OAO TMK
Consolidated Financial Statements
(presented in US dollars)

Years ended December 31, 2005, 2004 and 2003

OAO TMK

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ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (495) 705-9700
7 (495) 755-9700
Fax: 7 (495) 755-9701
www.ey.com/russia

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (495) 705-9700
7 (495) 755-9700
Факс: 7 (495) 755-9701
ОКПО: 59002827

Independent Auditors' Report

The Shareholders and Board of Directors
OAO TMK

1. We have audited the accompanying consolidated balance sheets of OAO TMK and its subsidiaries (the "Group") as of December 31, 2005, 2004 and 2003, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

2. Except as discussed in the following paragraph, we conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. We did not observe the counting of the physical inventories at certain subsidiaries of Sinara Handel GmbH as of December 31, 2002, 2003 and 2004 with carrying value of US$7,346 thousand, US$11,310 thousand and US$42,985 thousand, respectively, since those dates were prior to the time we were initially engaged as auditors for those subsidiaries of the Group. Owing to the nature of the records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures. Inventory balances enter materially into the determination of the results of operations and cash flows.

4. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities at certain subsidiaries of Sinara Handel GmbH, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2005, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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5. As discussed in Note "Corporate Information", the consolidated financial statements authorised for issue by the directors of OAO TMK on April 28, 2006 have been revised to reflect the acquisition of Sinara Handel GmbH in March 2006 in a transaction with an entity under common control with the Group, which has been accounted for in the accompanying consolidated financial statements using the pooling of interests method to present the consolidated financial statements of the Group as if that transfer had occurred from the beginning of the earliest period presented.

6. We draw attention to Notes "Corporate Information" and "Significant Accounting Policies" to the consolidated financial statements. The functional currency of the Group is Russian rouble. The presentation currency of the accompanying consolidated financial statements is the United States dollar. The accompanying consolidated financial statements were issued in addition to the consolidated financial statements presented in Russian roubles. We have audited and reported separately on those consolidated financial statements presented in Russian roubles and issued our audit report dated August 30, 2006 which was qualified for the same matter as discussed in paragraph 3 of this report.

Ernst & Young LLC

August 30, 2006

OAO TMK

Consolidated Income Statement
for the years ended December 31, 2005, 2004 and 2003

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Net sales	1	2,938,193	1,984,043	1,368,460
- Goods		*2,905,131*	*1,962,595*	*1,351,657*
- Services		*33,062*	*21,448*	*16,803*
Cost of sales	2	(2,191,768)	(1,597,505)	(1,216,248)
Gross profit		746,425	386,538	152,212
Selling expenses	3	(147,780)	(143,451)	(73,958)
Advertising and promotion expenses	4	(3,084)	(1,788)	(1,378)
General and administrative expenses	5	(123,188)	(85,689)	(59,681)
Research and development expenses	6	(5,547)	(3,456)	(1,989)
Other operating expenses	7	(26,088)	(26,014)	(10,960)
Other operating income	8	284	650	702
Foreign exchange (loss)/gain, net		(14,627)	4,340	972
Loss on net monetary position		-	-	(2,642)
Finance costs	9	(78,184)	(100,934)	(37,608)
Finance income	10	1,837	3,269	8,414
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	11	-	94,829	-
Profit (loss) before tax		350,048	128,294	(25,916)
Income tax expense	12	(95,880)	(13,056)	(1,142)
Net profit (loss)		**254,168**	**115,238**	**(27,058)**
Attributable to:				
Equity holders of the parent entity		**244,273**	**112,736**	**(24,182)**
Minority interests		**9,895**	**2,502**	**(2,876)**
		254,168	**115,238**	**(27,058)**
Earnings (losses) per share attributable to equity holders of the parent entity - basic and diluted (in US dollars)	13	**0.28**	**0.95**	**(24,182.00)**

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

OAO TMK

Consolidated Balance Sheet
for the years ended December 31, 2005, 2004 and 2003

(All amounts in thousands of US dollars)

	NOTES	2005		2004		2003	
ASSETS							
Current assets							
Cash and cash equivalents	14	47,845		13,483		14,210	
Short-term investments	15	1,659		14,096		25,003	
Accounts receivable	16	124,996		169,496		104,577	
Accounts receivable from related parties	30	28,407		36,850		17,847	
Loans to related parties	30	-		870		2,317	
Inventories	19	458,932		413,756		221,408	
Prepayments and input VAT	17	145,396		170,767		85,894	
Prepayments to related parties	30	18	**807,253**	54	**819,372**	-	**471,256**
Non-current assets							
Investments and other long-term receivables	18	32,107		24,798		4,624	
Long-term receivables from related parties	30	8,486		6,898		-	
Borrowings to related parties	30	-		-		11,844	
Property, plant and equipment, net	20	1,547,681		1,590,564		1,179,336	
Investment property	20	2,004		-		-	
Goodwill	21	37,180		38,565		2,334	
Deferred income taxes	12	5,432		2,901		822	
Intangible assets	21	12,835	**1,645,725**	11,236	**1,674,962**	727	**1,199,687**
TOTAL ASSETS			**2,452,978**		**2,494,334**		**1,670,943**
LIABILITIES AND EQUITY							
Current liabilities							
Accounts payable and advances from customers	23	196,819		241,876		62,485	
Accounts payable to related parties	30	478		7,222		89,297	
Accrued liabilities	24	108,690		102,424		40,239	
Finance lease liabilities, current portion	25	1,309		3,824		5,088	
Loans and borrowings	26	425,546		632,486		184,377	
Loans and borrowings from related parties	30	31,394		13,574		46,291	
Dividends	32 iv	3,012	**767,248**	1,813	**1,003,219**	44	**427,821**
Non-current liabilities							
Loans and borrowings	26	164,924		117,122		76,895	
Finance lease liabilities, net of current portion	25	125		1,165		718	
Deferred income taxes	12	242,648		271,508		231,276	
Post-employment benefit	27	18,009		11,649		9,619	
Other liabilities	28	7,343	**433,049**	4,315	**405,759**	2,550	**321,058**
Total liabilities			**1,200,297**		**1,408,978**		**748,879**
Equity							
Parent shareholders' equity							
Issued capital	32	305,407		305,407		-	
Accumulated profits		638,631		439,856		337,822	
Reserve capital	32	15,387		2,376		-	
Additional paid-in capital	32	137,198		135,770		368,417	
Foreign currency translation reserve		85,920	1,182,543	127,844	1,011,253	61,422	767,662
Minority interest			70,138		74,103		154,402
Total equity			**1,252,681**		**1,085,356**		**922,064**
TOTAL EQUITY AND LIABILITIES			**2,452,978**		**2,494,334**		**1,670,943**

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

OAO TMK

Consolidated Statement of Changes in Equity
for the years ended December 31, 2005, 2004 and 2003

(All amounts in thousands of US dollars)

	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Foreign currency translation reserve	Parent shareholders' equity	Minority interests	TOTAL
At January 1, 2003	**-**	**363,250**	**-**	**362,004**	**-**	**725,254**	**144,627**	**869,881**
Effect of exchange rate changes	-	-	-	-	61,422	**61,422**	12,651	**74,073**
Total income and expense for the year recognised directly in equity	-	-	-	-	61,422	**61,422**	12,651	**74,073**
Net profit	-	-	-	(24,182)	-	**(24,182)**	(2,876)	**(27,058)**
Total income and expense for the year	-	-	-	(24,182)	61,422	**37,240**	9,775	**47,015**
Free of charge funding (Note 32, v)	-	2,287	-	-	-	**2,287**	-	**2,287**
Contribution from owners (Note 32, iv)	-	2,880	-	-	-	**2,880**	-	**2,880**
At December 31, 2003	**-**	**368,417**	**-**	**337,822**	**61,422**	**767,661**	**154,402**	**922,063**
Effect of exchange rate changes					66,422	**66,422**	8,097	**74,519**
Total income and expense for the year recognised directly in equity	-	-	-	-	66,422	**66,422**	8,097	**74,519**
Net profit	-	-	-	112,737	-	**112,737**	2,502	**115,239**
Total income and expense for the year	-	-	-	112,737	66,422	**179,159**	10,599	**189,758**
Appropriation of profit to reserve capital (Note 32, ii)	-	-	2,376	(2,376)	-	**-**	-	**-**
Issue of share capital (Note 32 i)	305,407	-	-	-	-	**305,407**	-	**305,407**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 32, vii)	-	-	-	-	-	**-**	(2,343)	**(2,343)**
Purchase of minority interests (Note 32, vi)	-	102,197	-	-	-	**102,197**	(102,197)	**-**
Increase in additional paid-in capital and minority interest from the acquisition of Tagmet (Note 11)	-	264,760	-	-	-	**264,760**	13,118	**277,878**
Increase in minority interest from the acquisition of CS CSR SA (Note 11)	-	-	-	-	-	**-**	524	**524**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 32, iv)	-	-	-	(817)	-	**(817)**	-	**(817)**
Other distributions to owners (Note 32, iv)	-	(599,604)	-	(7,510)	-	**(607,114)**	-	**(607,114)**
At December 31, 2004	**305,407**	**135,770**	**2,376**	**439,856**	**127,844**	**1,011,253**	**74,103**	**1,085,356**

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

Consolidated Statement of Changes in Equity (continued)
for the years ended December 31, 2005, 2004 and 2003

(All amounts in thousands of US dollars)

	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Foreign currency translation reserve	Parent shareholders' equity	Minority interests	TOTAL
At December 31, 2004	**305,407**	**135,770**	**2,376**	**439,856**	**127,844**	**1,011,253**	**74,103**	**1,085,356**
Effect of exchange rate changes	-	-	-	-	(41,924)	**(41,924)**	(2,754)	**(44,678)**
Total income and expense for the year recognised directly in equity	-	-	-	-	(41,924)	**(41,924)**	(2,754)	**(44,678)**
Net profit	-	-	-	244,273	-	**244,273**	9,895	**254,168**
Total income and expence for the year	-	-	-	244,273	(41,924)	**202,349**	7,141	**209,490**
Appropriation of profit to reserve capital (Note 32, ii)	-	-	13,011	(13,011)	-	**-**	-	**-**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 32, vii)	-	-	-	-	-	**-**	(1,192)	**(1,192)**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 32, iv)	-	-	-	(9,423)	-	**(9,423)**	-	**(9,423)**
Purchase of minority interests (Note 32, vi)	-	1,428	-	-	-	**1,428**	(9,915)	**(8,487)**
Dividends (Note 32, iii)	-	-	-	(2,592)	-	**(2,592)**	-	**(2,592)**
Other distributions to owners (Note 32, iv)	-	-	-	(20,472)	-	**(20,472)**	-	**(20,472)**
At December 31, 2005	**305,407**	**137,198**	**15,387**	**638,631**	**85,920**	**1,182,543**	**70,138**	**1,252,681**

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

OAO TMK

Consolidated Cash Flow Statement

for the years ended December 31, 2005, 2004 and 2003

(All amounts in thousands of US dollars)

	NOTE	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Cash flows from operating activities				
Profit (loss) before income tax		350,048	128,294	(25,916)
Adjustments for:		-	-	-
Depreciation		104,842	95,248	68,795
Amortisation		809	173	104
Loss on disposal of property, plant and equipment	7	4,523	1,273	2,547
Gain on sale of investments	10	-	(512)	(7,859)
Foreign exchange loss/ (gain)		14,627	(4,340)	(972)
Loss on net monetary position		-	-	2,642
Interest expense	9	78,184	100,934	37,608
Interest income	10	(1,837)	(2,757)	(556)
Excees of interest in the net fair value of acquiree's indentifiable assets, liabilities and contingent over the cost of acquisition	11	-	(94,829)	-
Donations		1,693	-	-
Inventory adjustments	2	2,325	716	262
Bad debt expense	3	1,555	6,212	1,083
Operating cash flow before working capital changes		**556,769**	**230,412**	**77,738**
Increase in inventories		(59,890)	(109,702)	(98,520)
Decrease (increase) in accounts receivable		49,019	(38,949)	(24,748)
Decrease (increase) in prepayments		10,933	(49,611)	(34,151)
Increase (decrease) in accounts payable		22,284	(14,217)	13,088
Increase in accrued liabilities		19,451	16,825	17,806
(Decrease) increase in advances from customers		(76,975)	100,815	(7,325)
Cash generated from operations		521,591	135,573	(56,112)
Income taxes paid		(107,278)	(21,829)	(9,817)
Net cash from operating activities		**414,313**	**113,744**	**(65,929)**
Cash flows from investing activities				
Purchase of property, plant and equipment		(139,173)	(66,404)	(36,267)
Proceeds from sale of property, plant and equipment		2,985	916	44
Proceeds from sale of investments		2,236	-	-
Proceeds from repayment of loans		663	9,517	-
Payments for increases in ownership interests in subsidiaries		(6,755)	(1,732)	-
Cash in subsidiary acquired via non-cash transation	11	-	394	-
Loans granted		431	(8,069)	(12,191)
Interest received		1,505	2,788	196
Net cash used in investing activities		**(138,108)**	**(62,590)**	**(48,218)**
Cash flows from financing activities				
Proceeds from issue of share capital		-	305,407	-
Proceeds from borrowings		1,626,188	2,045,199	846,729
Repayment of borrowings		(1,753,728)	(1,689,251)	(691,185)
Payment under finance lease liabilities		(4,113)	(6,669)	(8,403)
Distribution to owners	32 iv	(472)	(607,114)	-
Cash received from parent		-	-	5,167
Payments to entities under common control for the transfer of ownership interest in subsidiaries	32 iv	(20,000)	-	-
Interest paid		(77,814)	(97,821)	(31,969)
Dividends paid	32 iii	(2,592)	-	-
Dividends paid by subsidiaries of the Group		(9,328)	(2,300)	(327)
Net cash used in financing activities		**(241,859)**	**(52,549)**	**120,012**
Effect of foreign exchange rate changes on cash and cash equivalents		**16**	**667**	**389**
Net increase/(decrease) in cash and cash equivalents		34,362	(728)	6,254
Cash and cash equivalents at the beginning of the year		13,483	14,210	7,955
Cash and cash equivalents at the end of the year		**47,845**	**13,483**	**14,210**

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

Corporate Information

These consolidated financial statements of OAO "TMK" and its subsidiaries (the "Group") for the year ended December 31, 2005 presented in United States dollars ("US dollars") were authorized for reissue in accordance with a resolution of the General Director on August 30, 2006. These consolidated financial statements are different from the consolidated financial statements for the year ended December 31, 2005 authorized for issue on April 28, 2006 in that they reflect the transfer of ownership interest in Sinara Handel GmbH (see a description below) in a transaction with an entity under common control with the Group which occurred on March 1, 2006. The reissue of the consolidated financial statements was made due to the inclusion of these consolidated financial statements together with the Group's unaudited condensed consolidated financial statements for the six-month period ended June 30, 2006 in a prospectus for the issuance of securities of OAO "TMK".

These consolidated financial statements presented in US dollars are issued in addition to the consolidated financial statements for the same period presented in Russian roubles, which were authorized for issue on August 30, 2006 (refer to Note "Functional and Presentation Currency" for description of the translation method).

The parent company of the Group OAO "TMK" (the "Company") is registered in the Russian Federation. The list of subsidiaries is disclosed in Note 29.

As of December 31, 2005, the Company's shareholders were TMK Steel Limited and Dalecone Limited, owing 67% and 33%, respectively, 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 Aleksandra Nevskogo street 19/25 bldg.1, Moscow, the Russian Federation.

The Group was formed in February 2004, through transactions with entities under common control with the Company, when the controlling ownership interest in ZAO Trade House TMK ("TD TMK"), a trading entity, and in three pipe plants: Sinarsky Pipe Plant ("SinTZ"), Seversky Pipe Plant ("STZ") and Volzhsky Pipe Plant ("VTZ") was transferred to the Company by the Group's ultimate controlling shareholder. As the Group has been formed through a reorganization of entities under common control, these consolidated financial statements have been prepared using the pooling of interests method and, as such, the financial statements have been presented as if the transfer of the Company's interests in the above-mentioned subsidiaries had occurred from the beginning of the earliest period presented.

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

In December 2004, the Group signed an agreement on the purchase of 100% ownership interest in Sinara Trading AG, an entity registered in Switzerland. Title transferred to the Group and control over Sinara Trading was obtained by the Group on May 25, 2005. Sinara Trading AG is the Group's distributor of pipe products in countries outside of Russia. This business combination has been accounted for using the pooling of interests method.

Corporate Information (continued)

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 also applied the pooling of interests method with respect to this acquisition and presented its consolidated financial statements as if the transfer of controlling interest in Sinara Handel GmbH had occurred from the beginning of the earliest period presented.

As a result of those business combinations with entities under common control with the Group, the Group has re-presented its financial position, results of operations and cash flows for the years ended December 31, 2005, 2004 and 2003.

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

The Group employed 49,628 employees as of December 31, 2005 (December 31, 2004: 50,146 employees; December 31, 2003: 36,375 employees).

Significant Accounting Policies

- **Basis of Presentation of Financial Statements**

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

Group companies maintain their accounting records in Russian roubles, Kazakhstani tenge, euros, Romanian lei or Swiss francs 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 presented in US dollars are based on the statutory accounting records, with adjustments and reclassifications recorded 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, other than in respect of property, plant and equipment at the date of transition to IFRS as described below.

First-time Adoption of International Financial Reporting Standards (IFRS 1)

The Group applied IFRS 1 in the preparation of its first consolidated financial statements in accordance with IFRS for the period ended December 31, 2004. The Group's transition date to IFRS is January 1, 2003. Prior to this date, in past business combinations, the Group acquired subsidiaries, which were not previously consolidated under the Group companies' previous GAAP. For such subsidiaries, the Group applied a business combination exemption in IFRS 1 and adjusted the carrying amounts of the subsidiaries' assets and liabilities to the amounts that IFRS would require in the separate subsidiaries' balance sheets. The deemed cost of goodwill/negative goodwill was determined as the difference at the date of transition to IFRS between: (i) the parent's interest in those adjusted carrying amounts; and (ii) the cost in the parent's separate financial statements of its investment in the subsidiary. In addition, the Group elected under IFRS 1 to account for property, plant and equipment in its subsidiaries at deemed cost being the fair value of property, plant and equipment at the date of transition to IFRS.

Accounting for the Effect of Inflation

Prior to January 1, 2004, the adjustments and reclassifications made to the statutory records of the Romanian subsidiaries of the Group for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Romanian lei in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of the hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The inflation rate based on the Romanian Consumer Price Index, as calculated by Romanian National Institute of Statistics, was 14.1% for 2003. The characteristics of the economic environment of Romania indicate that hyperinflation has ceased effective from January 1, 2004. The Group ceased applying IAS 29 to current periods and only recognises the cumulative impact of inflation indexing on non-monetary elements of the financial statements through December 31, 2003.

Significant Accounting Policies (continued)

• Basis of Presentation of Financial Statements (continued)

Non-monetary assets and liabilities acquired prior to December 31, 2003 have been restated by applying the relevant conversion factors to the historical cost ("restated cost") through December 31, 2003. Gains or losses on subsequent disposal are recognised based on the restated cost of the non-monetary assets and liabilities.

• Functional and Presentation Currency

The functional currency of the Group's subsidiaries located in the Russian Federation and Switzerland is the Russian rouble. The functional currencies of the subsidiaries located in other countries are euro and Romanian lei.

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. These consolidated financial statements are issued in addition to the consolidated financial statements of the Group presented in Russian roubles.

The Group has applied IAS 21 (revised), The Effects of Changes in Foreign Exchange Rates, to translate the financial position of the Group as of December 31, 2005 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 rates 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 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 translated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated statement of operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Significant Accounting Policies (continued)

- ### Estimation Uncertainty

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 recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating units (each individual subsidiary) to which the item 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. In 2005, no impairment losses were recognized or reversed.

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 and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. In 2005, the change in estimate of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately 4,892.

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, 2005 was 37,180. More details are provided in Notes 11, 21.

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).

Significant Accounting Policies (continued)

- ### Estimation Uncertainty (continued)

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2005, 2004 and 2003, allowances for doubtful accounts have been made in the amount of 8,535, 8,652 and 2,213, respectively (Notes 16, 18).The Group makes allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2005, 2004 and 2003, allowance for obsolete and slow-moving items was 5,897, 3,776 and 2,849, respectively (Note 19). 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.

Deferred Income Tax Assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance.

- ### Changes in Accounting Policies

The accounting policies adopted are consistent with those of previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005. The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 2 “Share-Based Payment”;
- IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”;
- IAS 1 (revised) “Presentation of Financial Statements”;
- IAS 2 (revised) “Inventories”;
- IAS 8 (revised) “Accounting Policies, Changes in Accounting Estimates and Errors”;
- IAS 10 (revised) “Events after the Balance Sheet Date”;
- IAS 16 (revised) “Property, Plant and Equipment”;
- IAS 17 (revised) “Leases”;
- IAS 24 (revised) “Related Party Disclosures”;
- IAS 27 (revised) “Consolidated and Separate Financial Statements”;
- IAS 28 (revised) “Investments in Associates”;

Significant Accounting Policies (continued)

- **Changes in Accounting Policies (continued)**

- IAS 31 (revised) “Interests in Joint Ventures”;
- IAS 32 (revised) “Financial Instruments: Presentation and Disclosure”;
- IAS 33 (revised) “Earnings per Share”;
- IAS 39 (revised) “Financial Instruments: Recognition and Measurement”;
- IAS 40 (revised) “Investment property’.

These changes in policies did not have a material effect on the consolidated financial statements.

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

- IAS 19 (amended 2004) “Employee Benefits”;
- IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement”;
- IFRS 6 “Exploration for and Evaluation of Mineral Resources”;
- IFRS 7 “Financial Instruments: Disclosures”;
- IFRIC 4 “Determining whether an Arrangement contains a Lease”;
- IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group’s financial statements in the period of initial application.

Significant Accounting Policies (continued)

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Significant Accounting Policies (continued)

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. According to the purchase method, assets, liabilities and contingent liabilities of the acquisition 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 statement of operations.

Minority Interest

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

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

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.

Significant Accounting Policies (continued)

A) Principles of Consolidation (continued)

Purchase of Subsidiaries from Entities under Common Control

Subsidiaries purchased 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 financial statements as an adjustment to the shareholders' 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 held on demand with banks.

Cash equivalents are comprised of short-term, highly liquid investments (with 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

The Group's investments 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 after initial recognition. All purchases and sales of investments are recognised on the settlement date which is the date that the investment is delivered to or by the Group.

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments 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 profit and loss.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Significant Accounting Policies (continued)

C) Investments (continued)

Available-for-sale investments 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 investments 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 statement of operations. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

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

D) Trade Receivables

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

E) Borrowings

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

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

F) Inventories

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

Significant Accounting Policies (continued)

F) Inventories (continued)

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

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

In preparing consolidated financial statements, 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 such plant and equipment when the cost is incurred if the recognition criteria are met.

As described under Basis of Presentation above, the items of property, plant and equipment acquired prior to January 1, 2003 were accounted for at deemed cost being their fair value at January 1, 2003.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset:

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

Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

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

H) Investment Property

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

Significant Accounting Policies (continued)

H) Investment Property (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset:

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

Gains and losses arising from the retirement of investment property are included in the income statement as incurred.

I) Leases

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.

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

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

J) Goodwill

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

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

Significant Accounting Policies (continued)

J) Goodwill (continued)

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are 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.

K) Other Intangible Assets

An intangible asset is measured initially at cost. After initial recognition, an asset is carried at its cost less any accumulated amortization and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the expected useful life of an intangible asset.

Research and Development

Research costs are recognised as expenses as incurred. Costs incurred on development (relating to the design and testing of new or improved products) are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Other development expenditure are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

Other Intangible Assets

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

L) Impairment of Assets (Other than Goodwill)

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

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.

Significant Accounting Policies (continued)

L) Impairment of Assets (Other than Goodwill) (continued)

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

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

N) Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 33%), based on gross salary payments. 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, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligations.

Significant Accounting Policies (continued)

N) Employee Benefits (continued)

Actuarial gains and losses are recognised as income or expense. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

O) Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis.

Value added tax payable represents VAT related to sales payable to tax authorities upon collection of receivables from customers net of VAT on purchases that have been settled at the balance sheet date.

Deferred VAT related to sales which have not been settled at the balance sheet date is recognised as a VAT liability in the Group's balance sheet. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

VAT recoverable relates to purchases that have not been settled at the balance sheet date. VAT recoverable is reclaimable against sales VAT upon payment for the purchases.

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 goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Significant Accounting Policies (continued)

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 in equity from the proceeds.

Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

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. The information is disclosed in the financial statements when dividends are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

R) Revenue Recognition

Revenues from sales of inventory are recognised when significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Sales of services are recognised in the period when the services are rendered.

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

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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.

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.

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

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

1) Segment Information (continued)

Primary reporting format – business segments

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

YEAR ENDED DECEMBER 31, 2004	**Welded pipes**	**Seamless pipes**	**Other operations**	**Unallocated**	**TOTAL**
NET SALES	487,877	1,314,431	181,735	-	**1,984,043**
GROSS PROFIT	61,339	320,102	5,097	-	**386,538**
SEGMENT ASSETS	310,152	1,473,512	54,172	656,498	**2,494,334**
SEGMENT LIABILITIES	85,778	104,319	5,126	1,213,755	**1,408,978**
PROPERTY, PLANT AND EQUIPMENT ACQUIRED IN BUSINESS COMBINATION	44,605	240,206	5,248	73,766	**363,825**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	3,291	42,045	3,438	12,038	**60,812**
DEPRECIATION AND AMORTIZATION	9,715	71,173	7,850	6,683	**95,421**

YEAR ENDED DECEMBER 31, 2003	**Welded pipes**	**Seamless pipes**	**Other operations**	**Unallocated**	**TOTAL**
NET SALES	371,311	901,589	95,560	-	**1,368,460**
GROSS PROFIT	20,397	119,736	12,079	-	**152,212**
SEGMENT ASSETS	185,390	1,063,264	47,132	375,157	**1,670,943**
SEGMENT LIABILITIES	6,181	28,678	3,631	710,389	**748,879**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	5,540	42,071	5,330	2,589	**55,530**
DEPRECIATION AND AMORTIZATION	7,036	52,581	8,852	430	**68,899**

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

1) Segment Information (continued)

Secondary reporting format – geographical segments

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

YEAR ENDED DECEMBER 31, 2005	**Russia**	**Europe**	**Central Asia & Caspian Region**	**Middle East & Gulf Region**	**Africa**	**Americas**	**Asia & Far East**	**TOTAL**
NET SALES	2,041,503	514,323	77,130	127,410	3,501	126,701	47,626	**2,938,194**
SEGMENT ASSETS	2,061,433	380,292	11,253	-	-	-	-	**2,452,978**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	102,523	36,782	-	-	-	-	-	**139,305**

YEAR ENDED DECEMBER 31, 2004	**Russia**	**Europe**	**Central Asia & Caspian Region**	**Middle East & Gulf Region**	**Africa**	**Americas**	**Asia & Far East**	**TOTAL**
NET SALES	1,426,388	314,993	65,036	77,850	4,130	74,476	21,170	**1,984,043**
SEGMENT ASSETS	2,154,877	336,999	2,457	-	-	-	-	**2,494,333**
PROPERTY, PLANT AND EQUIPMENT ACQUIRED IN BUSINESS COMBINATION	265,305	98,520	-	-	-	-	-	**363,825**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	57,672	3,140	-	-	-	-	-	**60,812**

YEAR ENDED DECEMBER 31, 2003	**Russia**	**Europe**	**Central Asia & Caspian Region**	**Middle East & Gulf Region**	**Africa**	**Americas**	**Asia & Far East**	**TOTAL**
NET SALES	1,086,963	145,982	29,219	43,141	1,648	25,340	36,167	**1,368,460**
SEGMENT ASSETS	1,544,446	126,497	-	-	-	-	-	**1,670,943**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	54,666	864	-	-	-	-	-	**55,530**

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

2) Cost of Sales

	2005	2004	2003
DIRECT COST			
Raw materials	1,481,500	1,032,942	656,466
Add-on materials of production	80,731	58,577	42,497
Labor cost	76,250	55,753	36,137
Contracted services	4,578	4,745	3,973
Energy	82,707	65,382	39,155
TOTAL DIRECT COST	1,725,766	1,217,399	778,228
PRODUCTION OVERHEADS			
Salaries & wages	150,607	116,890	71,852
Other compensation	7,669	2,178	1,262
Travel	756	493	147
Freight	3,135	2,368	1,314
Communications	356	339	179
Professional services	6,618	3,317	1,606
Rent/occupancy	253	269	632
Utilities	59,841	41,780	26,708
Depreciation	98,880	88,107	66,011
Insurance	114	86	87
Taxes	12,692	11,515	9,492
Repairs and maintenance	18,449	10,602	7,935
Supplies	86,740	71,707	37,971
Specialised tools	12,501	10,464	4,071
Other	2,062	860	485
Less: capitalized costs	(6,633)	(2,194)	(1,377)
TOTAL PRODUCTION OVERHEAD CHARGES	454,040	358,781	228,375
CHANGES IN INVENTORY	(7,138)	(88,896)	(39,997)
COST OF MERCHANDISE	16,708	110,215	248,649
INVENTORY ADJUSTMENT			
Book to physical	67	(710)	731
Obsolete and slow-moving	2,325	716	262
TOTAL INVENTORY ADJUSTMENT	2,392	6	993
TOTAL COST OF SALES	**2,191,768**	**1,597,505**	**1,216,248**

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

3) Selling Expenses

	2005	2004	2003
Salaries & wages	23,756	18,581	10,369
Other compensation	397	212	100
Travel	2,360	1,629	870
Freight	88,905	61,165	39,085
Communications	1,115	882	829
Professional services	10,399	39,215	12,817
Rent/occupancy	4,050	2,940	2,186
Utilities	258	398	190
Depreciation	1,217	853	421
Insurance	619	326	98
Taxes	81	9	18
Repairs and maintenance	170	592	440
Supplies	11,504	8,562	4,790
Bad debt expense	1,555	6,212	1,083
Other	1,394	1,875	662
TOTAL SELLING EXPENSES	**147,780**	**143,451**	**73,958**

4) Advertising and Promotion Expenses

	2005	2004	2003
Media	784	597	533
Displays, exhibits and catalogues	1,928	837	571
Taxes	-	64	20
Other	372	290	254
TOTAL ADVERTISING & PROMOTION EXPENSES	**3,084**	**1,788**	**1,378**

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

5) General and Administrative Expenses

	2005	2004	2003
Salaries & wages	66,331	48,961	38,516
Other compensation	5,550	2,675	1,351
Travel	4,466	3,409	1,802
Freight	666	504	546
Communications	832	621	557
Professional services	22,344	9,841	5,644
Rent/occupancy	2,617	2,053	1,478
Utilities	3,445	2,875	1,367
Depreciation	5,569	4,454	3,109
Insurance	443	1,264	105
Taxes	2,367	1,759	1,067
Repairs and maintenance	1,550	1,321	731
Supplies	5,572	4,659	3,180
Other	1,436	1,293	228
TOTAL GENERAL & ADMINISTRATION EXPENSES	**123,188**	**85,689**	**59,681**

6) Research and Development Expenses

	2005	2004	2003
Salaries & wages	3 018	2 413	1 208
Other compensation	105	16	25
Travel	58	34	7
Freight	29	21	7
Communications	21	19	10
Professional services	866	128	19
Utilities	121	76	73
Depreciation	955	495	380
Repairs and maintenance	69	54	113
Supplies	297	175	146
Other	8	25	1
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	**5 547**	**3 456**	**1 989**

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

7) Other Operating Expenses

	2005	2004	2003
Loss on disposal of property, plant and equipment	4,523	1,273	2,547
Loss on sale of current assets	-	-	86
Social and social infrastructure maintenance expenses	11,124	14,045	7,208
Charitable donations	7,488	3,511	1,085
Other	2,953	7,185	34
TOTAL OTHER OPERATING EXPENSES	**26,088**	**26,014**	**10,960**

8) Other Operating Income

	2005	2004	2003
Gain on sale of current assets	158	618	-
Other	126	32	702
TOTAL OTHER OPERATING INCOME	**284**	**650**	**702**

9) Finance Costs

	2005	2004	2003
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	2,540	3,614	3,407
Interest expense	75,644	97,320	34,201
TOTAL FINANCE COST	**78,184**	**100,934**	**37,608**

10) Finance Income

	2005	2004	2003
Gain on sale of long-term investments	-	512	57
Gain on sale of promissory notes	-	-	3,240
Gain on extinguishment of debts	-	-	4,562
Interest income	1,837	2,757	556
TOTAL FINANCIAL INCOME	**1,837**	**3,269**	**8,414**

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

11) Acquisitions of Subsidiaries

On February 26, 2004, the Group acquired 94.59% of the ordinary shares in OAO Taganrog Metallurgical Plant ("Tagmet"). As a result, the financial position and the results of operations of Tagmet were included in the Group's consolidated financial statements beginning February 26, 2004.

The acquisition of Tagmet from its previous owners was made in exchange for a minority share in equity of TMK Steel Limited, the 100% owner of the Group as of the date of acquisition. The cost of the business combination determined based on the fair value of instruments exchanged in the transaction was 264,760. It was recorded as increase in additional paid-in capital in the accompanying consolidated financial statements.

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

	February 26, 2004
Property, plant and equipment	265,305
Other non-current assets	17,009
Inventories	46,293
Accounts and notes receivable, net	77,367
Cash	90
Total assets	**406,064**
Non-current liabilities	20,864
Deferred income tax liabilities	35,661
Current liabilities	106,801
Total liabilities	**163,326**
NET ASSETS	**242,738**
Fair value of net assets attributable to 94.59% ownership interest	229,620
Goodwill arising on acquisition	35,140
CONSIDERATION PAID	**264,760**

Tagmet's net profit for the period from February 26, 2004 to December 31, 2004 amounted to 3,258.

If Tagmet was consolidated into the Group with effect from January 1, 2004, on a pro forma basis, the revenue and net profit of the Group for the year ended December 31, 2004 would have been 1,991,317 and 106,792, respectively.

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

11) Acquisitions of Subsidiaries (continued)

On July 15, 2004, the Group acquired 99.45% of the ordinary shares in SC Combinatul Siderurgic Resita SA ("SC CSR SA"), a metallurgical plant in Romania.

The cost of the business combination included 1 euro payable in 2004 and 653 US dollars payable in 2005 (92 and 561 at exchange rate as of October 28, 2005 and November 11, 2005, respectively). The payment of 653 was made by the Group in 2005.

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

	July 15, 2004
Property, plant and equipment	98,520
Other non-current assets	-
Inventories	19,234
Accounts and notes receivable, net	4,808
Deferred income tax assets	2,880
Cash	304
Total assets	**125,746**
Non-current liabilities	466
Deferred income tax liabilities	9,789
Current liabilities	19,485
Total liabilities	**29,740**
NET ASSETS	**96,006**
Fair value of net assets attributable to 99.45% ownership interest	95,481
Consideration paid	652
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 statement of operations	**94,829**

The excess of the Group's interest in the net fair value of SC CSR SA's identifiable assets, liabilities and contingent liabilities over the cost of acquisition occurred due to the intention of the Romanian authorities to attract an investor to finance the operations and investment program of SC CSR SA which is one of the major enterprises in the city of Resita. The operations of SC CSR SA are important for the economic and social development of this region of Romania.

SC CSR SA's net loss for the period from July 15, 2004 to December 31, 2004 amounted to 13,143.

Owing to the nature of the records of SC CSR SA for the period prior to July 15, 2004, it is impracticable to disclose revenue and net profit of the combined entity for the year ended December 31, 2004 as though the acquisition date had been at the beginning of that year.

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

12) Income Tax

	2005	2004	2003
Current income tax	118,004	32,135	10,340
Deferred income tax benefit related to origination and reversal of temporary differences	(22,124)	(19,079)	(9,198)
TOTAL INCOME TAX EXPENSE	**95,880**	**13,056**	**1,142**

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

	2005	2004	2003
Income before taxation	350,048	128,295	(25,915)
Theoretical tax charge at statutory rate in Russia of 24%	84,011	30,791	(6,220)
Tax effect of items which are not deductable or assessable for taxation purposes:	-	-	-
Tax fines	(1,133)	974	130
Other non-deductible expenses	12,207	6,116	5,344
Effect of different tax rates in Switzerland, Romania, Germany	(48)	(263)	1,657
Effect of change in tax rate in Romania from 25% to 16%	-	(2,121)	-
Effect of currency translation	(152)	(631)	133
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 11)	-	(22,810)	-
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	995	1,000	98
TOTAL INCOME TAX EXPENSE	**95,880**	**13,056**	**1,142**

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

	2005	Change recognised in income statement	Foreign currency translation reserve	2004	Change recognised in income statement	Change due to business combinations	Foreign currency translation reserve	2003	Change recognised in income statement	Foreign currency translation reserve	2002
Deferred income tax liabilities:											
Property, plant and equipment	(245,239)	18,496	9,495	(273,230)	17,192	(45,934)	(14,815)	(229,673)	12,186	(17,256)	(224,603)
Accounts receivable	(7,696)	-	287	(7,983)	-	-	(462)	(7,521)	-	(552)	(6,969)
Inventory	(2,354)	2,312	133	(4,799)	1,499	(2,886)	(248)	(3,164)	(1,058)	(196)	(1,910)
Undistributed earnings of subsidiaries	(978)	24	37	(1,039)	(896)	-	(41)	(102)	(98)	(4)	-
Other	(13)	689	14	(716)	(553)	-	(30)	(133)	(87)	(6)	(40)
	(256,280)	**21,521**	**9,966**	**(287,767)**	**17,242**	**(48,820)**	**(15,596)**	**(240,593)**	**10,943**	**(18,014)**	**(233,522)**
Deferred income tax assets:											
Tax losses available for offset	10,407	(655)	(401)	11,463	315	6,773	511	3,864	(981)	317	4,528
Accrued liabilities	2,201	(2,110)	(123)	4,434	889	547	226	2,772	342	191	2,239
Accounts receivable	1,623	605	(49)	1,067	338	652	40	37	(172)	8	201
Prepayments and other current assets	508	(571)	(30)	1,109	(448)	1,462	42	53	(155)	9	199
Provisions	5,791	3,371	(150)	2,570	1,297	9	120	1,144	437	69	638
Finance lease obligations	297	(1,263)	(35)	1,595	(1,137)	1,249	90	1,393	693	78	622
Trade and other payable	2,853	1,226	(83)	1,710	583	169	82	876	(1,909)	130	2,655
	23,680	**603**	**(871)**	**23,948**	**1,837**	**10,861**	**1,111**	**10,139**	**(1,745)**	**802**	**11,082**
Net tax effect of temporary differences	-	22,124	-	-	18,864	-	-	-	9,198	-	-
Less: not recognized deferred income tax asset	(4,616)	-	(5)	(4,611)	-	(4,611)	-	-	-	-	-
Net deferred income tax liability	**(242,648)**	**22,124**	**9,090**	**271,508**	**19,079**	**(42,570)**	**(14,485)**	**(231,276)**	**9,198**	**(17,212)**	**(222,440)**
Net deferred income tax assets	**5,432**	-	-	**2,901**	-	-	-	**822**	-	-	-

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

12) Income Tax (continued)

The amounts shown in the balance sheet include the following:

	2005	2004	2003
Deferred tax assets to be recovered after more than 12 months	5,745	6,055	3,543
Deferred tax liabilities to be settled after more than 12 months	(245,239)	(273,230)	(229,673)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company. As at December 31, 2005, deferred tax asset in the amount of 4,616 (2004: 4,788) 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 to.

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

As of December 31, 2005, the Group has not recognised deferred tax liability in respect of 370,443 (2004: 106,298; 2003: 40,472) 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.

13) Earnings (Losses) per Share

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

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

	2005	2004	2003
Weighted average number of ordinary shares outstanding	873,001,000	119,263,295	1,000
Net profit attributable to the equity holders of the parent entity	244,273	112,736	(24,182)
Earnings per share attributable to the equity holders of the parent entity	-	-	-
Basic and diluted (in US dollars)	**0.28**	**0.95**	**(24,182.00)**

The increase in the weighted average number of ordinary shares outstanding in the year ended December 31, 2005 was caused by the issue of ordinary shares in the year ended December 31, 2004 (Note 32).

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

14) Cash and Cash Equivalents

	December 31, 2005	December 31, 2004	December 31, 2003
Russian Rouble denominated cash on hand and balances with banks	31,872	1,915	2,803
Foreign currency denominated balances with bank (US dollar, Euro, Swiss Franc, Romanian lei)	15,973	11,568	11,407
TOTAL CASH AND CASH EQUIVALENTS	**47,845**	**13,483**	**14,210**

15) Short-term Investments

	December 31, 2005	December 31, 2004	December 31, 2003
Promissory notes	424	13,753	24,927
Miscellaneous	1,235	343	76
TOTAL SHORT-TERM INVESTMENTS	**1,659**	**14,096**	**25,003**

Cash deposit of 1,188 has been pledged as security for borrowings at December 31, 2005 (Note 26). The amount is included in miscellaneous short-term investments.

16) Accounts Receivable

	December 31, 2005	December 31, 2004	December 31, 2003
Trade receivables	125,154	169,074	92,538
Officers and employees	1,563	1,488	775
Other accounts receivable	6,791	7,579	13,477
GROSS ACCOUNTS RECEIVABLE	133,508	178,141	106,790
Allowance for doubtful debts	(8,512)	(8,645)	(2,213)
NET ACCOUNTS RECEIVABLE	**124,996**	**169,496**	**104,577**

Accounts receivable amounting to 16,470, 21,870 and 14,711 are denominated in US dollars at December 31, 2005, December 31, 2004 and December 31, 2003, respectively. Amounts receivable amounting to 26,869, 13,518 and 2,836 are denominated in euros at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

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

	2005	2004	2003
Balance at the beginning of the year	8,645	2,213	991
Utilized during the year	(1,219)	-	-
Additional increase in allowance	1,539	6,206	1,083
Currency translation adjustment	(453)	226	139
BALANCE AT THE END OF THE YEAR	**8,512**	**8,645**	**2,213**

Bank borrowings are secured by accounts receivable with the carrying value of 717 (December 31, 2004: 1,537; December 31, 2003: 532) (Note 26).

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

17) Prepayments and Input VAT

	December 31, 2005	December 31, 2004	December 31, 2003
Prepayement for services, inventories	21,739	50,371	22,639
Prepayment for rent	387	285	346
Deferred charges	1,566	1,524	591
Prepayment for VAT, Input VAT	119,649	115,038	59,377
Prepayment for income tax	119	1,899	2,231
Prepayment for property tax	213	128	-
Prepayment for other tax	942	1,115	284
Prepayment for insurance	545	220	271
Miscellaneous	236	187	155
TOTAL PREPAYMENTS	**145,396**	**170,767**	**85,894**

Prepayments amounting to 10,056, 9,656 and 7,131 are denominated in foreign currency, mainly euros and US dollars and Romanian lei, at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

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

18) Investments and Other Long-term Receivables

	December 31, 2005	December 31, 2004	December 31, 2003
Trade receivables	664	443	-
Advances to employees	3,002	2,007	645
Prepayment for property, plant and equipment	24,018	16,095	3,546
Borrowing costs relating to unused borrowing facilities	2,025	-	-
Investments	28	3,090	433
Prepayment for increases in ownership interests in subsidiaries	-	1,766	-
Other	2,393	1,404	-
GROSS INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	32,130	24,805	4,624
Allowance for doubtful debts	(23)	(7)	-
NET INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	**32,107**	**24,798**	**4,624**

Non-current accounts receivables amounting to 7,850, 9,215 and 3,913 are denominated in foreign currency, mainly euros, at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

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

18) Investments and Other Long-term Receivables (continued)

Cash balances of 1,122 and 653 have been pledged for a fulfillment guarantee at December 31, 2005 and December 31, 2004, respectively. The amount is included in other long-term receivables.

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

	2005	2004	2003
Balance at the beginning of the year	7	-	-
Additional increase in allowance	16	7	-
BALANCE AT THE END OF THE YEAR	**23**	**7**	**-**

19) Inventories

	December 31, 2005	December 31, 2004	December 31, 2003
Raw materials	161,582	119,947	85,154
Work in process	96,307	70,210	39,266
Finished goods	72,754	64,399	32,487
Goods in transit	43,359	73,648	18,961
Consigned goods	-	1,242	1,759
Supplies	90,827	88,086	46,630
GROSS INVENTORIES	464,829	417,532	224,257
Allowance for obsolescence and slow-moving	(5,897)	(3,776)	(2,849)
NET INVENTORIES	**458,932**	**413,756**	**221,408**

As of December 31, 2005, inventories carried at net realizable value were 41,176 (December 31, 2004: 52,311; December 31, 2003: 4,688).

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

	2005	2004	2003
Balance at the beginning of the year	3,776	2,849	2,421
Additional increase in allowance	2,325	716	262
Currency translation adjustment	(204)	211	166
BALANCE AT THE END OF THE YEAR	**5,897**	**3,776**	**2,849**

Inventories of 26,457 (December 31, 2004: 131,338; December 31, 2003: 48,234) have been pledged as security for borrowings (Note 26).

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

20) Property, Plant and Equipment

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

	Land and buildings	Machinery & equipment	Transport & motor vehicles	Furniture & fixtures	Construction in progress	TOTAL
COST						
Balance at January 1, 2005	772 084	876 729	28 088	12 387	73 973	**1 763 261**
Additions	1 571	291	233	121	137 011	**139 227**
Assets put in operations	16 085	29 230	7 201	3 688	(56 204)	**-**
Transfer to investment property	(1 979)	(102)	-	(308)	-	**(2 389)**
Disposals	(6 934)	(7 181)	(334)	(868)	(1 722)	**(17 039)**
Currency translation adjustments	(1 164)	(1 279)	(368)	(30)	(1 608)	**(4 449)**
Translation difference	(27 862)	(31 851)	(1 126)	(489)	(3 993)	**(65 321)**
BALANCE AT DECEMBER 31, 2005	**751 801**	**865 837**	**33 694**	**14 501**	**147 457**	**1 813 290**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2005	(34 483)	(128 233)	(5 914)	(4 067)	-	**(172 697)**
Depreciation charge	(22 413)	(76 562)	(3 771)	(2 867)	-	**(105 613)**
Transfer to investment property	220	11	-	59	-	**290**
Disposals	672	2 467	158	721	-	**4 018**
Currency translation adjustments	168	223	47	14	-	**452**
Translation difference	1 607	5 878	273	183	-	**7 941**
BALANCE AT DECEMBER 31, 2005	**(54 229)**	**(196 216)**	**(9 207)**	**(5 957)**	**-**	**(265 609)**
NET BOOK VALUE AT DECEMBER 31, 2005	**697 572**	**669 621**	**24 487**	**8 544**	**147 457**	**1 547 681**
NET BOOK VALUE AT JANUARY 1, 2005	**737 601**	**748 496**	**22 174**	**8 320**	**73 973**	**1 590 564**

Bank borrowings are secured by properties and equipment with the carrying value of 175,143 (December 31, 2004: 593,856; December 31, 2003: 667,501) (Note 26).

The movement in property, plant and equipment for the year ended December 31, 2004 was as follows:

	Land and buildings	Machinery & equipment	Transport & motor vehicles	Furniture & fixtures	Construction in progress	TOTAL
COST						
Balance at January 1, 2004	570 681	642 327	12 560	7 364	19 160	**1 252 092**
Additions	313	5 586	199	285	54 429	**60 812**
Assets in operations	8 781	30 481	2 122	4 438	(45 822)	**-**
Disposals	(9 484)	(4 293)	(442)	(2 129)	(1 794)	**(18 142)**
Increase due to business combination (Note 11)	154 572	154 440	11 551	1 796	41 466	**363 825**
Currency translation adjustments	5 986	4 413	779	11	3 373	**14 562**
Translation difference	41 235	43 775	1 318	622	3 161	**90 111**
BALANCE AT DECEMBER 31, 2004	**772 084**	**876 729**	**28 088**	**12 387**	**73 973**	**1 763 261**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2004	(14 309)	(54 870)	(2 136)	(1 441)	-	**(72 756)**
Depreciation charge	(18 666)	(68 492)	(3 640)	(2 981)	-	**(93 779)**
Disposals	251	1 386	168	543	-	**2 348**
Currency translation adjustments	(165)	(295)	(40)	(6)	-	**(506)**
Translation difference	(1 594)	(5 962)	(266)	(182)	-	**(8 004)**
BALANCE AT DECEMBER 31, 2004	**(34 483)**	**(128 233)**	**(5 914)**	**(4 067)**	**-**	**(172 697)**
NET BOOK VALUE AT DECEMBER 31, 2004	**737 601**	**748 496**	**22 174**	**8 320**	**73 973**	**1 590 564**
NET BOOK VALUE AT JANUARY 1, 2004	**556 372**	**587 457**	**10 424**	**5 923**	**19 160**	**1 179 336**

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

20) Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2003 was as follows:

	Land and buildings	Machinery & equipment	Transport & motor vehicles	Furniture & fixtures	Construction in progress	TOTAL
COST						
Balance at January 1, 2003	514,239	568,496	10,512	4,903	10,744	**1,108,894**
Additions	21	64	28	1,386	54,030	**55,529**
Assets in operations	15,268	28,170	1,304	1,739	(46,482)	**(1)**
Disposals	(1,140)	(2,806)	(246)	(1,153)	(304)	**(5,649)**
Currency translation adjustments	982	2,274	81	18	18	**3,373**
Translation difference	41,311	46,129	881	471	1,154	**89,946**
BALANCE AT DECEMBER 31, 2003	**570,681**	**642,327**	**12,560**	**7,364**	**19,160**	**1,252,092**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2003	-	(4)	(9)	-	-	**(13)**
Depreciation charge	(13,739)	(52,688)	(2,053)	(1,401)	-	**(69,881)**
Disposals	5	26	14	21	-	**66**
Currency translation adjustments	-	-	(2)	(3)	-	**(5)**
Translation difference	(575)	(2,204)	(86)	(58)	-	**(2,923)**
BALANCE AT DECEMBER 31, 2003	**(14,309)**	**(54,870)**	**(2,136)**	**(1,441)**	**-**	**(72,756)**
NET BOOK VALUE AT DECEMBER 31, 2003	**556,372**	**587,457**	**10,424**	**5,923**	**19,160**	**1,179,336**
NET BOOK VALUE AT JANUARY 1, 2003	**514,239**	**568,492**	**10,503**	**4,903**	**10,744**	**1,108,881**

Investment property was as follows:

COST	
Balance at January 1, 2005	-
Transfer from property, plant and equipment	2,389
Additions	79
Disposals	(1)
Foreign currency translation reserve	(43)
Balance at December 31, 2005	**2,424**
ACCUMULATED DEPRECIATION	
Balance at January 1, 2005	-
Transfer from property, plant and equipment	(291)
Depreciation charge	(138)
Disposals	-
Foreign currency translation reserve	9
Balance at December 31, 2005	**(420)**
NET BOOK VALUE AT DECEMBER 31, 2005	**2,004**

The fair value of investment property approximates its carrying amount.

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

21) Goodwill and Other Intangible Assets

	Patents and trademarks	Goodwill	Information system projects (software SAP R\3)	Other	TOTAL
COST					
Balance at January 1, 2005	327	38,565	8,422	3,104	**50,418**
Additions	25	-	3,160	974	**4,159**
Disposals	-	-	(16)	(1,291)	**(1,307)**
Currency translation adjustments	(2)	-	-	(21)	**(23)**
Translation difference	(12)	(1,385)	(356)	(105)	**(1,858)**
BALANCE AT DECEMBER 31, 2005	**338**	**37,180**	**11,210**	**2,661**	**51,389**
ACCUMULATED AMORTISATION					
Balance at January 1, 2005	(66)	-	-	(551)	**(617)**
Amortisation charge	(26)	-	(387)	(421)	**(834)**
Disposals	-	-	-	17	**17**
Currency translation adjustments	1	-	-	24	**25**
Translation difference	3	-	6	26	**35**
BALANCE AT DECEMBER 31, 2005	**(88)**	**-**	**(381)**	**(905)**	**(1,374)**
NET BOOK VALUE AT DECEMBER 31, 2005	**250**	**37,180**	**10,829**	**1,756**	**50,015**
NET BOOK VALUE AT JANUARY 1, 2005	**261**	**38,565**	**8,422**	**2,553**	**49,801**

	Patents and trademarks	Goodwill	Information system projects (software SAP R\3)	Other	TOTAL
COST					
Balance at January 1, 2004	289	2,334	-	852	**3,475**
Additions	13	-	8,110	2,045	**10,168**
Disposals	-	-	-	-	**-**
Increase due to business combination (Note 29)	-	35,140	-	-	**35,140**
Currency translation adjustments	6	-	-	74	**80**
Translation difference	19	1,091	312	133	**1,555**
BALANCE AT DECEMBER 31, 2004	**327**	**38,565**	**8,422**	**3,104**	**50,418**
ACCUMULATED AMORTISATION					
Balance at January 1, 2004	(40)	-	-	(374)	**(414)**
Amortisation charge	(21)	-	-	(111)	**(132)**
Disposals	-	-	-	-	**-**
Currency translation adjustments	(1)	-	-	(37)	**(38)**
Translation difference	(4)	-	-	(29)	**(33)**
BALANCE AT DECEMBER 31, 2004	**(66)**	**-**	**-**	**(551)**	**(584)**
NET BOOK VALUE AT DECEMBER 31, 2004	**261**	**38,565**	**8,422**	**2,553**	**49,834**
NET BOOK VALUE AT JANUARY 1, 2004	**249**	**2,334**	**-**	**478**	**3,061**

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

21) Goodwill and Other Intangible Assets (continued)

	Patents and trademarks	Goodwill	Information system projects (software SAP R\3)	Other	TOTAL
COST					
Balance at January 1, 2003	47	2,163	-	1,364	**3,574**
Additions	232	-	-	135	**367**
Disposals	-	-	-	(680)	**(680)**
Currency translation adjustments	(4)	-	-	(51)	**(55)**
Translation difference	14	171	-	84	**269**
BALANCE AT DECEMBER 31, 2003	**289**	**2,334**	**-**	**852**	**3,475**
ACCUMULATED AMORTISATION					
Balance at January 1, 2003	(11)	-	-	(272)	**(283)**
Amortisation charge	(28)	-	-	(97)	**(125)**
Disposals	-	-	-	-	**-**
Currency translation adjustments	1	-	-	20	**21**
Translation difference	(2)	-	-	(25)	**(27)**
BALANCE AT DECEMBER 31, 2003	**(40)**	**-**	**-**	**(374)**	**(414)**
NET BOOK VALUE AT DECEMBER 31, 2003	**249**	**2,334**	**-**	**478**	**3,061**
NET BOOK VALUE AT JANUARY 1, 2003	**36**	**2,163**	**-**	**1,092**	**3,291**

22) Investment in an Associate

The Group has 50% interest in Eurosinara S.r.l, an entity registered in Italy, which is the Group's distributor of pipe products in the Southern Europe.

The following table illustrates summarized financial information of the Group's investment in Eurosinara S.r.l:

SHARE OF THE ASSOCIATE'S BALANCE SHEET	2005	2004	2003
Current assets	9,105	12,772	5,214
Non-current assets	1,298	891	227
Current liabilities	14,551	16,396	6,349
Non-current liabilities	388	350	210
NET LIABILITIES	**(4,536)**	**(3,083)**	**(1,118)**

SHARE OF THE ASSOCIATE'S REVENUE AND LOSS	2005	2004	2003
Revenue	34,066	17,482	16,415
Net Loss	(1,881)	(1,116)	(1,047)
Carrying amount of the investment	0	0	0

On May 16, 2006, the Group purchased the remaining 50% interest in Eurosinara S.r.l (Note 34).

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

23) Accounts Payable and Advances from Customers

	December 31, 2005	December 31, 2004	December 31, 2003
Trade and other payables	122,910	88,299	34,794
Advances from customers	56,412	137,385	25,899
Accounts payable for property, plant and equipment	14,871	3,867	968
Issued notes to third parties	-	9,910	-
Other	2,626	2,415	824
TOTAL ACCOUNTS PAYABLE	**196,819**	**241,876**	**62,485**

Trade payables amounting to 69,538, 85,687 and 37,306 are denominated in foreign currency, mainly US dollars, euros and Romanian lei, at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

24) Accrued Liabilities

	December 31, 2005	December 31, 2004	December 31, 2003
Payroll liabilities	19,945	18,375	8,693
Accrued and withheld taxes on payroll	7,312	6,233	4,222
Liabilities for VAT	18,187	10,361	1,463
Liabilities for income tax	12,154	11,889	2,442
Liabilities for property tax	989	1,271	1,527
Liabilities for other taxes	745	844	886
Deferred VAT	37,810	39,404	16,371
Liabilities for unused annual leaves, current portion	1,322	1,228	456
Accrual for tax fines	607	4,812	564
Provision for long-service benefit	3,318	2,185	1,794
Miscellaneous	3,687	3,111	1,821
Environmental provision	2,614	2,711	-
TOTAL ACCRUED LIABILITIES	**108,690**	**102,424**	**40,239**

Deferred value added tax is only payable to the tax authorities when the underlying receivable is recovered or written off.

25) Finance Lease Liabilities

In 2001-2002, the Group entered into lease agreements under which they have an 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.

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

25) Finance Lease Liabilities (continued)

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

	2005	2004	2003
Machinery and equipment	8,325	16,711	12,064
Transport and motor vehicles	287	360	105
	8,612	**17,071**	**12,169**

The leased assets are included in property, plant and equipment in the accompanying consolidated balance sheet (Note 20).

Future minimum lease payments were as follows at December 31, 2005:

	Principal	Interest	Total
2006	1,309	74	1,382
2007-2009	125	15	141
	1,434	**89**	**1,523**

In the years ended December 31, 2005, December 31, 2004 and December 31, 2003, the average interest rates under the finance lease liabilities were 13%, 16% and 16%, respectively.

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

	2005	2004	2003
Roubles	-	-	574
US dollars	1,246	3,592	168
Euros	-	1,233	5,064
Romanian lei	188	163	-
	1,434	**4,988**	**5,806**

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

26) Interest-Bearing Loans and Borrowings

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

	2005	2004	2003
Current:			
Russian banks	198,097	278,042	128,716
International banks	118,969	49,156	13,637
Non-bank borrowings	-	-	1,938
Raiffeisen Leasing liability	576	-	-
Interest payable	5,166	3,408	2,740
Current portion of non-current loans and borrowings	103,100	301,880	37,346
Unamortized debt issue costs	(362)	-	-
	425,546	**632,486**	**184,377**
Non-current:			
Russian banks	83,630	50,000	10,185
International banks	12,171	296,657	45
Bearer coupon debt securities	173,718	72,076	105,247
Raiffeisen Leasing liability	785	1,869	-
Unamortized debt issue costs	(2,280)	(1,600)	(1,236)
Less: current portion of non-current loans and borrowings	(103,100)	(301,880)	(37,346)
	164,924	**117,122**	**76,895**

Loans for 77,203 as of December 31, 2005, 225,120 as of December 31, 2004 and 117,232 as of December 31, 2003, inclusive of short-term borrowings, were guaranteed by collateral of property, plant and equipment, inventories (Notes 15, 16, 19, 20) and, as of December 31, 2005, by shares of a subsidiary of the Group, representing net assets with the carrying amount of 39,213.

Long-term debt is repayable as follows:

	December 31, 2005	December 31, 2004	December 31, 2003
1 to 2 years	45,920	92,122	10,197
2 to 3 years	10,758	19,946	67,911
3 to 4 years	105,169	6,654	10
Over 4 years	5,357	-	13
Unamortized debt issue costs	(2,280)	(1,600)	(1,236)
	164,924	**117,122**	**76,895**

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

26) Interest-Bearing Loans and Borrowings (continued)

Breakdown of borrowings by currency:

	Interest rates	December 31, 2005	December 31, 2004	December 31, 2003
Russian Rouble	8% - 13%	327,549	396,537	257,718
Euro	Euribor 6M + 3.5% Euribor 6M + 5% 5.6% - 7.4%	42,055	1,586	600
Romanian Lei	Bubor 1M + 4%	9,586	10,809	2,955
US Dollar	8% - 20% Libor + 4.5% Libor 3M + 2.4%	211,279	340,676	-
		590,469	**749,608**	**261,273**

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 and guarantees issued to other parties. Three loans for the total amount of 70,161 are secured by proceeds from export sales of VTZ, Tagmet and Sinara-Trading, the Group's subsidiaries.

Bank Loans

In the year ended December 31, 2005, the Group repaid early its liabilities under long-term loans to an international bank in the amount of 268,330. The loans were received in 2004 and the full principal amount of the loans was financed, and the international bank transferred credit risk via placement of notes with a group of investors being under common control with the Group. These liabilities were included in current borrowings in the accompanying consolidated balance sheet as of December 31, 2004.

In October 2005, the Group repaid early its liabilities under long-term loans to International Moscow Bank in the amount of 21,018. These liabilities were included in current borrowings in the accompanying consolidated balance sheet as of December 31, 2004.

Bearer Coupon Debt Securities

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

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

26) Interest-Bearing Loans and Borrowings (continued)

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

Liability to Raiffeisen Leasing

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

Unutilised Borrowing Facilities

As of December 31, 2005, the Group had unutilised borrowing facilities in the amount of 151,749.

27) Post-Employment Benefits

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

The components of net benefit expense recognised in the consolidated income statements for the years ended December 31, 2005, 2004 and 2003 and amounts recognized in consolidated balance sheets as of December 31, 2005, 2004 and 2003 were as follows:

	2005	2004	2003
Movement in the benefit liability:			
At January 1	(11,649)	(9,619)	(7,999)
Benefit expense	(7,429)	(921)	(1,110)
Benefit paid	518	386	154
Change in liability due to business combination	-	(807)	-
Currency translation adjustment	12	(43)	8
Translation difference	539	(645)	(672)
At December 31	**(18,009)**	**(11,649)**	**(9,619)**
Net benefit expense (recognized in cost of sales):			
Current service cost	1,164	701	548
Interest cost on benefit obligation	913	924	714
Net actuarial loss (gain) recognized in the period	5,352	(704)	(152)
Net benefit expense	7,429	921	1,110

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

27) Post-Employment Benefits (continued)

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

	Russia			Romania		
	2005	2004	2003	2005	2004	2003
Movement in the benefit liability:						
At January 1	(11 088)	(9 475)	(7 887)	(561)	(144)	(112)
Benefit expense	(7 295)	(802)	(1 073)	(134)	(119)	(37)
Benefit paid	471	368	7	48	18	-
Change in liability due to business combination	-	(558)	-	-	(249)	-
Currency translation adjustment	516	(621)	(522)	34	(67)	6
At December 31	**(17 396)**	**(11 088)**	**(9 475)**	**(613)**	**(561)**	**(143)**
Net benefit expense (recognized in cost of sales):						
Current service cost	1 090	662	539	73	39	9
Interest cost on benefit obligation	843	871	694	70	53	20
Net actuarial loss (gain) recognized in the period	5 362	(731)	(160)	(10)	27	8
Net benefit expense	7 295	802	1 073	133	119	37
The principal actuarial assumptions used in determining pension obligations for the Group's plan are shown below:						
Discount rate	7,8%	8,50%	8,50%	*	**	***
Average long-term rate of compensation increase	6,3%	6,50%	6,50%	*	**	***

* 2005:

Discount rate: decreasing from 12.14% in the year 2005 to 3.53% in the year 2051 and on the level of 3.53% after this year.

Salary increase rate: decreasing from 8.6% in the year 2005 to 2% in the year 2051 and on the level of 2% after this year.

** 2004:

Discount rate: decreasing from 20.27% in the year 2004 to 3.53% in the year 2051 and on the level of 3.53% after this year.

Salary increase rate: decreasing from 9.5% in the year 2004 to 2% in the year 2051 and on the level of 2% after this year.

*** 2003:

Discount rate: decreasing from 18.84% in the year 2003 to 3.53% in the year 2051 and on the level of 3.53% after this year.

Salary increase rate: decreasing from 14.1% in the year 2003 to 2% in the year 2051 and on the level of 2% after this year.

The Group had no plan assets, past service costs and unrecognized actuarial gains or losses in the years ended December 31, 2005, 2004 and 2003.

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

28) Other Non-current Liabilities

	December 31, 2005	December 31, 2004	December 31, 2003
Unused annual leave	7,022	3,947	2,505
Other long-term liabilities	321	368	45
BALANCE AT THE END OF YEAR	**7,343**	**4,315**	**2,550**

29) Principal Subsidiaries

Company	Location	Main activity	Actual ownership interest	Effective Ownership interest	Actual ownership interest	Effective Ownership interest	Effective Ownership interest
			December 31, 2005		December 31, 2004		December 31, 2003
OAO “Sinarsky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, sale of electric and heating power and other services	91.12%	91.12%	88.69%	88.69%	51.81%
OAO “Seversky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services	91.60%	91.60%	91.12%	91.12%	91.12%
OAO “Volzhsky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	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	95.32%	95.32%	94.59%	94.59%	-
ZAO “Trade House TMK”	Russia	Sale of steel pipes	100.00%	99.91%	100.00%	99.89%	100.00%
TOO “TMK-Kazakhstan”	Kazakhstan	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%	100.00%
OOO “TMK-Trans”	Russia	Transportation services	100.00%	100.00%	100.00%	100.00%	100.00%
OOO “Blagoustroystvo”	Russia	Services	100.00%	100.00%	100.00%	100.00%	100.00%
OOO “Sinarsky trubnik”	Russia	Services	100.00%	100.00%	100.00%	100.00%	100.00%
OOO “SinaraTransAvto”	Russia	Services	100.00%	100.00%	-	-	-
OOO “Sinaraproekt”	Russia	Services	100.00%	100.00%	-	-	-
OOO “Skladskoy Kompleks TMK”	Russia	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%	-
Sinara Trading AG	Switzerland	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%	100.00%
TMK Eastern Europe		Sale of pipes and other goods	95.00%	95.00%	95.00%	95.00%	95.00%
SC TMK-ARTROM SA	Romania	Manufacturing of seamless steel pipes	80.56%	80.56%	80.56%	80.56%	80.56%
Sinara Handel GmbH	Germany	Sale of pipes, raw materials and equipment	100.00%	100.00%	100.00%	100.00%	100.00%
SC CSR SA	Romania	Manufacturing of billets and other pipe-related goods, processing	73.98%	73.98%	73.98%	73.98%	73.98%
TMK Sinara North America Inc.	USA	Sale of steel pipes	100.00%	100.00%	-	-	-

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

30) 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 Company entered into significant transactions or had significant balances outstanding at December 31, 2005, 2004 and 2003 are detailed below.

In the year ended December 31, 2005, transactions with related parties constituted approximately 3% of the total volume of the Group's sales of goods (2004: 6%; 2003: 16%).

Interest rates on borrowings from related parties in 2005 were from 7% to 14% (2004: from 4% to 16%; 2003: from 14.5% to 21%).

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

	2005	2004	2003
Cash			
- Entities under common control with the Group	12,489	227	227
- Entities under control of the minority shareholders of the Company	5	28	658
	12,494	**255**	**885**
Accounts receivable - current			
- Entities under common control with the Group	28,284	36,749	10,453
- Entities under control of the minority shareholders of the Company	123	101	7,394
	28,407	**36,850**	**17,847**
Accounts receivable - non-current			
- Entities under common control with the Group	8,486	6,898	-
	8,486	**6,898**	**-**
Borrowings to related parties - current			
- Entities under common control with the Group	-	870	2,317
	-	**870**	**2,317**
Borrowings to related parties - non-current			
- Entities under control of the minority shareholders of the Company	-	-	11,844
	-	**-**	**11,844**
Prepayments - current			
- Entities under common control with the Group	-	54	-
- Entities under control of the minority shareholders of the Company	18	-	-
	18	**54**	**-**
Accounts payable - current			
- Entities under common control with the Group	478	7,222	57,308
- Entities under control of the minority shareholders of the Company	-	-	31,989
	478	**7,222**	**89,297**
Borrowings from related parties			
- Entities under common control with the Group	-	7,504	31,656
- Entities under control of the minority shareholders of the Company	31,394	6,070	14,635
	31,394	**13,574**	**46,291**

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

30) Related Parties Disclosures (continued)

Accounts receivable from related parties amounting to 4,856, 18,441 and 7,484 are denominated in US dollars at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

Accounts receivable amounting to 19,066, 5,149 and 1,385 are denominated in euros at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

Prepayments to related parties amounting to 0.6 and 0 are denominated in foreign currency, mainly US dollars, at December 31, 2005 and 2004, respectively.

Accounts payable to related parties amounting to 0, 7,009 and 0 are denominated in foreign currency, mainly euros, at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

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

	2005	2004	2003
Sales revenue			
- Entities under common control with the Group	82,521	91,210	48,135
- Entities under control of the minority shareholders of the Company	-	22,355	13,513
	82,521	**113,565**	**61,648**
Purchases of goods and services			
- Entities under common control with the Group	32,059	29,838	675,077
- Entities under control of the minority shareholders of the Company	1,318	39,526	188,504
	33,377	**69,364**	**863,581**
Purchases of equipment and intangible assets			
- Entities under common control with the Group	1	7,530	-
	1	**7,530**	**-**
Interest expenses from loans and borrowings			
- Entities under common control with the Group	911	1,399	2,119
- Entities under control of the minority shareholders of the Company	1,472	3,741	4,019
	2,383	**5,140**	**6,138**
Interest income from loans and borrowings			
- Entities under common control with the Group	1,135	2,155	-
- Entities under control of the minority shareholders of the Company	-	327	360
	1,135	**2,482**	**360**

In addition, certain transactions with related parties are disclosed in Note 25 to these consolidated financial statements.

Prior to February 26, 2004, the date of acquisition of Tagmet (Note 11), the Group re-sold raw materials to Tagmet that were purchased from the Group's suppliers, and purchased pipe products from Tagmet for subsequent re-sale to the Group's customers. The Group's sales of pipe products purchased from Tagmet were included in sales (welded and seamless pipes in the business segments disclosure) in the accompanying consolidated financial statements. The Group's purchases of pipe products from Tagmet were included in purchases from related parties in the table above. The Group's sales of raw materials to Tagmet prior to February 26, 2004 were included in sales (other products in business segments disclosure) in the accompanying consolidated financial statements and in sales to related parties in the table above.

30) Related Parties Disclosures (continued)

Non-current accounts receivable from related parties include a long-term portion of receivables for securities sold in the amount of 4,986 due in 2006 and 2007. The nominal value of the receivable as of December 31, 2005 was 7,766, including a current portion of 2,779. The long-term portion was discounted at a rate of 15%. In the year ended December 31, 2005, the payment schedule for this receivable was changed. The decrease in the fair value of the receivable of 431 resulting from re-scheduling of payments was recorded as a reduction in interest income in the accompanying consolidated income statement for 2005.

In the year ended December 31, 2004, an entity under common control with the Group acted as an intermediary in selling steel products of the Group. The commission in the amount of 22,994 is included in selling expenses as professional services in the accompanying consolidated financial statements (Note 3).

In the year ended December 31, 2004, a payment in the amount of 6,743 was made by one of the Group's subsidiaries for marketing services provided to an entity under common control with the Group. This payment is included in selling expenses as professional services in the accompanying consolidated financial statements (Note 3).

Compensation of Key Management Personnel of the Group

Key management personnel comprise members of Board of Directors and certain executives of the Group, totalling 31, 17 and 19 persons as at December 31, 2005, 2004 and 2003, respectively.

The total amount of compensation to key management personnel, which is included in the income statement as part of the general and administrative expenses, was 7,782, 3,785 and 3,427 in the years ended December 31, 2005, 2004 and 2003, respectively.

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

31) Contingencies, Commitments and Operating Risks

Operating Environment of the Group

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.

31) Contingencies, Commitments and Operating Risks (continued)

Taxation

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.

Contractual Commitments and Guarantees

As of December 31, 2005, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 754,803 thousand roubles (26,224), 77,754 thousand euros (92,348) and 6,380 thousand US dollars and 3,575 thousand Romanian lei (1,157) for the total amount 126,109 (all amounts of contractual commitments are expressed net of VAT). The Group paid advances of 21,393 on these contractual commitments.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 57,505 (2004: 0).

Insurance Policies

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

Legal Claim

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

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

31) Contingencies, Commitments and Operating Risks (continued)

Guarantees of Debts of Others

The Group had the following guarantees outstanding at December 31, 2005:

Guarantee to	Date of guarantee	Beneficiary	Amount of guarantee	Maturity
Russian bank	March 18, 2004	Third party	6,948	March 17, 2006
Russian bank		Company employees	112	
Russian bank	August 29, 2005	Third party	5	August 25, 2006
International bank	February 16, 2005	Third parties	725	January 31, 2007
International bank		Company employees	400	
International bank	December 9, 2005	Third parties	374	August 31, 2007
International bank	August 20, 2004	Third parties	207	June 30, 2006
International bank	September 5, 2005	Third parties	110	February 15, 2006
International bank	December 30, 2005	Third parties	50	June 30, 2006
International bank	March 29, 2005	Third parties	16	July 31, 2006
International bank	March 29, 2005	Third parties	16	July 31, 2006
International bank	June 16, 2005	Third parties	12	January 22, 2006
International bank	September 30, 2005	Third parties	12	May 5, 2006
International bank	September 6, 2005	Third parties	11	April 20, 2006

32) Equity

i) Share Capital

In 2004, the Company issued additional 873,000,000 shares after making the respective changes in its charter documents. These shares were fully paid before December 31, 2004. The changes in the charter documents were registered on January 31, 2005. The proceeds from the issuance were recorded as an increase in the issued capital in the accompanying consolidated financial statements for the year ended December 31, 2004.

As of December 31, 2005, the authorized number of ordinary shares of the Company was 873,001,000 (2004: 873,001,000; 2003: 1,000) with a nominal value per share of 10 roubles (U.S.$0.35).

A reconciliation between the nominal amount of the Company's share capital and its carrying amount is as follows:

	December 31, 2005	December 31, 2004	December 31, 2003
Nominal amount of the share capital	305,407	305,407	-
Effect of hyperinflation	-	-	-
CARRYING AMOUNT OF THE SHARE CAPITAL	**305,407**	**305,407**	-

As of December 31, 2005, the Company had 873,001,000 issued and fully paid shares.

32) Equity (continued)

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 May 2005, the Company paid interim dividends in respect of 2005 in the amount of 2,592 or U.S.$ 0.003 per share (2004: 0).

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 327,139, 46,461 and 154 of undistributed and unreserved earnings as of December 31, 2005, December 31, 2004 and December 31, 2003, respectively. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 381,749, 117,861 and 42,217 as of December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

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

In February 2004, the legal transfer of ownership interests in SinTZ, STZ, VTZ and TD TMK has been made by entities under common control with the Group. The book value of net assets of such subsidiaries was included in equity in the accompanying consolidated balance sheet as of January 1, 2003.

The payment of 401,746 with the legal form of a payment for such transfers, together with the payment of 197,858 to the ultimate minority owners of the Group with the legal form of a payment for the shares in Tagmet, in substance represented distributions to the ultimate owners of the Group. Both payments were recorded as a reduction in additional paid-in capital in the accompanying consolidated financial statements for the year ended December 31, 2004.

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

32) Equity (continued)

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

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. The amount of 20,000 was paid by the Group prior to December 31, 2005 and amount of 20,000 was paid by the Group on March 3, 2006.

Sinara Trading paid dividends in the amount of 817 for 2004 in the year ended December 31, 2004 and 7,720 for 2005 in May 2005 to its former owner, before the transfer of Sinara Trading shares to the Group.

Sinara Handel paid dividends in the amount of 1,830 for 2004 in the year ended December 31, 2005. The corresponding liability in the amount of 1,758 was included into dividends payable in the accompanying consolidated financial statements as at December 31, 2005.

In the year ended December 31, 2003, Sinara Handel GmbH sold 16.46% interest in SinTZ to an entity under common control with the Group for 2,518,413 euros (2,953 at exchange rate as of October 29, 2003). This interest was acquired by the Group in February 2004 as part of the transactions for the purchase of 88.69% interest in SinTZ in transactions with entities under common control with the Group (see the description above). The cash receipt of 2,880 was recorded as a contribution from owners in the accompanying consolidated financial statements for the year ended December 31, 2003.

v) Free of Charge Financing

Additional paid-in capital included 2,287 cash received in 2003 from TMK Steel Limited, the Group's parent, as a free of charge financing.

vi) Acquisition of Minority Interests in Subsidiaries

In February 2004, 88.69% ownership interest in SinTZ was transferred to the Group in transactions with entities under common control with the Group. This ownership interest included 51.81% interest owned by the entities under common control with the Group as of January 1, 2003 (its acquisition was accounted for as pooling of interests), and 36.88% interest acquired by the entities under common control with the Group in the year ended December 31, 2003 and transferred to the Group in February 2004. The acquisition of 36.88% was accounted for as a purchase of minority interests in the amount of 102,197.

In the year ended December 31, 2005, the Company purchased 0.73% of OAO "Tagmet" shares, 0.48% of OAO "STZ" shares and 2.43% of OAO "SinTZ" shares. The total amount paid for the shares was 8,487.

32) Equity (continued)

vii) 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 1,192 and 2,343 in the accompanying consolidated financial statements for the years ended December 31, 2005 and 2004, respectively.

33) Financial Risks

Credit Risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

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

Foreign Exchange Risk

The Group exports production to European countries and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (Notes 14, 16, 17, 18) and liabilities (Notes 23, 25, 26) give rise to foreign exchange exposure.

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

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. Interest rates on long-term borrowings are fixed, except for 50,323 of variable-rate debt. Interest rates are disclosed in Note 26.

33) Financial Risks (continued)

Fair Value of Financial Instruments

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

The fair value of the bonds issued by the Group with a nominal amount of 66,627 is equal to 70,605 as of December 31, 2005. The fair value of the bonds issued by the Group in March 2005 with a nominal amount of 108,632 is equal to 106,711 as of December 31, 2005. The fair value of the bonds was determined based on market quotations.

34) Events after the Balance Sheet Date

On February 1, 2006, Sinara Trading AG was re-registered as TMK Global Ltd. 6,900 shares with a nominal value of 1,000 Swiss francs were issued and the Company transferred 6,900 thousand Swiss francs (5,227 at the exchange rate as of the date of transfer) for the increase of TMK Global Ltd.'s share capital.

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

In February 2006 and May 2006, the Company purchased additional 0.42% of OAO "Tagmet" shares for 64,513 thousand Russian roubles or 2,241 thousand US dollars at the exchange rate at December 31, 2005. The Company's interest in the subsidiary increased to 95.74%.

In May, July and August 2006, the Company purchased additional 1.31% of OAO "SinTZ" shares for 265,697 thousand Russian roubles or 9,231 thousand US dollars at the exchange rate at December 31, 2005. The Company's interest in the subsidiary increased to 92.43%.

In May, July and August 2006, the Company purchased additional 0.41% of OAO "STZ" shares for 78,972 thousand Russian roubles or 2,744 thousand US dollars at the exchange rate at December 31, 2005. The Company's interest in the subsidiary increased to 92.01%.

On May 16, 2006, the Group purchased the remaining 50% interest in Eurosinara S.r.l for 1,000 thousand euros (1,290 at the exchange rate as of the date of transfer), increasing its interest to 100% (Note 22). In addition to the information disclosed in respect of this acquisition, IFRS 3, Business Combinations, requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities. It is impracticable to the Group to disclose this information because the acquired subsidiary has not prepared its financial statements in accordance with IFRS at the time these consolidated financial statements were authorised for issue.

34) Events after the Balance Sheet Date (continued)

In April 2006, the Group repaid early its liabilities under long-term loans to Mosnarbank in the amount of 47,143. These liabilities were included in non-current borrowings in the accompanying consolidated balance sheet as of December 31, 2005. The full amount was financed by short-term borrowings.

In April 2005 and October 2005, a number of shares of a subsidiary of the Group, representing net assets with the carrying amount of 58,069 as of December 31, 2005 were pledged as a guarantee for investment obligations of the Group. On June 28, 2006, the pledges were removed as the obligations under investment contracts were fulfilled.

On August 25, 2006, the Group signed an agreement on the purchase of 75% ownership interest in Open Joint-Stock Company “Orsk Engineering Plant” for 45,512 thousand US dollars from an entity under common control with the Group. In addition to the information disclosed in respect of this acquisition, IFRS 3, Business Combinations, requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree’s assets, liabilities and contingent liabilities. It is impracticable to the Group to disclose this information because the acquired subsidiary has not prepared its financial statements in accordance with IFRS at the time these interim condensed consolidated financial statements were authorised for issue. This purchase of a subsidiary from an entity under common control with the Group will be accounted for using the pooling of interests method.

On August 28, 2006, the Board of Directors of the Company recommended that the meeting of the shareholders of the Company approve a loan to be granted by the Company to TMK Steel Limited, the controlling shareholder of the Company, in the aggregate principal amount of up to 780,000 for a term of not more than five years at an interest rate of not less than 0.05% per annum. As of the date of authorization of these financial statements for issue, the meeting of the shareholders of the Company was not held.