interests			103,913		80,102
Total equity			**2,106,609**		**1,753,209**
TOTAL EQUITY AND LIABILITIES			**4,675,806**		**3,550,693**

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

Consolidated Statement of Changes in Equity

for the year ended December 31, 2007 (All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	Treasury shares	Additional paid–in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Net unrealised losses	Total	Minority interests	TOTAL
At January 1, 2007	**305,407**	**–**	**98,539**	**15,387**	**1,028,664**	**225,110**	**–**	**1,673,107**	**80,102**	**1,753,209**
Effect of exchange rate changes	–	–	–	–	–	132,400	–	**132,400**	**6,634**	**139,034**
Net unrealised losses on available–for–sale investments	–	–	–	–	–	–	(2,187)	(2,187)	**(173)**	**(2,360)**
Equity elimination from the recognition of the financial liability in respect of the put option (Note 30 viii)	–	–	–	–	(536)	–	–	(536)	–	**(536)**
Total income and expense for the year recognised directly in equity	–	–	–	–	(536)	132,400	(2,187)	**129,677**	**6,461**	**136,138**
Net profit	–	–	–	–	487,152	–	–	**487,152**	**19,157**	**506,309**
Total income and expense for the year	–	–	–	–	486,616	132,400	(2,187)	**616,829**	**25,618**	**642,447**
Purchase of the Company's shares for the purpose of realisation of the Share Options Programme (Note 30 ix)	–	(28,426)	–	–	–	–	–	**(28,426)**	–	**(28,426)**
Share–based payments (Note 30 ix)	–	–	6,733	–	–	–	–	**6,733**	–	**6,733**
Exersice of share options (Note 30 ix)	–	17,674	(1,631)	–	–	–	–	**16,043**	–	**16,043**
De–recognition of minority interests in a subsidiary	–	–	–	–	–	–	–	–	**(389)**	**(389)**
Capital contribution by minority owners to a subsidiary	–	–	–	–	–	–	–	–	**690**	**690**
Acquisiton of a subsidiary (Note 10)	–	–	–	–	–	–	–	–	**1,554**	**1,554**
Acquisition of minority interests (Note 30 v)	–	–	531	–	(1,675)	–	–	**(1,144)**	**(3,545)**	**(4,689)**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 30 vi)	–	–	–	–	–	–	–	–	**(117)**	**(117)**
Dividends (Note 30 iii)	–	–	–	–	(273,612)	–	–	**(273,612)**	–	**(273,612)**
Other distributions to owners (Notes 10, 30 iv)	–	–	(6,834)	–	–	–	–	**(6,834)**	–	**(6,834)**
At December 31, 2007	**305,407**	**(10,752)**	**97,338**	**15,387**	**1,239,993**	**357,510**	**(2,187)**	**2,002,696**	**103,913**	**2,106,609**

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

Consolidated Statement of Changes in Equity

for the year ended December 31, 2007 (continued) (All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							
	Issued capital	Additional paid–in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Total	Minority interests	TOTAL
At January 1, 2006	**305,407**	**141,909**	**15,387**	**652,951**	**85,563**	**1,201,217**	**76,833**	**1,278,050**
Effect of exchange rate changes	–	–	–	–	139,547	**139,547**	8,978	**148,525**
Total income and expense for the year recognised directly in equity	–	–	–	–	139,547	**139,547**	8,978	**148,525**
Net profit	–	–	–	442,115	–	**442,115**	20,133	**462,248**
Total income and expense for the year	–	–	–	442,115	139,547	**581,662**	29,111	**610,773**
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)	–	–	–	–	–	–	(788)	**(788)**
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)**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 30, iv)	–	–	–	(950)	–	**(950)**	–	**(950)**
Other distributions to owners (Note 30 iv)	–	(45,512)	–	(20,000)	–	**(65,512)**	–	**(65,512)**
At December 31, 2006	**305,407**	**98,539**	**15,387**	**1,028,664**	**225,110**	**1,673,107**	**80,102**	**1,753,209**

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

Consolidated Cash Flow Statement

for the year ended December 31, 2007 (All amounts in thousands of US dollars)

	Notes	2007	2006
Operating activities			
Profit before tax		698,751	621,880
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
• Depreciation of property, plant and equipment, investment property		137,687	114,384
• Amortisation of intangible assets		2,572	2,381
• Loss on disposal of property, plant and equipment		7,417	5,240
• Foreign exchange gain		(20,460)	(13,023)
• Finance costs		104,997	77,294
• Finance income		(12,608)	(15,791)
• Gains on sale of investments		–	(28)
• Share-based payments	30 ix	6,733	–
• Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	10	(2,214)	–
• 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
• Share of profit in associate	8	(971)	(1,249)
• Movement in provisions		310	2,125
• Capitalization of previously expensed items		–	(1,696)
Operating cash flow before working capital changes		**922,214**	**793,659**
Working capital adjustments:			
• Increase in inventories		(138,435)	(78,873)
• Increase in trade and other receivables		(195,968)	(95,167)
• Increase in prepayments		(21,933)	(47,819)
• Increase in trade and other payables		(14,071)	23,667
• Increase (decrease) in accrued liabilities		4,573	(31,590)
• (Decrease) increase in advances from customers		(19,793)	41,449
Cash generated from operations		**536,587**	**605,326**
Income taxes paid		(212,503)	(172,472)
Net cash flows from operating activities		**324,084**	**432,854**

	Notes	2007	2006
Investing activities:			
• Purchase of property, plant and equipment and intangible assets		(661,730)	(338,505)
• Proceeds from sale of property, plant and equipment		5,497	3,003
• Purchase of available-for-sale investments		(30,163)	–
• Acquisition of subsidiaries, net of cash acquired	10	(72,410)	(669)
• Acquisition of minority interest		(2,683)	(21,719)
• Disbursement of loans		(29,595)	(169,967)
• Proceeds from repayment of loans		209,795	166
• Loans granted to the controlling shareholder		–	(783,136)
• Proceeds from repayment of loans granted to the controlling shareholder		–	779,695
• Interest received		11,672	8,900
• Dividends received from associate		996	–
Net cash flows used in investing activities		**(568,621)**	**(522,232)**
Financing activities:			
• Purchase of treasury shares		(28,291)	–
• Proceeds from exercise of options		15,913	–
• Proceeds from borrowings		974,965	1,479,486
• Repayment of borrowings		(533,981)	(1,148,646)
• Interest paid		(105,563)	(61,570)
• Payment of finance lease liabilities		(491)	(1,406)
• Distributions to owners for acquisition of entity under common control		–	(45,512)
• Capital contribution by minority owner to a subsidiary		2,224	–
• Payments to entities under common control for the transfer of ownership interest in subsidiaries	30 iv	–	(20,000)
• Dividends paid to equity holders of the parent	30 iii	(144,950)	(18,051)
• Dividends paid to minority shareholders		(1,421)	(2,612)
Net cash flows from financing activities:		**178,405**	**181,689**
• Net (decrease) increase in cash and cash equivalents		(66,132)	92,311
• Net foreign exchange difference		11,167	3,777
• Cash and cash equivalents at January 1		144,010	47,922
Cash and cash equivalents at December 31		**89,045**	**144,010**

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2007
(All amounts are in thousands of US dollars, unless specified otherwise)

CORPORATE INFORMATION

These consolidated financial statements of OAO "TMK" and its subsidiaries (the "Group") for the year ended December 31, 2007 were authorised for issue in accordance with a resolution of the General Director on April 21, 2008.

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 at December 31, 2007, the Company's main shareholder was TMK Steel Limited, owning 76.98% 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 40/2a Pokrovka Street, Moscow, the Russian Federation.

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

In 2006 and 2007, there were transactions with entities under common control with the Group as described below.

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 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.

On August 25, 2006, the Group signed an agreement on the purchase of 75% ownership interest in OAO "Orsky Machine Building Plant" for 45,512 from an entity under common control with the Group. Title transferred to the Group and control over OAO "Orsky Machine Building Plant" was obtained by the Group on January 31, 2007. This purchase of the subsidiary from an entity under common control with the Group was accounted for retrospectively also using the pooling of interests method to present the consolidated financial statements of the Group as if that transfer had occurred from the date OAO "Orsky Machine Building Plant" was initially acquired by an entity under common control with the Group.

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in OOO "Predpriyatiye "Truboplast" ("Truboplast") from an entity under common control with the Group for 23,986. The entity under common control with the Group acquired the controlling interest in "Truboplast" on July 19, 2007. The Group also applied the pooling of interest method for accounting for this acquisition. More details are provided in Note 10.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

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

The functional currency of the Company and its subsidiaries located in the Russian Federation, Kazakhstan, Switzerland

and Cyprus is the Russian ruble. The functional currencies of other foreign operations of the Group are the euro, the United States dollar, the Romanian lei and the UAE dirham, which are the currencies of countries in which the Group's entities are incorporated.

The Group has applied IAS 21 (revised), "The Effects of Changes in Foreign Exchange Rates", to translate the financial position of the Group as at December 31, 2007 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.

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.

SIGNIFICANT 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 2007, no impairment losses were recognised or reversed (2006: 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 accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Fair Value of Assets and Liabilities Acquired in Business Combinations
The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. 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, 2007 was 101,382 (2006: 46,944). 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 26.

Allowances
The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts, such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at December 31, 2007 and 2006, allowances for doubtful accounts have been made in the amount of 9,632 and 9,738, respectively (Note 31).

The Group makes allowances for obsolete and slow-moving raw materials and spare parts. As at December 31, 2007 and 2006, allowances for obsolete and slow-moving items were 9,450 and 8,357, 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.

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 differ from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of external consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results of the Group.

Current Taxes
Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. As at December 31, 2007, 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 recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

Share-Based Payments
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for grant of equity instruments which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models are disclosed in Note 30 ix.

SIGNIFICANT JUDGMENTS

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

Consolidation of a Special Purpose Entity
The Group determined that the substance of the relationship between the Group and TMK Capital S.A., a special purpose entity, indicates that the Group controls TMK Capital S.A. In September 2006, TMK Capital S.A. issued notes due September 2009 for the sole purpose of funding a loan to the Company (Note 25).

CHANGES IN ACCOUNTING POLICIES

Accounting standards and interpretations issued by IASB/ IFRIC and adopted by the Group
The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to addition disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended) "Presentation of Financial Statements";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";

The principal effects of these changes in policies are discussed below.

IFRS 7 "Financial Instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included in the financial statements (Note 31).

IAS 1 "Presentation of Financial Statements"

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 31.

IFRIC 8 "Scope of IFRS 2"

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration that appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share-scheme, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 "Reassessment of Embedded Derivatives"

IFRIC 9 states that the date to asses the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 "Interim Financial Reporting and Impairment"

The Group adopted IFRIC Interpretation 10 as at January 1, 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

Accounting standards and interpretations issued as at December 31, 2007 and not yet applied by the Group.
IFRS 8 "Operating Segments", issued November 21, 2007

IFRS 8 is effective for financial years beginning on or after January 1, 2009. This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group had not yet finally determined that the operating segments were the same as the business segments previously identified under IAS 14 "Segment reporting". The Group will apply the new standard for the annual period beginning January 1, 2009.

IAS 23 "Borrowing costs" (revised), issued March 29, 2007

IAS 23 is effective for financial years beginning on or after January 1, 2009. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that take a substantial period of time to get ready for use or sale. The Group is required to capitalise such borrowing costs as part of the costs of the asset. The revised standard will be applied for the periods beginning January 1, 2009.

IAS 1 "Presentation of Financial Statements" (revised), issued September 6, 2007

The revision requires, among other things, a statement of comprehensive income that begins with the amount of net profit for the year adjusted with all items of income and expenses directly recognised in equity. The revised standard will come into effect for the annual period beginning January 1, 2009.

IFRS 3 "Business Combinations" (revised), issued January 10, 2008

The revision requires, among other things, that the acquisition-related costs to be accounted for separately from the business combination and then recognised as expenses rather than included in goodwill. The revised IFRS 3 also allows the choice of the full goodwill method that means to treat the full value of the goodwill of the business combination including the share attributable to minority interests. In case of step acquisitions, the revision also relates to the recognition in the profit and loss account of the difference between the fair value at the acquisition date of the net assets previously held and their carrying amounts. The revised standard will come into effect for the annual periods beginning on or after July 1, 2009 (for the Group: 2010 financial statements).

IAS 27 "Consolidated and Separate Financial Statements" (revised), issued January 10, 2008

The revision requires, among other things, that acquisitions or disposals of non-controlling interests in a subsidiary that do not result in the loss of control, shall be accounted for as equity transactions. The disposal of any interests that parent retains in a former subsidiary may result in a loss of control. In this case, at the date when control is lost the remaining investment retained is increased/decreased to fair value with gains or losses arising from the difference between the fair value and the carrying amount of the held investment recognised in the profit or loss account. The revised standard will come into effect for the annual periods beginning on or after July 1, 2009 (for the Group: 2010 financial statements).

IFRS 2 "Share-based Payments" (revised), issued January 17, 2008

The amendment specifies the accounting treatment of all cancellations of grant of equity instruments to the employees. It also imposes that vesting conditions are only service and performance conditions required in return for the equity instruments issued. The amendment shall be applied for the annual periods beginning January 1, 2009.

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", issued November 2, 2006

This interpretation gives guidance on how the share-based payment arrangements involving parent company equity instruments should be accounted for in the subsidiary's separate financial statements. The standard shall be applied for annual periods beginning on or after March 1, 2007 (for the Group: 2008 financial statements).

IFRIC 12 "Service Concession Arrangements", issued November 30, 2006

IFRIC 12 becomes effective for annual periods beginning on or after 1 January 2008. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

IFRIC 13 "Customer Loyalty Programmes", issued June 28, 2007

This interpretation gives guidance on how companies, which grant loyalty award credits to their customers when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the credits. In particular IFRIC 13 requires companies to allocate some of the consideration received from the sales transaction to award credits and their recognition at fair value. The interpretation shall be applied for annual periods beginning on or after July 1, 2008 (for the Group: 2009 financial statements).

IFRIC 14 "The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", issued July 5, 2007

This interpretation provides guidance on how companies should determine the limit on the amount of a surplus in an employee benefit plan that they can recognise as an asset. The interpretation also gives guidance on the amounts that companies can recover from the plan, as either refunds or reductions in contribution. The interpretation shall be applied for annual periods beginning January 1, 2008.

The Group is currently reviewing these new IFRS and interpretations to determine the likely impact on the Group's results.

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 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.

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 recognised in the income statement.

Acquisition of Subsidiaries from Entities under Common Control
Purchases of subsidiaries from entities under common control are accounted for using the pooling of interests method.

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

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

B) CASH AND CASH EQUIVALENTS

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

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

C) INVESTMENTS AND OTHER FINANCIAL ASSETS

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

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

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

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

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

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for- sale financial assets are measured at fair value with gains or losses being recognised as 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 organised 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.

D) TRADE RECEIVABLES

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

E) BORROWINGS

Borrowings are initially recognised at fair value less directly attributable transaction costs. In subsequent periods, borrowings are measured at amortised cost using the effective interest rate method. Any difference between the initial fair value less transaction costs and the redemption amount is recognised within interest expense over the period of the borrowings. Borrowing costs are expensed as incurred.

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 unamortised balance of the debt 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 value of work in progress and finished goods includes costs of raw materials, direct labor, direct production costs and indirect productions overheads including depreciation. Financing costs are not included in stock valuation.

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

In preparing consolidated financial statements, unrealised 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.

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 average 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 capitalised, 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 material repairs are performed, the Group recognises the cost of repair as a separate component within the relevant item of property, plant and equipment if the recognition criteria are met.

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities. The items of social infrastructure did 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

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, 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 fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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

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

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 amortised but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired. As at the acquisition date, any goodwill is allocated to each of the cash-generating units (groups of cash-generating units), expected to benefit from the synergies of the combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit (groups of cash-generating units), to which the goodwill relates. Where 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.

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 recognised 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 amortisation and any accumulated impairment losses. Amortisation calculated on a straight-line basis over the expected useful life of an intangible asset. Intangible assets are amortised 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 amortisation 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 capitalised are amortised 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 capitalised and amortised 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 assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of the net selling price and value in use.

Net selling price is the amount obtainable from 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 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 finance 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.

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. 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 would paid, and that have terms to maturity approximating to the terms of the related obligations.

Actuarial gains and losses are recognised in the income statement in the period in which they occurred. 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 partially permits settlement of value added tax ("VAT") on a net basis.

Value Added Tax Payable
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.

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.

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 near 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.

Treasury Shares
Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of treasury shares.

Dividends
Dividends are recognised as a liability and deducted from equity at the 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 authorised for issue.

R) REVENUE RECOGNITION

Revenue recognised 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 arise from rendering of services recognised in the same 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 provided.

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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.

Primary reporting format – 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 analysed by segments, such as cash, financial 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.

Secondary reporting format – geographical segments
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 and additions to property, plant and equipment are disclosed based on the location of the Group's assets.

Primary reporting format – business segments

Year ended december 31, 2007	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
Revenue	1,118,540	2,849,399	210,705	–	**4,178,644**
Segment results	187,982	1,093,984	6,062	–	**1,288,028**
Segment assets	646,987	2,685,093	184,858	1,158,868	**4,675,806**
Segment liabilities	41,514	291,105	15,243	2,221,335	**2,569,197**
Additions to property, plant and equipment and investment property	35,008	513,147	2,287	83,191	**633,633**
Depreciation and amortisation	9,764	106,228	3,320	20,947	**140,259**

Year ended december 31, 2006	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
Revenue	948,955	2,213,385	239,973	–	**3,402,313**
Segment results	143,567	885,801	19,332	–	**1,048,700**
Segment assets	435,072	1,903,573	35,424	1,176,624	**3,550,693**
Segment liabilities	48,437	204,131	18,422	1,526,494	**1,797,484**
Additions to property, plant and equipment and investment property	5,942	271,477	1,936	95,209	**374,564**
Depreciation and amortisation	10,066	86,436	3,986	16,386	**116,874**

Secondary reporting format – geographical segments

Year ended december 31, 2007	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
Revenue	2,993,743	451,212	142,295	296,876	17,034	87,631	189,853	**4,178,644**
Segment assets	4,070,287	579,136	3,914	442	–	22,027	–	**4,675,806**
Additions to property, plant and equipment and investment property	569,744	63,758	45	42	–	44	–	**633,633**

Year ended december 31, 2006	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
Revenue	2,323,870	587,501	178,714	183,167	12,853	102,421	13,787	**3,402,313**
Segment assets	3,060,692	465,566	4,494	454	–	19,487	–	**3,550,693**
Additions to property, plant and equipment and investment property	336,049	38,194	37	73	–	211	–	**374,564**

2) COST OF SALES

	2007	2006
Raw materials and consumables	2,138,490	1,762,028
Contracted manufacture	6,892	11,701
Energy and utilities	235,383	179,019
Depreciation and amortisation	129,933	107,594
Repairs and maintenance	53,322	24,991
Freight	8,082	5,822
Rent	733	310
Insurance	410	290
Staff costs including social security	362,251	291,149
Professional fees and services	14,662	7,639
Travel	1,859	1,385
Communications	604	695
Taxes	18,905	14,678
Other	310	684
Less capitalised costs	(37,632)	(14,652)
Total production cost	**2,934,204**	**2,393,333**
Change in own finished goods and work in progress	**(75,667)**	**(62,066)**
Coct of externally purchased goods	**31,976**	**20,669**
Obsolente stock and write-offs	**103**	**1,677**
Cost of sales	**2,890,616**	**2,353,613**

3) SELLING AND DISTRIBUTION EXPENSES

	2007	2006
Freight	138,154	104,604
Rent	5,639	4,614
Insurance	866	682
Depreciation and amortisation	1,499	1,504
Staff costs including social security	44,247	33,490
Professional fees and services	19,129	13,486
Travel	3,590	3,371
Communications	1,635	1,439
Utilities and maintenance	945	505
Taxes	3,176	196
Consumables	18,162	12,970
Bad debt (reversal of expense)/ expense	(1,125)	1,573
Other	2,259	1,927
TOTAL SELLING AND DISTRIBUTION EXPENSES	**238,176**	**180,361**

4) ADVERTISING AND PROMOTION EXPENSES

	2007	2006
Media	2,272	1,183
Exhibits and catalogues	2,259	3,094
Other	755	866
TOTAL ADVERTISING AND PROMOTION EXPENSES	**5,286**	**5,143**

5) GENERAL AND ADMINISTRATIVE EXPENSES

	2007	2006
Staff costs including social security	131,706	95,807
Professional fees and services	35,240	32,360
Depreciation and amortisation	8,407	7,290
Travel	10,715	8,818
Transportation	4,186	1,104
Rent	5,018	3,029
Communications	1,206	1,094
Insurance	758	360
Utilities and maintenance	8,123	6,308
Taxes	3,403	2,979
Consumables	8,066	6,213
Other	1,447	1,258
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**218,275**	**166,620**

6) RESEARCH AND DEVELOPMENT EXPENSES

	2007	2006
Staff costs including social security	6,707	4,474
Professional fees and services	1,769	1,021
Depreciation and amortisation	431	296
Travel	150	100
Transportation	187	108
Communications	39	36
Utilities and maintenance	402	264
Consumables	415	420
Other	39	6
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	**10,139**	**6,725**

7) OTHER OPERATING EXPENSES

	2007	2006
Loss on disposal of property, plant and equipment	7,417	5,240
Social and social infrastructure maintenance expenses	17,742	10,972
Charitable donations	19,176	11,754
Other	11,890	1,110
TOTAL OTHER OPERATING EXPENSES	**56,225**	**29,076**

Other operating expenses mainly comprise expenses and additional provisions related to tax issues, tax fines and other fines in the amount of 6,824 (1,100 in 2006).

8) SHARE OF PROFIT IN ASSOCIATE AND OTHER OPERATING INCOME

Share of Profit in Associate

Share of profit in associate represents profit from the investment to North-Europe Pipe Project (971 and 1,249 for the years ended December 31, 2007 and December 31, 2006, respectively) and consists of 20% share of profit of the associate.

Other Operating Income

	2007	2006
Gain on sale of current assets	–	245
Government grants (*)	–	3,676
Gain from reversal of litigation provision	2,093	–
Income from current liabilities derecognition	1,303	–
Gain from penalties and fines	734	1,138
Other	3,438	3,250
TOTAL OTHER OPERATING INCOME	**7,568**	**8,309**

(*) 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 AND FINANCE INCOME

Finance Costs	2007	2006
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	6,271	8,038
Interest expense	95,298	69,257
Loss on financial assets and liabilities, net	3,428	–
TOTAL FINANCE COSTS	**104,997**	**77,295**

Finance Income	2007	2006
Interest income – bank accounts and deposits	12,485	9,669
Gain on financial assets and liabilities, net	–	6,150
Other	123	–
TOTAL FINANCE INCOME	**12,608**	**15,819**

Loss / gain on financial assets and liabilities represents change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical Plant.

10) ACQUISITION OF SUBSIDIARIES

“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 cash consideration of 1,000 thousand Euro (1,290 at the exchange rate as at the date of transfer), increasing its interest to 100%.

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
Deferred income tax liabilities	
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 3,393,799 and 461,806, respectively.

Net liabilities of Eurosinara S.r.l. as at 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.

In 2006, cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	621
Cash paid	(1,290)
Net cash outflow	(669)

“Russian Research Institute of the Tube and Pipe Industries”
On March 5, 2007, the Group purchased 76.34% ownership interest of Joint-Stock Company “Russian Research Institute of the Tube and Pipe Industries” (“RosNITI”) for cash consideration of 3,067.

“RosNITI” is a scientific research institution engaged in the scientific and technological development of the Russian pipe industry.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of “RosNITI” at the date of acquisition:

	5 March 2007
Property, plant and equipment	6,301
Other non-current assets	2,116
Inventories	10
Accounts and notes receivable, net	137
Cash	29
Total assets	**8,593**
Non-current liabilities	78
Deferred income tax liabilities	1,727
Current liabilities	224
Total liabilities	**2,029**
NET ASSETS	**6,564**
Fair value of net assets attributable to 76.34% ownership interest	5,010
CONSIDERATION PAID	**3,067**
Excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognized in the income statement	**1,943**

“RosNITI”'s net profit for the period from March 5, 2007 to December 31, 2007 amounted to 313.
In 2007, cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	29
Cash paid	(3,067)
Net cash outflow	(3,038)

In June-December 2007, the Company purchased additional 21.02% of OAO “RosNITI” shares and the Group ownership in “RosNITI” achieved 97.36% as at December 31, 2007 (Note 30 v).

"Predpriyatiye Truboplast"

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in OOO "Predpriyatiye "Truboplast" ("Truboplast") from an entity under common control with the Group for cash consideration of 23,986. The entity under common control with the Group acquired the controlling interest in "Truboplast" on July 19, 2007. As the pooling of interests method has been applied to this transfer under common control, the cost of this business combination was 17,374 which is the amount paid by the entity under common control with the Group to acquire the controlling ownership interest in "Truboplast" on July 19, 2007. The amount of 6,834, being the excess of the amount paid by the Group to acquire 100% interest in "Truboplast" from the entity under common control with the Group over the cost of the business combination, has been treated as a distribution to owners (Note 30 iv).

The acquisition of "Truboplast" was accounted for based on provisional values as the Group, as at the date of authorisation for issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3.

The table below sets forth the provisional values of identifiable assets, liabilities and contingent liabilities of "Truboplast" at the date of acquisition:

	19 July 2007
Property, plant and equipment	11,610
Inventories	2,214
Accounts and notes receivable, net	2,548
Cash	36
Total assets	**16,408**
Deferred income tax liabilities	1,781
Current liabilities	3,839
Total liabilities	**5,620**
NET ASSETS	**10,788**
Fair value of net assets attributable to 100% ownership interest	10,788
CONSIDERATION PAID BY THE ENTITY UNDER COMMON CONTROL WITH THE GROUP	**17,374**
Goodwill arising on acquisition	**6,586**

In 2007, the Group paid 14,021 to the entity under common control with the Group for the purchase of 100% ownership interest in "Truboplast". As at December 31, 2007, the Group had a liability of 10,423 to the entity under common control with the Group in respect of this purchase.

Net profit of "Truboplast" from July 19, 2007 to December 31, 2007 amounted to 777. In 2007, cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	36
Cash paid	(14,021)
Net cash outflow	(13,985)

ZAO "Pipe Repair Department"

On December 20, 2007, the Group purchased 100% ownership interest in ZAO "Pipe Repair Department" for cash consideration of 73,068.

The acquisition of ZAO "Pipe Repair Department" was accounted for based on provisional values as the Group, as at the date of authorisation for issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3.

The table below sets forth the provisional values of identifiable assets, liabilities and contingent liabilities of ZAO "Pipe Repair Department" at the date of acquisition:

	20 December 2007
Property, plant and equipment	32,494
Other non-current assets	94
Inventories	1,216
Accounts and notes receivable, net	2,560
Prepayments	422
Cash	20
Total assets	**36,806**
Non-current liabilities	827
Deferred income tax liabilities	2,895
Current liabilities	3,888
Total liabilities	**7,610**
NET ASSETS	**29,196**
Fair value of net assets attributable to 100% ownership interest	29,196
CONSIDERATION PAID	**73,068**
Goodwill arising on acquisition	**43,872**

As at December 31, 2007, the Group had a liability of 18,205 in respect of this purchase. Pipe Repair Department's net profit/loss from December 20, 2007 to December 31, 2007 was not material. In 2007, cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	20
Cash paid	(55,197)
Net cash outflow	(55,177)

OOO "Central Pipe Yard"
On December 27, 2007, the Group purchased 100% ownership interest in OOO "Central Pipe Yard" for cash consideration of 8,690.

The acquisition of OOO "Central Pipe Yard" was accounted for based on provisional values as the Group, as at the date of authorisation for issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3.

The table below sets forth the provisional values of identifiable assets, liabilities and contingent liabilities of OOO "Central Pipe Yard" at the date of acquisition:

	27 December 2007
Property, plant and equipment	8,998
Inventories	183
Accounts and notes receivable, net	851
Cash	45
Total assets	**10,077**
Non-current liabilities	
Deferred income tax liabilities	119
Current liabilities	997
Total liabilities	**1,116**
NET ASSETS	**8,961**
Fair value of net assets attributable to 100% ownership interest	8,961
CONSIDERATION PAID	**8,690**
Excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognized in the income statement	**271**

As at December 31, 2007, the Group had a liability of 8,488 in respect of this purchase.

Central Pipe Yard's net loss from December 27, 2007 to December 31, 2007 was not material. In 2007, cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	45
Cash paid	(255)
Net cash outflow	(210)

Disclosure of Other Information in Respect of Business Combinations
As the acquired subsidiaries (except for Eurosinara S.r.l) did not prepare financial statements in accordance with IFRS before the business combinations, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

It is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

11) INCOME TAX

	2007	2006
Current income tax	200,485	177,930
Deferred income tax benefit related to origination and reversal of temporary differences	(8,043)	(18,298)
TOTAL INCOME TAX EXPENSE	**192,442**	**159,632**

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

	2007	2006
Income before taxation	698,751	621,880
Theoretical tax charge at statutory rate in Russia of 24%	167,700	149,251
Effect of items which are not deductible or assessable for taxation purposes	27,249	14,537
Effect of different tax rates in countries other than Russia	(2,182)	(1,680)
Effect of changes in tax legislation in Romania	–	(2,312)
Effect of currency translation	207	(533)
Effect of excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over the cost of acquisition (Note 10)	(532)	–
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	–	369
TOTAL INCOME TAX EXPENSE	**192,442**	**159,632**

Deferred income tax assets and liabilities, their movements for the periods ended December 31, 2007 were as follows:

	2007	Change recognised in income statement	Change due to business combi-nations	Foreign currency translation reserve	2006	Change recognised in income statement	Change due to business combi-nation	Foreign currency translation reserve	2005
Deferred income tax liability:									
• Valuation and depreciation of property, plant and equipment	(269,442)	8,854	(7,273)	(18,025)	(252,998)	22,448	26	(22,799)	(252,673)
• Valuation of accounts receivable	(8,543)	462	–	(592)	(8,413)	–	–	(717)	(7,696)
• Valuation of inventory	(916)	704	63	(86)	(1,597)	444	96	(167)	(1,970)
• Undistributed earnings of subsidiaries	–	685	–	(41)	(644)	412	–	(78)	(978)
• Other	(698)	(431)	28	70	(365)	(374)	–	(10)	19
	(279,599)	**10,274**	**(7,182)**	**(18,674)**	**(264,017)**	**22,930**	**122**	**(23,771)**	**(263,298)**
Deferred income tax asset:									
• Tax losses available for offset	9,828	(219)	–	673	9,374	(2,034)	–	912	10,496
• Accrued liabilities	2,349	266	–	151	1,932	(459)	–	190	2,201
• Impairment of accounts receivable	3,613	(857)	–	269	4,201	(507)	2,663	213	1,832
• Impairment of prepayments and other current assets	793	448	–	41	304	(243)	–	39	508
• Provisions	6,680	(2,299)	660	474	7,845	1,468	–	586	5,791
• Finance lease obligations	–	(3)	–	–	3	(312)	–	18	297
• Trade and other payable	1,119	433	–	64	622	(2,545)	–	195	2,972
	24,382	**(2,231)**	**660**	**1,672**	**24,281**	**(4,632)**	**2,663**	**2,153**	**24,097**
Net tax effect of temporary differences	–	8,043	–	–	–	18,298	–	–	–
Less: not recognized deferred income tax asset	(5,413)	–	–	(368)	(5,045)	–	–	(429)	(4,616)
Net deferred income tax liability	**(279,034)**	**8,043**	**(6,522)**	**(17,370)**	**(259,696)**	**18,298**	**2,785**	**(22,047)**	**(249,694)**
Net deferred income tax asset	**18,404**	**–**	**–**	**–**	**14,915**	**–**	**–**	**–**	**5,877**

In the context of the Group's current structure, tax losses and current tax assets of the different companies are not offset against current tax liability and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one subsidiary of the Group is not offset against the deferred tax liability of another subsidiary. As at December 31, 2007, the deferred tax asset for 5,413 (2006: 5,045) 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 assets not recognised represents the tax losses of the Group's subsidiaries incurred in transactions with securities. Such tax losses offsets only against future taxable profits generated in transactions with securities over a period of 10 years. Also the Group did not recognise the deferred tax assets for the companies with net loss. The Group believes that it is unlikely that this tax loss will be recovered.

As at December 31, 2007, the Group has not recognised deferred tax liability in respect of 2,062,644 (2006: 1,736,041) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

From January 1, 2008, the change to the Tax Code in relation to dividends withholding tax became in force (the change # 76-F3 is dated 16.05.2007). The Group believes that the major share of dividends due from Russian subsidiaries will be tax free from January 1, 2008.

12) EARNINGS PER SHARE

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

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential shares which are the share options granted to employees.

	For the year ended 31 December	
	2007	**2006**
Net profit attributable to the equity holders of the parent entity	487,152	442,115
Weighted average number of ordinary shares outstanding (excluding treasury shares)	872,089,719	873,001,000
Effect of dilution:		
• Share options	167,062	–
Weighted average number of ordinary shares outstanding (excluding treasury shares) adjusted for the effect of dilution	872,256,781	873,001,000
Earnings per share attributable to the equity holders of the parent entity (in US dollars):		
• Basic	0.56	0.51
• Diluted	0.56	0.51

Options under the third phase of TMK options programme (Note 30 ix) were not included in the calculation of diluted earnings per share in 2007 because they were antidilutive in 2007.

There have been no transactions involving ordinary shares or potential ordinary shares between December 31, 2007 and the date of completion of these financial statements that would have changed significantly the number of ordinary shares or potential ordinary shares as at December 31, 2007 if those transactions had occurred before that date.

13) CASH AND CASH EQUIVALENTS

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

	December 31, 2007	December 31, 2006
Russian ruble	70,876	128,098
US dollar	6,288	10,220
Euro	9,990	3,955
Romanian lei	1,848	1,343
Kazakhstani tenge	–	326
Polish zloty	–	67
Swiss franc	3	–
Other currencies	40	1
TOTAL CASH AND CASH EQUIVALENTS	**89,045**	**144,010**

The above cash and cash equivalents consist of the following:

	December 31, 2007	December 31, 2006
Cash and cash equivalents	50,201	123,559
Deposits	38,844	20,451
TOTAL CASH AND CASH EQUIVALENTS	**89,045**	**144,010**

A cash deposit in the amount of 1,974 has been pledged as security for borrowings at December 31, 2007 (December 31, 2006: 2,118).

14) CURRENT FINANCIAL INVESTMENTS

	December 31, 2007	December 31, 2006
Promissory notes	-	689
Bank deposits	-	141,961
Deposits to secure bank loans	112	1,318
Issued loans	-	30,382
Miscellaneous	4	193
TOTAL CURRENT FINANCIAL INVESTMENTS	**116**	**174,543**

15) TRADE AND OTHER RECEIVABLES

	December 31, 2007	December 31, 2006
Trade receivables	522,814	272,435
Officers and employees	2,267	2,197
Other accounts receivable	7,910	9,491
GROSS ACCOUNTS RECEIVABLE	**532,991**	**284,123**
Allowance for doubtful debts	(9,466)	(9,699)
NET ACCOUNTS RECEIVABLE	**523,525**	**274,424**

Bank borrowings are secured by accounts receivable with the carrying value of 2,115 (December 31, 2006: 1,745) (Note 25).

16) PREPAYMENTS AND INPUT VAT

	December 31, 2007	December 31, 2006
Prepayment for services, inventories	49,479	59,015
Prepayment for rent	675	562
Deferred charges	1,973	629
Prepayment for VAT, input VAT	169,984	138,088
Prepayment for property tax	197	–
Prepayment for other tax	724	1,215
Prepayment for insurance	699	448
Miscellaneous prepayments	–	3
TOTAL PREPAYMENTS AND INPUT VAT	**223,731**	**199,960**

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

17) AVAILABLE-FOR-SALE INVESTMENTS AND OTHER NON-CURRENT ASSETS

Available-for-Sale Investments

Available-for-sale investments in the amount of 29,417 are represented by the quoted ordinary shares of VTB Bank. The fair value of these shares is determined by reference to published price quotations in an active market.

Other Non-Current Assets

	December 31, 2007	December 31, 2006
Prepayments for acquisition of property, plant and equipment	100,865	37,113
Loans to employees	5,022	4,032
Long-term input VAT	-	3,882
Borrowing costs related to unused borrowing facilities	5,533	1,604
Restricted cash balances for fulfillment of guarantees	1,581	3,996
Long-term trade receivables	428	66
Other	27,500	3,667
GROSS OTHER NON-CURRENT ASSETS	**140,929**	**54,360**
Allowance for doubtful debts	(166)	(39)
NET OTHER NON-CURRENT ASSETS	**140,763**	**54,321**

18) INVENTORIES

	December 31, 2007	December 31, 2006
Raw materials	214,534	180,683
Work in process	236,595	159,503
Finished goods	106,273	76,579
Finished goods in transit	51,845	57,605
Consigned goods	-	769
Goods for resale	131	-
Supplies	182,445	126,652
GROSS INVENTORIES	**791,823**	**601,791**
Allowance for obsolescence and slow-moving	(9,450)	(8,357)
NET INVENTORIES	**782,373**	**593,434**

Included in inventories as at December 31, 2007, are inventories carried at net realisable value in the amount of 41,542 (December 31, 2006: 29,584).

As at December 31, 2007, certain items of inventory with a carrying amount of 81,537 (December 31, 2006: 91,671) were pledged as security for borrowings (Note 25).

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

	2007	2006
Balance at the beginning of the year	8,357	6,020
Utilised during the year	(680)	–
Additional increase in allowance	1,156	1,677
Currency translation adjustments	617	660
BALANCE AT THE END OF THE YEAR	**9,450**	**8,357**

19) PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment for the year ended December 31, 2007 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, 2007	876,604	1,140,296	45,987	22,187	321,541	**2,406,615**
Additions	1,250	8,046	340	789	620,587	**631,012**
Assets put into operation	165,500	201,894	19,032	7,633	(394,059)	–
Transfer (to)/from investment property	(22,850)	156	–	476	(1,839)	**(24,057)**
Disposals	(4,029)	(19,736)	(1,075)	(684)	(2,122)	**(27,646)**
Increase due to business combinations (Note 10)	34,864	18,176	82	121	6,160	**59,403**
Currency translation adjustments	67,045	90,794	4,050	2,012	33,924	**197,825**
BALANCE AT DECEMBER 31, 2007	**1,118,384**	**1,439,626**	**68,416**	**32,534**	**584,192**	**3,243,152**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2007	(83,793)	(291,331)	(14,085)	(9,526)	–	**(398,735)**
Depreciation charge	(24,260)	(103,881)	(4,766)	(4,287)	–	**(137,194)**
Transfer to/(from) investment property	1,661	(50)	–	(215)	–	**1,396**
Disposals	735	9,013	635	457	–	**10,840**
Currency translation adjustments	(5,259)	(27,677)	(1,344)	(927)	–	**(35,207)**
BALANCE AT DECEMBER 31, 2007	**(110,916)**	**(413,926)**	**(19,560)**	**(14,498)**	**–**	**(558,900)**
NET BOOK VALUE AT DECEMBER 31, 2007	**1,007,468**	**1,025,700**	**48,856**	**18,036**	**584,192**	**2,684,252**
NET BOOK VALUE AT JANUARY 1, 2007	**792,811**	**848,965**	**31,902**	**12,661**	**321,541**	**2,007,880**

Bank borrowings are secured by properties and equipment with the carrying value of 180,616 (December 31, 2006: 155,962), (Note 25).

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	777,976	873,368	34,010	14,589	147,920	**1,847,863**
Additions	–	2,145	99	283	372,031	**374,558**
Assets put into operation	21,523	186,224	7,383	6,398	(221,528)	–
Transfer to investment property	(863)	(40)	(23)	(102)	(10)	**(1,038)**
Disposals	(4,765)	(15,788)	(378)	(578)	(2,620)	**(24,129)**
Increase due to business combination (Note 10)	–	–	–	15	–	**15**
Currency translation adjustments	82,733	94,387	4,896	1,582	25,748	**209,346**
BALANCE AT DECEMBER 31, 2006	**876,604**	**1,140,296**	**45,987**	**22,187**	**321,541**	**2,406,615**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2006	(54,093)	(194,490)	(9,115)	(5,965)	–	**(263,663)**
Depreciation charge	(22,397)	(84,399)	(4,046)	(3,353)	–	**(114,195)**
Transfer to investment property	45	16	5	42	–	**108**
Disposals	1,315	10,149	286	443	–	**12,193**
Currency translation adjustments	(8,663)	(22,607)	(1,215)	(693)	–	**(33,178)**
BALANCE AT DECEMBER 31, 2006	**(83,793)**	**(291,331)**	**(14,085)**	**(9,526)**	**–**	**(398,735)**
NET BOOK VALUE AT DECEMBER 31, 2006	**792,811**	**848,965**	**31,902**	**12,661**	**321,541**	**2,007,880**
NET BOOK VALUE AT JANUARY 1, 2006	**723,883**	**678,878**	**24,895**	**8,624**	**147,920**	**1,584,200**

20) INVESTMENT PROPERTY

Investment property is represented by buildings rented out under operating lease agreements.

The movement in investment property for the year ended December 31, 2007 was as follows:

COST	
Balance at January 1, 2007	3,743
Transfer from property, plant and equipment	24,689
Transfer to property, plant and equipment	(632)
Additions	2,621
Disposals	(2,870)
Acquisition through business combination	2,159
Currency translation adjustments	1,243
Balance at December 31, 2007	**30,953**
ACCUMULATED DEPRECIATION	
Balance at January 1, 2007	(872)
Transfer from property, plant and equipment	(1,661)
Transfer to property, plant and equipment	265
Depreciation charge	(493)
Disposals	40
Currency translation adjustments	(141)
Balance at December 31, 2007	**(2,862)**
NET BOOK VALUE AT DECEMBER 31, 2007	**28,091**
NET BOOK VALUE AT JANUARY 1, 2007	**2,871**

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, 2007	**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**

The fair value of investment property approximates its carrying amount.

21) GOODWILL AND OTHER INTANGIBLE ASSETS

	Patents and trademarks	Goodwill	Software	Other	TOTAL
COST					
Balance at January 1, 2007	403	46,944	14,303	4,794	66,444
Additions	351	–	1,710	4,571	6,632
Disposals	(15)	–	–	(510)	(525)
Increase due to business combination (Note 10)	–	50,458	–	–	50,458
Currency translation adjustments	42	3,980	1,120	499	5,641
BALANCE AT DECEMBER 31, 2007	**781**	**101,382**	**17,133**	**9,354**	**128,650**
ACCUMULATED AMORTISATION					
Balance at January 1, 2007	(130)	–	(2,224)	(1,446)	(3,800)
Amortisation charge	(35)	–	(1,858)	(679)	(2,572)
Disposals	15	–	–	174	189
Currency translation adjustments	(10)	–	(240)	(120)	(370)
BALANCE AT DECEMBER 31, 2007	**(160)**	**–**	**(4,322)**	**(2,071)**	**(6,553)**
NET BOOK VALUE AT DECEMBER 31, 2007	**621**	**101,382**	**12,811**	**7,283**	**122,097**
NET BOOK VALUE AT JANUARY 1, 2007	**273**	**46,944**	**12,079**	**3,348**	**62,644**

	Patents and trademarks	Goodwill	Software	Other	TOTAL
COST					
Balance at January 1, 2006	338	37,180	11,210	2,754	51,482
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	413	5,175
BALANCE AT DECEMBER 31, 2006	**403**	**46,944**	**14,303**	**4,794**	**66,444**
ACCUMULATED AMORTISATION					
Balance at January 1, 2006	(88)	–	(381)	(946)	(1,415)
Amortisation charge	(30)	–	(1,758)	(600)	(2,388)
Disposals	1	–	–	282	283
Currency translation adjustments	(13)	–	(85)	(182)	(280)
BALANCE AT DECEMBER 31, 2006	**(130)**	**–**	**(2,224)**	**(1,446)**	**(3,800)**
NET BOOK VALUE AT DECEMBER 31, 2006	**273**	**46,944**	**12,079**	**3,348**	**62,644**
NET BOOK VALUE AT JANUARY 1, 2006	**250**	**37,180**	**10,829**	**1,808**	**50,067**

Goodwill relates to synergy from integration of the acquired subsidiaries into the Group and combined cost savings achieved on business combinations. The carrying amount of goodwill was allocated among cash generating units as follows at December 31:

	2007	2006
OAO "Taganrog Metallurgical Plant"	40,796	38,031
ZAO "Trade House TMK"	2,800	2,610
TMK Italia s.r.l. (former Eurosinara s.r.l.)	6,762	6,303
ZAO "Pipe Repair Department"	44,198	–
OOO "Predpriyatiye "Truboplast"	6,826	–
TOTAL GOODWILL	**101,382**	**46,944**

22) TRADE AND OTHER PAYABLES

	December 31, 2007	December 31, 2006
Trade payables	192,344	179,646
Accounts payable for property, plant and equipment	98,627	66,982
Notes issued to third parties	929	342
Other payables	3,277	1,590
TOTAL ACCOUNTS PAYABLE	**295,177**	**248,560**

23) ACCRUED LIABILITIES

	December 31, 2007	December 31, 2006
Payroll liabilities	27,374	28,209
Accrued and withheld taxes on payroll	13,965	11,165
Liabilities for VAT	11,883	9,032
Liabilities for property tax	2,561	2,414
Liabilities for other taxes	3,651	2,306
Deferred VAT	399	442
Current portion of employee-benefit liability (Note 26)	2,284	706
Accrual for long-service benefit	5,607	4,451
Liabilities under put options of minority shareholders in subsidiaries	39,481	21,387
Liability for bonuses	8,806	3,894
Accrued liability on acquisitions	26,693	–
Miscellaneous	4,480	1,094
TOTAL ACCRUED LIABILITIES	**147,184**	**85,100**

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.

24) PROVISIONS

	December 31, 2007	December 31, 2006
Current		
Provision for unused annual leaves	3,131	2,365
Provision for tax fines	1,456	659
Environmental provision	87	–
TOTAL CURRENT PROVISIONS	**4,674**	**3,024**
Non-current		
Provision for unused annual leave	15,973	13,437
TOTAL NON-CURRENT PROVISIONS	**15,973**	**13,437**

25) INTEREST-BEARING LOANS AND BORROWINGS

Short-term and long-term borrowings were as follows as at December 31, 2007:

	2007	2006
Current:		
• Bank loans	671,423	183,974
• Raiffeisen Leasing liability	151	592
• Interest payable	17,397	16,439
• Current portion of non-current borrowings	141,805	71,106
• Current portion of bearer coupon debt securities	203,698	97,347
• Unamortised debt issue costs	(1,454)	(1,470)
	1,033,020	**367,988**
Finance lease liability – current	302	187
TOTAL SHORT-TERM BORROWINGS	**1,033,322**	**368,175**
Non-current:		
• Bank loans	249,217	251,873
• Bearer coupon debt securities	607,741	587,236
• Raiffeisen Leasing liability	–	151
• Unamortised debt issue costs	(5,882)	(8,118)
• Less: current portion of non-current borrowings	(141,805)	(71,106)
• Less: current portion of bearer coupon debt securities	(203,698)	(97,347)
	505,573	**662,689**
Finance lease liability – non-current	404	244
TOTAL LONG-TERM BORROWINGS	**505,977**	**662,933**

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 and Romania as collateral under loan agreements for 220,144 as at December 31, 2007 (December 31, 2006: 68,072). 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 261,831 as at December 31, 2007 and 271,477 as at December 31, 2006, inclusive of short-term borrowings, were guaranteed by collateral of property, plant and equipment, inventories, deposits, cash and accounts receivable (Notes 13, 14, 15, 18, 19).

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

	Interest rates	December 31, 2007	December 31, 2006
Russian Rouble	Fixed 6% – 12%	929,949	438,338
US Dollar	Fixed 8.5%	303,380	301,911
	Fixed 20.94%	151	743
	Variable:	143,778	169,197
	Libor (3m) + 1.5% – 1.7%		
	Federal Funds Rate + 1.6%		
Euro	Fixed 5.7%	250	977
	Variable:	159,905	119,511
	Euribor (1m) + 0.23% – 4.95%		
	Euribor (3m) + 2.25% – 2.75%		
	Euribor (6m) + 2.4% – 5%		
	Euribor (12m) + 0.23% – 4.95%		
Romanian Lei	Bubor (1m) + 0.75% (*)	1,180	–
		1,538,593	**1,030,677**

(*) Bubor is the Bucharest bid offer rate.

Bank Loans
In November 2006, the Group entered into a medium-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 repaid early its liabilities under long-term loans to Gazprombank in the amount of 3,634 thousand euros (4,789 at the exchange rate at December 31, 2006). These liabilities were included in non-current borrowings in the consolidated balance sheet as at December 31, 2006.

In January – February 2007, the Group entered into short-term loans with Sberbank in the principal amount of 112,033 at a fixed rate of 6.7%. In January 2008, the loans were fully repaid.

In November – December 2007, the Group entered into short-term loans with VTB Bank in the principal amount of 114,071 at a fixed rate of 9.5%.

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 at December 31, 2007, the Group has drawn and started repay this facility. As at December 31, 2007 the principal debt amounted to 10,000 thousand euros (14,639 at the exchange rate at December 31, 2007) and 97,142.

In September 2006, Seversky Pipe Plant and Taganrog Metallurgical Plant entered into ECA-covered loan agreements with HVB in the aggregate amount of 91,700 thousand euros (134,240 at the exchange rate at December 31, 2007) with maturity date in 2013. As at December 31, 2007, aggregate amount of 19,750 thousand euros (28,912 at the exchange rate at December 31, 2007) was outstanding under loan agreements.

The Group complied with all terms of loan agreements.

Loan Participation Notes
On September 29, 2006, the Group issued 3,000 8.5% loan participation notes with a nominal value of 100,000 US dollars each, due September 2009. 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 financial indebtedness, 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 March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 Russian rubles (35.95 US dollars at the exchange rate as at the date of issuance) each, with eight coupons periods of 182 days each. The bonds mature on March 24, 2009. The annual interest rate for the first two semi-annual coupons was set at 11.09%, the annual rate for the third and fourth semi-annual coupons - at 10.09% and for the fifth, sixth, seventh and eighth semi-annual coupons at 7.6%. Early redemption of bonds was available within 5 days of the fourth semi-annual coupon period, from the 724th to the 728th days from the date of issuance. As at December 31, 2007, an aggregate of 2.6 billion Russian rubles (104,043 at the exchange rate as at December 31, 2007) remained outstanding under these bonds series.

On February 21, 2006, the Group issued 5,000,000 bonds with a nominal value of 1,000 Russian rubles (35.53 US dollars at the exchange rate as at the date of issuance) each, with ten coupon periods of 182 days each. The maturity date is February 15, 2011. The interest rate for the first, second, third and fourth semi-annual coupons is 7.95% per annum. The annual interest rate for semi-annual coupons for the fifth to the tenth coupon periods was to be established and announced by the Company on any date before the last 10 days of the fourth coupon period (Note 32). Early redemption of bonds was available within 10 days of the fourth coupon period, from the 719th to 728th days from the date of issuance. As at December 31, 2007, an aggregate of 5.0 billion Russian rubles (203,698 at the exchange rate as at December 31, 2007) remained outstanding under these bonds series.

Unamortised Debt Issue Costs
Unamortised debt issue costs represent agent commission and arrangement costs paid by the Group in relation to the arrangement of loans and issue of notes.

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 at December 31, 2007, the Group had unutilised borrowing facilities in the amount of 491,854 (December 31, 2006: 314,501).

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

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

	2007	**2006**
Machinery and equipment	330	–
Transport and motor vehicles	883	657
	1,213	**657**

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

Future minimum lease payments were as follows at December 31, 2007:

	Principal	**Interest**	**Total**
2008	302	42	344
2009 – 2010	404	30	434
	706	**72**	**778**

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, 2007 and December 31, 2006, the average interest rates under the finance lease liabilities were 4% and 6%, respectively.

26) EMPLOYEE BENEFIT LIABILITY

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

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2007 and 2006 and amounts recognised in consolidated balance sheets as at December 31, 2007 and 2006 were as follows:

	2007	**2006**
Movement in the benefit liability:		
• At January 1	(21,049)	(18,009)
• Benefit expense	(1,819)	(1,983)
• Benefit paid	1,271	755
• Change in liability due to business combinations	(957)	–
• Currency translation adjustment	(1,592)	(1,812)
At December 31	**(24,146)**	**(21,049)**
Short-term	**(2,284)**	**(706)**
Long-term	**(21,862)**	**(20,343)**
Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses):		
• Current service cost	1,217	1,350
• Interest cost on benefit obligation	1,927	1,507
• Net actuarial gain recognised in the period	(1,533)	(1,064)
• Past service cost	208	190
Net benefit expense	**1,819**	**1,983**

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

	Russia		Romania	
	2007	2006	2007	2006
Movement in the benefit liability:				
• At January 1	(19,731)	(17,396)	(1,318)	(613)
• Benefit expense	(1,204)	(1,396)	(615)	(587)
• Benefit paid	1,179	694	92	61
• Change in liability due to business combinations	(957)	–	–	–
• Currency translation adjustment	(1,502)	(1,633)	(90)	(179)
At December 31	**(22,215)**	**(19,731)**	**(1,931)**	**(1,318)**
Short-term	**(2,284)**	**(706)**	**–**	**–**
Long-term	**(19,931)**	**(19,025)**	**(1,931)**	**(1,318)**
Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses):				
• Current service cost	932	1,044	285	306
• Interest cost on benefit obligation	1,828	1,441	99	66
• Net actuarial (gain) loss recognised in the period	(1,764)	(1,279)	231	215
• Past service cost	208	190	–	–
Net benefit expense	**1,204**	**1,396**	**615**	**587**

The Group expects to contribute 1,350 to its defined post-employment benefit programme in 2008.

	2007	2006
Present value of defined benefit obligation	27,467	24,341
Unrecognised past service cost	(3,321)	(3,292)
Benefit liability as at December 31	**24,146**	**21,049**

The Group had no plan assets and unrecognised actuarial gains or losses in the year ended December 31, 2007.

The following table is a summary of the present value of the benefit obligation and experience adjustments as at December 31:

	2007	2006
Defined benefit obligation as at December 31	27,467	24,341
Experience adjustments on plan liabilities	(1,639)	(2,199)

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

	Russia		Romania	
	2007	2006	2007	2006
Discount rate	7.75%	7.75%	current 6.70%, decreasing to 3.53% in the long- term	current 7.25%, decreasing to 3.53% in the long-term
Average long-term rate of compensation increase	6.25%	6.25%	current 14.0%, decreasing to 2.0% in the long-term	current 5.0%, decreasing to 2.0% in the long- term

27) PRINCIPAL SUBSIDIARIES

Company	Location	Main activity	Actual ownership interest	Effective ownership interest	Actual ownership interest	Effective ownership interest
			December 31, 2007		December 31, 2006	
OAO "Sinarsky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, sale of electric and heating power and other services	92.68%	92.68%	92.43%	92.43%
OAO "Seversky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services	93.29%	93.29%	92.97%	92.97%
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	95.94%	100.00%	95.74%	100.00%
OAO "Orsky Machine Building Plant"	Russia	Manufacturing of drilling locks and other products	75.00%	75.00%	75.00%	75.00%
ZAO "Trade House TMK"	Russia	Sale of steel pipes	100.00%	99.92%	100.00%	99.92%
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	Logistics	100.00%	100.00%	100.00%	100.00%
OOO "Blagoustroystvo"	Russia	Services	100.00%	99.99%	100.00%	99.99%
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 North America Inc.	USA	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%

Company	Location	Main activity	Actual ownership interest	Effective ownership interest	Actual ownership interest	Effective ownership interest
			December 31, 2007		December 31, 2006	
TMK Italia s.r.l. (former Eurosinara s.r.l.)	Italy	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
TMK Middle East FZCO	UAE	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
OOO Pokrovka 40	Russia	Assets holding	100.00%	100.00%	100.00%	100.00%
TMK Europe GmbH (former 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 SA	Romania	Sale of pipes and other goods	0.00%	0.00%	95.00%	95.00%
WRJ INWESTYCJE SP Z O.O.	Poland	Investment company	100.00%	100.00%	80.00%	80.00%
TMK Capital S.A.	Luxembourg	Finance raising	0.00%	0.00%	0.00%	0.00%
Joint-Stock Company "Russian Research Institute of the Tube and Pipe Industries"	Russia	Scientific research institution	97.36%	100.00%	0.00%	0.00%
OOO "Predpriyatiye "Truboplast"	Russia	Pipe coating	100.00%	100.00%	0.00%	0.00%
ZAO "Pipe Repair Department"	Russia	Services for oil and gas industries	100.00%	100.00%	0.00%	0.00%
OOO "Central Pipe Yard"	Russia	Services for oil and gas industries	100.00%	100.00%	0.00%	0.00%
Rockarrow Investments Ltd.	Cyprus	Share options program realisation	100.00%	100.00%	0.00%	0.00%
ZAO "TMK-CPW"	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	51.00%	100.00%	0.00%	0.00%

Actual ownership interest in subsidiaries differs from the effective ownership interests due to the existence of minority interests in subsidiaries that hold ownership interest in other subsidiaries as well as due to the derecognition of minority interests for which minority shareholders hold put options (Note 30 viii).

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, 2007 and 2006 are detailed below. In the year ended December 31, 2007, transactions with related parties constituted approximately 0.5% of the total volume of the Group's sales of goods (2006: 0.9%).

Interest rates on borrowings from related parties in 2006–2007 were from 4% to 15%.

The following table provides outstanding balances with entities under common control with the Group at the year-end:

	December 31, 2007	**December 31, 2006**
Cash and cash equivalents	41,335	50,673
Accounts receivable – current	17,630	11,632
Prepayments – current	2	15
Other financial assets – non-current	221	2,270
Accounts payable – current	(14,924)	(5,278)
Borrowings from related parties	–	(3,550)
Accounts payable – non-current	(5)	–

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

	2007	**2006**
Sales revenue		
• Entities under common control with the Group	**22,293**	**31,575**
Purchases of goods and services		
• Entities under common control with the Group	3,750	14,171
• Entities under control of the minority shareholders of the Company	–	52
	3,750	**14,223**
Interest expenses from loans and borrowings		
• Entities under control of the minority shareholders of the Company	**61**	**778**
Interest income from loans and borrowings		
• Entities under common control with the Group	**2,013**	**2,113**

On October 1, 2006, because 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 as at December 31, 2006 includes a long-term portion of receivables for securities sold for 4,986 as at December 31, 2005. The nominal value of the current portion of the receivables for securities sold was 6,304 as at December 31, 2006.

In addition to transactions with related parties disclosed in this note, other transactions with related parties are disclosed in Notes 10, 30 and 32.

Compensation of Key Management Personnel of the Group
Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 33 persons as at December 31, 2007 and 2006. Total compensation to key management personnel included as part of the general and administrative expenses in the income statement amounted to 29,636 for the year ended December 31, 2007 (2006: 14,620, including 1,278 in respect of shares sold by TMK Steel Limited (Note 29 vii)).

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

The Group guaranteed debts of key management personnel outstanding as at December 31, 2007 in the amount of 2,186 with maturity in 2008-2009.

29) CONTINGENCIES AND COMMITMENTS

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

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.

In 2007 and 2008, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 806,942 thousand Russian rubles (32,874 at the exchange rate as at December 31, 2007). The Group accepted the claims for the amount of 28,424 thousand Russian rubles (1,158 at the exchange rate as at December 31, 2007) and accrued this amount in the consolidated financial statements for the year ended December 31, 2007. Claims in the amount of 778,518 thousand Russian rubles (31,716 at the exchange rate as at December 31, 2007) are being contested by the Group. As at the date of the authorisation for issue of these consolidated financial statements, the courts of the first instance made decisions in favour of the Group for the total amount of 148,712 thousand Russian rubles (6,058 at the exchange rate as at December 31, 2007), and the claims for the amount of 38,495 thousand Russian rubles (1,568 at the exchange rate as at December 31, 2007) were withdrawn by the tax authorities at a pre-litigation stage. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Therefore, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2007.

Contractual Commitments and Guarantees
As at December 31, 2007, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 2,608,927 thousand Russian rubles (106,286 at the exchange rate as at December 31, 2007), 270,741 thousand euros (396,338 at the exchange rate as at December 31, 2007), 10,174 Romanian lei (4,215 at the exchange rate as at December 31, 2007) and 10,762 thousand US dollars for the total amount of 517,601 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 76,223 with respect to such commitments.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 285,852 (2006: 47,301).

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

Guarantees of Debts of Others
The Group has guaranteed debts of others outstanding at December 31, 2007 in the amount of 4,889 (2006: 4,562).

30) EQUITY

i) Share Capital
As at December 31, 2007, the authorised number of ordinary shares of the Company was 873,001,000 (2006: 873,001,000) with a nominal value per share of 10 Russian rubles. 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.

iii) Dividends
In July 2006, the Company declared dividends in respect of 2005 in the amount of 473,359 thousand Russian rubles (17,101 at the exchange rate at the announcement date) or 0.542 Russian rubles per share (0.020 US dollars per share). In May 2005, the Company declared interim dividends in respect of 2005 in the amount of 73,332 thousand Russian rubles (2,592 at the exchange rate at the announcement date) or 0.084 rubles per share (0.003 US dollars per share).

In June 2007, the Company declared dividends in respect of 2006 in the amount of 3,753,904 thousand Russian rubles (145,624 at the exchange rate at the announcement date) or 4.30 Russian rubles per share (0.17 US dollars per share). In December 2007, the Company declared interim dividends in respect of 2007 in the amount of 3,168,994 thousand Russian rubles (128,140 at the exchange rate at the announcement date) or 3.63 Russian rubles per share (0.15 US dollars per share), from which 3,759 thousand Russian rubles (152 at the exchange rate at the transaction date) related to treasury shares in possession of the Group as at the date of dividends declaration.

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 1,007,906 and 457,583 of undistributed and unreserved earnings recognised in Russian statutory financial statements as at December 31, 2007 and 2006, respectively. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 2,403,231 and 892,900 as at December 31, 2007 and 2006, respectively.

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

On August 25, 2006, the Group signed an agreement on the purchase of 75% ownership interest in OAO "Orsky Machine Building Plant" for 45,512 from an entity under common control with the Group. Payment for 75% ownership interest for 45,512 was made on November 9, 2006 and is included in distributions to owners as a reduction in additional paid-in capital in the consolidated financial statements. In 2006, OAO "Orsky Machine Building Plant" paid dividends in the amount of 950 for 2005 and for the six months ended June 30, 2006 to its former owner.

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in OOO "Predpriatie "Truboplast" for 23,986 from entities under common control with the Group. The difference of 6,834 between the acquisition value for entities under common control and the amount paid by Group was included in distributions to owners as a reduction in additional paid-in capital in the consolidated financial statements (Note 10).

v) Acquisition of Minority Interests in Subsidiaries

In the year ended December 31, 2007, the Company purchased additional 0.32% of OAO "Seversky Pipe Plant" shares, 0.25% of OAO "Sinarsky Pipe Plant" shares and 21.02% of OAO "RosNITI". The total cash consideration for the shares amounted to 4,955. The excess in the amount of 1,675 of the consideration given for the shares over the carrying values of net assets attributable to interest in the subsidiary acquired was charged to accumulated profits. The excess in the amount of 531 of the carrying values of net assets attributable to interest in ROSNITI over the consideration paid for such minority interest is recorded in additional paid-in capital.

In the year ended December 31, 2006, the Company purchased additional 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. The excess in the amount of 10,812 of the carrying values of net assets attributable to interest in the subsidiary acquired over the consideration given for such increase is charged to accumulated profits.

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 117 and 788 in the consolidated financial statements for the years ended December 31, 2007 and 2006, 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 123 Russian rubles (approximately 4.67 US dollars as at 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 at 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. The put and call options under this legislation will expire in August 1, 2008.

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 for 27,106. The liability was measured based on the highest purchase price of these shares by the Group. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounted to 12,663 for year 2006.

In the year ended December 31, 2007, the Company purchased additional 0.21% of OAO "Taganrog Metallurgical Plant" shares for 1,298 and recorded a decrease in the liability under put options by that amount.

At July 2, 2007, the Group had a 95.11% ownership interest in OAO "RosNITI". At this date, the Group derecognised minority interests of 389 and accrued a liability to minority shareholders for 389.

In 2007, the Group established ZAO TMK-CPW, a new subsidiary with 51% ownership. Under the shareholders' agreement, the minority shareholder in TMK-CPW owning 49% shares in the subsidiary had a put option to sell its shares to the Group under certain circumstances beyond the Group's control. The Group recorded a liability under that put option in the consolidated financial statements. The excess of that liability over the fair value of assets contributed by the minority shareholder in the capital of TMK-CPW of 536 was charged to retained earnings in the consolidated financial statements of the Group for the year ended December 31, 2007.

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

The exercise price for options under the first phase was fixed at 217.6 Russian rubles per share (8.86 US dollars per share at the exchange rate as at December 31, 2007). The exercise price for options under the second phase was fixed at 226.68 Russian rubles per share (9.23 US dollars per share at the exchange rate as at December 31, 2007). The exercise price for options under the third phase will be determined based on the average market price of the shares for the period from June 2007 to June 2008.

The weighted average fair value of options granted during 2007 was 1.32 US dollars per share. The fair value of the options granted is estimated at the date of grant using the Black Scholes pricing model, taking into account the terms and conditions upon which options were granted. The fair value of options granted during the year ended December 31, 2007 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	1.62 – 2.07
Expected volatility (%)	14.54
Risk-free interest rate (%)	4.62 – 4.93
Expected life (years)	0.58 – 2.59
Share price on the date of grant (US dollars)	7.78

The historical volatility has been used for valuation of the share options granted in 2007. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The following table illustrates the number and weighted average exercise prices (WAEP) of share options during the year:

	2007	
	Number of shares	**WAEP**
Outstanding as at January 1, 2007	–	–
Granted during the year	9,603,011	8.70
Exercised during the year	(1,873,457)	8.56
Expired during the year	(527,296)	8.72
Outstanding as at December 31, 2007	7,202,258	9.40
Exercisable as at December 31, 2007	–	–

The weighted average share price at the dates of exercise of these options was 10.07 US dollars in 2007.

The weighted average remaining contractual life for the share options outstanding as at December 31, 2007 was 1.29 years.

x) Purchase of the Company's Shares for the Purpose of Realisation of the Share Options Programme
In the year ended December 31, 2007, the Group purchased 2,425,631 shares of the Company for the total amount of 22,433 (at the exchange rate at the transaction date), including 571,631 shares purchased from the entity under common control with the Group for 5,151, for the purpose of realisation of the Programme. Cost of 1,873,457 shares sold to the Programme participants comprised 17,674. The Group purchased back from the Programme participants 529,793 shares of the Company for the amount of 5,993. The excess of the purchase cost of treasury shares over the proceeds from their sale amounting to 1,631 was charged to additional paid-in capital.

As at December 31, 2007, the Group owned 1,081,967 treasury shares.

31) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans, bonds issued, trade payables, liabilities under put options of minority shareholders in subsidiaries and finance leases. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The presented information shows susceptibility of the Group concerning each of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Market Risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

Interest Rate Risk
Changes in interest rates affect the market value of financial assets and liabilities of the Group and level of finance charges. Group's interest rate risk management policy is to minimise risk with the aim to achieve financial structure objectives defined and approved in the management's plans. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and the funding of portfolio developments consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and variable rate basis. EURIBOR and LIBOR served as the basis for the calculation of interest rates on loans with variable rate. As these loans accounted for only 19% of the total loan portfolio at the end of 2007 (28% at the end of 2006), the Group considers such risks immaterial and is not using instruments to hedge such interest-rate risks at present. Nevertheless, the Group monitors interest rates and will use instruments to hedge such risk as necessary.

The Group does not have any financial assets with variable interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

As at 31 December 2007	Basis points	Effect on profit before tax
Increase in LIBOR	50	(655)
Decrease in LIBOR	(125)	1,637
Increase EURIBOR	75	(1,206)
Decrease EURIBOR	(150)	2,412

As at 31 December 2006		
Increase in LIBOR	50	(777)
Decrease in LIBOR	(100)	1,554
Increase EURIBOR	150	(1,810)
Decrease EURIBOR	(50)	603

Foreign Currency Risk
The Group is exposed to currency risk on sales and purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily denominated are euro and US dollars.

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. In recent years the effect of the Russian ruble appreciation versus the US dollar has been more than offset by increased prices for the Group's tubular goods, both domestically and internationally.

As there can be no assurance that such a trend will continue in the future, the Group is considering the use of derivative instruments, including forward contracts and currency swaps, to manage its foreign exchange risks with respect to currency fluctuations of the US dollar versus the Russian ruble.
The Group can provide no assurance, however, that such instruments will be available to the Group or that the use of such instruments will mitigate the Group's currency exposures.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows as at December 31:

	2007	2006
USD/RUR	(315,391)	(457,690)
EUR/RUR	(54,521)	(12,810)
EUR/USD	(40,988)	3,096
USD/RON	(106,859)	2,372
EUR/RON	(91,791)	(68,084)

The following table demonstrates the sensitivity to a reasonably possible change in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating a reasonably possible change the Group used the volatility of foreign exchange rates during the three years preceding each reporting date.

	As at 31 December 2007		As at 31 December 2006	
	Change in exchange rate	Effect on profit before tax	Change in exchange rate	Effect on profit before tax
USD/RUR	(5.80%)	18,293	(6.10%)	27,919
USD/RUR	4.20%	(13,246)	4.50%	(20,596)
EUR/RUR	(5.45%)	2,971	(7.00%)	897
EUR/RUR	3.25%	(1,772)	4.70%	(602)
EUR/USD	(7.35%)	3,013	(9.25%)	(286)
EUR/USD	7.35%	(3,013)	9.25%	286
USD/RON	(11.02%)	11,771	(11.51%)	(273)
USD/RON	11.02%	(11,771)	11.51%	273
EUR/RON	(8.00%)	7,343	(8.27%)	5,631
EUR/RON	8.00%	(7,343)	8.27%	(5,631)

Liquidity Risk
Liquidity risk is the risk that the will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

The table below summarise s the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

As at 31 December 2007	Less than 3 months	3 to 12 month	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	251,774	43,403	–	–	–	–	**295,177**
Accounts payable to related parties	14,924	–	–	–	–	–	**14,924**
Interest-bearing loans and borrowings:							
• Principal	477,939	539,138	447,675	39,532	9,303	14,945	**1,528,532**
• Interest	39,925	46,039	55,853	24,822	12,239	7,111	**185,989**
Dividends payable	129,116	–	–	–	–	–	**129,116**
Liabilities under put options of minority shareholders in subsidiaries	39,481	–	–	–	–	–	**39,481**
Other non-current liabilities	–	1,535	2,829	2,829	2,829	46,671	**56,693**
	953,159	**630,115**	**506,357**	**67,183**	**24,371**	**68,727**	**2,249,912**

As at 31 December 2006	Less than 3 months	3 to 12 month	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	236,626	11,934	–	–	–	–	**248,560**
Accounts payable to related parties	3,379	1,899	–	–	–	–	**5,278**
Interest-bearing loans and borrowings:							
• Principal	182,874	170,145	22,427	428,665	13,043	206,672	**1,023,826**
• Interest	28,028	43,096	58,602	48,353	18,395	9,760	**206,234**
Dividends payable	1,383	–	–	–	–	–	**1,383**
Liabilities under put options of minority shareholders in subsidiaries	21,387	–	–	–	–	–	**21,387**
Other non-current liabilities	–	–	1,414	2,829	2,829	49,500	**56,572**
	473,677	**227,074**	**82,443**	**479,847**	**34,267**	**265,932**	**1,563,240**

Credit Risk

Credit risk is the potential exposure of the Group to losses that would be recognised if counterparties failed to perform or failed to pay amounts due. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The monitoring activity of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to qualify and monitor counterparty risk.

The Group sells goods to some of the biggest Russian and international companies on credit terms. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

As at December 31, 2007, accounts receivable from the three biggest debtors of the Group amounted to 249,440. As at December 31, 2006, accounts receivable from the two biggest debtors of the Group amounted to 103,459.

Management determines concentration by reference to a percentage of receivables from particular customers as percentage of total accounts receivable.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below:

	2007	2006
Cash and cash equivalents	89,045	144,010
Financial investments	116	174,543
Trade and other receivables	523,525	274,424
Accounts receivable from related parties	17,632	11,647
Other	7,031	8,094
	637,349	**612,718**

The ageing analysis of trade and other receivables and accounts receivable from related parties is presented in the table below:

	2007		2006	
	Gross amount	Impairment	Gross amount	Impairment
Current Trade and other receivables - not past due	466,398	–	235,405	–
Current Trade receivables - past due:				
• less than 30 days	31,671	–	32,939	–
• between 30 and 90 days	15,150	–	5,078	–
• over 90 days	19,772	(9,466)	10,701	(9,699)
Accounts Receivable from related parties	17,632	–	11,647	–
Non - current Trade receivables	428	(166)	66	(39)
	551,051	**(9,632)**	**295,836**	**(9,738)**

The movement in allowance for doubtful accounts was as follows:

	2007	2006
Balance at the beginning of the year	9,738	8,686
Utilised during the year	(1,029)	(1,413)
Additional (decrease) increase in allowance	(1,125)	1,573
Currency translation adjustment	2,048	892
BALANCE AT THE END OF THE YEAR	**9,632**	**9,738**

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators.

Capital includes equity attributable to the equity holders of the parent entity. The Group manages its capital structure and adjusts it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments.

Fair Value of Financial Instruments
The carrying amounts of financial instruments, such as cash and cash equivalents, short-term and long-term investments, short-term accounts receivable, short-term and long-term loans payable with variable interest rate approximate their fair value.

The following table shows financial instruments which carrying amounts differ from fair values:

	31 December 2007		31 December 2006	
	Net carrying amount	**Fair value**	**Net carrying amount**	**Fair value**
Financial Liabilities				
Long-term fixed rate bank loans	–	–	889	835
Bonds due 2009	104,043	104,053	97,347	98,028
Bonds due 2011	203,698	203,962	189,890	190,649
8.5 per cent loan participation notes due 2009	300,000	305,616	300,000	311,162

The fair value of the bonds and notes was determined based on market quotations. The fair value of long-term fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at prevailing interest rate, which amounted to 9% for Russian rubles as at December 31, 2006.

32) EVENTS AFTER THE BALANCE SHEET DATE

On March, 14, 2008, the Group entered into a definitive agreement with Evraz Group S.A. ("Evraz"), whereas the Company will acquire from Evraz the US companies and assets of IPSCO Tubular's business (the "Business") in conjunction with Evraz's acquisition of the Business from SSAB. According to the agreement, the Company will acquire 100% of IPSCO Tubulars Inc. and 51% of NS Group Inc. for approximately 1.2 billion US dollars. The Company and Evraz have also entered into a call / put option for the remaining 49% of NS Group Inc., which will be exercisable in 2009 for approximately 0.5 billion US dollars subject to certain adjustments. The closing of the transaction will be subject to customary regulatory approvals and closing conditions.

From the beginning of the year until March 14, 2008, the Group made a final payment for the purchase of "Truboplast" shares of 255,848 Russian rubles (10,536 at the exchange rate at the dates of payments) (Note 10).

In February-March 2008, the Company paid interim dividends in the amount of 2,298,718 Russian rubles (96,200 at the exchange rate as at the dates of payments).

Early redemption option for bonds maturing on February 15, 2011 was available within 10 days of the fourth coupon period, from the 719th to 728th days from the date of issuance. In February 2008, the Group bought out early 4,000 bonds from bondholders for the total amount of 163. On February 8, 2008, the Group established and announced the annual interest rate for the fifth, sixth, seventh and eighth semi-annual coupons at 9.6% per annum. The next early redemption option of bonds maturing on February 15, 2011, will be available within 10 days of the eighth coupon period, from the 1,447th to 1,456th days from the date of issuance, in February 2010.

In March 2008, the Group early repaid long-term bank loans outstanding as at December 31, 2007 in an aggregate amount of 22,336 thousand euros (32,698 at the exchange rate as at December 31, 2007).

On March 19, 2008, Seversky Pipe Plant entered into ECA-covered credit agreement with Societe Generale in the aggregate principal amount of 88,650 thousand euros (139,695 at the exchange rate as at March 19, 2008) with maturity in 2015. As at April 18, 2008, the borrower has not drawn any amount under this agreement.

GLOSSARY

API	American Petroleum Institute – US non-governmental organisation that performs research in the oil sector. It covers all aspects of the industry, including extraction, production, sea and pipeline transportation, sales, marketing, servicing and support.
ASTM	American Society for Testing and Materials – a non-profit organisation that develops standards and production, supply and regulation documents. The standards of ASTM are used worldwide and cover a wide range of industrial sectors, including metals, construction, power, medicine, etc.
Casing	Steel pipes used to brace the walls of a well
Company, TMK	OAO TMK and affiliates, except in those cases when the context provides otherwise
D&O	Directors' and Officers' Liability Insurance
Drill pipes	Pipes used to drill oil and gas wells; these pipes make up the drill string with tool joints. Drill pipes are used for lowering and raising the drill bit, transmitting rotational force, creating axial load on the tool and sending drilling mud or compressed air into the well.
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortisation
EU	European Union
ISO 9000 standards	Main provisions, requirements and recommendations on improving Quality Control Systems, confirming a company's ability to produce products (services) of a guaranteed level of quality
ISO 14000 standards	Main requirements on the Environmental Management System, making a balanced approach to environmental management possible. ISO 14000 standards are completely compatible with ISO 9000 quality standards, as well as with any type of activity and sector of the economy
KPI	Key Performance Indicators
Line pipes	Line pipes are used to construct the main short-distance oil and gas pipelines and to transport crude oil, oil products and natural gas from wells to storage tanks, loading and distribution centres.
LSE	London Stock Exchange
MICEX MC	MICEX Mid Cap Index
MICEX stock exchange, FB MICEX	Closed Joint-Stock Company «Moscow Interbank Currency Exchange»
MSCI Russia	Index included in the MSCI Emerging Markets group of indexes, calculated by Morgan Stanley Capital International
OAO RosNITI, RosNITI	OAO Russian Research Institute for the Pipe Industry
OAO TAGMET, TAGMET	OAO Taganrog Metallurgical Works
OAO TMK	Open Joint-Stock Company TMK

OCTG	Common name for threaded seamless pipes including, casing, tubing and drill pipe (Oil Country Tubular Goods).
OHSAS 18001 standards	Requirements on the Company's system of occupational safety and health, as a component of overall management. The main objective of the system is to manage professional risks to safety and health. OHSAS 18001 is applicable to companies that perform any type of activity, regardless of industry or sector of the economy
OMZ	OAO Orsky Machine Building Plant
OOO Truboplast, Truboplast	OOO Enterprise Truboplast
OOO CPY, CPY	OOO Central Pipe Yard (CPY)
Pipe rolling mill	A set of machines and mechanisms for the plastic deformation of metal using rolls through hot, warm and cold rolling, and the production of seamless pipes
POSI	Public Offering of Securities Insurance
RTS exchange, RTS	Russian Trading System Stock Exchange
RUIE	Russian Union of Industrialists and Entrepreneurs
Seamless pipes	Pipes manufactured through the insertion of a solid billet in a press or a piercing mill (with subsequent hot or cold working). This type of pipe has no weld seam.
Seversky, STZ, OAO STZ	OAO Seversky Tube Works
Scrap metal	Metal goods and alloys that have become unserviceable or have lost their operating value, used for remelt in melting facilities
Sinarsky, SinTZ, OAO SinTZ	OAO Sinarsky Pipe Plant
Strip	A strip of steel used as a blank for the production of welded pipes
«TMK-Artrom»	SC T.M.K.-ARTROM S.A.
TMK companies	A legal entity that is part of the Company: OAO TMK, ZAO TMK Trade House, the Plants, other subsidiaries and associates
«TMK GLOBAL»	TMK Global AG
«TMK-KAZAKHSTAN»	TOO TMK-Kazakhstan
TMK plants	OAO VTZ, OAO SinTZ, OAO STZ, OAO TAGMET, OAO OMZ, TMK-Artrom, TMK-Resita
«TMK-Resita»	SC TMK-Resita S.A.
TPP	Chamber of Commerce and Industry of the Russian Federation
Tubing	Pipes that are inside the casing to bring oil and gas to the surface.
Volzhsky, VTZ, OAO VTZ	OAO Volzhsky Pipe Plant
Welded pipes	Pipes that are made from metal coil, strip or sheet, rolled and welded. manufactured on a tube welding mill by welding of the edges of tube billets formed from strips, sheets or bands
ZAO TMK TD, TMK Trade House	ZAO TMK Trade House

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APPENDICES

METHOD FOR CALCULATING FINANCIAL INDICATORS

TMK uses EBITDA, which is NOT an indicator which must be calculated under IFRS, to analyze its operating performance. EBITDA is earnings before depreciation, financial expenses and profits tax. EBITDA is not an assessment of TMK's operating performance pursuant to IFRS, and should not be seen as an alternative to gross profit, net profit or any other performance indicator calculated under IFRS, or as an alternative to cash flow from operations or liquidity. In particular, EBITDA should not be seen as free cash flow that can be invested in the Company's development.

EBITDA has a number of limitations on its use as an analytical indicator. Potential investors should not consider it separately from other analytical indicators or as an indicator that replaces the operating results set forth in accordance with IFRS. Among other things, the limitations on the use of EBITDA include:

- EBITDA does not show the impact of financing or financial expenditures on operations, although their impact may be material and may increase together with the increase in the Company's obligations.
- EBITDA does not show the impact of profits tax on operations.
- EBITDA does not show the impact of depreciation on operations. TMK's assets, the value of which is reduced through depreciation, will have to be replaced in the future. Depreciation expenses may be approximately equal to the costs on the replacement of these assets in the future. Since it does not take these expenses into account, EBITDA does not show the future need for free cash flow to replace these assets.

The other companies of the pipe industry may calculate EBITDA in different ways or use this indicator for other purposes, which limits its comparability.

TMK compensates for the above limitations by relying mainly on the operating indicators calculated in accordance with IFRS, and only uses EBITDA as a supplemental indicator. See the Company's consolidated financial statements for the income statement and cash flow statement presented in this Annual Report.

Reconciliation of EBITDA with net profit is performed as follows:

	2007	**2006**
		(million USD)
Net profit	**506.3**	**462.2**
Income tax expense	192.5	159.7
Depreciation and amortisation	140.3	116.8
Finance costs	105.0	77.3
Finance income	(12.6)	(15.8)
EBITDA	**931.5**	**800.2**

TMK uses the indicator of net debt, which is not an indicator which must be calculated under IFRS, to characterise its operating performance. Net debt is the amount of short- and long-term loans and borrowings plus debt on financial lease, minus cash and cash equivalents, bank deposits classified as short-term investments and short-term promissory notes received. Although net debt is not an indicator calculated under IFRS, it is used widely when assessing the Company's liquidity and the adequacy of its financial structure. TMK believes that net debt is a fair indicator of the Company's ability to pay its financial obligations (making up total debt) using available cash. The net debt indicator makes it possible for TMK to demonstrate the change in its financial position over a certain period to investors. However, the use of the total debt indicator assumes that the amount of total debt can be reduced using available cash. In fact it is not likely that all available cash will immediately be used to reduce overall debt, since cash is also needed for settlements with employees, suppliers, to pay taxes and other current and capital costs. The net debt indicator and its ratio to the value of equity capital (financial dependence) are used to assess the Company's financial structure from the standpoint of capital adequacy and value, the level of debt, debt assessment and the value of borrowed funds. These indicators also make it possible to assess the degree to which the Company's financial structure facilitates the achievement of the Company's financial and business objectives. The management of TMK monitors the indicators of net debt, financial dependence and other similar indicators used by other Russian and foreign companies in order to compare the liquidity and financial structure of TMK with other companies. The management of TMK also monitors changes in net debt and financial dependence indicators in order to optimise the ratio of equity and borrowed funds employed.

The net debt indicator was calculated as follows:

Calculation of net debt	**2007**	**2006**
	(million USD)	
Including:		
Short-term loans and current portion of long-term loans	1,033.3	371.7
Long-term loans, net of current portion	506.0	662.9
Total loans	**1,539.3**	**1,034.6**
Net of:		
Cash	(89.0)	(144.0)
Deposits and short-term promissory notes received	(103.7)	(142.0)
Total cash, deposits and promissory notes received	**(192.7)**	**(286.0)**
Net debt	**1,346.6**	**748.6**

[1] The line "Deposits and short-term promissory notes received" includes promissory notes received as at December 31, 2007 in the amount of USD 103.6 million included in the line "Trade and other receivables" of the consolidated financial statements.

LIST OF MAJOR TRANSACTIONS AND INTERESTED-PARTY TRANSACTIONS PERFORMED BY OAO TMK IN 2007

MAJOR TRANSACTIONS

OAO TMK did not perform major transactions in 2007.

INTERESTED-PARTY TRANSACTIONS

No.	Management body that approved the transaction	Parties to the transaction	Subject of the transaction and material provisions	Interested party
1	Board of Directors of OAO TMK»	Guarantor: OAO TMK Creditor: Bank Société Générale As security on the obligations of OAO TAGMET – Borrower	The Guarantor accepts liability to the Creditor for the performance by the Borrower of its obligations to the Creditor.	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of TMK: D.A. Pumpyanskiy, A.Yu. Kaplunov, members of the Management Board of TMK: K.A. Semerikov, T.I. Petrosian, N.I. Fartushny
2	Board of Directors of OAO TMK	Guarantor: OAO TMK Creditor: Bank Société Générale As security on the obligations of OAO SinTZ – Borrower	The Guarantor accepts liability to the Creditor for the performance by the Borrower of its obligations to the Creditor.	TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of TMK: D.A. Pumpyanskiy, A.Yu. Kaplunov, members of the Management Board of TMK: K.A. Semerikov, T.I. Petrosyan, A.I. Brizhan
3	Board of Directors of OAO TMK	Guarantor: OAO TMK Creditor: VTB Bank (Deutschland) AG As security on the obligations of TMK Sinara Handel GmbH – Borrower	The Guarantor accepts liability to the Creditor for the performance by the Borrower of its obligations to the Creditor.	TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited

No.	Management body that approved the transaction	Parties to the transaction	Subject of the transaction and material provisions	Interested party
4	Board of Directors of OAO TMK	Lessor – OOO Pokrovka 40 Lessee – OAO TMK	The Lessor transfers and the Lessee accepts for temporary possession and use non-residential premises owned by the Lessor.	TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited
5	Board of Directors of OAO TMK	OAO TMK, the Bank – Open Joint-Stock Company Joint-Stock Commercial Bank of Support to Commerce and Business	Deposit of cash in roubles by the Company in the Bank	TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of TMK: D.A. Pumpyanskiy, A.Yu. Kaplunov, A.G. Shiryaev
6	Board of Directors of OAO TMK	OAO TMK, Open Joint-Stock Company Joint-Stock Commercial Bank of Support to Commerce and Business	Deposit of cash in roubles by the Company in the Bank	TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of TMK: D.A. Pumpyanskiy, A.Yu. Kaplunov, A.G. Shiryaev
7	Board of Directors of OAO TMK	Borrower – SC TMK-ARTROM SA, Lender – OAO TMK	The Lender transfers cash into the ownership of the Borrower, and the Borrower undertakes to repay the loan	TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of TMK: I.B. Khmelevsky, members of the Management Board of TMK: T.I. Petrosyan, A. Popescu

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