OAO TMK
Consolidated Financial Statements
for the year ended December 31, 2007

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Independent Auditors' Report

The Shareholders and Board of Directors
OAO TMK

We have audited the accompanying consolidated financial statements of OAO TMK and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Ernst & Young LLC

April 21, 2008

OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2007

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OAO TMK

Consolidated Income Statement

for the year ended December 31, 2007

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Balance Sheet

as at December 31, 2007

(All amounts in thousands of US dollars)

	NOTES	2007		2006	
ASSETS					
Current assets					
Cash and cash equivalents	13, 28	89,045		144,010	
Financial investments	14	116		174,543	
Trade and other receivables	15	523,525		274,424	
Accounts receivable from related parties	28	17,632		11,647	
Inventories	18	782,373		593,434	
Prepayments and input VAT	16	223,731		199,960	
Prepaid income taxes		14,658	**1,651,080**	2,695	**1,400,713**
Non-current assets					
Investments in an associate		1,481		5,079	
Available-for-sale investments	17	29,417		-	
Intangible assets	21	20,715		15,700	
Accounts receivable - related parties	28	221		2,270	
Property, plant and equipment	19	2,684,252		2,007,880	
Investment property	20	28,091		2,871	
Goodwill	21	101,382		46,944	
Deferred tax asset	11	18,404		14,915	
Other non-current assets	17	140,763	**3,024,726**	54,321	**2,149,980**
TOTAL ASSETS			**4,675,806**		**3,550,693**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	22	295,177		248,560	
Advances from customers		89,578		102,732	
Accounts payable to related parties	28	14,924		5,278	
Accrued liabilities	23	147,184		85,100	
Provisions	24	4,674		3,024	
Interest-bearing loans and borrowings	25	1,033,322		368,175	
Borrowings from related parties		-		3,550	
Dividends payable	30	129,116		1,383	
Income tax payable		4,059	**1,718,034**	17,976	**835,778**
Non-current liabilities					
Interest-bearing loans and borrowings	25	505,977		662,933	
Deferred tax liability	11	279,034		259,696	
Provisions	24	15,973		13,437	
Employee benefit liability	26	21,862		20,343	
Other liabilities		28,317	**851,163**	5,297	**961,706**
Total liabilities			**2,569,197**		**1,797,484**
Equity	30				
Parent shareholders' equity					
Issued capital		305,407		305,407	
Treasury shares		(10,752)		-	
Additional paid-in capital		97,338		98,539	
Reserve capital		15,387		15,387	
Retained earnings		1,239,993		1,028,664	
Foreign currency translation reserve		357,510		225,110	
Net unrealised losses		(2,187)	2,002,696	-	1,673,107
Minority interests			103,913		80,102
Total equity			**2,106,609**		**1,753,209**
TOTAL EQUITY AND LIABILITIES			**4,675,806**		**3,550,693**

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2007

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2007 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							
	Issued capital	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Total**	**Minority interests**	**TOTAL**
At January 1, 2006	**305,407**	**141,909**	**15,387**	**652,951**	**85,563**	**1,201,217**	**76,833**	**1,278,050**
Effect of exchange rate changes	-	-	-	-	139,547	**139,547**	8,978	**148,525**
Total income and expense for the year recognised directly in equity	-	-	-	-	139,547	**139,547**	8,978	**148,525**
Net profit	-	-	-	442,115	-	**442,115**	20,133	**462,248**
Total income and expense for the year	-	-	-	442,115	139,547	**581,662**	29,111	**610,773**
Acquisition of Eurosinara S.r.L. (Note 10)	-	-	-	(4,876)	-	**(4,876)**	-	**(4,876)**
Excess of the fair value of ordinary shares sold to the Group's employees over the offer price of ordinary shares (Note 30 vii)	-	2,142	-	-	-	**2,142**	-	**2,142**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 30 vi)	-	-	-	-	-	-	(788)	**(788)**
Acquisition of minority interests (Note 30 v)	-	-	-	(10,812)	-	**(10,812)**	(10,611)	**(21,423)**
De-recognition of minority interests in a subsidiary (Note 30 viii)	-	-	-	(12,663)	-	**(12,663)**	(14,443)	**(27,106)**
Dividends (Note 30 iii)	-	-	-	(17,101)	-	**(17,101)**	-	**(17,101)**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 30, iv)	-	-	-	(950)	-	**(950)**	-	**(950)**
Other distributions to owners (Note 30 iv)	-	(45,512)	-	(20,000)	-	**(65,512)**	-	**(65,512)**
At December 31, 2006	**305,407**	**98,539**	**15,387**	**1,028,664**	**225,110**	**1,673,107**	**80,102**	**1,753,209**

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

OAO TMK
Consolidated Cash Flow Statement
for the year ended December 31, 2007
(All amounts in thousands of US dollars)

	Notes	2007	2006
Operating activities			
Profit before tax		698,751	621,880
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment, investment property		137,687	114,384
Amortisation of intangible assets		2,572	2,381
Loss on disposal of property, plant and equipment		7,417	5,240
Foreign exchange gain		(20,460)	(13,023)
Finance costs		104,997	77,294
Finance income		(12,608)	(15,791)
Gains on sale of investments		-	(28)
Share-based payments	30 ix	6,733	-
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	10	(2,214)	-
Excess of the fair value of ordinary shares sold to the Group's employees over the offer price of ordinary shares	30 vii	-	2,142
Share of profit in assosiate	8	(971)	(1,249)
Movement in provisions		310	2,125
Capitalization of previously expensed items		-	(1,696)
Operating cash flow before working capital changes		**922,214**	**793,659**
Working capital adjustments:			
Increase in inventories		(138,435)	(78,873)
Increase in trade and other receivables		(195,968)	(95,167)
Increase in prepayments		(21,933)	(47,819)
Increase in trade and other payables		(14,071)	23,667
Increase (decrease) in accrued liabilities		4,573	(31,590)
(Decrease) increase in advances from customers		(19,793)	41,449
Cash generated from operations		536,587	605,326
Income taxes paid		(212,503)	(172,472)
Net cash flows from operating activities		**324,084**	**432,854**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(661,730)	(338,505)
Proceeds from sale of property, plant and equipment		5,497	3,003
Purchase of availiable-for-sale investments		(30,163)	-
Acquisition of subsidiaries, net of cash acquired	10	(72,410)	(669)
Acquisition of minority interest		(2,683)	(21,719)
Disbursement of loans		(29,595)	(169,967)
Proceeds from repayment of loans		209,795	166
Loans granted to the controlling shareholder		-	(783,136)
Proceeds from repayment of loans granted to the controlling shareholder		-	779,695
Interest received		11,672	8,900
Dividends received from associate		996	-
Net cash flows used in investing activities		**(568,621)**	**(522,232)**
Financing activities			
Purchase of treasury shares		(28,291)	-
Proceeds from exercise of options		15,913	-
Proceeds from borrowings		974,965	1,479,486
Repayment of borrowings		(533,981)	(1,148,646)
Interest paid		(105,563)	(61,570)
Payment of finance lease liabilities		(491)	(1,406)
Distributions to owners for acquisition of entity under common control		-	(45,512)
Capital contribution by minority owner to a subsidiary		2,224	-
Payments to entities under common control for the transfer of ownership interest in subsidiaries	30 iv	-	(20,000)
Dividends paid to equity holders of the parent	30 iii	(144,950)	(18,051)
Dividends paid to minority shareholders		(1,421)	(2,612)
Net cash flows from financing activities		**178,405**	**181,689**
Net (decrease) increase in cash and cash equivalents		(66,132)	92,311
Net foreign exchange difference		11,167	3,777
Cash and cash equivalents at January 1		144,010	47,922
Cash and cash equivalents at December 31		**89,045**	**144,010**

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

Corporate Information

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

The parent company of the Group OAO "TMK" (the "Company") is registered in the Russian Federation. The list of subsidiaries is disclosed in Note 27.

As at December 31, 2007, the Company's main shareholder was TMK Steel Limited, owning 76.98% in the share capital. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

The Company was incorporated as a closed joint stock company (ZAO) on April 17, 2001. The Company was re-registered as an open joint stock company (OAO) on June 16, 2005. The registered office of the Company is 19/25 Alexander Nevsky Street, bldg. 1, Moscow, the Russian Federation. The principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

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

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

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

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

Corporate Information (continued)

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

Basis of Preparation of the Financial Statements

Statement of Compliance

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

Basis of Accounting

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

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

Functional and Presentation Currency

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

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

Basis of Preparation of the Financial Statements (continued)

The Group has applied IAS 21 (revised), "The Effects of Changes in Foreign Exchange Rates", to translate the financial position of the Group as at December 31, 2007 and the results for the year then ended and corresponding figures into its presentation currency, US dollar, as follows:

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

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

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

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to profit and loss.

Significant Estimates and Assumptions

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

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. This requires an estimation of the value in use of the cash-generating units (each individual subsidiary) to which the item is allocated. The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the fair value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment. In 2007, no impairment losses were recognised or reversed (2006: nil).

Significant Estimates and Assumptions (continued)

Useful Lives of Items of Property, Plant and Equipment

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2007 was 101,382 (2006: 46,944). More details are provided in Notes 10 and 20.

Post-Employment Benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary). In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially. More details are provided in Note 26.

Allowances

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

Significant Estimates and Assumptions (continued)

The Group makes allowances for obsolete and slow-moving raw materials and spare parts. As at December 31, 2007 and 2006, allowances for obsolete and slow-moving items were 9,450 and 8,357, respectively (Note 18). In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Litigation

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

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group’s entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group’s entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. As at December 31, 2007, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 11.

Deferred Tax Assets

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

Significant Estimates and Assumptions (continued)

Share-Based Payments

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

Significant Judgments

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

Consolidation of a Special Purpose Entity

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

Changes in Accounting Policies

Accounting standards and interpretations issued by IASB/IFRIC and adopted by the Group

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

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

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

IFRS 7 "Financial Instruments: Disclosures"

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

IAS 1 "Presentation of Financial Statements"

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

Changes in Accounting Policies (continued)

IFRIC 8 “Scope of IFRS 2”

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

IFRIC 9 “Reassessment of Embedded Derivatives”

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

IFRIC 10 “Interim Financial Reporting and Impairment”

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

Accounting standards and interpretations issued as at December 31, 2007 and not yet applied by the Group.

IFRS 8 “Operating Segments”, issued November 21, 2007

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

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

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

Changes in Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies (continued)

IFRIC 12 “Service Concession Arrangements”, issued November 30, 2006.

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

IFRIC 13 “Customer Loyalty Programmes”, issued June 28, 2007

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

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

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

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

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

Significant Accounting Policies

- **Index to Accounting Policies**

Significant Accounting Policies

A) Principles of Consolidation

Subsidiaries

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

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

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

Acquisition of Subsidiaries

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

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

Minority Interest

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

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

Significant Accounting Policies (continued)

A) Principles of Consolidation (continued)

Increases in Ownership Interests in Subsidiaries

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

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

Acquisition of Subsidiaries from Entities under Common Control

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

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

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

B) Cash and Cash Equivalents

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

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

C) Investments and Other Financial Assets

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

Significant Accounting Policies (continued)

C) Investments and Other Financial Assets (continued)

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

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

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

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

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

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

Significant Accounting Policies (continued)

D) Trade Receivables

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

E) Borrowings

Borrowings are initially recognised at fair value less directly attributable transaction costs. In subsequent periods, borrowings are measured at amortised cost using the effective interest rate method. Any difference between the initial fair value less transaction costs and the redemption amount is recognised within interest expense over the period of the borrowings. Borrowing costs are expensed as incurred.

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

F) Inventories

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

The costs of inventories are comprised of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. The value of work in progress and finished goods includes costs of raw materials, direct labor, direct production costs and indirect productions overheads including depreciation. Financing costs are not included in stock valuation.

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

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

G) Property, Plant and Equipment

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

Significant Accounting Policies (continued)

G) Property, Plant and Equipment (continued)

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

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

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

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

When material repairs are performed, the Group recognises the cost of repair as a separate component within the relevant item of property, plant and equipment if the recognition criteria are met.

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

H) Investment Property

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

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

Land	Not depreciated
Buildings	8 - 100 years

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

Significant Accounting Policies (continued)

I) Leases

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

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

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

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

J) Goodwill

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

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

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

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

Significant Accounting Policies (continued)

K) Other Intangible Assets

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

Research and Development

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

Other Intangible Assets

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

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

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

Significant Accounting Policies (continued)

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

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

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

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

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

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

M) Provisions

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

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

N) Employee Benefits

Social and Pension Contributions

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

Significant Accounting Policies (continued)

N) Employee Benefits (continued)

Post-Employment Benefits

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

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

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

O) Value Added Tax

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

Value Added Tax Payable

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

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

Value Added Tax Recoverable

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

Significant Accounting Policies (continued)

P) Deferred Income Tax

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

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

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

Q) Equity

Share Capital

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

Treasury Shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of treasury shares.

Dividends

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

R) Revenue Recognition

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

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

Index to the Notes to the Consolidated Financial Statements

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

1) Segment Information

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

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

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

Primary reporting format – business segments

YEAR ENDED DECEMBER 31, 2007	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
REVENUE	1,118,540	2,849,399	210,705	-	**4,178,644**
SEGMENT RESULTS	187,982	1,093,984	6,062	-	**1,288,028**
SEGMENT ASSETS	646,987	2,685,093	184,858	1,158,868	**4,675,806**
SEGMENT LIABILITIES	41,514	291,105	15,243	2,221,335	**2,569,197**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY	35,008	513,147	2,287	83,191	**633,633**
DEPRECIATION AND AMORTISATION	9,764	106,228	3,320	20,947	**140,259**

YEAR ENDED DECEMBER 31, 2006	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
REVENUE	948,955	2,213,385	239,973	-	**3,402,313**
SEGMENT RESULTS	143,567	885,801	19,332	-	**1,048,700**
SEGMENT ASSETS	435,072	1,903,573	35,424	1,176,624	**3,550,693**
SEGMENT LIABILITIES	48,437	204,131	18,422	1,526,494	**1,797,484**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY	5,942	271,477	1,936	95,209	**374,564**
DEPRECIATION AND AMORTISATION	10,066	86,436	3,986	16,386	**116,874**

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

1) Segment Information (continued)

Secondary reporting format – geographical segments

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

YEAR ENDED DECEMBER 31, 2007	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
REVENUE	2,993,743	451,212	142,295	296,876	17,034	87,631	189,853	**4,178,644**
SEGMENT ASSETS	4,070,287	579,136	3,914	442	-	22,027	-	**4,675,806**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY	569,744	63,758	45	42	-	44	-	**633,633**

YEAR ENDED DECEMBER 31, 2006	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
REVENUE	2,323,870	587,501	178,714	183,167	12,853	102,421	13,787	**3,402,313**
SEGMENT ASSETS	3,060,692	465,566	4,494	454	-	19,487	-	**3,550,693**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY	336,049	38,194	37	73	-	211	-	**374,564**

2) Cost of Sales

	2007	2006
Raw materials and consumables	2,138,490	1,762,028
Contracted manufacture	6,892	11,701
Energy and utilities	235,383	179,019
Depreciation and amortisation	129,933	107,594
Repairs and maintenance	53,322	24,991
Freight	8,082	5,822
Rent	733	310
Insurance	410	290
Staff costs inculding social security	362,251	291,149
Professional fees and services	14,662	7,639
Travel	1,859	1,385
Communications	604	695
Taxes	18,905	14,678
Other	310	684
Less capitalised costs	(37,632)	(14,652)
TOTAL PRODUCTION COST	2,934,204	2,393,333
CHANGE IN OWN FINISHED GOODS AND WORK IN PROCESS	(75,667)	(62,066)
COST OF EXTERNALLY PURCHASED GOODS	31,976	20,669
OBSOLETE STOCK AND WRITE-OFFS	103	1,677
COST OF SALES	**2,890,616**	**2,353,613**

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

3) Selling and Distribution Expenses

	2007	2006
Freight	138,154	104,604
Rent	5,639	4,614
Insurance	866	682
Depreciation and amortisation	1,499	1,504
Staff costs inculding social security	44,247	33,490
Professional fees and services	19,129	13,486
Travel	3,590	3,371
Communications	1,635	1,439
Utilities and maintenance	945	505
Taxes	3,176	196
Consumables	18,162	12,970
Bad debt (reversal of expense)/ expense	(1,125)	1,573
Other	2,259	1,927
TOTAL SELLING AND DISTRIBUTION EXPENSES	**238,176**	**180,361**

4) Advertising and Promotion Expenses

	2007	2006
Media	2,272	1,183
Exhibits and catalogues	2,259	3,094
Other	755	866
TOTAL ADVERTISING AND PROMOTION EXPENSES	**5,286**	**5,143**

5) General and Administrative Expenses

	2007	2006
Staff costs inculding social security	131,706	95,807
Professional fees and services	35,240	32,360
Depreciation and amortisation	8,407	7,290
Travel	10,715	8,818
Transportation	4,186	1,104
Rent	5,018	3,029
Communications	1,206	1,094
Insurance	758	360
Utilities and maintenance	8,123	6,308
Taxes	3,403	2,979
Consumables	8,066	6,213
Other	1,447	1,258
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**218,275**	**166,620**

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

6) Research and Development Expenses

	2007	2006
Staff costs inculding social security	6,707	4,474
Professional fees and services	1,769	1,021
Depreciation and amortisation	431	296
Travel	150	100
Transportation	187	108
Communications	39	36
Utilities and maintenance	402	264
Consumables	415	420
Other	39	6
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	**10,139**	**6,725**

7) Other Operating Expenses

	2007	2006
Loss on disposal of property, plant and equipment	7,417	5,240
Social and social infrastructure maintenance expenses	17,742	10,972
Charitable donations	19,176	11,754
Other	11,890	1,110
TOTAL OTHER OPERATING EXPENSES	**56,225**	**29,076**

Other operating expenses mainly comprise expenses and additional provisions related to tax issues, tax fines and other fines in the amount of 6,824 (1,100 in 2006).

8) Share of Profit in Associate and Other Operating Income

Share of Profit in Associate

Share of profit in associate represents profit from the investment to North-Europe Pipe Project (971 and 1,249 for the years ended December 31, 2007 and December 31, 2006, respectively) and consists of 20% share of profit of the associate.

Other Operating Income

	2007	2006
Gain on sale of current assets	-	245
Government grants (*)	-	3,676
Gain from reversal of litigation provision	2,093	-
Income from current liabilities derecognition	1,303	-
Gain from penalties and fines	734	1,138
Other	3,438	3,250
TOTAL OTHER OPERATING INCOME	**7,568**	**8,309**

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

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

9) Finance Costs and Finance Income

Finance Costs	**2007**	**2006**
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	6,271	8,038
Interest expense	95,298	69,257
Loss on financial assets and liabilities, net	3,428	-
TOTAL FINANCE COSTS	**104,997**	**77,295**

Finance Income	**2007**	**2006**
Interest income - bank accounts and deposits	12,485	9,669
Gain on financial assets and liabilities, net	-	6,150
Other	123	-
TOTAL FINANCE INCOME	**12,608**	**15,819**

Loss / gain on financial assets and liabilities represents change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical Plant.

10) Acquisition of Subsidiaries

"Eurosinara S.r.l"

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

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

10) Acquisition of Subsidiaries (continued)

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

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

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

If the combination had taken place on January 1, 2006, the net revenue and net profit of the Group for the year ended December 31, 2006 would have been 3,393,799 and 461,806, respectively.

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

In 2006, cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	621
Cash paid	(1,290)
Net cash outflow	(669)

"Russian Research Institute of the Tube and Pipe Industries"

On March 5, 2007, the Group purchased 76.34% ownership interest of Joint-Stock Company "Russian Research Institute of the Tube and Pipe Industries" ("RosNITI") for cash consideration of 3,067. "RosNITI" is a scientific research institution engaged in the scientific and technological development of the Russian pipe industry.

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

10) Acquisition of Subsidiaries (continued)

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of "RosNITI" at the date of acquisition:

	5 March 2007
Property, plant and equipment	6,301
Other non-current assets	2,116
Inventories	10
Accounts and notes receivable, net	137
Cash	29
Total assets	**8,593**
Non-current liabilities	78
Deferred income tax liabilities	1,727
Current liabilities	224
Total liabilities	**2,029**
NET ASSETS	**6,564**
Fair value of net assets attributable to 76.34% ownership interest	5,010
CONSIDERATION PAID	3,067
Excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognized in the income statement	**1,943**

"RosNITI"'s net profit for the period from March 5, 2007 to December 31, 2007 amounted to 313.

In 2007, cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	29
Cash paid	(3,067)
Net cash outflow	(3,038)

In June-December 2007, the Company purchased additional 21.02% of OAO "RosNITI" shares and the Group ownership in "RosNITI" achieved 97.36% as at December 31, 2007 (Note 30 v).

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

10) Acquisition of Subsidiaries (continued)

"Predpriyatiye Truboplast"

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in OOO "Predpriyatiye "Truboplast" ("Truboplast") from an entity under common control with the Group for cash consideration of 23,986. The entity under common control with the Group acquired the controlling interest in "Truboplast" on July 19, 2007. As the pooling of interests method has been applied to this transfer under common control, the cost of this business combination was 17,374 which is the amount paid by the entity under common control with the Group to acquire the controlling ownership interest in "Truboplast" on July 19, 2007. The amount of 6,834, being the excess of the amount paid by the Group to acquire 100% interest in "Truboplast" from the entity under common control with the Group over the cost of the business combination, has been treated as a distribution to owners (Note 30 iv).

The acquisition of "Truboplast" was accounted for based on provisional values as the Group, as at the date of authorisation for issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3.

The table below sets forth the provisional values of identifiable assets, liabilities and contingent liabilities of "Truboplast" at the date of acquisition:

	19 July 2007
Property, plant and equipment	11,610
Inventories	2,214
Accounts and notes receivable, net	2,548
Cash	36
Total assets	**16,408**
Deferred income tax liabilities	1,781
Current liabilities	3,839
Total liabilities	**5,620**
NET ASSETS	**10,788**
Fair value of net assets attributable to 100% ownership interest	10,788
CONSIDERATION PAID BY THE ENTITY UNDER COMMON CONTROL WITH THE GROUP	**17,374**
Goodwill arising on acquisition	**6,586**

In 2007, the Group paid 14,021 to the entity under common control with the Group for the purchase of 100% ownership interest in "Truboplast". As at December 31, 2007, the Group had a liability of 10,423 to the entity under common control with the Group in respect of this purchase.

Net profit of "Truboplast" from July 19, 2007 to December 31, 2007 amounted to 777.

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

10) Acquisition of Subsidiaries (continued)

In 2007, cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	36
Cash paid	(14,021)
Net cash outflow	(13,985)

ZAO "Pipe Repair Department"

On December 20, 2007, the Group purchased 100% ownership interest in ZAO "Pipe Repair Department" for cash consideration of 73,068.

The acquisition of ZAO "Pipe Repair Department" was accounted for based on provisional values as the Group, as at the date of authorisation for issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3.

The table below sets forth the provisional values of identifiable assets, liabilities and contingent liabilities of ZAO "Pipe Repair Department" at the date of acquisition:

	20 December 2007
Property, plant and equipment	32,494
Other non-current assets	94
Inventories	1,216
Accounts and notes receivable, net	2,560
Prepayments	422
Cash	20
Total assets	**36,806**
Non-current liabilities	827
Deferred income tax liabilities	2,895
Current liabilities	3,888
Total liabilities	**7,610**
NET ASSETS	**29,196**
Fair value of net assets attributable to 100% ownership interest	29,196
CONSIDERATION PAID	73,068
Goodwill arising on acquisition	**43,872**

As at December 31, 2007, the Group had a liability of 18,205 in respect of this purchase.

Pipe Repair Department's net profit/loss from December 20, 2007 to December 31, 2007 was not material.

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

10) Acquisition of Subsidiaries (continued)

In 2007, cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	20
Cash paid	(55,197)
Net cash outflow	(55,177)

OOO "Central Pipe Yard"

On December 27, 2007, the Group purchased 100% ownership interest in OOO "Central Pipe Yard" for cash consideration of 8,690.

The acquisition of OOO "Central Pipe Yard" was accounted for based on provisional values as the Group, as at the date of authorisation for issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3.

The table below sets forth the provisional values of identifiable assets, liabilities and contingent liabilities of OOO "Central Pipe Yard" at the date of acquisition:

	27 December 2007
Property, plant and equipment	8,998
Inventories	183
Accounts and notes receivable, net	851
Cash	45
Total assets	**10,077**
Non-current liabilities	
Deferred income tax liabilities	119
Current liabilities	997
Total liabilities	**1,116**
NET ASSETS	**8,961**
Fair value of net assets attributable to 100% ownership interest	8,961
CONSIDERATION PAID	**8,690**
Excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognized in the income statement	**271**

As at December 31, 2007, the Group had a liability of 8,488 in respect of this purchase.

Central Pipe Yard's net loss from December 27, 2007 to December 31, 2007 was not material.

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

10) Acquisition of Subsidiaries (continued)

In 2007, cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	45
Cash paid	(255)
Net cash outflow	(210)

Disclosure of Other Information in Respect of Business Combinations

As the acquired subsidiaries (except for Eurosinara S.r.l) did not prepare financial statements in accordance with IFRS before the business combinations, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

It is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

11) Income Tax

	2007	2006
Current income tax	200,485	177,930
Deferred income tax benefit related to origination and reversal of temporary differences	(8,043)	(18,298)
TOTAL INCOME TAX EXPENSE	**192,442**	**159,632**

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

	2007	2006
Income before taxation	698,751	621,880
Theoretical tax charge at statutory rate in Russia of 24%	167,700	149,251
Effect of items which are not deductable or assessable for taxation purposes	27,249	14,537
Effect of different tax rates in countries other than Russia	(2,182)	(1,680)
Effect of changes in tax legislation in Romania	-	(2,312)
Effect of currency translation	207	(533)
Effect of excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over the cost of acquisition (Note 10)	(532)	-
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	-	369
TOTAL INCOME TAX EXPENSE	**192,442**	**159,632**

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

11) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the periods ended December 31, 2007 were as follows:

	2007	Change recognised in income statement	Change due to business combinations	Foreign currency translation reserve	2006	Change recognised in income statement	Change due to business combination	Foreign currency translation reserve	2005
Deferred income tax liability:									
Valuation and depreciation of property, plant and equipment	(269,442)	8,854	(7,273)	(18,025)	(252,998)	22,448	26	(22,799)	(252,673)
Valuation of accounts receivable	(8,543)	462	-	(592)	(8,413)	-	-	(717)	(7,696)
Valuation of inventory	(916)	704	63	(86)	(1,597)	444	96	(167)	(1,970)
Undistributed earnings of subsidiaries	-	685	-	(41)	(644)	412	-	(78)	(978)
Other	(698)	(431)	28	70	(365)	(374)	-	(10)	19
	(279,599)	**10,274**	**(7,182)**	**(18,674)**	**(264,017)**	**22,930**	**122**	**(23,771)**	**(263,298)**
Deferred income tax asset:									
Tax losses available for offset	9,828	(219)	-	673	9,374	(2,034)	-	912	10,496
Accrued liabilities	2,349	266	-	151	1,932	(459)	-	190	2,201
Impairment of accounts receivable	3,613	(857)	-	269	4,201	(507)	2,663	213	1,832
Impairment of prepayments and other current assets	793	448	-	41	304	(243)	-	39	508
Provisions	6,680	(2,299)	660	474	7,845	1,468	-	586	5,791
Finance lease obligations	-	(3)	-	-	3	(312)	-	18	297
Trade and other payable	1,119	433	-	64	622	(2,545)	-	195	2,972
	24,382	**(2,231)**	**660**	**1,672**	**24,281**	**(4,632)**	**2,663**	**2,153**	**24,097**
Net tax effect of temporary differences	-	8,043	-	-	-	18,298	-	-	-
Less: not recognized deferred income tax asset	(5,413)	-	-	(368)	(5,045)	-	-	(429)	(4,616)
Net deferred income tax liability	**(279,034)**	**8,043**	**(6,522)**	**(17,370)**	**(259,696)**	**18,298**	**2,785**	**(22,047)**	**(249,694)**
Net deferred income tax asset	**18,404**	-	-	-	**14,915**	-	-	-	**5,877**

In the context of the Group’s current structure, tax losses and current tax assets of the different companies are not offset against current tax liability and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one subsidiary of the Group is not offset against the deferred tax liability of another subsidiary. As at December 31, 2007, the deferred tax asset for 5,413 (2006: 5,045) has not been recorded, as it is not probable that sufficient taxable profit will be available to offset the deductible temporary differences to which the asset relates.

Deferred income tax assets not recognised represents the tax losses of the Group’s subsidiaries incurred in transactions with securities. Such tax losses offsets only against future taxable profits generated in transactions with securities over a period of 10 years. Also the Group did not recognise the deferred tax assets for the companies with net loss. The Group believes that it is unlikely that this tax loss will be recovered.

As at December 31, 2007, the Group has not recognised deferred tax liability in respect of 2,062,644 (2006: 1,736,041) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

From January 1, 2008, the change to the Tax Code in relation to dividends withholding tax became in force (the change # 76-F3 is dated 16.05.2007). The Group believes that the major share of dividends due from Russian subsidiaries will be tax free from January 1, 2008.

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

12) Earnings per Share

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

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential shares which are the share options granted to employees.

	For the year ended 31 December	
	2007	2006
Net profit attributable to the equity holders of the parent entity	487,152	442,115
Weighted average number of ordinary shares outstanding (excluding treasury shares)	872,089,719	873,001,000
Effect of dilution:		
Share options	167,062	-
Weighted average number of ordinary shares outstanding (excluding treasury shares) adjusted for the effect of dilution	872,256,781	873,001,000
Earnings per share attributable to the equity holders of the parent entity (in US dollars):		
Basic	0.56	0.51
Diluted	0.56	0.51

Options under the third phase of TMK options programme (Note 30 ix) were not included in the calculation of diluted earnings per share in 2007 because they were antidilutive in 2007.

There have been no transactions involving ordinary shares or potential ordinary shares between December 31, 2007 and the date of completion of these financial statements that would have changed significantly the number of ordinary shares or potential ordinary shares as at December 31, 2007 if those transactions had occured before that date.

13) Cash and Cash Equivalents

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

	December 31, 2007	December 31, 2006
Russian ruble	70,876	128,098
US dollar	6,288	10,220
Euro	9,990	3,955
Romanian lei	1,848	1,343
Kazakhstani tenge	-	326
Polish zloty	-	67
Swiss franc	3	-
Other currencies	40	1
TOTAL CASH AND CASH EQUIVALENTS	**89,045**	**144,010**

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

13) Cash and Cash Equivalents (continued)

The above cash and cash equivalents consist of the following:

	December 31, 2007	December 31, 2006
Cash and cash equivalents	50,201	123,559
Deposits	38,844	20,451
TOTAL CASH AND CASH EQUIVALENTS	89,045	144,010

A cash deposit in the amount of 1,974 has been pledged as security for borrowings at December 31, 2007 (December 31, 2006: 2,118).

14) Current Financial Investments

	December 31, 2007	December 31, 2006
Promissory notes	-	689
Bank deposits	-	141,961
Deposits to secure bank loans	112	1,318
Issued loans	-	30,382
Miscellaneous	4	193
TOTAL CURRENT FINANCIAL INVESTMENTS	**116**	**174,543**

15) Trade and Other Receivables

	December 31, 2007	December 31, 2006
Trade receivables	522,814	272,435
Officers and employees	2,267	2,197
Other accounts receivable	7,910	9,491
GROSS ACCOUNTS RECEIVABLE	532,991	284,123
Allowance for doubtful debts	(9,466)	(9,699)
NET ACCOUNTS RECEIVABLE	**523,525**	**274,424**

Bank borrowings are secured by accounts receivable with the carrying value of 2,115 (December 31, 2006: 1,745) (Note 25).

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

16) Prepayments and Input VAT

	December 31, 2007	December 31, 2006
Prepayment for services, inventories	49,479	59,015
Prepayment for rent	675	562
Deferred charges	1,973	629
Prepayment for VAT, input VAT	169,984	138,088
Prepayment for property tax	197	-
Prepayment for other tax	724	1,215
Prepayment for insurance	699	448
Miscellaneous prepayments	-	3
TOTAL PREPAYMENTS AND INPUT VAT	**223,731**	**199,960**

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

17) Available-for-Sale Investments and Other Non-Current Assets

Available-for-Sale Investments

Available-for-sale investments in the amount of 29,417 are represented by the quoted ordinary shares of VTB Bank. The fair value of these shares is determined by reference to published price quotations in an active market.

Other Non-Current Assets

	December 31, 2007	December 31, 2006
Prepayments for acquisition of property, plant and equipment	100,865	37,113
Loans to employees	5,022	4,032
Long-term input VAT	-	3,882
Borrowing costs related to unused borrowing facilities	5,533	1,604
Restricted cash balances for fulfillment of guarantees	1,581	3,996
Long-term trade receivables	428	66
Other	27,500	3,667
GROSS OTHER NON-CURRENT ASSETS	**140,929**	**54,360**
Allowance for doubtful debts	(166)	(39)
NET OTHER NON-CURRENT ASSETS	**140,763**	**54,321**

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

18) Inventories

	December 31, 2007	December 31, 2006
Raw materials	214,534	180,683
Work in process	236,595	159,503
Finished goods	106,273	76,579
Finished goods in transit	51,845	57,605
Consigned goods	-	769
Goods for resale	131	-
Supplies	182,445	126,652
GROSS INVENTORIES	791,823	601,791
Allowance for obsolescence and slow-moving	(9,450)	(8,357)
NET INVENTORIES	**782,373**	**593,434**

Included in inventories as at December 31, 2007, are inventories carried at net realisable value in the amount of 41,542 (December 31, 2006: 29,584).

As at December 31, 2007, certain items of inventory with a carrying amount of 81,537 (December 31, 2006: 91,671) were pledged as security for borrowings (Note 25).

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

	2007	2006
Balance at the beginning of the year	8,357	6,020
Utilised during the year	(680)	-
Additional increase in allowance	1,156	1,677
Currency translation adjustments	617	660
BALANCE AT THE END OF THE YEAR	**9,450**	**8,357**

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

19) Property, Plant and Equipment

The movement in property, plant and equipment for the year ended December 31, 2007 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	TOTAL
COST						
Balance at January 1, 2007	876,604	1,140,296	45,987	22,187	321,541	**2,406,615**
Additions	1,250	8,046	340	789	620,587	**631,012**
Assets put into operation	165,500	201,894	19,032	7,633	(394,059)	**-**
Transfer (to)/from investment property	(22,850)	156	-	476	(1,839)	**(24,057)**
Disposals	(4,029)	(19,736)	(1,075)	(684)	(2,122)	**(27,646)**
Increase due to business combinations (Note 10)	34,864	18,176	82	121	6,160	**59,403**
Currency translation adjustments	67,045	90,794	4,050	2,012	33,924	**197,825**
BALANCE AT DECEMBER 31, 2007	**1,118,384**	**1,439,626**	**68,416**	**32,534**	**584,192**	**3,243,152**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2007	(83,793)	(291,331)	(14,085)	(9,526)	-	**(398,735)**
Depreciation charge	(24,260)	(103,881)	(4,766)	(4,287)	-	**(137,194)**
Transfer to/(from) investment property	1,661	(50)	-	(215)	-	**1,396**
Disposals	735	9,013	635	457	-	**10,840**
Currency translation adjustments	(5,259)	(27,677)	(1,344)	(927)	-	**(35,207)**
BALANCE AT DECEMBER 31, 2007	**(110,916)**	**(413,926)**	**(19,560)**	**(14,498)**	**-**	**(558,900)**
NET BOOK VALUE AT DECEMBER 31, 2007	**1,007,468**	**1,025,700**	**48,856**	**18,036**	**584,192**	**2,684,252**
NET BOOK VALUE AT JANUARY 1, 2007	**792,811**	**848,965**	**31,902**	**12,661**	**321,541**	**2,007,880**

Bank borrowings are secured by properties and equipment with the carrying value of 180,616 (December 31, 2006: 155,962), (Note 25).

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

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	TOTAL
COST						
Balance at January 1, 2006	777,976	873,368	34,010	14,589	147,920	**1,847,863**
Additions	-	2,145	99	283	372,031	**374,558**
Assets put into operation	21,523	186,224	7,383	6,398	(221,528)	**-**
Transfer to investment property	(863)	(40)	(23)	(102)	(10)	**(1,038)**
Disposals	(4,765)	(15,788)	(378)	(578)	(2,620)	**(24,129)**
Increase due to business combination (Note 10)	-	-	-	15	-	**15**
Currency translation adjustments	82,733	94,387	4,896	1,582	25,748	**209,346**
BALANCE AT DECEMBER 31, 2006	**876,604**	**1,140,296**	**45,987**	**22,187**	**321,541**	**2,406,615**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2006	(54,093)	(194,490)	(9,115)	(5,965)	-	**(263,663)**
Depreciation charge	(22,397)	(84,399)	(4,046)	(3,353)	-	**(114,195)**
Transfer to investment property	45	16	5	42	-	**108**
Disposals	1,315	10,149	286	443	-	**12,193**
Currency translation adjustments	(8,663)	(22,607)	(1,215)	(693)	-	**(33,178)**
BALANCE AT DECEMBER 31, 2006	**(83,793)**	**(291,331)**	**(14,085)**	**(9,526)**	**-**	**(398,735)**
NET BOOK VALUE AT DECEMBER 31, 2006	**792,811**	**848,965**	**31,902**	**12,661**	**321,541**	**2,007,880**
NET BOOK VALUE AT JANUARY 1, 2006	**723,883**	**678,878**	**24,895**	**8,624**	**147,920**	**1,584,200**

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

20) Investment Property

Investment property is represented by buildings rented out under operating lease agreements.

The movement in investment property for the year ended December 31, 2007 was as follows:

COST	
Balance at January 1, 2007	3,743
Transfer from property, plant and equipment	24,689
Transfer to property, plant and equipment	(632)
Additions	2,621
Disposals	(2,870)
Acquisition through business combination	2,159
Currency translation adjustments	1,243
Balance at December 31, 2007	**30,953**
ACCUMULATED DEPRECIATION	
Balance at January 1, 2007	(872)
Transfer from property, plant and equipment	(1,661)
Transfer to property, plant and equipment	265
Depreciation charge	(493)
Disposals	40
Currency translation adjustments	(141)
Balance at December 31, 2007	**(2,862)**
NET BOOK VALUE AT DECEMBER 31, 2007	**28,091**
NET BOOK VALUE AT JANUARY 1, 2007	**2,871**

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

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

The fair value of investment property approximates its carrying amount.

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

21) Goodwill and Other Intangible Assets

	Patents and trademarks	Goodwill	Software	Other	TOTAL
COST					
Balance at January 1, 2007	403	46,944	14,303	4,794	**66,444**
Additions	351	-	1,710	4,571	**6,632**
Disposals	(15)	-	-	(510)	**(525)**
Increase due to business combination (Note 10)	-	50,458	-	-	**50,458**
Currency translation adjustments	42	3,980	1,120	499	**5,641**
BALANCE AT DECEMBER 31, 2007	**781**	**101,382**	**17,133**	**9,354**	**128,650**
ACCUMULATED AMORTISATION					
Balance at January 1, 2007	(130)	-	(2,224)	(1,446)	**(3,800)**
Amortisation charge	(35)	-	(1,858)	(679)	**(2,572)**
Disposals	15	-	-	174	**189**
Currency translation adjustments	(10)	-	(240)	(120)	**(370)**
BALANCE AT DECEMBER 31, 2007	**(160)**	**-**	**(4,322)**	**(2,071)**	**(6,553)**
NET BOOK VALUE AT DECEMBER 31, 2007	**621**	**101,382**	**12,811**	**7,283**	**122,097**
NET BOOK VALUE AT JANUARY 1, 2007	**273**	**46,944**	**12,079**	**3,348**	**62,644**

	Patents and trademarks	Goodwill	Software	Other	TOTAL
COST					
Balance at January 1, 2006	338	37,180	11,210	2,754	**51,482**
Additions	25	-	1,726	2,376	**4,127**
Assets put into operation	-	-	245	(245)	**-**
Disposals	(2)	-	-	(504)	**(506)**
Increase due to business combination (Note 10)	-	6,166	-	-	**6,166**
Currency translation adjustments	42	3,598	1,122	413	**5,175**
BALANCE AT DECEMBER 31, 2006	**403**	**46,944**	**14,303**	**4,794**	**66,444**
ACCUMULATED AMORTISATION					
Balance at January 1, 2006	(88)	-	(381)	(946)	**(1,415)**
Amortisation charge	(30)	-	(1,758)	(600)	**(2,388)**
Disposals	1	-	-	282	**283**
Currency translation adjustments	(13)	-	(85)	(182)	**(280)**
BALANCE AT DECEMBER 31, 2006	**(130)**	**-**	**(2,224)**	**(1,446)**	**(3,800)**
NET BOOK VALUE AT DECEMBER 31, 2006	**273**	**46,944**	**12,079**	**3,348**	**62,644**
NET BOOK VALUE AT JANUARY 1, 2006	**250**	**37,180**	**10,829**	**1,808**	**50,067**

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

21) Goodwill and Other Intangible Assets (continued)

Goodwill relates to synergy from integration of the acquired subsidiaries into the Group and combined cost savings achieved on business combinations. The carrying amount of goodwill was allocated among cash generating units as follows at December 31:

	2007	2006
OAO "Taganrog Metallurgical Plant"	40,796	38,031
ZAO "Trade House TMK"	2,800	2,610
TMK Italia s.r.l. (former Eurosinara s.r.l.)	6,762	6,303
ZAO "Pipe Repair Department"	44,198	-
OOO "Predpriyatiye "Truboplast"	6,826	-
TOTAL GOODWILL	**101,382**	**46,944**

22) Trade and Other Payables

	December 31, 2007	December 31, 2006
Trade payables	192,344	179,646
Accounts payable for property, plant and equipment	98,627	66,982
Notes issued to third parties	929	342
Other payables	3,277	1,590
TOTAL ACCOUNTS PAYABLE	**295,177**	**248,560**

23) Accrued Liabilities

	December 31, 2007	December 31, 2006
Payroll liabilities	27,374	28,209
Accrued and withheld taxes on payroll	13,965	11,165
Liabilities for VAT	11,883	9,032
Liabilities for property tax	2,561	2,414
Liabilities for other taxes	3,651	2,306
Deferred VAT	399	442
Current portion of employee-benefit liability (Note 26)	2,284	706
Accrual for long-service benefit	5,607	4,451
Liabilities under put options of minority shareholders in subsidiaries	39,481	21,387
Liability for bonuses	8,806	3,894
Accrued liability on acquisitions	26,693	-
Miscellaneous	4,480	1,094
TOTAL ACCRUED LIABILITIES	**147,184**	**85,100**

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

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

24) Provisions

	December 31, 2007	December 31, 2006
Current		
Provision for unused annual leaves	3,131	2,365
Provision for tax fines	1,456	659
Environmental provision	87	-
TOTAL CURRENT PROVISIONS	**4,674**	**3,024**
Non-current		
Provision for unused annual leave	15,973	13,437
TOTAL NON-CURRENT PROVISIONS	**15,973**	**13,437**

25) Interest-Bearing Loans and Borrowings

Short-term and long-term borrowings were as follows as at December 31, 2007:

	2007	2006
Current:		
Bank loans	671,423	183,974
Raiffeisen Leasing liability	151	592
Interest payable	17,397	16,439
Current portion of non-current borrowings	141,805	71,106
Current portion of bearer coupon debt securities	203,698	97,347
Unamortised debt issue costs	(1,454)	(1,470)
	1,033,020	**367,988**
Finance lease liability - current	302	187
TOTAL SHORT-TERM BORROWINGS	**1,033,322**	**368,175**
Non-current:		
Bank loans	249,217	251,873
Bearer coupon debt securities	607,741	587,236
Raiffeisen Leasing liability	-	151
Unamortised debt issue costs	(5,882)	(8,118)
Less: current portion of non-current borrowings	(141,805)	(71,106)
Less: current portion of bearer coupon debt securities	(203,698)	(97,347)
	505,573	**662,689**
Finance lease liability - non-current	404	244
TOTAL LONG-TERM BORROWINGS	**505,977**	**662,933**

Some of the loan agreements provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness, profitability and guarantees issued to other parties. The Group pledged its rights under some contracts in Russia and Romania as collateral under loan agreements for 220,144 as at December 31, 2007 (December 31, 2006: 68,072). Proceeds from sales pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

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

25) Interest-Bearing Loans and Borrowings (continued)

Loans for 258,978 as at December 31, 2007 and 271,477 as at December 31, 2006, inclusive of short-term borrowings, were guaranteed by collateral of property, plant and equipment, inventories, deposits, cash and accounts receivable (Notes 13, 14, 15, 18, 19).

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

	Interest rates	December 31, 2007	December 31, 2006
Russian Rouble	Fixed 6% - 12%	929,949	438,338
US Dollar	Fixed 8.5%	303,380	301,911
	Fixed 20.94%	151	743
	Variable: Libor (3m) + 1.5% - 1.7% Federal Funds Rate + 1.6%	47,253	169,197
Euro	Fixed 5.7%	250	977
	Variable: Euribor (1m) + 0.23% - 4.95% Euribor (3m) + 2.25% - 2.75% Euribor (6m) + 2.4% - 5% Euribor (12m) + 0.23% - 4.95%	256,430	119,511
Romanian Lei	Bubor (1m) + 0.75% (*)	1,180	-
		1,538,593	**1,030,677**

(*) Bubor is the Bucharest bid offer rate.

Bank Loans

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

In March 2007, the Group repaid early its liabilities under long-term loans to Gazprombank in the amount of 3,634 thousand euros (4,789 at the exchange rate at December 31, 2006). These liabilities were included in non-current borrowings in the consolidated balance sheet as at December 31, 2006.

In January – February 2007, the Group entered into short-term loans with Sberbank in the principal amount of 112,033 at a fixed rate of 6.7%. In January 2008, the loans were fully repaid.

In November – December 2007, the Group entered into short-term loans with VTB Bank in the principal amount of 114,071 at a fixed rate of 9.5%.

25) Interest-Bearing Loans and Borrowings (continued)

On September 25, 2006, the Group entered into a syndicated facility agreement with Bank Natexis, as arranger, in an aggregate principal amount of up to 155,000. The facility has a term of 30 months from the date of the first drawdown, which occurred on September 26, 2006. The maturity date of the facility may be extended in certain circumstances at the election of the Group. As at December 31, 2007, the Group has drawn and started repay this facility. As at December 31, 2007 the principal debt amounted to 10,000 thousand euros (14,639 at the exchange rate at December 31, 2007) and 97,142.

In September 2006, Seversky Pipe Plant and Taganrog Metallurgical Plant entered into ECA-covered loan agreements with HVB in the aggregate amount of 91,700 thousand euros (134,240 at the exchange rate at December 31, 2007) with maturity date in 2013. As at December 31, 2007, aggregate amount of 19,750 thousand euros (28,912 at the exchange rate at December 31, 2007) was outstanding under loan agreements.

The Group complied with all terms of loan agreements.

Loan Participation Notes

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

Bearer Coupon Debt Securities

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 Russian rubles (35.95 US dollars at the exchange rate as at the date of issuance) each, with eight coupons periods of 182 days each. The bonds mature on March 24, 2009. The annual interest rate for the first two semi-annual coupons was set at 11.09%, the annual rate for the third and fourth semi-annual coupons - at 10.09% and for the fifth, sixth, seventh and eighth semi-annual coupons at 7.6%. Early redemption of bonds was available within 5 days of the fourth semi-annual coupon period, from the 724th to the 728th days from the date of issuance. As at December 31, 2007, an aggregate of 2.6 billion Russian rubles (104,043 at the exchange rate as at December 31, 2007) remained outstanding under these bonds series.

On February 21, 2006, the Group issued 5,000,000 bonds with a nominal value of 1,000 Russian rubles (35.53 US dollars at the exchange rate as at the date of issuance) each, with ten coupon periods of 182 days each. The maturity date is February 15, 2011. The interest rate for the first, second, third and fourth semi-annual coupons is 7.95% per annum. The annual interest rate for semi-annual coupons for the fifth to the tenth coupon periods was to be established and announced by the Company on any date before the last 10 days of the fourth coupon period (Note 32). Early redemption of bonds was available within 10 days of the fourth coupon period, from the 719th to 728th days from the date of issuance. As at December 31, 2007, an aggregate of 5.0 billion Russian rubles (203,698 at the exchange rate as at December 31, 2007) remained outstanding under these bonds series.

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

25) Interest-Bearing Loans and Borrowings (continued)

Unamortised Debt Issue Costs

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

Liability to Raiffeisen Leasing

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

Unutilised Borrowing Facilities

As at December 31, 2007, the Group had unutilised borrowing facilities in the amount of 491,854 (December 31, 2006: 314,501).

Finance Lease Liabilities

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

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

	2007	**2006**
Machinery and equipment	330	-
Transport and motor vehicles	883	657
	1,213	**657**

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

Future minimum lease payments were as follows at December 31, 2007:

	Principal	**Interest**	**Total**
2008	302	42	344
2009 - 2010	404	30	434
	706	**72**	**778**

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

25) Interest-Bearing Loans and Borrowings (continued)

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

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

In the years ended December 31, 2007 and December 31, 2006, the average interest rates under the finance lease liabilities were 4% and 6%, respectively.

26) Employee Benefit Liability

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

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2007 and 2006 and amounts recognised in consolidated balance sheets as at December 31, 2007 and 2006 were as follows:

	2007	2006
Movement in the benefit liability:		
At January 1	(21,049)	(18,009)
Benefit expense	(1,819)	(1,983)
Benefit paid	1,271	755
Change in liability due to business combinations	(957)	-
Currency translation adjustment	(1,592)	(1,812)
At December 31	**(24,146)**	**(21,049)**
Short-term	**(2,284)**	**(706)**
Long-term	**(21,862)**	**(20,343)**
Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses):		
Current service cost	1,217	1,350
Interest cost on benefit obligation	1,927	1,507
Net actuarial gain recognised in the period	(1,533)	(1,064)
Past service cost	208	190
Net benefit expense	**1,819**	**1,983**

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

26) Employee Benefit Liability (continued)

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

	Russia		Romania	
	2007	**2006**	**2007**	**2006**
Movement in the benefit liability:				
At January 1	(19,731)	(17,396)	(1,318)	(613)
Benefit expense	(1,204)	(1,396)	(615)	(587)
Benefit paid	1,179	694	92	61
Change in liability due to business combinations	(957)	-	-	-
Currency translation adjustment	(1,502)	(1,633)	(90)	(179)
At December 31	**(22,215)**	**(19,731)**	**(1,931)**	**(1,318)**
Short-term	**(2,284)**	**(706)**	**-**	**-**
Long-term	**(19,931)**	**(19,025)**	**(1,931)**	**(1,318)**
Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses):				
Current service cost	932	1,044	285	306
Interest cost on benefit obligation	1,828	1,441	99	66
Net actuarial (gain) loss recognised in the period	(1,764)	(1,279)	231	215
Past service cost	208	190	-	-
Net benefit expense	**1,204**	**1,396**	**615**	**587**

The Group expects to contribute 1,350 to its defined post-employment benefit programme in 2008.

	2007	**2006**
Present value of defined benefit obligation	27,467	24,341
Unrecognised past service cost	(3,321)	(3,292)
Benefit liability as at December 31	**24,146**	**21,049**

The Group had no plan assets and unrecognised actuarial gains or losses in the year ended December 31, 2007.

The following table is a summary of the present value of the benefit obligation and experience adjustments as at December 31:

	2007	**2006**
Defined benefit obligation as at December 31	27,467	24,341
Experience adjustments on plan liabilities	(1,639)	(2,199)

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

26) Employee Benefit Liability (continued)

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

	Russia		Romania	
	2007	2006	2007	2006
Discount rate	7.75%	7.75%	current 6.70%, decreasing to 3.53% in the long- term	current 7.25%, decreasing to 3.53% in the long-term
Average long-term rate of compensation increase	6.25%	6.25%	current 14.0%, decreasing to 2.0% in the long-term	current 5.0%, decreasing to 2.0% in the long- term

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

27) Principal Subsidiaries

Company	Location	Main activity	Actual ownership interest	Effective ownership interest	Actual ownership interest	Effective ownership interest
			December 31, 2007		December 31, 2006	
OAO “Sinarsky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, sale of electric and heating power and other services	92.68%	92.68%	92.43%	92.43%
OAO “Seversky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services	93.29%	93.29%	92.97%	92.97%
OAO “Volzhsky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	100.00%	100.00%
OAO “Taganrog Metallurgical Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of steel ingots and other products	95.94%	100.00%	95.74%	100.00%
OAO “Orsky Machine Building Plant”	Russia	Manufacturing of drilling locks and other products	75.00%	75.00%	75.00%	75.00%
ZAO “Trade House TMK”	Russia	Sale of steel pipes	100.00%	99.92%	100.00%	99.92%
OOO “Skladskoy Kompleks TMK”	Russia	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
TOO “TMK-Kazakhstan”	Kazakhstan	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
OOO “TMK-Trans”	Russia	Logistics	100.00%	100.00%	100.00%	100.00%
OOO “Blagoustroystvo”	Russia	Services	100.00%	99.99%	100.00%	99.99%
OOO “SinaraTransAvto”	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO “Sinaraproekt”	Russia	Services	100.00%	100.00%	100.00%	100.00%
TMK Global AG	Switzerland	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
TMK North America Inc.	USA	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
TMK Italia s.r.l. (former Eurosinara s.r.l.)	Italy	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
TMK Middle East FZCO	UAE	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
OOO Pokrovka 40	Russia	Assets holding	100.00%	100.00%	100.00%	100.00%
TMK Europe GmbH (former Sinara Handel GmbH)	Germany	Sale of pipes, raw materials and equipment	100.00%	100.00%	100.00%	100.00%
SC TMK-ARTROM SA	Romania	Manufacturing of seamless steel pipes	80.56%	80.56%	80.56%	80.56%
SC TMK-RESITA SA	Romania	Manufacturing of billets and other pipe-related goods	99.49%	99.49%	99.49%	99.49%
TMK Eastern Europe SA	Romania	Sale of pipes and other goods	0.00%	0.00%	95.00%	95.00%
WRJ INWESTYCJE SP Z O.O.	Poland	Investment company	100.00%	100.00%	80.00%	80.00%
TMK Capital S.A.	Luxembourg	Finance raising	0.00%	0.00%	0.00%	0.00%
Joint-Stock Company “Russian Research Institute of the Tube and Pipe Industries”	Russia	Scientific research institution	97.36%	100.00%	0.00%	0.00%
OOO “Predpriyatiye “Truboplast”	Russia	Pipe coating	100.00%	100.00%	0.00%	0.00%
ZAO “Pipe Repair Department”	Russia	Services for oil and gas industries	100.00%	100.00%	0.00%	0.00%
OOO “Central Pipe Yard”	Russia	Services for oil and gas industries	100.00%	100.00%	0.00%	0.00%
Rockarrow Investments Ltd.	Cyprus	Share options program realisation	100.00%	100.00%	0.00%	0.00%
ZAO "TMK-CPW"	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	51.00%	100.00%	0.00%	0.00%

Actual ownership interest in subsidiaries differs from the effective ownership interests due to the existence of minority interests in subsidiaries that hold ownership interest in other subsidiaries as well as due to the derecognition of minority interests for which minority shareholders hold put options (Note 30 viii).

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

28) Related Parties Disclosures

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

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2007 and 2006 are detailed below.

In the year ended December 31, 2007, transactions with related parties constituted approximately 0.4 % of the total volume of the Group's sales of goods (2006: 1%).

Interest rates on borrowings from related parties in 2006 were from 4% to 15%.

The following table provides outstanding balances with entities under common control with the Group at the year-end:

	December 31, 2007	December 31, 2006
Cash and cash equivalents	41,335	50,673
Accounts receivable - current	17,630	11,632
Prepayments - current	2	15
Other financial assets - non-current	221	2,270
Accounts payable - current	(14,924)	(5,278)
Borrowings from related parties	-	(3,550)
Accounts payable - non-current	(5)	-

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

	2007	2006
Sales revenue		
- Entities under common control with the Group	**22,293**	**31,575**
Purchases of goods and services		
- Entities under common control with the Group	3,750	14,171
- Entities under control of the minority shareholders of the Company	-	52
	3,750	**14,223**
Interest expenses from loans and borrowings		
- Entities under control of the minority shareholders of the Company	**61**	**778**
Interest income from loans and borrowings		
- Entities under common control with the Group	**2,013**	**2,113**

28) Related Parties Disclosures (continued)

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

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

Non-current accounts receivable from related parties as at December 31, 2006 includes a long-term portion of receivables for securities sold for 4,986 as at December 31, 2005. The nominal value of the current portion of the receivables for securities sold was 6,304 as at December 31, 2006.

In addition to transactions with related parties disclosed in this note, other transactions with related parties are disclosed in Notes 10, 30 and 32.

Compensation of Key Management Personnel of the Group

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 33 persons as at December 31, 2007 and 2006. Total compensation to key management personnel included as part of the general and administrative expenses in the income statement amounted to 29,636 for the year ended December 31, 2007 (2006: 14,620, including 1,278 in respect of shares sold by TMK Steel Limited (Note 29 vii)).

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

The Group guaranteed debts of key management personnel outstanding as at December 31, 2007 in the amount of 2,186 with maturity in 2008-2009.

29) Contingencies and Commitments

Operating Environment of the Group

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

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

29) Contingencies and Commitments (continued)

Taxation

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

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

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

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

In 2007 and 2008, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 806,942 thousand Russian rubles (32,874 at the exchange rate as at December 31, 2007). The Group accepted the claims for the amount of 28,424 thousand Russian rubles (1,158 at the exchange rate as at December 31, 2007) and accrued this amount in the consolidated financial statements for the year ended December 31, 2007. Claims in the amount of 778,518 thousand Russian rubles (31,716 at the exchange rate as at December 31, 2007) are being contested by the Group. As at the date of the authorisation for issue of these consolidated financial statements, the courts of the first instance made decisions in favour of the Group for the total amount of 148,712 thousand Russian rubles (6,058 at the exchange rate as at December 31, 2007), and the claims for the amount of 38,495 thousand Russian rubles (1,568 at the exchange rate as at December 31, 2007) were withdrawn by the tax authorities at a pre-litigation stage. Management believes that the Group’s position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Therefore, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2007.

Contractual Commitments and Guarantees

As at December 31, 2007, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 2,608,927 thousand Russian rubles (106,286 at the exchange rate as at December 31, 2007), 270,741 thousand euros (396,338 at the exchange rate as at December 31, 2007), 10,174 Romanian lei (4,215 at the exchange rate as at December 31, 2007) and 10,762 thousand US dollars for the total amount of 517,601 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 76,223 with respect to such commitments.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 285,852 (2006: 47,301).

29) Contingencies and Commitments (continued)

Insurance Policies

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

Legal Claims

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

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at December 31, 2007 in the amount of 4,889 (2006: 4,562).

30) Equity

i) Share Capital

As at December 31, 2007, the authorised number of ordinary shares of the Company was 873,001,000 (2006: 873,001,000) with a nominal value per share of 10 Russian rubles. All these shares are issued and fully paid.

ii) Reserve Capital

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

iii) Dividends

In July 2006, the Company declared dividends in respect of 2005 in the amount of 473,359 thousand Russian rubles (17,101 at the exchange rate at the announcement date) or 0.542 Russian rubles per share (0.020 US dollars per share). In May 2005, the Company declared interim dividends in respect of 2005 in the amount of 73,332 thousand Russian rubles (2,592 at the exchange rate at the announcement date) or 0.084 rubles per share (0.003 US dollars per share).

30) Equity (continued)

iii) Dividends (continued)

In June 2007, the Company declared dividends in respect of 2006 in the amount of 3,753,904 thousand Russian rubles (145,624 at the exchange rate at the announcement date) or 4.30 Russian rubles per share (0.17 US dollars per share). In December 2007, the Company declared interim dividends in respect of 2007 in the amount of 3,168,994 thousand Russian rubles (128,140 at the exchange rate at the announcement date) or 3.63 Russian rubles per share (0.15 US dollars per share), from which 3,759 thousand Russian rubles (152 at the exchange rate at the transaction date) related to treasury shares in possession of the Group as at the date of dividends declaration.

In accordance with Russian legislation, dividends may only be declared to the shareholders from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had 1,007,906 and 457,583 of undistributed and unreserved earnings recognised in Russian statutory financial statements as at December 31, 2007 and 2006, respectively. In addition, the Group’s share in the undistributed and unreserved earnings of its subsidiaries was 2,403,231 and 892,900 as at December 31, 2007 and 2006, respectively.

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

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

On August 25, 2006, the Group signed an agreement on the purchase of 75% ownership interest in OAO “Orsky Machine Building Plant” for 45,512 from an entity under common control with the Group. Payment for 75% ownership interest for 45,512 was made on November 9, 2006 and is included in distributions to owners as a reduction in additional paid-in capital in the consolidated financial statements. In 2006, OAO “Orsky Machine Building Plant” paid dividends in the amount of 950 for 2005 and for the six months ended June 30, 2006 to its former owner.

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in OOO “Predpriatie “Truboplast” for 23,986 from entities under common control with the Group. The difference of 6,834 between the acquisition value for entities under common control and the amount paid by Group was included in distributions to owners as a reduction in additional paid-in capital in the consolidated financial statements (Note 10).

v) Acquisition of Minority Interests in Subsidiaries

In the year ended December 31, 2007, the Company purchased additional 0.32% of OAO “Seversky Pipe Plant” shares, 0.25% of OAO “Sinarsky Pipe Plant” shares and 21.02% of OAO “RosNITI”. The total cash consideration for the shares amounted to 4,955. The excess in the amount of 1,675 of the consideration given for the shares over the carrying values of net assets attributable to interest in the subsidiary acquired was charged to accumulated profits. The excess in the amount of 531 of the carrying values of net assets attributable to interest in ROSNITI over the consideration paid for such minority interest is recorded in additional paid-in capital.

30) Equity (continued)

v) Acquisition of Minority Interests in Subsidiaries (continued)

In the year ended December 31, 2006, the Company purchased additional 1.31% of OAO “Sinarsky Pipe Plant” shares, 1.37% of OAO “Seversky Pipe Plant” shares and 0.42% of OAO “Taganrog Metallurgical Plant” shares. The total amount paid for the shares was 21,423. The excess in the amount of 10,812 of the carrying values of net assets attributable to interest in the subsidiary acquired over the consideration given for such increase is charged to accumulated profits.

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

Dividends declared by subsidiaries of the Group to the minority owners in subsidiaries were recorded as a reduction in minority interests of 117 and 788 in the consolidated financial statements for the years ended December 31, 2007 and 2006, respectively.

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

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

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

viii) De-recognition of Minority Interests in a Subsidiary

In 2006, new regulations were introduced in the Russian Federation in respect of joint stock companies in which a controlling shareholder owns not less than 95% of the share capital as at July 1, 2006. These amendments oblige a controlling shareholder to acquire the company’s shares in the case when the minority shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can initiate a forced disposal of the shares held by minority shareholders. The put and call options under this legislation will expire in August 1, 2008.

At July 1, 2006, the Group had a 95.74% ownership interest in OAO “Taganrog Metallurgical Plant”. At this date, the Group derecognised minority interests of 14,443 and accrued a liability to minority shareholders for 27,106. The liability was measured based on the highest purchase price of these shares by the Group. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounted to 12,663 for year 2006.

In the year ended December 31, 2007, the Company purchased additional 0.21% of OAO “Taganrog Metallurgical Plant” shares for 1,298 and recorded a decrease in the liability under put options by that amount.

At July 2, 2007, the Group had a 95.11% ownership interest in OAO “RosNITI”. At this date, the Group derecognised minority interests of 389 and accrued a liability to minority shareholders for 389.

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

30) Equity (continued)

viii) De-recognition of Minority Interests in a Subsidiary (continued)

In 2007, the Group established ZAO TMK-CPW, a new subsidiary with 51% ownership. Under the shareholders' agreement, the minority shareholder in TMK-CPW owning 49% shares in the subsidiary had a put option to sell its shares to the Group under certain circumstances beyond the Group's control. The Group recorded a liability under that put option in the consolidated financial statements. The excess of that liability over the fair value of assets contributed by the minority shareholder in the capital of TMK-CPW of 536 was charged to retained earnings in the consolidated financial statements of the Group for the year ended December 31, 2007.

ix) Share-Based Payments

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

The exercise price for options under the first phase was fixed at 217.6 Russian rubles per share (8.86 US dollars per share at the exchange rate as at December 31, 2007). The exercise price for options under the second phase was fixed at 226.68 Russian rubles per share (9.23 US dollars per share at the exchange rate as at December 31, 2007). The exercise price for options under the third phase will be determined based on the average market price of the shares for the period from June 2007 to June 2008.

The fair value of the options granted is estimated at the date of grant using the Black Scholes pricing model, taking into account the terms and conditions upon which options were granted. The fair value of options granted during the year ended December 31, 2007 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	1.62 – 2.07
Expected volatility (%)	14.54
Risk-free interest rate (%)	4.62 - 4.93
Expected life (years)	0.58 – 2.59
Share price on the date of grant (US dollars)	7.78

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

30) Equity (continued)

ix) Share-Based Payments (continued)

The following table illustrates the number and weighted average exercise prices (WAEP) of share options during the year:

	2007	
	Number of shares	WAEP
Outstanding as at January 1, 2007	-	-
Granted during the year	9,603,011	8.70
Exercised during the year	(1,873,457)	8.56
Expired during the year	(527,296)	8.72
Outstanding as at December 31, 2007	7,202,258	9.40
Exercisable as at December 31, 2007	-	-

The weighted average share price at the dates of exercise of these options was 10.7 US dollars in 2007.

The weighted average remaining contractual life for the share options outstanding as at December 31, 2007 was 1.29 years.

x) Purchase of the Company's Shares for the Purpose of Realisation of the Share Options Programme

In the year ended December 31, 2007, the Group purchased 2,425,631 shares of the Company for the total amount of 22,433 (at the exchange rate at the transaction date), including 571,631 shares purchased from the entity under common control with the Group for 5,151, for the purpose of realisation of the Programme. Cost of 1,873,457 shares sold to the Programme participants comprised 17,674. The Group purchased back from the Programme participants 529,793 shares of the Company for the amount of 5,993. The excess of the purchase cost of treasury shares over the proceeds from their sale amounting to 1,631 was charged to additional paid-in capital.

As at December 31, 2007, the Group owned 1,081,967 treasury shares.

31) Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise bank loans, bonds issued, trade payables, liabilities under put options of minority shareholders in subsidiaries and finance leases. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The presented information shows susceptibility of the Group concerning each of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

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

31) Financial Risk Management Objectives and Policies (continued)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

Interest Rate Risk

Changes in interest rates affect the market value of financial assets and liabilities of the Group and level of finance charges. Group's interest rate risk management policy is to minimise risk with the aim to achieve financial structure objectives defined and approved in the management's plans. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and the funding of portfolio developments consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and variable rate basis. EURIBOR and LIBOR served as the basis for the calculation of interest rates on loans with variable rate. As these loans accounted for only 19% of the total loan portfolio at the end of 2007 (28% at the end of 2006), the Group considers such risks immaterial and is not using instruments to hedge such interest-rate risks at present. Nevertheless, the Group monitors interest rates and will use instruments to hedge such risk as necessary.

The Group does not have any financial assets with variable interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

As at 31 December 2007	**Basis points**	**Effect on profit before tax**
Increase in LIBOR	50	(170)
Decrease in LIBOR	(125)	426
Increase EURIBOR	75	(1,934)
Decrease EURIBOR	(150)	3,869
As at 31 December 2006		
Increase in LIBOR	50	(777)
Decrease in LIBOR	(100)	1,554
Increase EURIBOR	150	(1,810)
Decrease EURIBOR	(50)	603

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

31) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk

The Group is exposed to currency risk on sales and purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily denominated are euro and US dollars.

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. In recent years the effect of the Russian ruble appreciation versus the US dollar has been more than offset by increased prices for the Group's tubular goods, both domestically and internationally.

As there can be no assurance that such a trend will continue in the future, the Group is considering the use of derivative instruments, including forward contracts and currency swaps, to manage its foreign exchange risks with respect to currency fluctuations of the US dollar versus the Russian ruble. The Group can provide no assurance, however, that such instruments will be available to the Group or that the use of such instruments will mitigate the Group's currency exposures.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows as at December 31:

	2007	2006
USD/RUR	(315,391)	(457,690)
EUR/RUR	(54,521)	(12,810)
EUR/USD	(40,988)	3,096
USD/RON	(106,859)	2,372
EUR/RON	(91,791)	(68,084)

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

31) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating a reasonably possible change the Group used the volatility of foreign exchange rates during the three years preceding each reporting date.

	Change in exchange rate	Effect on profit before tax
As at 31 December 2007		
USD/RUR	(5.80%)	18,293
USD/RUR	4.20%	(13,246)
EUR/RUR	(5.45%)	2,971
EUR/RUR	3.25%	(1,772)
EUR/USD	(7.35%)	3,013
EUR/USD	7.35%	(3,013)
USD/RON	(11.02%)	11,771
USD/RON	11.02%	(11,771)
EUR/RON	(8.00%)	7,344
EUR/RON	8.00%	(7,344)
As at 31 December 2006		
USD/RUR	(6.10%)	21,498
USD/RUR	4.50%	(15,860)
EUR/RUR	(7.00%)	8,125
EUR/RUR	4.70%	(5,455)
EUR/USD	(9.25%)	(806)
EUR/USD	9.25%	806
USD/RON	(11.51%)	(241)
USD/RON	11.51%	241
EUR/RON	(8.27%)	3,236
EUR/RON	8.27%	(3,236)

Liquidity Risk

Liquidity risk is the risk that the will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

31) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

The Group manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

As at 31 December 2007	**Less than 3 months**	**3 to 12 month**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**> 4 years**	**Total**
Trade and other payables	251,774	43,403	-	-	-	-	**295,177**
Accounts payable to related parties	14,924	-	-	-	-	-	**14,924**
Interest-bearing loans and borrowings							
Principal	477,939	539,138	447,675	39,532	9,303	14,945	**1,528,532**
Interest	39,925	46,039	55,853	24,822	12,239	7,111	**185,989**
Dividends payable	129,116	-	-	-	-	-	**129,116**
Liabilities under put options of minority shareholders in subsidiaries	39,481	-	-	-	-	-	**39,481**
Other non-current liabilities	-	1,535	2,829	2,829	2,829	46,671	**56,693**
	953,159	**630,115**	**506,357**	**67,183**	**24,371**	**68,727**	**2,249,912**

As at 31 December 2006	**Less than 3 months**	**3 to 12 month**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**> 4 years**	**Total**
Trade and other payables	236,626	11,934	-	-	-	-	**248,560**
Accounts payable to related parties	3,379	1,899	-	-	-	-	**5,278**
Interest-bearing loans and borrowings							
Principal	182,874	170,145	22,427	428,665	13,043	206,672	**1,023,826**
Interest	28,028	43,096	58,602	48,353	18,395	9,760	**206,234**
Dividends payable	1,383	-	-	-	-	-	**1,383**
Liabilities under put options of minority shareholders in subsidiaries	21,387	-	-	-	-	-	**21,387**
Other non-current liabilities	-	-	1,414	2,829	2,829	49,500	**56,572**
	473,677	**227,074**	**82,443**	**479,847**	**34,267**	**265,932**	**1,563,240**

Credit Risk

Credit risk is the potential exposure of the Group to losses that would be recognised if counterparties failed to perform or failed to pay amounts due. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

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

31) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The monitoring activity of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to qualify and monitor counterparty risk.

The Group sells goods to some of the biggest Russian and international companies on credit terms. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

As at December 31, 2007, accounts receivable from the three biggest debtors of the Group amounted to 249,440. As at December 31, 2006, accounts receivable from the two biggest debtors of the Group amounted to 103,459. Management determines concentration by reference to a percentage of receivables from particular customers as percentage of total accounts receivable.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below:

	2007	2006
Cash and cash equivalents	89,045	144,010
Financial investments	116	174,543
Trade and other receivables	523,525	274,424
Accounts receivable from related parties	17,632	11,647
Other	7,031	8,094
	637,349	**612,718**

The ageing analysis of trade and other receivables and accounts receivable from related parties is presented in the table below:

	2007		2006	
	Gross amount	Impairement	Gross amount	Impairement
Current Trade receivables - not past due	466,398	-	235,405	-
Current Trade receivables - past due:				
less than 30 days	31,671	-	32,939	-
between 30 and 90 days	15,150	-	5,078	-
over 90 days	19,772	(9,466)	10,701	(9,699)
Accounts Receivable from related parties	17,632	-	11,647	-
Non - current Trade receivables	428	(166)	66	(39)
	551,051	**(9,632)**	**295,836**	**(9,738)**

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

31) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The movement in allowance for doubtful accounts was as follows:

	2007	2006
Balance at the beginning of the year	9,738	8,686
Utilised during the year	(1,029)	(1,413)
Additional (decrease) increase in allowance	(1,125)	1,573
Currency translation adjustment	2,048	892
BALANCE AT THE END OF THE YEAR	**9,632**	**9,738**

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators.

Capital includes equity attributable to the equity holders of the parent entity.

The Group manages its capital structure and adjusts it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, such as cash and cash equivalents, short-term and long-term investments, short-term accounts receivable, short-term and long-term loans payable with variable interest rate approximate their fair value.

The following table shows financial instruments which carrying amounts differ from fair values:

	31 December 2007		31 December 2006	
	Fair value	Net carrying amount	Fair value	Net carrying amount
Financial Liabilities				
Long-term fixed rate bank loans	-	-	889	835
Bonds due 2009	104,043	104,053	97,347	98,028
Bonds due 2011	203,698	203,962	189,890	190,649
8.5 per cent loan participation notes due 2009	300,000	305,616	300,000	311,162

The fair value of the bonds and notes was determined based on market quotations. The fair value of long-term fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at prevailing interest rate, which amounted to 9% for Russian rubles as at December 31, 2006.

32) Events after the Balance Sheet Date

On March, 14, 2008, the Group entered into a definitive agreement with Evraz Group S.A. ("Evraz"), whereas the Company will acquire from Evraz the US companies and assets of IPSCO Tubular's business (the "Business") in conjunction with Evraz's acquisition of the Business from SSAB. According to the agreement, the Company will acquire 100% of IPSCO Tubulars Inc. and 51% of NS Group Inc. for approximately 1.2 billion US dollars. The Company and Evraz have also entered into a call / put option for the remaining 49% of NS Group Inc., which will be exercisable in 2009 for approximately 0.5 billion US dollars subject to certain adjustments. The closing of the transaction will be subject to customary regulatory approvals and closing conditions.

From the beginning of the year until March 14, 2008, the Group made a final payment for the purchase of "Truboplast" shares of 255,848 Russian rubles (10,536 at the exchange rate at the dates of payments) (Note 10).

In February-March 2008, the Company paid interim dividends in the amount of 2,298,718 Russian rubles (96,200 at the exchange rate as at the dates of payments).

Early redemption option for bonds maturing on February 15, 2011 was available within 10 days of the fourth coupon period, from the 719th to 728th days from the date of issuance. In February 2008, the Group bought out early 4,000 bonds from bondholders for the total amount of 163. On February 8, 2008, the Group established and announced the annual interest rate for the fifth, sixth, seventh and eighth semi-annual coupons at 9.6% per annum. The next early redemption option of bonds maturing on February 15, 2011, will be available within 10 days of the eighth coupon period, from the 1,447th to 1,456th days from the date of issuance, in February 2010.

In March 2008, the Group early repaid long-term bank loans outstanding as at December 31, 2007 in an aggregate amount of 22,336 thousand euros (32,698 at the exchange rate as at December 31, 2007).

On March 19, 2008, Seversky Pipe Plant entered into ECA-covered credit agreement with Societe Generale in the aggregate principal amount of 88,650 thousand euros (139,695 at the exchange rate as at March 19, 2008) with maturity in 2015. As at April 18, 2008, the borrower has not drawn any amount under this agreement.