OAO TMK

Consolidated Financial Statements

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

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Contents

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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 233,478 thousand roubles, 333,119 thousand roubles and 1,192,776 thousand roubles, 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.

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.

Ernst & Young LLC

August 30, 2006

OAO TMK

Consolidated Statement of Operations

(All amounts in thousands of Russian Roubles)

	NOTES	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Net sales	1	83,110,843	57,170,159	41,994,866
- Goods		*82,175,630*	*56,552,125*	*41,479,213*
- Services		*935,213*	*618,034*	*515,653*
Cost of sales	2	(61,997,180)	(46,032,060)	(37,323,840)
Gross profit		21,113,663	11,138,099	4,671,026
Selling expenses	3	(4,180,154)	(4,133,528)	(2,269,599)
Advertising and promotion expenses	4	(87,224)	(51,521)	(42,274)
General and administrative expenses	5	(3,484,547)	(2,469,125)	(1,831,457)
Research and development expenses	6	(156,908)	(99,591)	(61,023)
Other operating expenses	7	(737,949)	(749,579)	(336,328)
Other operating income	8	8,024	18,719	21,533
Foreign exchange (loss)/gain, net		(413,739)	125,055	29,826
Loss on net monetary position		-	-	(81,092)
Finance costs	9	(2,211,547)	(2,908,414)	(1,154,114)
Finance income	10	51,957	94,197	258,221
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	11	-	2,732,504	-
Profit (loss) before tax		9,901,576	3,696,816	(795,281)
Income tax expense	12	(2,712,106)	(376,203)	(35,047)
Net profit (loss)		**7,189,470**	**3,320,613**	**(830,328)**
Attributable to:				
Equity holders of the parent entity		**6,909,586**	**3,248,523**	**(742,084)**
Minority interests		**279,884**	**72,090**	**(88,244)**
		7,189,470	**3,320,613**	**(830,328)**
Earnings (losses) per share attributable to equity holders of the parent entity - basic and diluted (in Russian Roubles)	13	**7.91**	**27.24**	**(742,084.00)**

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

OAO TMK

Consolidated Balance Sheet
At December 31, 2005, 2004 and 2003

(All amounts in thousands of Russian Roubles)

	NOTES	2005		2004		2003	
ASSETS							
Current assets							
Cash and cash equivalents	14	1,377,111		374,132		418,554	
Short-term investments	15	47,749		391,132		736,462	
Accounts receivable	16	3,597,702		4,703,301		3,080,261	
Accounts receivable from related parties	30	817,627		1,022,530		525,681	
Loans to related parties	30	-		24,139		68,238	
Inventories	19	13,209,206		11,481,181		6,521,457	
Prepayments and input VAT	17	4,184,870		4,738,574		2,529,958	
Prepayments to related parties	30	524	**23,234,789**	1,499	**22,736,488**	-	**13,880,611**
Non-current assets							
Investments and other long-term receivables	18	924,112		688,109		136,198	
Long-term receivables from related parties	30	244,255		191,404		-	
Borrowings to related parties	30	-		-		348,869	
Property, plant and equipment, net	20	44,546,140		44,136,078		34,736,743	
Investment property	20	57,666		-		-	
Goodwill	21	1,070,119		1,070,119		68,734	
Deferred income taxes	12	156,354		80,511		24,210	
Intangible assets	21	369,417	**47,368,063**	311,800	**46,478,021**	21,413	**35,336,167**
TOTAL ASSETS			**70,602,852**		**69,214,509**		**49,216,778**
LIABILITIES AND EQUITY							
Current liabilities							
Accounts payable and advances from customers	23	5,664,937		6,711,733		1,840,479	
Accounts payable to related parties	30	13,750		200,395		2,630,184	
Accrued liabilities	24	3,128,373		2,842,145		1,185,232	
Finance lease liabilities, current portion	25	37,665		106,108		149,854	
Loans and borrowings	26	12,248,286		17,550,661		5,430,743	
Loans and borrowings from related parties	30	903,607		376,663		1,363,491	
Dividends	32 iv	86,694	**22,083,312**	50,311	**27,838,016**	1,284	**12,601,267**
Non-current liabilities							
Loans and borrowings	26	4,746,928		3,249,985		2,264,907	
Finance lease liabilities, net of current portion	25	3,611		32,314		21,142	
Deferred income taxes	12	6,984,026		7,533,993		6,812,091	
Post-employment benefit	27	518,352		323,237		283,329	
Other liabilities	28	211,319	**12,464,236**	119,719	**11,259,248**	75,103	**9,456,572**
Total liabilities			**34,547,548**		**39,097,264**		**22,057,839**
Equity							
Parent shareholders' equity							
Issued capital	32	8,730,013		8,730,013		13	
Accumulated profits		19,328,977		13,706,362		10,763,986	
Reserve capital	32	436,502		68,462		-	
Additional paid-in capital	32	5,105,813		5,065,432		11,704,258	
Foreign currency translation reserve		435,241	34,036,546	490,688	28,060,957	142,831	22,611,088
Minority interests			2,018,758		2,056,288		4,547,851
Total equity			**36,055,304**		**30,117,245**		**27,158,939**
TOTAL EQUITY AND LIABILITIES			**70,602,852**		**69,214,509**		**49,216,778**

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

OAO TMK

Consolidated Statement of Changes in Equity
Years ended December 31, 2005, 2004 and 2003

(All amounts in thousands of Russian Roubles)

	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Foreign currency translation reserve	Parent shareholders' equity	Minority interests	TOTAL
At January 1, 2003	**13**	**11,545,698**	**-**	**11,506,070**	**-**	**23,051,781**	**4,596,895**	**27,648,676**
Effect of exchange rate changes	-	-	-	-	142,831	**142,831**	39,200	**182,031**
Total income and expense for the year recognised directly in equity	-	-	-	-	142,831	**142,831**	39,200	**182,031**
Net profit	-	-	-	(742,084)	-	**(742,084)**	(88,244)	**(830,328)**
Total income and expense for the year	-	-	-	(742,084)	142,831	**(599,253)**	(49,044)	**(648,297)**
Free of charge funding (Note 32, v)	-	70,179	-	-	-	**70,179**	-	**70,179**
Contribution from owners (Note 32, iv)	-	88,381	-	-	-	**88,381**	-	**88,381**
At December 31, 2003	**13**	**11,704,258**	**-**	**10,763,986**	**142,831**	**22,611,088**	**4,547,851**	**27,158,939**
Effect of exchange rate changes					347,857	**347,857**	28,866	**376,723**
Total income and expense for the year recognised directly in equity	-	-	-	-	347,857	**347,857**	28,866	**376,723**
Net profit	-	-	-	3,248,523	-	**3,248,523**	72,090	**3,320,613**
Total income and expense for the year	-	-	-	3,248,523	347,857	**3,596,380**	100,956	**3,697,336**
Appropriation of profit to reserve capital (Note 32, ii)	-	-	68,462	(68,462)	-	**-**	-	**-**
Issue of share capital (Note 32 i)	8,730,000	-	-	-	-	**8,730,000**	-	**8,730,000**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 32, vii)	-	-	-	-	-	**-**	(67,506)	**(67,506)**
Purchase of minority interests (Note 32, vi)	-	2,914,177	-	-	-	**2,914,177**	(2,914,177)	**-**
Increase in additional paid-in capital and minority interest from the acquisition of Tagmet (Note 11)	-	7,544,947	-	-	-	**7,544,947**	374,061	**7,919,008**
Increase in minority interest from the acquisition of CS CSR SA (Note 11)	-	-	-	-	-	**-**	15,103	**15,103**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 32, iv)	-	-	-	(23,543)	-	**(23,543)**	-	**(23,543)**
Other distributions to owners (Note 32, iv)	-	(17,097,950)	-	(214,142)	-	**(17,312,092)**	-	**(17,312,092)**
At December 31, 2004	**8,730,013**	**5,065,432**	**68,462**	**13,706,362**	**490,688**	**28,060,957**	**2,056,288**	**30,117,245**

OAO TMK

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

(All amounts in thousands of Russian Roubles)

	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Foreign currency translation reserve	Parent shareholders' equity	Minority interests	TOTAL
At December 31, 2004	**8,730,013**	**5,065,432**	**68,462**	**13,706,362**	**490,688**	**28,060,957**	**2,056,288**	**30,117,245**
Effect of exchange rate changes	-	-	-	-	(55,447)	**(55,447)**	(3,247)	**(58,694)**
Total income and expense for the year recognised directly in equity	-	-	-	-	(55,447)	**(55,447)**	(3,247)	**(58,694)**
Net profit	-	-	-	6,909,586	-	**6,909,586**	279,884	**7,189,470**
Total income and expence for the year	-	-	-	6,909,586	(55,447)	**6,854,139**	276,637	**7,130,776**
Appropriation of profit to reserve capital (Note 32, ii)	-	-	368,039	(368,039)	-	-	-	-
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 32, vii)	-	-	-	-	-	-	(33,712)	**(33,712)**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 32, iv)	-	-	-	(266,521)	-	**(266,521)**	-	**(266,521)**
Purchase of minority interests (Note 32, vi)	-	40,382	-	-	-	**40,382**	(280,455)	**(240,073)**
Dividends (Note 32, iii)	-	-	-	(73,332)	-	**(73,332)**	-	**(73,332)**
Other distributions to owners (Note 32, iv)	-	-	-	(579,078)	-	**(579,078)**	-	**(579,078)**
At December 31, 2005	**8,730,013**	**5,105,814**	**436,501**	**19,328,978**	**435,241**	**34,036,547**	**2,018,758**	**36,055,305**

OAO TMK

Consolidated Cash Flow Statement

(All amounts in thousands of Russian Roubles)

	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		9,901,576	3,696,816	(795,281)
Adjustments for:				
Depreciation		2,965,613	2,744,552	2,111,128
Amortisation		22,890	4,986	3,186
Loss on disposal of property, plant and equipment	7	127,943	36,682	78,158
Gain on sale of investments	10	-	(14,745)	(241,168)
Foreign exchange loss/ (gain)		413,739	(125,055)	(29,826)
Loss on net monetary position				81,092
Interest expense	9	2,211,547	2,908,414	1,154,114
Interest income	10	(51,957)	(79,452)	(17,053)
Excees of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent over the cost of acquisition	11	-	(2,732,504)	-
Donations		47,891	-	-
Inventory adjustments	2	65,765	20,639	8,031
Bad debt expense	3	43,980	179,013	33,245
Operating cash flow before working capital changes		**15,748,987**	**6,639,346**	**2,385,626**
Increase in inventories		(1,694,058)	(3,161,071)	(3,023,354)
Decrease (increase) in accounts receivable		1,386,575	(1,122,316)	(759,466)
Decrease (increase) in prepayments		310,933	(1,429,538)	(1,048,018)
Increase (decrease) in accounts payable		630,328	(409,660)	401,631
Increase in accrued liabilities		550,201	484,822	546,426
(Decrease) increase in advances from customers		(2,177,342)	2,904,978	(224,784)
Cash generated from operations		14,755,624	3,906,561	(1,721,939)
Income taxes paid		(3,034,504)	(629,008)	(301,254)
Net cash from operating activities		**11,721,120**	**3,277,553**	**(2,023,193)**
Cash flows from investing activities				
Purchase of property, plant and equipment		(3,936,707)	(1,913,427)	(1,112,953)
Proceeds from sale of property, plant and equipment		84,440	26,403	1,356
Proceeds from sale of investments		63,247	-	-
Proceeds from repayment of loans		18,752	274,221	-
Payments for increases in ownership interests in subsidiaries		(191,075)	(49,000)	-
Cash in subsidiary acquired via non-cash transation	11	-	11,341	-
Loans granted		12,187	(232,512)	(374,119)
Interest received		42,579	79,452	6,013
Net cash used in investing activities		**(3,906,577)**	**(1,803,522)**	**(1,479,703)**
Cash flows from financing activities				
Proceeds from issue of share capital		-	8,730,000	-
Proceeds from borrowings		45,998,955	58,932,377	25,984,160
Repayment of borrowings		(49,596,680)	(48,787,313)	(21,210,856)
Payment under finance lease liabilities		(116,342)	(192,170)	(257,866)
Distribution to owners	32 iv	(3,428)	(17,312,092)	-
Cash received from parent		-	-	158,560
Payments to entities under common control for the transfer of ownership interest in subsidiaries	32 iv	(575,650)	-	-
Interest paid		(2,201,086)	(2,818,709)	(981,064)
Dividends paid	32 iii	(73,332)	-	-
Dividends paid by subsidiaries of the Group		(263,846)	(66,265)	(10,028)
Net cash (used in) from financing activities		**(6,831,409)**	**(1,514,172)**	**3,682,906**
Effect of foreign exchange rate changes on cash and cash equivalents		19,845	(4,281)	(14,309)
Net increase/(decrease) in cash and cash equivalents		1,002,979	(44,422)	165,701
Cash and cash equivalents at the beginning of the year		374,132	418,554	252,853
Cash and cash equivalents at the end of the year		**1,377,111**	**374,132**	**418,554**

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 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".

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 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 and (6) business combinations.

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)

Accounting for the Effect of Inflation (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.

- **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 138,364.

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 1,070,119. More details are provided in Notes 11, 21.

Significant Accounting Policies (continued)

• Estimation Uncertainty (continued)

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).

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 245,650, 240,092 and 65,169, 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 169,731, 104,782 and 83,918, 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”;

Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

- 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";
- 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)

- **Index to Accounting Policies**

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) Foreign Currency Transactions

The presentation currency of the Group is the national currency of the Russian Federation, Russian rouble.

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. As at the reporting date, the assets and liabilities of the subsidiaries with the euro or lei, as functional currency, are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their statement of operations are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of operations.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. 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.

C) 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.

Significant Accounting Policies (continued)

D) 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.

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 statement of operations. 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 statement of operations.

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.

E) 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 statement of operations.

Significant Accounting Policies (continued)

F) 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.

G) Inventories

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

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

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

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

H) 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.

Significant Accounting Policies (continued)

H) Property, Plant and Equipment (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 property, plant and equipment are included in the statement of operations 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.

I) Investment Property

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

Depreciation is calculated on a straight-line basis 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 statement of operations as incurred.

J) 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.

Significant Accounting Policies (continued)

J) Leases (continued)

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 statement of operations on a straight-line basis over the lease term.

K) 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.

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.

L) 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.

Significant Accounting Policies (continued)

M) 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.

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.

N) 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.

Significant Accounting Policies (continued)

O) 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.

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.

P) 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.

Significant Accounting Policies (continued)

Q) 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.

R) 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.

Share Premium

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.

S) 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.

Index to the Notes to the Consolidated Financial Statements

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 Russian Roubles, 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	25,822,012	50,577,300	6,711,531	-	**83,110,843**
GROSS PROFIT	3,643,070	16,825,759	644,834	-	**21,113,663**
SEGMENT ASSETS	7,983,120	40,870,138	1,157,026	20,592,568	**70,602,852**
SEGMENT LIABILITIES	413,605	4,494,721	206,075	29,433,147	**34,547,548**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	47,042	3,384,183	118,980	390,251	**3,940,456**
DEPRECIATION AND AMORTIZATION	277,693	2,182,094	115,414	413,302	**2,988,503**

YEAR ENDED DECEMBER 31, 2004	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
NET SALES	14,058,162	37,875,307	5,236,690	-	**57,170,159**
GROSS PROFIT	1,767,474	9,223,743	146,882	-	**11,138,099**
SEGMENT ASSETS	8,606,308	40,888,045	1,503,194	18,216,962	**69,214,509**
SEGMENT LIABILITIES	2,380,219	2,894,707	142,235	33,680,103	**39,097,264**
PROPERTY, PLANT AND EQUIPMENT ACQUIRED IN BUSINESS COMBINATION	1,285,282	6,921,517	151,210	2,041,331	**10,399,340**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	94,834	1,211,538	99,053	346,870	**1,752,295**
DEPRECIATION AND AMORTIZATION	279,934	2,050,844	226,193	192,567	**2,749,538**

YEAR ENDED DECEMBER 31, 2003	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
NET SALES	11,394,679	27,667,669	2,932,518	-	**41,994,866**
GROSS PROFIT	625,949	3,674,408	370,669	-	**4,671,026**
SEGMENT ASSETS	5,460,566	31,317,897	1,388,259	11,050,056	**49,216,778**
SEGMENT LIABILITIES	182,050	844,683	106,962	20,924,144	**22,057,839**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	170,017	1,291,076	163,554	79,458	**1,704,105**
DEPRECIATION AND AMORTIZATION	215,926	1,613,596	271,647	13,145	**2,114,314**

(All amounts are in thousands of Russian Roubles, 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	57,746,709	14,548,336	2,181,717	3,603,975	99,043	3,583,916	1,347,147	**83,110,843**
SEGMENT ASSETS	59,333,200	10,945,755	323,897	-	-	-	-	**70,602,852**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	2,900,014	1,040,442	-	-	-	-	-	**3,940,456**

YEAR ENDED DECEMBER 31, 2004	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
NET SALES	41,101,350	9,076,529	1,874,015	2,243,255	119,007	2,146,038	609,965	**57,170,159**
SEGMENT ASSETS	59,795,049	9,351,289	68,171	-	-	-	-	**69,214,509**
PROPERTY, PLANT AND EQUIPMENT ACQUIRED IN BUSINESS COMBINATION	7,560,484	2,838,856	-	-	-	-	-	**10,399,340**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	1,661,803	90,492	-	-	-	-	-	**1,752,295**

YEAR ENDED DECEMBER 31, 2003	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
NET SALES	33,356,365	4,479,847	896,672	1,323,894	50,586	777,623	1,109,879	**41,994,866**
SEGMENT ASSETS	45,490,858	3,725,920	-	-	-	-	-	**49,216,778**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	1,677,586	26,519	-	-	-	-	-	**1,704,105**

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

2) Cost of Sales

	2005	2004	2003
DIRECT COST			
Raw materials	41,906,273	29,764,201	20,145,410
Add-on materials of production	2,283,601	1,687,883	1,304,147
Labor cost	2,156,843	1,606,532	1,108,946
Contracted services	129,492	136,716	121,924
Energy	2,339,493	1,883,990	1,201,570
TOTAL DIRECT COST	48,815,702	35,079,322	23,881,997
PRODUCTION OVERHEADS			
Salaries & wages	4,260,127	3,368,192	2,204,959
Other compensation	216,937	62,767	38,718
Travel	21,373	14,198	4,510
Freight	88,683	68,243	40,324
Communications	10,056	9,770	5,478
Professional services	187,192	95,575	49,281
Rent/occupancy	7,149	7,758	19,383
Utilities	1,692,686	1,203,891	819,611
Depreciation	2,796,946	2,538,796	2,025,711
Insurance	3,226	2,476	2,685
Taxes	359,017	331,810	291,292
Repairs and maintenance	521,850	305,501	243,509
Supplies	2,453,552	2,066,226	1,165,252
Specialised tools	353,614	301,511	124,930
Other	58,332	24,737	14,934
Less: capitalized costs	(187,614)	(63,217)	(42,263)
TOTAL PRODUCTION OVERHEAD CHARGES	12,843,126	10,338,234	7,008,314
CHANGES IN INVENTORY	(201,902)	(2,561,532)	(1,227,415)
COST OF MERCHANDISE	472,596	3,175,842	7,630,472
INVENTORY ADJUSTMENT			
Book to physical	1,893	(20,445)	22,441
Obsolete and slow-moving	65,765	20,639	8,031
TOTAL INVENTORY ADJUSTMENT	67,658	194	30,472
TOTAL COST OF SALES	**61,997,180**	**46,032,060**	**37,323,840**

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

3) Selling Expenses

	2005	2004	2003
Salaries & wages	671,981	535,422	318,208
Other compensation	11,228	6,120	3,080
Travel	66,753	46,954	26,706
Freight	2,514,804	1,762,474	1,199,426
Communications	31,539	25,416	25,436
Professional services	294,149	1,129,989	393,327
Rent/occupancy	114,565	84,719	67,069
Utilities	7,297	11,455	5,844
Depreciation	34,419	24,588	12,926
Insurance	17,514	9,386	3,021
Taxes	2,295	262	555
Repairs and maintenance	4,820	17,058	13,504
Supplies	325,393	246,703	147,007
Bad debt expense	43,980	179,013	33,245
Other	39,417	53,969	20,245
TOTAL SELLING EXPENSES	**4,180,154**	**4,133,528**	**2,269,599**

4) Advertising and Promotion Expenses

	2005	2004	2003
Media	22,169	17,214	16,371
Displays, exhibits and catalogues	54,527	24,125	17,536
Taxes	-	1,837	604
Other	10,528	8,345	7,763
TOTAL ADVERTISING & PROMOTION EXPENSES	**87,224**	**51,521**	**42,274**

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

5) General and Administrative Expenses

	2005	2004	2003
Salaries & wages	1,876,265	1,410,821	1,181,974
Other compensation	156,978	77,088	41,471
Travel	126,328	98,226	55,299
Freight	18,829	14,514	16,767
Communications	23,524	17,905	17,100
Professional services	632,034	283,579	173,208
Rent/occupancy	74,038	59,168	45,344
Utilities	97,455	82,850	41,952
Depreciation	157,525	128,335	95,406
Insurance	12,522	36,435	3,229
Taxes	66,964	50,680	32,745
Repairs and maintenance	43,856	38,064	22,432
Supplies	157,601	134,238	97,591
Other	40,628	37,222	6,939
TOTAL GENERAL & ADMINISTRATION EXPENSES	**3,484,547**	**2,469,125**	**1,831,457**

6) Research and Development Expenses

	2005	2004	2003
Salaries & wages	85 371	69 534	37 067
Other compensation	2 961	475	767
Travel	1 644	972	217
Freight	828	603	201
Communications	600	560	300
Professional services	24 499	3 688	582
Utilities	3 414	2 180	2 230
Depreciation	27 027	14 267	11 663
Repairs and maintenance	1 960	1 545	3 478
Supplies	8 397	5 052	4 469
Other	207	715	49
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	**156 908**	**99 591**	**61 023**

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

7) Other Operating Expenses

	2005	2004	2003
Loss on disposal of property, plant and equipment	127,943	36,682	78,158
Loss on sale of current assets	-	-	2,638
Social and social infrastructure maintenance expenses	314,647	404,698	221,210
Charitable donations	211,799	101,180	33,297
Other	83,560	207,019	1,025
TOTAL OTHER OPERATING EXPENSES	**737,949**	**749,579**	**336,328**

8) Other Operating Income

	2005	2004	2003
Gain on sale of current assets	4,456	17,815	-
Other	3,568	904	21,533
TOTAL OTHER OPERATING INCOME	**8,024**	**18,719**	**21,533**

9) Finance Costs

	2005	2004	2003
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	71,859	104,132	104,544
Interest expense	2,139,688	2,804,282	1,049,570
TOTAL FINANCE COST	**2,211,547**	**2,908,414**	**1,154,114**

10) Finance Income

	2005	2004	2003
Gain on sale of long-term investments	-	14,745	1,736
Gain on sale of promissory notes	-	-	99,432
Gain on extinguishment of debts	-	-	140,000
Interest income	51,957	79,452	17,053
TOTAL FINANCE INCOME	**51,957**	**94,197**	**258,221**

(All amounts are in thousands of Russian Roubles, 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 7,544,947. 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	7,560,484
Other non-current assets	484,901
Inventories	1,319,233
Accounts and notes receivable, net	2,204,755
Cash	2,587
Total assets	**11,571,960**
Non-current liabilities	594,574
Deferred income tax liabilities	1,016,228
Current liabilities	3,043,535
Total liabilities	**4,654,337**
NET ASSETS	**6,917,623**
Fair value of net assets attributable to 94.59% ownership interest	6,543,562
Goodwill arising on acquisition	1,001,385
CONSIDERATION PAID	**7,544,947**

Tagmet's net profit for the period from February 26, 2004 to December 31, 2004 amounted to 93,915.

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 57,379,751 and 3,077,195, respectively.

(All amounts are in thousands of Russian Roubles, 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 652,483 US dollars payable in 2005 (2,621 and 16,155 at exchange rate as of October 28, 2005 and November 11, 2005, respectively). The payment of 652,483 US dollars (18,776) 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	2,838,856
Other non-current assets	14
Inventories	554,213
Accounts and notes receivable, net	138,534
Deferred income tax assets	82,977
Cash	8,754
Total assets	**3,623,348**
Non-current liabilities	13,432
Deferred income tax liabilities	282,079
Current liabilities	561,454
Total liabilities	**856,965**
NET ASSETS	**2,766,383**
Fair value of net assets attributable to 99.45% ownership interest	2,751,280
CONSIDERATION	18,776
Excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilitites and contingent liabilities over the cost of acquisition recognised in the statement of operations	**2,732,504**

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 379,346.

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 Russian Roubles, unless specified otherwise)

12) Income Tax

	2005	2004	2003
Current income tax	3,337,916	925,932	317,311
Deferred income tax benefit related to origination and reversal of temporary differences	(625,810)	(549,729)	(282,264)
TOTAL INCOME TAX EXPENSE	**2,712,106**	**376,203**	**35,047**

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

	2005	2004	2003
Income before taxation	9,901,576	3,696,816	(795,281)
Theoretical tax charge at statutory rate in Russia of 24%	2,376,378	887,236	(190,867)
Tax effect of items which are not deductable or assessable for taxation purposes:			
Tax fines	(32,046)	28,062	3,984
Other non-deductible expenses	345,280	174,769	163,983
Effect of different tax rates in Switzerland, Romania, Germany	(1,362)	(8,742)	50,855
Effect of change in tax rate in Romania from 25% to 16%	-	(66,127)	-
Effect of currency translation	(4,287)	(12,022)	4,078
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)	-	(655,801)	-
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	28,143	28,828	3,014
TOTAL INCOME TAX EXPENSE	**2,712,106**	**376,203**	**35,047**

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	2004	Change recognised in income statement	Change due to business combinations	2003	Change recognised in income statement	2002
Deferred income tax liabilities:								
Property, plant and equipment	(7,058,582)	523,188	(7,581,770)	495,391	(1,312,254)	(6,764,907)	373,956	(7,138,863)
Accounts receivable	(221,519)	-	(221,519)	-	-	(221,519)	-	(221,519)
Inventory	(67,750)	65,408	(133,158)	43,184	(83,155)	(93,187)	(32,464)	(60,723)
Undistributed earnings of subsidiaries	(28,143)	685	(28,828)	(25,814)	-	(3,014)	(3,014)	-
Other	(374)	19,492	(19,866)	(15,944)	-	(3,922)	(2,658)	(1,264)
	(7,376,368)	**608,773**	**(7,985,141)**	**496,817**	**(1,395,409)**	**(7,086,549)**	**335,820**	**(7,422,369)**
Deferred income tax assets:								
Tax losses available for offset	299,533	(18,537)	318,070	9,081	195,177	113,812	(30,119)	143,931
Accrued liabilities	63,358	(59,687)	123,045	25,617	15,769	81,659	10,490	71,169
Accounts receivable	46,724	17,119	29,605	9,727	18,777	1,101	(5,290)	6,391
Prepayments and other current assets	14,617	(16,153)	30,770	(12,911)	42,119	1,562	(4,766)	6,328
Provisions	166,671	95,348	71,323	37,380	252	33,691	13,425	20,266
Finance lease obligations	8,553	(35,719)	44,272	(32,767)	36,000	41,039	21,277	19,762
Trade and other payable	82,114	34,666	47,448	16,785	4,859	25,804	(58,573)	84,377
	681,570	**17,037**	**664,533**	**52,912**	**312,953**	**298,668**	**(53,556)**	**352,224**
Net tax effect of temporary differences	-	625,810	-	549,729	-	-	282,264	-
Less: not recognized deferred income tax asset	(132,874)	-	(132,874)	-	(132,874)	-	-	-
Net deferred income tax liability	**(6,984,026)**	-	**(7,533,993)**	-	**(1,215,330)**	**(6,812,091)**	-	**(7,185,329)**
Net deferred income tax assets	**156,354**	-	**80,511**	-	-	**24,210**	-	**115,184**

(All amounts are in thousands of Russian Roubles, 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	165,342	168,021	104,356
Deferred tax liabilities to be settled after more than 12 months	(7,058,582)	(7,581,770)	(6,764,907)

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 132,874 (2004: 132,874) 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 10,662,268 (2004: 2,949,624; 2003: 1,192,090) 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	6,909,586	3,248,523	(742,084)
Earnings per share attributable to the equity holders of the parent entity			
Basic and diluted (in Russian Roubles)	**7.91**	**27.24**	**(742,084.00)**

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 years ended December 31, 2005 and 2004 (Note 32).

(All amounts are in thousands of Russian Roubles, 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	917,363	53,145	82,571
Foreign currency denominated balances with bank (US dollar, Euro, Swiss Franc, Romanian lei)	459,748	320,987	335,983
TOTAL CASH AND CASH EQUIVALENTS	**1,377,111**	**374,132**	**418,554**

15) Short-term Investments

	December 31, 2005	December 31, 2004	December 31, 2003
Promissory notes	12,197	381,620	734,209
Miscellaneous	35,552	9,512	2,253
TOTAL SHORT-TERM INVESTMENTS	**47,749**	**391,132**	**736,462**

Cash deposit of 34,185 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	3,602,258	4,691,582	2,725,664
Officers and employees	44,974	41,267	22,832
Other accounts receivable	195,470	210,347	396,934
GROSS ACCOUNTS RECEIVABLE	3,842,702	4,943,196	3,145,430
Allowance for doubtful debts	(245,000)	(239,895)	(65,169)
NET ACCOUNTS RECEIVABLE	**3,597,702**	**4,703,301**	**3,080,261**

Accounts receivable amounting to 474,042, 606,851 and 433,308 are denominated in US dollars at December 31, 2005, December 31, 2004 and December 31, 2003, respectively. Amounts receivable amounting to 773,346, 375,120 and 83,527 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	239,895	65,169	31,489
Utilized during the year	(34,490)	-	-
Additional increase in allowance	43,527	178,816	33,245
Currency translation adjustment	(3,932)	(4,090)	435
BALANCE AT THE END OF THE YEAR	**245,000**	**239,895**	**65,169**

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

16) Accounts Receivable (continued)

Bank borrowings are secured by accounts receivable with the carrying value of 20,639 (December 31, 2004: 42,647; December 31, 2003: 15,679) (Note 26).

17) Prepayments and Input VAT

	December 31, 2005	December 31, 2004	December 31, 2003
Prepayement for services, inventories	625,706	1,397,733	666,820
Prepayment for rent	11,143	7,903	10,197
Deferred charges	45,064	42,278	17,419
Prepayment for VAT, Input VAT	3,443,791	3,192,155	1,748,917
Prepayment for income tax	3,412	52,683	65,705
Prepayment for property tax	6,142	3,563	-
Prepayment for other tax	27,105	30,926	8,359
Prepayment for insurance	15,699	6,106	7,977
Miscellaneous	6,808	5,227	4,564
TOTAL PREPAYMENTS	**4,184,870**	**4,738,574**	**2,529,958**

Prepayments amounting to 289,442, 267,935 and 210,026 are denominated in foreign currency, mainly euros, 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	19,114	12,301	-
Advances to employees	86,409	55,681	18,995
Prepayment for property, plant and equipment	691,312	446,616	104,451
Borrowing costs relating to unused borrowing facilities	58,286	-	-
Investments	816	85,735	12,752
Prepayment for increases in ownership interests in subsidiaries	-	49,000	-
Other	68,825	38,973	-
GROSS INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	924,762	688,306	136,198
Allowance for doubtful debts	(650)	(197)	-
NET INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	**924,112**	**688,109**	**136,198**

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

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

Non-current accounts receivables amounting to 225,945, 255,702 and 115,250 are denominated in foreign currency, mainly euros, at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

Cash balances of 32,303 and 18,112 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	197	-	-
Additional increase in allowance	453	197	-
BALANCE AT THE END OF THE YEAR	**650**	**197**	-

19) Inventories

	December 31, 2005	December 31, 2004	December 31, 2003
Raw materials	4,650,731	3,328,374	2,508,167
Work in process	2,771,947	1,948,230	1,156,566
Finished goods	2,094,041	1,786,987	956,894
Goods in transit	1,247,989	2,043,645	558,488
Consigned goods	-	34,476	51,798
Supplies	2,614,229	2,444,251	1,373,462
GROSS INVENTORIES	13,378,937	11,585,963	6,605,375
Allowance for obsolescence and slow-moving	(169,731)	(104,782)	(83,918)
NET INVENTORIES	**13,209,206**	**11,481,181**	**6,521,457**

As of December 31, 2005, inventories carried at net realizable value were 1,185,154 (December 31, 2004: 1,451,561; December 31, 2003: 138,071).

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

	2005	2004	2003
Balance at the beginning of the year	104,782	83,918	76,963
Additional increase in allowance	65,765	20,639	8,031
Currency translation adjustments	(816)	225	(1,076)
BALANCE AT THE END OF THE YEAR	**169,731**	**104,782**	**83,918**

Inventories of 761,510 (December 31, 2004: 3,644,454; December 31, 2003: 1,420,717) have been pledged as security for borrowings (Note 26).

(All amounts are in thousands of Russian Roubles, 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	21 424 334	24 328 089	779 399	343 736	2 052 654	**48 928 212**
Additions	44 434	8 234	6 579	3 413	3 875 552	**3 938 212**
Assets put in operations	455 000	826 799	203 683	104 327	(1 589 809)	**-**
Transfer to investment property	(55 987)	(2 887)	-	(8 705)	-	**(67 579)**
Disposals	(196 148)	(203 127)	(9 445)	(24 541)	(48 720)	**(481 981)**
Currency translation adjustments	(32 923)	(36 184)	(10 406)	(860)	(45 473)	**(125 846)**
BALANCE AT DECEMBER 31, 2005	**21 638 710**	**24 920 924**	**969 810**	**417 370**	**4 244 204**	**52 191 018**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2005	(956 860)	(3 558 310)	(164 104)	(112 860)	-	**(4 792 134)**
Depreciation charge	(633 985)	(2 165 675)	(106 671)	(81 095)	-	**(2 987 426)**
Transfer to investment property	6 236	305	-	1 681	-	**8 222**
Disposals	19 017	69 779	4 463	20 408	-	**113 667**
Currency translation adjustments	4 758	6 317	1 318	400	-	**12 793**
BALANCE AT DECEMBER 31, 2005	**(1 560 834)**	**(5 647 584)**	**(264 994)**	**(171 466)**	**-**	**(7 644 878)**
NET BOOK VALUE AT DECEMBER 31, 2005	**20 077 876**	**19 273 340**	**704 816**	**245 904**	**4 244 204**	**44 546 140**
NET BOOK VALUE AT JANUARY 1, 2005	**20 467 474**	**20 769 779**	**615 295**	**230 876**	**2 052 654**	**44 136 078**

Bank borrowings are secured by properties and equipment with the carrying value of 5,041,043 (December 31, 2004: 16,478,725; December 31, 2003: 19,660,904) (Note 26).

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

20) Property, Plant and Equipment (continued)

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	16 809 111	18 919 409	369 975	216 889	564 344	**36 879 728**
Additions	9 024	160 961	5 733	8 219	1 568 358	**1 752 295**
Assets in operations	253 031	878 316	61 134	127 892	(1 320 373)	**-**
Disposals	(273 284)	(123 706)	(12 737)	(61 343)	(51 687)	**(522 757)**
Increase due to business combination (Note 11)	4 453 976	4 365 940	332 842	51 750	1 194 832	**10 399 340**
Currency translation adjustments	172 476	127 169	22 452	329	97 180	**419 606**
BALANCE AT DECEMBER 31, 2004	**21 424 334**	**24 328 089**	**779 399**	**343 736**	**2 052 654**	**48 928 212**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2004	(421 456)	(1 616 175)	(62 905)	(42 449)	-	**(2 142 985)**
Depreciation charge	(537 859)	(1 973 584)	(104 881)	(85 895)	-	**(2 702 219)**
Disposals	7 219	39 945	4 834	15 649	-	**67 647**
Currency translation adjustments	(4 764)	(8 496)	(1 152)	(165)	-	**(14 577)**
BALANCE AT DECEMBER 31, 2004	**(956 860)**	**(3 558 310)**	**(164 104)**	**(112 860)**	**-**	**(4 792 134)**
NET BOOK VALUE AT DECEMBER 31, 2004	**20 467 474**	**20 769 779**	**615 295**	**230 876**	**2 052 654**	**44 136 078**
NET BOOK VALUE AT JANUARY 1, 2004	**16 387 655**	**17 303 234**	**307 070**	**174 440**	**564 344**	**34 736 743**

(All amounts are in thousands of Russian Roubles, 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	16,344,783	18,069,291	334,105	155,833	341,502	**35,245,514**
Additions	645	1,970	893	42,528	1,658,069	**1,704,105**
Assets in operations	468,549	864,487	40,025	53,364	(1,426,425)	**-**
Disposals	(34,988)	(86,115)	(7,544)	(35,387)	(9,341)	**(173,375)**
Currency translation adjustments	30,122	69,776	2,496	551	539	**103,484**
BALANCE AT DECEMBER 31, 2003	**16,809,111**	**18,919,409**	**369,975**	**216,889**	**564,344**	**36,879,728**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2003	-	(122)	(277)	(2)	-	**(401)**
Depreciation charge	(421,611)	(1,616,864)	(62,993)	(42,988)	-	**(2,144,456)**
Disposals	159	802	415	635	-	**2,011**
Currency translation adjustments	(4)	9	(50)	(94)		**(139)**
BALANCE AT DECEMBER 31, 2003	**(421,456)**	**(1,616,175)**	**(62,905)**	**(42,449)**	**-**	**(2,142,985)**
NET BOOK VALUE AT DECEMBER 31, 2003	**16,387,655**	**17,303,234**	**307,070**	**174,440**	**564,344**	**34,736,743**
NET BOOK VALUE AT JANUARY 1, 2003	**16,344,783**	**18,069,169**	**333,828**	**155,831**	**341,502**	**35,245,113**

Investment property was as follows:

COST	
Balance at January 1, 2005	-
Transfer from property, plant and equipment	67,579
Additions	2,244
Disposals	(37)
Balance at December 31, 2005	**69,786**
ACCUMULATED DEPRECIATION	
Balance at January 1, 2005	-
Transfer from property, plant and equipment	(8,222)
Depreciation charge	(3,909)
Disposals	11
Balance at December 31, 2005	**(12,120)**
NET BOOK VALUE AT DECEMBER 31, 2005	**57,666**

The fair value of investment property approximates its carrying amount.

(All amounts are in thousands of Russian Roubles, 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	9,065	1,070,119	233,702	86,144	**1,399,030**
Additions	706	-	89,399	27,537	**117,642**
Disposals	-	-	(463)	(36,511)	**(36,974)**
Currency translation adjustments	(43)	-	-	(594)	**(637)**
BALANCE AT DECEMBER 31, 2005	**9,728**	**1,070,119**	**322,638**	**76,576**	**1,479,061**
ACCUMULATED AMORTISATION					
Balance at January 1, 2005	(1,820)	-	-	(15,291)	**(17,111)**
Amortisation charge	(737)	-	(10,954)	(11,898)	**(23,589)**
Disposals	1	-	-	478	**479**
Currency translation adjustments	26	-	-	670	**696**
BALANCE AT DECEMBER 31, 2005	**(2,530)**	**-**	**(10,954)**	**(26,041)**	**(39,525)**
NET BOOK VALUE AT DECEMBER 31, 2005	**7,198**	**1,070,119**	**311,684**	**50,535**	**1,439,536**
NET BOOK VALUE AT JANUARY 1, 2005	**7,245**	**1,070,119**	**233,702**	**70,853**	**1,381,919**

	Patents and trademarks	Goodwill	Information system projects (software SAP R\3)	Other	TOTAL
COST					
Balance at January 1, 2004	8,523	68,734	-	25,089	**102,346**
Additions	361	-	233,702	58,935	**292,998**
Disposals	(3)	-	-	-	**(3)**
Increase due to business combination (Note 29)	-	1,001,385	-	-	**1,001,385**
Currency translation adjustments	184	-	-	2,120	**2,304**
BALANCE AT DECEMBER 31, 2004	**9,065**	**1,070,119**	**233,702**	**86,144**	**1,399,030**
ACCUMULATED AMORTISATION					
Balance at January 1, 2004	(1,190)	-	-	(11,009)	**(12,199)**
Amortisation charge	(592)	-	-	(3,203)	**(3,795)**
Disposals	3	-	-	-	**3**
Currency translation adjustments	(41)	-	-	(1,079)	**(1,120)**
BALANCE AT DECEMBER 31, 2004	**(1,820)**	**-**	**-**	**(15,291)**	**(17,111)**
NET BOOK VALUE AT DECEMBER 31, 2004	**7,245**	**1,070,119**	**233,702**	**70,853**	**1,381,919**
NET BOOK VALUE AT JANUARY 1, 2004	**7,333**	**68,734**	**-**	**14,080**	**90,147**

(All amounts are in thousands of Russian Roubles, 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	1,508	68,734	-	43,366	**113,608**
Additions	7,124	-	-	4,148	**11,272**
Disposals	-	-	-	(20,866)	**(20,866)**
Currency translation adjustments	(109)	-	-	(1,558)	**(1,667)**
BALANCE AT DECEMBER 31, 2003	**8,523**	**68,734**	**-**	**25,090**	**102,347**
ACCUMULATED AMORTISATION					
Balance at January 1, 2003	(352)	-	-	(8,661)	**(9,013)**
Amortisation charge	(863)	-	-	(2,975)	**(3,838)**
Disposals	-	-	-	-	**-**
Currency translation adjustments	25	-	-	626	**651**
BALANCE AT DECEMBER 31, 2003	**(1,190)**	**-**	**-**	**(11,010)**	**(12,200)**
NET BOOK VALUE AT DECEMBER 31, 2003	**7,333**	**68,734**	**-**	**14,080**	**90,147**
NET BOOK VALUE AT JANUARY 1, 2003	**1,156**	**68,734**	**-**	**34,705**	**104,595**

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	262,058	354,399	153,573
Non-current assets	37,347	24,735	6,697
Current liabilities	418,812	454,955	187,007
Non-current liabilities	11,154	9,706	6,198
NET LIABILITIES	**(130,561)**	**(85,527)**	**(32,935)**
SHARE OF THE ASSOCIATE'S REVENUE AND LOSS	**2005**	**2004**	**2003**
Revenue	963,594	1,343,834	503,749
Net Loss	(53,199)	(50,721)	(32,145)
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 Russian Roubles, unless specified otherwise)

23) Accounts Payable and Advances from Customers

	December 31, 2005	December 31, 2004	December 31, 2003
Trade and other payables	3,537,661	2,450,188	1,024,848
Advances from customers	1,623,681	3,812,264	762,839
Accounts payable for property, plant and equipment	428,034	107,302	28,520
Issued notes to third parties	-	275,000	-
Other	75,561	66,979	24,272
TOTAL ACCOUNTS PAYABLE	**5,664,937**	**6,711,733**	**1,840,479**

Trade payables amounting to 2,001,472, 2,377,705 and 1,098,839 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	574,059	509,875	256,041
Accrued and withheld taxes on payroll	210,472	172,948	124,347
Liabilities for VAT	523,474	287,516	43,095
Liabilities for income tax	349,825	329,910	71,930
Liabilities for property tax	28,457	35,263	44,983
Liabilities for other taxes	21,456	23,417	26,090
Deferred VAT	1,088,275	1,093,408	482,208
Liabilities for unused annual leaves, current portion	38,049	34,085	13,432
Accrual for tax fines	17,472	133,524	16,599
Accrual for long-service benefit	95,500	60,643	52,853
Environmental provision	75,233	75,233	-
Miscellaneous	106,101	86,323	53,654
TOTAL ACCRUED LIABILITIES	**3,128,373**	**2,842,145**	**1,185,232**

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 a bargain option to acquire the leased assets at the end of lease term ranging from 2 to 7 years. The estimated average remaining useful life of leased assets varies from 6 to 30 years.

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

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

25) Finance Lease Liabilities (continued)

	2005	2004	2003
Machinery and equipment	239,627	463,715	355,325
Transport and motor vehicles	8,254	10,000	3,101
	247,881	**473,715**	**358,426**

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	37,665	2,121	39,786
2007-2009	3,611	434	4,045
	41,276	**2,555**	**43,831**

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	-	-	16,896
US dollars	35,850	99,679	4,942
Euros	-	34,223	149,158
Romanian lei	5,426	4,520	-
	41,276	**138,422**	**170,996**

(All amounts are in thousands of Russian Roubles, 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	5,701,725	7,715,297	3,791,277
International banks	3,424,215	1,364,006	401,672
Non-bank borrowings	-	-	57,091
Raiffeisen Leasing liability	16,577	-	-
Interest payable	148,694	94,569	80,703
Current portion of non-current loans and borrowings	2,967,469	8,376,789	1,100,000
Unamortized debt issue costs	(10,394)	-	-
	12,248,286	**17,550,661**	**5,430,743**
Non-current:			
Russian banks	2,407,091	1,387,435	300,000
International banks	350,326	8,231,859	1,322
Bearer coupon debt securities	5,000,000	2,000,000	3,100,000
Raiffeisen Leasing liability	22,605	51,866	-
Unamortized debt issue costs	(65,625)	(44,386)	(36,415)
Less: current portion of non-current loans and borrowings	(2,967,469)	(8,376,789)	(1,100,000)
	4,746,928	**3,249,985**	**2,264,907**

Loans for 2,222,095 as of December 31, 2005, 6,246,777 as of December 31, 2004 and 3,453,000 as of December 31, 2003, inclusive of short-term borrowings, were guaranteed by collateral of property, plant and equipment, inventories, deposits, accounts receivable (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 1,128,636.

Long-term debt is repayable as follows:

	December 31, 2005	December 31, 2004	December 31, 2003
1 to 2 years	1,321,703	2,556,270	300,356
2 to 3 years	309,651	553,452	2,000,286
3 to 4 years	3,027,019	184,649	286
Over 4 years	154,180	-	394
Unamortized debt issue costs	(65,625)	(44,386)	(36,415)
	4,746,928	**3,249,985**	**2,264,907**

(All amounts are in thousands of Russian Roubles, 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%	9,427,685	11,003,389	7,590,952
Euro	Euribor 6 month + 3.5% Euribor 6 month + 5% 5.6% - 8.75%	1,210,460	44,006	17,673
Romanian Lei	Bubor 1month + 4%	275,921	299,939	87,025
US Dollar	8% - 20% Libor + 4.5% Libor 3 month + 2.4%	6,081,148	9,453,312	-
		16,995,214	**20,800,646**	**7,695,650**

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 thousand US dollars (2,019,417 at exchange rate as of December 31, 2005) 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 7,590,093. 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 600,000. 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 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 534^{th} to the 547^{th} days from the date of issuance. None of the bondholders used their right to recall their bonds.

26) Interest-Bearing Loans and Borrowings (continued)

Bearer Coupon Debt Securities (continued)

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 roubles 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 4,367,728.

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 statement of operations 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:

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

27) Post-Employment Benefits (continued)

	2005	2004	2003
Movement in the benefit liability:			
At January 1	(323,237)	(283,329)	(254,255)
Benefit expense	(210,133)	(26,539)	(34,057)
Benefit paid	14,666	11,128	4,725
Change in liability due to business combination	-	(23,262)	-
Currency translation adjustment	352	(1,235)	258
At December 31	**(518,352)**	**(323,237)**	**(283,329)**
Net benefit expense (recognized in cost of sales):			
Current service cost	32,914	20,203	16,821
Interest cost on benefit obligation	25,824	26,622	21,915
Net actuarial loss (gain) recognized in the period	151,395	(20,286)	(4,679)
Net benefit expense	210,133	26,539	34,057

The following table summarises the components of net benefit expense recognised in the consolidated statement of operations 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	(307,682)	(279,094)	(250,684)	(15,555)	(4,235)	(3,571)
Benefit expense	(206,349)	(23,107)	(32,912)	(3,784)	(3,432)	(1,145)
Benefit paid	13,320	10,602	4,502	1,346	526	223
Change in liability due to business combination	-	(16,083)	-	-	(7,179)	-
Currency translation adjustment	-	-	-	352	(1,235)	258
At December 31	**(500,711)**	**(307,682)**	**(279,094)**	**(17,641)**	**(15,555)**	**(4,235)**
Net benefit expense (recognized in cost of sales):						
Current service cost	30,835	19,087	16,536	2,079	1,116	285
Interest cost on benefit obligation	23,845	25,090	21,308	1,979	1,532	607
Net actuarial loss (gain) recognized in the period	151,669	(21,070)	(4,932)	(274)	784	253
Net benefit expense	206,349	23,107	32,912	3,784	3,432	1,145
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.

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

27) Post-Employment Benefits (continued)

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.

28) Other Non-current Liabilities

	December 31, 2005	December 31, 2004	December 31, 2003
Unused annual leave	202,100	109,521	73,796
Other long-term liabilities	9,219	10,198	1,307
BALANCE AT THE END OF YEAR	**211,319**	**119,719**	**75,103**

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

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	99.49%	99.49%	99.45%	99.45%	-
TMK Sinara North America Inc.	USA	Sale of steel pipes	100.00%	100.00%	-	-	-

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 12% to 21%).

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

30) Related Parties Disclosures (continued)

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

	2005	2004	2003
Cash			
- Entities under common control with the Group	359,466	6,304	6,688
- Entities under control of the minority shareholders of the Company	145	790	19,394
	359,611	**7,094**	**26,082**
Accounts receivable - current			
- Entities under common control with the Group	814,071	1,019,734	307,897
- Entities under control of the minority shareholders of the Company	3,556	2,796	217,784
	817,627	**1,022,530**	**525,681**
Accounts receivable - non-current			
- Entities under common control with the Group	244,255	191,404	-
	244,255	**191,404**	**-**
Loans to related parties - current			
- Entities under common control with the Group	-	24,139	68,238
	-	**24,139**	**68,238**
Loans to related parties - non-current			
- Entities under control of the minority shareholders of the Company	-	-	348,869
	-	**-**	**348,869**
Prepayments - current			
- Entities under common control with the Group	20	1,499	-
- Entities under control of the minority shareholders of the Company	504	-	-
	524	**1,499**	**-**
Accounts payable - current			
- Entities under common control with the Group	13,750	200,395	1,687,973
- Entities under control of the minority shareholders of the Company	-	-	942,211
	13,750	**200,395**	**2,630,184**
Borrowings from related parties			
- Entities under common control with the Group	-	208,240	932,401
- Entities under control of the minority shareholders of the Company	903,607	168,423	431,090
	903,607	**376,663**	**1,363,491**

Accounts receivable from related parties amounting to 139,756, 511,721 and 220,451 are denominated in US dollars at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

Amounts receivable amounting to 548,764, 142,891 and 40,794 are denominated in euros at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

Prepayments to related parties amounting to 18, 0 and 0 are denominated in foreign currency, mainly US dollars, at December 31, 2005, 2004 and 2003 respectively.

Accounts payable to related parties amounting to 0, 194,490 and 0 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 Russian Roubles, unless specified otherwise)

30) Related Parties Disclosures (continued)

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	2,334,210	2,628,213	1,477,150
- Entities under control of the minority shareholders of the Company	-	644,163	414,677
	2,334,210	**3,272,376**	**1,891,827**
Purchases of goods and services			
- Entities under common control with the Group	906,821	859,773	20,716,556
- Entities under control of the minority shareholders of the Company	37,272	1,138,941	5,784,736
	944,093	**1,998,714**	**26,501,292**
Purchases of equipment and intangible assets			
- Entities under common control with the Group	17	216,969	-
	17	**216,969**	**-**
Interest expenses from loans and borrowings			
- Entities under common control with the Group	25,759	40,316	65,038
- Entities under control of the minority shareholders of the Company	41,637	107,797	123,331
	67,396	**148,113**	**188,369**
Interest income from loans and borrowings			
- Entities under common control with the Group	32,112	62,084	-
- Entities under control of the minority shareholders of the Company	-	9,435	11,039
	32,112	**71,519**	**11,039**

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.

Non-current accounts receivable from related parties include a long-term portion of receivables for securities sold in the amount of 143,516 due in 2006 and 2007. The nominal value of the receivable as of December 31, 2005 was 223,516, including a current portion of 80,000. 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 12,412 resulting from re-scheduling of payments was recorded as a reduction in interest income in the accompanying consolidated statement of operations for 2005.

30) Related Parties Disclosures (continued)

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 662,561 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 194,303 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 statement of operations as part of the general and administrative expenses, was 220,119, 109,065 and 105,182 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.

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.

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

31) Contingencies, Commitments and Operating Risks (continued)

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, 77,754 thousand euros, 6,380 thousand US dollars and 3,575 thousand Romanian lei for the total amount 3,629,756 (all amounts of contractual commitments are expressed net of VAT). The Group paid advances of 615,749 on these contractual commitments.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 1,655,135 (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.

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	199,995	March 17, 2006
Russian bank		Company employees	3,220	
Russian bank	August 29, 2005	Third party	150	August 25, 2006
International bank	February 16, 2005	Third parties	20,855	January 31, 2007
International bank		Company employees	11,501	
International bank	December 9, 2005	Third parties	10,756	August 31, 2007
International bank	August 20, 2004	Third parties	5,953	June 30, 2006
International bank	September 5, 2005	Third parties	3,157	February 15, 2006
International bank	December 30, 2005	Third parties	1,439	June 30, 2006
International bank	March 29, 2005	Third parties	448	July 31, 2006
International bank	March 29, 2005	Third parties	449	July 31, 2006
International bank	June 16, 2005	Third parties	332	January 22, 2006
International bank	September 30, 2005	Third parties	332	May 5, 2006
International bank	September 6, 2005	Third parties	317	April 20, 2006

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

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.

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	8,730,010	8,730,010	10
Effect of hyperinflation	3	3	3
CARRYING AMOUNT OF THE SHARE CAPITAL	**8,730,013**	**8,730,013**	**13**

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

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 73,332 or 0.084 rouble 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 9,415,874, 1,289,239 and 4,541 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 10,987,682, 3,270,476 and 1,243,492 as of December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

32) Equity (continued)

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 11,455,946 with the legal form of a payment for such transfers, together with the payment of 5,642,004 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 (215,130 at the exchange rate as of December 31, 2004). The title transferred to the Group and control over Sinara Trading was obtained by the Group on May 25, 2005. The amount of 214,142 was paid by the Group prior to December 31, 2004. The Group additionally paid the amount of 3,428 in 2005. These payments were recorded as a reduction in accumulated profits in the accompanying consolidated financial statements.

In June 2005, the Group signed an agreement with an entity under common control with the Group for the purchase of 100% ownership interest in Sinara Handel GmbH, an entity registered in Germany, for the consideration of 40,000 thousand US dollars (1,137,828 at exchange rate as of June 10, 2005). The title to the 100% ownership interest in Sinara Handel GmbH was transferred to the Group on March 1, 2006. The amount of 575,650 was paid by the Group prior to December 31, 2005 and amount of 560,558 was paid by the Group on March 3, 2006.

Sinara Trading paid dividends in the amount of 23,543 for 2004 in the year ended December 31, 2004 and 214,767 for 2005 in May 2005 to its former owner, before the transfer of Sinara Trading shares to the Group.

Sinara Handel accrued dividends to its former owner in the amount of 51,754 for 2004 in the year ended December 31, 2005. The corresponding liability in the amount of 50,589 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 (88,381 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 88,381 was recorded as a contribution from owners in the accompanying consolidated financial statements for the year ended December 31, 2003.

32) Equity (continued)

v) Free of Charge Financing

Additional paid-in capital included 70,179 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 2,914,177.

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 240,074.

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 33,712, 67,506 and 0 in the accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003, 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.

33) Financial Risks (continued)

Foreign Exchange Risk (continued)

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 1,448,422 of variable-rate debt. Interest rates are disclosed in Note 26.

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 2,000,000 is equal to 2,032,200 as of December 31, 2005. The fair value of the bonds issued by the Group in March 2005 with a nominal amount of 3,000,000 is equal to 3,071,400 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 (147,025 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 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. 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. 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. The Company's interest in the subsidiary increased to 92.01%.

34) Events after the Balance Sheet Date (continued)

On May 16, 2006, the Group purchased the remaining 50% interest in Eurosinara S.r.l for 1,000 thousand euros (34,736 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.

In April 2006, the Group repaid early its liabilities under long-term loans to Mosnarbank in the amount of 1,299,855. 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 1,671,372 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 million US dollars (21,121,542 at exchange rate as of June 30, 2006) 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.