IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "Prospectus") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PROSPECTUS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS PERMITTED BY REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") OR ANOTHER EXEMPTION FROM, OR TRANSACTION NOT SUBJECT TO, REGISTRATION UNDER THE SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, you must be (i) a person that is outside the United States for the purposes of Regulation S under the Securities Act or (ii) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to us that you are outside the United States for the purposes of Regulation S under the Securities Act or that you are a QIB and that you consent to delivery of such Prospectus by electronic transmission. You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of OAO TMK in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to OAO TMK.

Under Russian law, the GDRs are securities of a foreign issuer. The GDRs are not eligible for initial offering and public circulation in the Russian Federation. Neither the issue of the GDRs nor a securities prospectus in respect of the GDRs has been, or is intended to be, registered with the Federal Service for Financial Markets of the Russian Federation. The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the GDRs in the Russian Federation or to or for the benefit of any Russian person or entity.

This Prospectus is an advertisement for the purposes of applicable measures implementing the prospectus directive. A prospectus prepared pursuant to the prospectus directive will be published, which, when published, can be obtained from OAO TMK's registered office.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Credit Suisse Securities (Europe) Limited, Dresdner Bank AG, London Branch, Renaissance Securities (Cyprus) Limited or Citigroup Global Markets Limited, any person who controls any of them, nor any director, officer, employee or agent of Credit Suisse Securities (Europe) Limited, Dresdner Bank AG, London Branch, Renaissance Securities (Cyprus) Limited or Citigroup Global Markets Limited nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Credit Suisse Securities (Europe) Limited, Dresdner Bank AG, London Branch, Renaissance Securities (Cyprus) Limited or Citigroup Global Markets Limited.

Трубная
Металлургическая
Компания

180,000,000 Ordinary Shares in the form of Ordinary Shares and Global Depositary Receipts

Offer Price: U.S.$5.40 per Ordinary Share and U.S.$21.60 per Global Depositary Receipt

This prospectus (the "Prospectus") relates to an offering (the "Offering") by TMK Steel Limited ("TMK Steel" or the "Selling Shareholder") of ordinary shares, each with a nominal value of RUB 10 per share ("Ordinary Shares"), of OAO TMK ("OAO TMK" or the "Company"), in a simultaneous offering of Ordinary Shares and global depositary receipts ("GDRs") representing interests in Ordinary Shares, with each GDR representing an interest in four Ordinary Shares. See "Use of Proceeds."

The Selling Shareholder has granted the Joint Global Coordinators (as defined herein) an option (the "Over-Allotment Option"), exercisable for 30 days following the announcement of the definitive Offer Price for the GDRs, to purchase additional Ordinary Shares amounting to up to 10% of the total number of Ordinary Shares sold in the Offering in the form of Ordinary Shares and GDRs solely to cover over-allotments, if any, in the Offering. See "Subscription and Sale."

This document constitutes a prospectus relating to the Company prepared in accordance with the prospectus rules (the "Prospectus Rules") of the U.K. Financial Services Authority (the "Financial Services Authority") made under Section 73A of the Financial Services and Markets Act 2000 (the "FSMA"). This Prospectus will be made available to the public in accordance with the Prospectus Rules.

The Offering does not constitute an offer to sell, or the solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The offering consists of (a) an offering in the United States to certain qualified institutional buyers (each a "QIB") as defined in Rule 144A ("Rule 144A") under the United States Securities Act of 1933, as amended (the "Securities Act"), of Ordinary Shares and GDRs (the "Rule 144A GDRs") in reliance on Rule 144A, (b) an offering outside the United States and the Russian Federation of GDRs (the "Regulation S GDRs") in reliance on Regulation S under the Securities Act ("Regulation S") and (c) an offering outside the United States of Ordinary Shares in reliance on Regulation S. The Ordinary Shares and the GDRs have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered or sold in the United States of America (the "United States") absent registration or an exemption from registration under the Securities Act. The Ordinary Shares and the GDRs are subject to selling and transfer restrictions in certain jurisdictions. Prospective purchasers of the GDRs should read the restrictions described under "Subscription and Sale" and "Settlement and Transfer—Transfer Restrictions."

AN INVESTMENT IN THE ORDINARY SHARES OR GDRS INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS." The Ordinary Shares and GDRs are of a specialist nature and should normally only be purchased and traded by investors who are particularly knowledgeable in investment matters.

The Company has applied (i) to the U.K. Financial Services Authority, in its capacity as competent authority under the FSMA (hereinafter, the U.K. Listing Authority) for a block listing of up to 76,387,000 GDRs, consisting of 30,150,000 GDRs to be issued on or about 3 November 2006 (the "GDR Closing Date"), up to 4,500,000 additional GDRs to be issued pursuant to the Over-Allotment Option, if exercised, and additional GDRs to be issued from time to time against the deposit of Ordinary Shares with The Bank of New York, as depositary (the "Depositary") to be admitted to the official list of the U.K. Listing Authority (the "Official List") and (ii) to the London Stock Exchange plc (the "London Stock Exchange") to admit such GDRs for trading on the London Stock Exchange's regulated market for listed securities and in particular on the regulated market segment of the International Order Book (the "IOB"). The IOB is a regulated market for purposes of the Markets in Financial Instruments Directive (2004/39/EC). Admission to the Official List, together with admission to trading on the regulated market of the London Stock Exchange constitute admission to official listing on a stock exchange ("Admission"). Application has also been made for the Rule 144A GDRs to be designated as eligible for trading in The PORTAL Market of The Nasdaq Stock Market, Inc. ("PORTAL"). The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB will commence on a "when and if issued" basis on or about 31 October 2006 and that unconditional trading through the IOB will commence on or about the GDR Closing Date. **All dealings in the GDRs prior to the commencement of the unconditional dealings will be of no effect if the Admission does not take place and will be at the sole risk of the parties concerned.**

The Ordinary Shares of the Company are admitted to trading and listed on the Russian Trading System ("RTS"). The Company expects trading in the Ordinary Shares on the RTS to commence on or about 31 October 2006. Prior to the GDR Closing Date there has not been any public market for the GDRs, and prior to such date there has not been any public market for the Ordinary Shares.

The Ordinary Shares and GDRs offered hereby are being offered by the underwriters (the "Underwriters") as named in "Subscription and Sale" or through their selling agents, when, as and if delivered to and accepted by them and subject to their right to reject any order in whole or in part. The Regulation S GDRs will be evidenced by a Master Regulation S Global Depositary Receipt (the "Master Regulation S GDR"), which will be issued by the Depositary, registered in the name of The Bank of New York Depository (Nominees) Limited and deposited with The Bank of New York, London Branch, as common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"). Euroclear and Clearstream are expected to accept the GDRs for settlement in their respective book-entry settlement systems. The Rule 144A GDRs will be evidenced by a Master Rule 144A Global Depositary Receipt (the "Master Rule 144A GDR" and, together with the Master Regulation S GDR, the "Master GDRs") registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC") in New York. Except as set forth herein, investors may hold beneficial interests in and transfer the GDRs only through DTC, Euroclear or Clearstream and their direct and indirect participants, as applicable. Transfers within Euroclear and Clearstream, or within DTC, will be in accordance with the usual rules and operating procedures of the relevant system. The Company expects that delivery of the GDRs will be made through DTC, with respect to the Rule 144A GDRs, and through Euroclear and Clearstream, with respect to the Regulation S GDRs, in each case on or about the GDR Closing Date and that delivery of the Ordinary Shares will be made by 10 November 2006 (the "Share Closing Date").

Joint Global Coordinators and Joint Bookrunners

Credit Suisse **Dresdner Kleinwort** **Renaissance Capital**

Co-Lead Manager

Citigroup

The date of this Prospectus is 31 October 2006

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus (the "Prospectus") is issued in compliance with the Prospectus Directive (as defined below) compliant listing rules of the Financial Services and Markets Act 2000 ("FSMA") for the purpose of giving information with respect to OAO TMK and the GDRs and which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of OAO TMK. OAO TMK accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of OAO TMK, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised to give any information or to make any representation in connection with the Offering or sale of the Ordinary Shares or GDRs other than as contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by us, the Depositary or any of the Underwriters (as defined under "Subscription and Sale"). This Prospectus is being furnished by us solely for the purpose of enabling a prospective investor to consider the purchase of the Ordinary Shares or GDRs. No representation or warranty, express or implied, is made by any Manager or any of their affiliates or advisors as to the accuracy or completeness of any information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by any Manager as to the past or the future. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Ordinary Shares or GDRs is prohibited, except to the extent that such information is otherwise publicly available. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct at any time subsequent to such date. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing.

Where information has been sourced from a third party, this information has been accurately reproduced and so far as TMK is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information sourced from third parties contained in this Prospectus relates to the pipe industry and information on TMK's competitors (which may include estimates and approximations) as well as information contained in this Prospectus from official data published by certain Russian government agencies. See "Industry Overview."

This Prospectus does not constitute an offer to sell, or a solicitation by or on our behalf, the Depositary or any Underwriter to any person to subscribe for or purchase any of the Ordinary Shares or GDRs in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Prospectus and the Offering or sale of the Ordinary Shares or GDRs in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by TMK and the Underwriters to inform themselves about and to observe any such restrictions. No action has been taken by us or the Underwriters that would permit, otherwise than under the Offering, an offer of the Ordinary Shares or GDRs, or possession or distribution of this Prospectus or any other Offering material or application form relating to the Ordinary Shares or GDRs in any jurisdiction where action for that purpose is required. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the Ordinary Shares and GDRs and distribution of this Prospectus is set forth under "Subscription and Sale."

No person is authorised to provide any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Company or the Underwriters. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. TMK Group's websites do not form any part of the contents of this Prospectus.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Ordinary Share or GDR shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of TMK since the date of this Prospectus.

In connection with the issue of the GDRs, Credit Suisse Securities (Europe) Limited (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final price of the GDRs is made and end no later than 30 calendar days thereafter. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end.

In making an investment decision regarding the Ordinary Shares and GDRs offered hereby, prospective investors must rely on their own examination of us and the terms of the Offering, including the merits and risks involved, and should rely only on the information contained in this Prospectus. We have not, and the Selling Shareholder and the Underwriters have not, authorised any other person to provide different information. If anyone provides different or inconsistent information, prospective investors should not rely on it. The information appearing in this Prospectus is accurate as of the date on the front cover of this Prospectus only, and our business, financial condition, results of operations and the information set forth in this Prospectus may have changed since that date.

Information in this Prospectus is not investment, legal or tax advice. Prospective investors should consult their own counsel, financial, accounting and other advisors for legal, tax, business, financial and related advice regarding purchasing the Ordinary Shares and GDRs. Neither we, the Selling Shareholder nor the Underwriters or any of our, its or their respective representatives or affiliates are making any representation to any offeree or purchaser of the Ordinary Shares and GDRs regarding the legality of an investment in the Ordinary Shares and GDRs by such offeree or purchaser under appropriate investment or similar laws.

Credit Suisse Securities (Europe) Limited, Dresdner Bank AG, London Branch and Renaissance Securities (Cyprus) Limited are acting exclusively for us and the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

We may withdraw the Offering at any time, and we and the Underwriters reserve the right to reject any offer to purchase the Ordinary Shares and GDRs in whole or in part and to sell to any prospective investor less than the full amount of the Ordinary Shares and GDRs sought by such investor.

NOTICE TO EUROPEAN ECONOMIC AREA INVESTORS

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The Ordinary Shares and GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Ordinary Shares or GDRs will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

To the extent that the offer of the GDRs is made in any European Economic Area Member State that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "Prospectus Directive") before the date of publication of a prospectus in relation to the GDRs which has been approved by the competent authority in that Member State in accordance with the Prospectus Directive (or, where appropriate, published in accordance with the Prospectus Directive and notified to the competent authority in that Member State in accordance with the Prospectus Directive), the offer (including any offer pursuant to this document) is only addressed to qualified investors in that Member State within the meaning of the Prospectus Directive or has been or will be made otherwise in circumstances that do not require the Company to publish a prospectus pursuant to the Prospectus Directive.

This Prospectus has been prepared on the basis that all offers of Ordinary Shares or GDRs other than the offer of GDRs contemplated in the Prospectus in the United Kingdom, once the Prospectus has been approved by the competent authority in such Member State and published in accordance with the Prospectus Directive (2003/71/EC) as implemented in the United Kingdom will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic

Area, from the requirement to produce a prospectus for offers of Ordinary Shares or GDRs. Accordingly any person making or intending to make any offer within the European Economic Area of Ordinary Shares or GDRs which are the subject of the placement contemplated in this Prospectus should only do so in circumstances in which no obligation arises for the Company, the Selling Shareholder or any of the Underwriters to produce a prospectus for such offer. None of the Company, the Selling Shareholder or any of the Underwriters has authorised, nor do they authorise, the making of any offer of Ordinary Shares or GDRs through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of Ordinary Shares or GDRs contemplated in this Prospectus.

NOTICE TO UNITED STATES INVESTORS

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RUSSIAN FEDERATION RESIDENTS

Under Russian law, the GDRs are securities of a foreign issuer. The GDRs are not eligible for initial offering and public circulation in the Russian Federation. Neither the issue of the GDRs nor a securities prospectus in respect of the GDRs has been, or is intended to be, registered with the Federal Service for Financial Markets of the Russian Federation (the "FSFM"). The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the GDRs in the Russian Federation.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes "forward-looking statements," which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets," "believes," "expects," "aims," "intends," "plans," "will," "may," "anticipates," "would," "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Among the important factors that could cause our actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those under the headings "Summary," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors," "Business" and elsewhere in this Prospectus. These forward-looking statements speak only as at the date of this Prospectus. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any of such statements are based unless required to do so by the Listing Rules of the FSMA and other applicable laws.

AVAILABLE INFORMATION

For so long as any Ordinary Shares or GDRs representing such Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Our audited consolidated financial statements in respect of the financial years ended 31 December 2005, 2004 and 2003 (the "Annual Financial Statements") included in this Prospectus have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board, and our unaudited interim condensed consolidated financial statements in respect of the six months ended 30 June 2006 and 2005 (the "Interim Financial Statements") included in this Prospectus have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34").

We have made certain acquisitions that represent reorganisations under common control and are therefore accounted for using the uniting of interests method (pooling of interests). As a result, these acquisitions are consolidated in the Annual Financial Statements and the Interim Financial Statements with effect from 1 January 2003 as if they had occurred at such date. As a result of these acquisitions, and of the retrospective consolidation of these acquired entities, the presentation of our historical consolidated financial condition and results of operations presented herein differs from this information as previously published. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Accounting for Business Combinations."

Presentation of Certain Terminology

In this Prospectus, all references to:

- "**OAO TMK**" and the "**Company**" are to OAO TMK on an unconsolidated basis, unless the context otherwise requires;
- "**TMK**," "**TMK Group**," "**we**," "**us**" and "**our**" are to OAO TMK and its consolidated subsidiaries, unless the context otherwise requires;
- "**Seversky**" are to OAO Seversky Pipe Plant;
- "**Sinara Handel**" are to Sinara Handel GmbH;
- "**Sinarsky**" are to OAO Sinarsky Pipe Plant;
- "**Tagmet**" are to OAO Taganrog Metallurgical Works;
- "**TMK-Artrom**" are to SC TMK-Artrom S.A.;
- "**TMK Global**" are to TMK Global AG;
- "**TMK-Kazakhstan**" are to TOO TMK-Kazakhstan;
- "**TMK-Resita**" are to SC TMK-Resita S.A.;
- "**TMK Trade House**" are to ZAO TMK Trade House;
- "**TMK-Trans**" are to OOO TK TMK-Trans; and
- "**Volzhsky**" are to OAO Volzhsky Pipe Plant.

Definitions of certain terminology associated with our business and industry is set forth under "Glossary of Selected Terms."

Volume Measurement

In this Prospectus all references to "tons" are to metric tonnes; one metric tonne is equal to 1,000 kilograms, 2,204.62 pounds, or 1.102 U.S. (short) tons.

Currencies

In this Prospectus, all references to:

- "**EUR**," "**euro**" and "**€**" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community;
- "**ROL**" are to the currency of the Republic of Romania;

- “**RUB,**” “**Russian rouble**” and “**rouble**” are to the currency of the Russian Federation; and
- “**U.S. dollar**” and “**U.S.$**” are to the currency of the United States of America.

Certain Jurisdictions

In this Prospectus, all references to:

- “**China**” are to the People’s Republic of China;
- “**CIS**” are to the Commonwealth of Independent States and its member states as of the date of this Prospectus: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. In this Prospectus, references to “sales to the CIS” (and derivations thereof) mean sales to customers in CIS member states other than Russia;
- “**Kazakhstan**” are to the Republic of Kazakhstan;
- “**Romania**” are to the Republic of Romania;
- “**Russia**” are to the Russian Federation;
- “**Singapore**” are to the Republic of Singapore;
- “**U.K.**” and “**United Kingdom**” are to the United Kingdom of Great Britain and Northern Ireland; and
- “**U.S.**” and “**United States**” are to the United States of America.

Market and other Statistical Data

Market data used in this Prospectus, including without limitation under the captions “Summary,” “Industry Overview,” “Business” and “Certain Regulatory Matters,” have been extracted from official and industry sources and other sources we believe to be reliable but have not been independently verified. Throughout this Prospectus, we have also set forth certain statistics, including statistics in respect of product sales volumes and market shares, from industry sources and other sources we believe to be reliable but that have not been independently verified.

In particular, (i) data relating to our estimated share of the worldwide steel pipe market is based upon steel pipe production data for 2005 made publicly available by Wirschaftsvereinigung Stahlrohre (the German Steel Tube Manufacturer’s Association); (ii) data relating to our estimated share of the worldwide seamless pipe market is based upon seamless pipe production data for 2005 contained in the Preston Pipe & Tube Report, dated June 2006, an industry research report; and (iii) data relating to our share of the steel pipe market in Russia is based upon Russian steel pipe production data for 2005 contained in the Metal Expert Report, a compilation of statistical data from the Russian Ministry of Economics as well as Russian statistical and customs authorities, as well as information published by the Russian Federal Service for State Statistics (“Rosstat”). We accept responsibility for accurately reproducing such information, data and statistics. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In addition, the official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on bases different from those used in Western countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. Moreover, the veracity of some official data released by the Russian government may be questionable.

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Exchange Rate Information

Our functional currency and the functional currency of our subsidiaries located in the Russian Federation and in Switzerland is the Russian rouble. The functional currency of subsidiaries located in

other countries are euro and Romanian lei. The presentation currency for our consolidated financial statements included in this Prospectus is the U.S. dollar. See the Notes to our Annual Financial Statements and our Interim Financial Statements included elsewhere in this Prospectus for a description of the methodology we used to translate our financial position and results of operations from Russian roubles to U.S. dollars. The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Russian rouble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the "CBR" or the "Central Bank"). Fluctuations in the exchange rate between the Russian rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of our financial statements and other information presented in this Prospectus.

	RUB per U.S.$1.00			
	High	**Low**	**Period average**[(1)]	**Period end**
Year ended 31 December				
2005	28.99	27.46	28.28	28.78
2004	29.45	27.75	28.81	27.75
2003	31.88	29.25	30.69	29.45
2002	31.86	30.13	31.34	31.78
2001	30.30	28.16	29.13	30.14
Month ended				
30 September 2006	26.80	26.64	26.75	26.78
31 August 2006	26.84	26.67	26.76	26.74
31 July 2006	27.06	26.84	26.92	26.87
30 June 2006	27.10	26.70	26.98	27.08
31 May 2006	27.24	26.92	27.05	26.98
30 April 2006	27.77	27.27	27.56	27.27
31 March 2006	28.12	27.66	27.87	27.76
28 February 2006	28.26	28.10	28.19	28.12
31 January 2006	28.48	27.97	28.22	28.12

(1) The average of the exchange rates on the last business day of each month for the relevant annual periods, and on each business day for which the CBR quotes the Russian rouble to U.S. dollar exchange rate for the relevant monthly period.

Solely for the convenience of the reader, and except as otherwise stated, this Prospectus contains translations of some rouble amounts into U.S. dollars at the rate of RUB 27.08 to U.S.$1.00, which was the rate published by the CBR on 30 June 2006. On 31 October 2006, the rate published by the CBR was RUB 26.75 to U.S.$1.00.

Until recently, the Russian rouble was generally not convertible outside Russia. A market existed within Russia for the conversion of Russian roubles into other currencies, but the limited availability of other currencies in Russia may have inflated their value relative to the Russian rouble. From 1 July 2006, the CBR abolished existing restrictions on currency operations creating the conditions for the Russian rouble to become a freely convertible currency. At this point, however, it is not yet possible to determine whether, or when, an active international market in the Russian rouble will develop. See "Description of Share Capital and Applicable Russian Legislation—Currency Control." No representation is made that the Russian rouble or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Russian roubles, as the case may be, at these rates, at any particular rate or at all. See "Description of Share Capital and Applicable Russian Legislation—Currency Control" for a description of Russian currency exchange controls.

SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the GDRs or Ordinary Shares should be based on consideration of this Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive 2003/71/EC in each member state of the European Economic Area, no civil liability will attach to us in any such member state solely on the basis of this summary, including any translations thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the European Economic Area, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Definitions of certain terms related to our business and industry are set forth under "Glossary of Selected Terms." Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Cautionary Note Regarding Forward-Looking Statements."

Our Business

We are Russia's largest manufacturer and supplier of steel pipes and among the world's largest steel pipe producers, with an approximately 3% worldwide market share for steel pipes by sales volume in 2005, according to our estimates. We also estimate that we had an approximately 34% market share for steel pipes in Russia by sales volume in 2005. In 2005, we sold 2.94 million tons of steel pipes including 1.89 million tons of seamless pipes, of which 817,000 tons comprised seamless oil country tubular goods ("OCTG"), and in the first six months of 2006 we sold 1.46 million tons of steel pipes, including 971,000 tons of seamless pipes, of which 483,000 tons comprised OCTG. Pipes for the oil and gas industry accounted for approximately 59% of our total sales volume in 2005 and approximately 61% of our total sales volume in the first six months of 2006. We are also Russia's largest exporter of pipes, with sales outside of Russia accounting for approximately 27% of our total sales volume in 2005 and 28% of our total sales volume in the first six months of 2006.

We produce both seamless and welded pipes but are principally focused on developing our seamless pipe business, which we believe has better growth opportunities. We divide our pipes business into two main business segments and, within these segments, five principal product lines. The two main business segments are seamless and welded pipes and the five principal product lines are seamless OCTG, which are used in oil and gas production applications; seamless line pipes, which are used for oil and gas transportation; seamless industrial pipes, which are used in various industrial applications by the machine-building, chemicals and petrochemicals, power generation, automotive and other industries; large-diameter welded pipes, which are used for the transportation of oil and gas; and industrial welded pipes, which are used in a wide variety of infrastructure and industrial applications. In 2005, our annual production capacity was approximately 3.8 million tons of pipes, including 2.0 million tons of seamless pipes. We also operate our own steel-making facilities. In 2005, we produced approximately 2.2 million tons of steel, which satisfied approximately 80% of our steel billet requirements for our seamless pipe segment; we also purchase steel plate and coils for use in our welded pipe segment.

We launched our strategic capital investment programme in 2004 which is principally focused on increasing our seamless pipe production and increasing the efficiency of our production processes. We expect to make total capital expenditures of approximately U.S.$1.2 billion from the beginning of 2006 through the end of 2010 under the programme. We made capital expenditures of U.S.$161.6 million in connection with our seamless pipe business in 2004 and 2005 and U.S.$105.6 million in the first six months of 2006. We plan that upon the completion of our strategic investment programme in 2010, we will have increased our seamless pipe production capacity by 1.1 million tons per annum to 3.1 million tons per annum and our steel-making capacity by 1.0 million tons per annum to 3.4 million tons per annum. In September 2006, we also entered into memoranda of understanding ("MOUs") with Welspun Gujarat Stahl Rohren Ltd., an Indian welded pipe manufacturer, and Corinth Pipeworks, S.A., a Greek welded pipe manufacturer, for the establishment of joint venture subsidiaries for the production of welded pipes principally for use in oil and gas applications. We expect that our joint venture with Welspun Gujarat will have the capacity to produce more than 550,000 tons of large-diameter longitudinal welded pipes per annum and that our joint venture with Corinth Pipeworks will have the capacity to produce more than 300,000 tons of medium-diameter welded pipes per annum.

We deliver our products to customers in more than 60 countries. Our principal customers include major Russian oil and gas companies, such as OAO Gazprom, OAO LUKOIL, OAO Surgutneftegaz, OAO

TNK-BP and OAO NK Rosneft, major multinational oil and gas companies, such as the Shell Group, and national oil companies, such as Oil and Natural Gas Corporation Limited ("ONGC") of India, Saudi Aramco and Kuwait Oil Company ("KOC"). In addition, we have participated as a supplier of pipes in many major national and international projects, such as the Caspian Pipeline Consortium oil pipeline, which connects oil fields in Western Kazakhstan to a major Russian Black Sea port, the Baltic Pipeline System oil pipeline, which connects oil fields in Western Siberia to a Russian port on the Gulf of Finland, and the Yamal-Europe gas pipeline, which connects gas fields in Western Siberia to Western Europe. We are currently participating as a supplier in the expansion of the Central Asia-Centre gas pipeline project, which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to Russia.

We operate primarily through our six production subsidiaries, four of which—Volzhsky, Seversky, Tagmet and Sinarsky—are in Russia, and two of which—TMK-Artrom and TMK-Resita—are in Romania. In 2005, we had total consolidated net sales of U.S.$2,938.2 million and profit before tax of U.S.$350.0 million, as compared to consolidated net sales of U.S.$1,984.0 million and profit before tax of U.S.$128.3 million in 2004. For the six months ended 30 June 2006, we had consolidated net sales of U.S.$1,576.3 million and profit before tax of U.S.$304.7 million, as compared to consolidated net sales of U.S.$1,437.9 million and profit before tax of U.S.$158.7 million for the six months ended 30 June 2005. As of 30 June 2006, we had total assets of U.S.$2,792.7 million.

Investment Highlights

We believe that the following investment highlights should be considered by potential investors:

- We are an important participant in the highly attractive hydrocarbons market;
- We are a leader in a consolidated industry with high barriers to entry;
- We are a leading exporter of pipes from Russia with a strong export platform;
- We have a leading cost position in the market, which we believe provides us with cost advantages as compared to our principal international competitors in the global seamless pipe market;
- We have a high degree of vertical integration, with internal steel-making capacity at most of our facilities; and
- We have recorded significant operating profit in recent periods and have a strong financial position.

See "Business—Investment Highlights."

Strategy

Our strategy is to enhance our position as the leading producer of pipes in Russia and to consolidate our position as a leading global producer of seamless pipes. We intend to pursue this strategy by increasing our seamless pipe production, enhancing our product mix to improve our margin profile, expanding our global presence organically and through strategic alliances, working more closely with our customers to deliver higher value-added products and services and exercising greater discipline over our raw materials procurement to better control availability, quality and cost of our supplies. In particular, we plan to increase our revenues per ton of steel pipe sold.

We intend to continue to focus principally on higher growth seamless pipe products, especially on OCTG. In our welded pipes segment, we will continue to focus on large-diameter welded pipes for the oil and gas industry. We have also recently entered into a number of joint ventures with international partners regarding the production of, among other things, premium threaded seamless pipes for the oil and gas industry and longitudinal welded pipes that we believe will enhance our high margin product offering. Our strategic emphasis will be on expanding and developing our seamless pipe business through, among other things, significant capital investment, while we will seek to achieve controlled growth and protect our existing market share in our welded business with only limited capital investment. See "Business—Strategy."

Seamless Business

- Increase the capacity and efficiency of our seamless pipe production through our strategic investment programme;
- Enhance our product mix of pipes for the oil and gas industry to match global leaders;

- Strengthen our position as a leading supplier of OCTG and line pipe in Russia and other CIS countries and enhance our position in the global market;
- Strengthen alliances with suppliers of raw materials; and
- Focus on select high margin segments within the industrial seamless pipe sector.

Welded Business

- Seek growth of our large-diameter transmission pipe business by capitalising on significant recently completed investments.

Risk Factors

An investment in the Ordinary Shares or GDRs is subject to risks relating to our business and the pipe industry as well as economic, political, social and legal risks associated with the Russian Federation and risks arising from the nature of the Ordinary Shares and the GDRs and the markets upon which they are expected to be traded, including risks associated with the following matters:

- The dependence of our business on the oil and gas industry;
- The supplies and costs of the raw materials that we require;
- The dependence of our welded pipes business on our largest customer, Gazprom;
- The highly competitive nature of the pipe industry;
- The imposition of trade barriers or duties on our pipe products;
- Our ability to implement our capital investment programme and avoid cost overruns;
- Our ability to successfully integrate and manage any acquired company or strategic alliance or partnership;
- Potential equipment failures or production curtailments or shut downs;
- Foreign currency exchange rate fluctuations and Russian currency control laws;
- Our lack of insurance coverage of the type that is customary in more economically developed countries;
- Potential economic or political instability in Russia;
- Weaknesses in the Russian legal system;
- The uncertain scope and application of Russian tax laws and regulations;
- Our controlling shareholder's ability to exert significant influence over us;
- The limited protection afforded to minority shareholders under Russian law;
- The ability of holders of GDRs to exercise the rights attached to the underlying Ordinary Shares;
- Limitations on the ability to deposit Ordinary Shares into the GDR programme in order to receive GDRs;
- The ability of holders of GDRs and Ordinary Shares to benefit from double tax treaties with respect to the payment of any dividends; and
- Failure of the Offering to result in a liquid or active market for the Ordinary Shares or GDRs and the potential high volatility of the price of the Ordinary Shares or GDRs.

Prior to making a decision to invest in the Ordinary Shares or GDRs, investors should carefully consider the information set forth under the heading "Risk Factors."

Summary Consolidated Financial Information

The summary consolidated financial information set forth below shows our historical consolidated financial information and other operating information as of and for the years ended 31 December 2005, 2004 and 2003 and as of and for the six months ended 30 June 2006 and 2005. The financial information set forth below as of and for the years ended 31 December 2005, 2004 and 2003 has been extracted without material adjustment from, and should be read in conjunction with, the Annual Financial Statements included elsewhere in this Prospectus. The financial information set forth below as of and for the six months ended 30 June 2006 and 2005 has been extracted without material adjustment from, and should be read in conjunction with, the Interim Financial Statements included elsewhere in this Prospectus. Results of operations for the six-month period ended 30 June 2006 are not necessarily indicative of results for the full year ending 31 December 2006 or for any other interim period or for any future fiscal year. The summary consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our results of operations for the periods presented are affected by acquisitions. Results of operations of acquired businesses are generally included in our consolidated financial statements for the periods after their respective dates of acquisition. However, certain transactions, including a transfer of a controlling interest in Sinara Trading AG (currently named TMK Global), which occurred in May 2005, and Sinara Handel GmbH, which occurred in March 2006, represent reorganisations under common control, and are therefore accounted for using the pooling of interests method. As a result, these transfers are consolidated with effect from 1 January 2003 as if they had occurred at such date. Accordingly, the presentation of our historical consolidated financial condition and results of operations as of and for the years ended 31 December 2005, 2004 and 2003 differs, as a result of the transfer of a controlling interest in Sinara Handel, from this information as previously published, in order to reflect the consolidation of this entity retrospectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Accounting for Business Combinations."

See also "Presentation of Financial and Other Information—Presentation of Financial Information" for important information about the financial information presented herein.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars, except per share data)				
CONSOLIDATED INCOME STATEMENT DATA					
Net sales	1,576.3	1,437.9	2,938.2	1,984.0	1,368.5
Cost of sales	(1,076.8)	(1,086.1)	(2,191.8)	(1,597.5)	(1,216.3)
Gross profit	**499.5**	**351.8**	**746.4**	**386.5**	**152.2**
Selling expenses	(85.8)	(69.3)	(147.8)	(143.4)	(74.0)
Advertising and promotion expenses	(2.3)	(1.3)	(3.1)	(1.8)	(1.4)
General and administrative expenses	(66.8)	(59.4)	(123.2)	(85.7)	(59.6)
Research and development expenses	(3.2)	(3.1)	(5.5)	(3.5)	(2.0)
Other operating expenses	(12.0)	(10.8)	(26.1)	(26.0)	(11.0)
Other operating income	0.1	1.3	0.3	0.7	0.7
Foreign exchange gain/(loss), net	4.6	(10.3)	(14.6)	4.3	1.0
Loss on net monetary position	—	—	—	—	(2.6)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	—	—	—	94.8	—
Finance costs	(30.6)	(41.8)	(78.2)	(100.9)	(37.6)
Finance income	1.2	1.6	1.8	3.3	8.4
Profit (loss) before tax	**304.7**	**158.7**	**350.0**	**128.3**	**(25.9)**
Income tax expense	(75.6)	(40.3)	(95.8)	(13.1)	(1.2)
Net profit (loss)	**229.1**	**118.4**	**254.2**	**115.2**	**(27.1)**
Attributable to:					
Equity holders of the parent entity	**218.9**	**114.3**	**244.3**	**112.7**	**(24.2)**
Minority interests	**10.2**	**4.1**	**9.9**	**2.5**	**(2.9)**
Earnings (loss) per share attributable to equity holders of the parent entity (in U.S. dollars)	**0.25**	**0.13**	**0.28**	**0.95**	**(24,182.00)**[1]
Seamless pipes segment					
Net sales	1,064.2	908.3	1,788.0	1,314.4	901.6
Cost of sales	619.5	618.6	1,193.2	994.3	781.9
Gross profit	444.7	289.7	594.8	320.1	119.7
Welded pipes segment					
Net sales	393.7	409.0	912.9	487.9	371.3
Cost of sales	344.3	353.0	784.1	426.6	350.9
Gross profit	49.4	56.0	128.8	61.3	20.4
Other operations					
Net sales	118.5	120.6	237.3	181.7	95.6
Cost of sales	113.1	114.5	214.5	176.6	83.5
Gross profit	5.4	6.1	22.8	5.1	12.1

	As of 30 June	As of 31 December		
	2006	2005	2004	2003
	(millions of U.S. dollars)			
CONSOLIDATED BALANCE SHEET DATA				
Cash and cash equivalents	46.4	47.8	13.5	14.2
Total assets	2,792.7	2,453.0	2,494.3	1,670.9
Total loans and borrowings (long-term and short-term)	687.6	621.9	763.2	307.6
Total equity	1,517.2	1,252.7	1,085.4	922.1

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars)				
CONSOLIDATED CASH FLOW DATA					
Net cash from (used in) operating activities	179.2	108.7	414.3	113.7	(65.9)
Net cash used in investing activities	(163.3)	(39.4)	(138.1)	(62.6)	(48.2)
Net cash (used in) from financing activities	(19.9)	(71.7)	(241.9)	(52.5)	120.0

	As of or for the six months ended 30 June		As of or for the year ended 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars, except percentages)				
Non-IFRS Measures					
EBITDA[2]	391.2	248.4	532.1	321.3	72.2
Adjusted EBITDA[3]	393.3	262.0	561.3	233.6	74.2
Adjusted EBITDA margin[4]	24.9%	18.2%	19.1%	11.8%	5.4%
Gross profit margin[4]	31.7%	24.5%	25.4%	19.5%	11.1%
Net profit margin[4]	14.5%	8.2%	8.7%	5.8%	(1.9)%
Net Debt[5]	641.6	719.7	575.4	754.7	299.2

(1) The magnitude of the loss per share recorded in 2003 as compared to the earnings per share in other periods reflects the fact that in 2004, OAO TMK issued an additional 873,000,000 ordinary shares, bringing the weighted average number of ordinary shares outstanding from 1,000 in 2003, to 119,263,295 in 2004 and 873,001,000 in 2005. See Note 13 to the Annual Financial Statements.

(2) EBITDA represents profit before interest (finance cost and finance income), taxes, depreciation and amortisation.

(3) Adjusted EBITDA represents EBITDA as adjusted to exclude the following items: loss on disposals of property, plant and equipment, charitable donations, loss (gain) on sales of current assets included in other operating expenses, foreign exchange loss/(gain), excess of acquirer's interest in fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, and other non-recurring operating income and expenses. We present EBITDA and Adjusted EBITDA because we consider EBITDA and Adjusted EBITDA to be an important supplemental measure of our operating performance and believe EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

EBITDA and Adjusted EBITDA are measures of our operating performance that are not required by, or presented in accordance with, IFRS. EBITDA and Adjusted EBITDA are not measurements of our operating performance under IFRS and should not be considered as alternatives to gross profit, net profit or any other performance measures derived in accordance with IFRS or as alternatives to cash flow from operating activities or as measures of our liquidity. In particular, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and potential investors should not consider them in isolation, or as substitutes for analysis of our operating results as reported under IFRS. Some of these limitations include:

- EBITDA and Adjusted EBITDA do not reflect the impact of financing or financing costs on our operating performance, which can be significant and could further increase if we were to incur more debt.
- EBITDA and Adjusted EBITDA do not reflect the impact of income taxes on our operating performance.
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation and amortisation on our operating performance. The assets of our businesses which are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA and Adjusted EBITDA, EBITDA and Adjusted EBITDA do not reflect our future cash requirements for these replacements. EBITDA and Adjusted EBITDA also do not reflect the impact of a loss on disposal of property, plant and equipment.
- Other companies in our industry may calculate EBITDA and Adjusted EBITDA differently or may use them for purposes different from ours, limiting their usefulness as comparative measure.

We compensate for these limitations by relying primarily on our IFRS operating results and using EBITDA and Adjusted EBITDA only supplementally. See our Annual Financial Statements and Interim Financial Statements included elsewhere in this Prospectus.

Reconciliation of EBITDA and Adjusted EBITDA to profit before tax is as follows:

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars)				
Profit before tax	**304.7**	**158.7**	**350.0**	**128.3**	**(25.9)**
Depreciation and amortisation	57.1	49.5	105.7	95.4	68.9
Finance costs	30.6	41.8	78.2	100.9	37.6
Finance income	(1.2)	(1.6)	(1.8)	(3.3)	(8.4)
EBITDA	**391.2**	**248.4**	**532.1**	**321.3**	**72.2**
Loss on disposal of property, plant and equipment	0.4	2.2	4.5	1.3	2.5
Charitable donations	5.6	2.3	7.5	3.5	1.1
Loss/(gain) on sale of current assets included in other operating expenses[a]	(0.1)	(0.2)	(0.2)	(0.6)	0.1
Foreign exchange loss/(gain)	(4.6)	10.3	14.6	(4.3)	(1.0)
Excess of acquirer's interest in fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost[b]	—	—	—	(94.8)	—
Other non-recurring operating (income) and expenses[c]	0.8	(1.0)	2.8	7.2	(0.7)
Adjusted EBITDA	**393.3**	**262.0**	**561.3**	**233.6**	**74.2**

(a) Loss/(gain) on sale of current assets included in other operating expenses represents net proceeds from occasional sales of spare parts and supplies not utilised in our own production.

(b) Excess of acquirer's interest in fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost represents negative goodwill that we recorded as income in connection with our acquisition of TMK-Resita in July 2004.

(c) Other non-recurring operating income and expenses principally represents an accrual made in 2004 in connection with a potential tax claim that was reversed after a court dismissed the claim in 2005 as well as general claims and penalties in respect of taxes and commercial contracts.

(4) Margins are calculated as a percentage of net sales.

(5) Net Debt represents long-term loans and borrowings plus short-term loans and borrowings plus finance lease liabilities less cash and cash equivalents. Net Debt is not a balance sheet measure under IFRS, and it should not be considered as an alternative to other measures of financial position. Our calculation of Net Debt may be different from the calculation used by other companies and therefore comparability may be limited.

Net Debt is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Although Net Debt is a non-IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. We believe Net Debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from our available cash. Net Debt allows us to show investors the trend in our net financial condition over the periods presented. However, the use of Net Debt effectively assumes that gross debt can be reduced by our cash. In fact, it is unlikely that we would use all of our cash to reduce our gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and its ratio to equity, or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business and financial targets. Our management monitors the net debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess our liquidity and financial structure relative to such companies. Our management also monitors the trends in our Net Debt and leverage in order to optimise the use of internally generated funds versus funds from third parties.

Net Debt has been calculated as follows:

	As of 30 June		As of 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars)				
Net Debt calculation					
Add:					
Short-term loans and borrowings and current portion of long-term loans and borrowings	440.0	356.7	456.9	646.1	230.7
Finance lease liabilities, current portion	0.1	2.3	1.3	3.8	5.1
Long-term loans and borrowings, net of current portion	247.7	371.6	164.9	117.1	76.9
Finance lease liabilities, net of current portion	0.2	0.2	0.1	1.2	0.7
Less:					
Cash and cash equivalents	46.4	11.1	47.8	13.5	14.2
Net Debt	**641.6**	**719.7**	**575.4**	**754.7**	**299.2**

Summary Production Data

The table below shows the sales volumes of our principal pipe products for the periods indicated.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(thousands of tons)				
Seamless pipes					
OCTG	483	389	817	728	641
Line Pipes	212	220	405	440	422
Industrial	276	319	672	645	587
Total seamless pipes	**971**	**928**	**1,894**	**1,813**	**1,650**
Welded pipes					
Large-diameter	195	233	503	309	339
Industrial	296	218	543	407	408
Total welded pipes	**491**	**452**	**1,046**	**716**	**747**
Total pipes	**1,462**	**1,379**	**2,940**	**2,529**	**2,397**

Certain Regulatory Matters

Our business operations are subject to regulation by the Russian authorities on a number of matters, including licensing, environmental protection, employee health and safety and competition. We are also subject from time to time to international quotas, tariffs and duties on the importation of Russian pipe products into the member states of the European Union and certain other countries. See "Certain Regulatory Matters."

Management and Corporate Governance

Our management team has substantial experience in the pipe industry and has an established track record of successfully managing us. Our board of directors currently consists of ten members, four of whom are independent directors in accordance with the criteria set out in the Russian Joint Stock Companies Law and our internal corporate governance regulations, which differ in certain respects from the criteria for independent directors that are set out in the U.K. Combined Code. We refer to those directors as independent directors and we intend to maintain at least four such independent directors on our board of directors following the Offering.

Share Capital and Dividends

Our current share capital consists of 873,001,000 ordinary shares, all of which are fully paid, issued and outstanding, with a nominal value of RUB 10 each. Our ordinary shares were issued in accordance with the laws of the Russian Federation and have the rights described under "Description of Share Capital and Applicable Russian Legislation."

Our Regulations on Dividend Policy, which were approved by our board of directors on 30 June 2006, targets dividend payments of between 20% to 25% of our annual net profits, as determined in accordance with IFRS. In 2005, we paid interim dividends of RUB 73.33 million (U.S.$2.59 million) in respect of the first quarter of 2005. In 2006, we paid annual dividends in respect of the year ended 31 December 2005 of RUB 473.36 million (U.S.$17.10 million). See "Dividend Policy."

Summary of the Offering

The Selling Shareholder is offering Ordinary Shares in a simultaneous offering of Ordinary Shares and GDRs.

The Ordinary Shares and GDRs are being offered in the United States to QIBs as defined in and in reliance on Rule 144A under the Securities Act and outside the United States in reliance on Regulation S. The GDRs are not being offered in Russia.

Use of Proceeds

Net proceeds to the Selling Shareholder from the Offering will be approximately U.S.$942.8 million, assuming no exercise of the Over-Allotment Option, or approximately U.S.$1,037.1 million, assuming that the Over-Allotment Option is exercised in full. The Selling Shareholder will use U.S.$150 million of the net proceeds of the Offering to repay in part financing it has received from affiliates of Credit Suisse Securities (Europe) Limited and Renaissance Securities (Cyprus) Limited in order to finance the acquisition of shares in OAO TMK from Dalecone Limited. See "Principal and Selling Shareholder." The Selling Shareholder has agreed to use net proceeds of the Offering in excess of this amount to repay to us in full the U.S.$780 million TMK Steel Loan (as described under "Related Party Transactions—TMK Steel Loan"), together with accrued interest and other amounts due thereon. We intend to use the amounts we receive from the Selling Shareholder to fund our strategic capital investment programme, to repay certain indebtedness and for general corporate purposes. We will not otherwise receive any proceeds from the Offering.

THE OFFERING

The Company	OAO TMK
The Selling Shareholder	TMK Steel Limited
Joint Global Coordinators and Joint Bookrunners	Credit Suisse Securities (Europe) Limited, Dresdner Bank AG, London Branch and Renaissance Securities (Cyprus) Limited
Co-Lead Manager	Citigroup Global Markets Limited
The Offering	The Selling Shareholder is offering Ordinary Shares in a simultaneous offering of Ordinary Shares and GDRs. The Ordinary Shares and GDRs are being offered in the United States to QIBs as defined in and in reliance on Rule 144A under the Securities Act and outside the United States in reliance on Regulation S. The GDRs are not being offered in Russia.
Over-Allotment Option	The Selling Shareholder has granted the Joint Global Coordinators an Over-Allotment Option, exercisable during the Stabilisation Period, to purchase additional Ordinary Shares amounting to up to 10% of the total number of Ordinary Shares sold in the Offering in the form of Ordinary Shares and GDRs solely to cover over-allotments, if any, in the Offering. See "Subscription and Sale."
Stabilisation Period	The period commencing on the date of adequate public disclosure of the Offer Price of the GDRs and ending no later than 30 calendar days thereafter.
Offer Price	U.S.$5.40 per Ordinary Share; U.S.$21.60 per GDR.
GDR Closing Date	3 November 2006
Share Closing Date	10 November 2006
The Ordinary Shares	The Company's share capital consists of 873,001,000 registered ordinary shares, fully paid, issued and outstanding, each with a nominal value of RUB 10. The Ordinary Shares have the rights described under "Description of Share Capital and Applicable Russian Legislation."
The GDRs	One GDR will represent four Ordinary Shares on deposit with ING Bank (Eurasia), as Custodian for The Bank of New York, as Depositary. The GDRs will be issued by the Depositary pursuant to the Deposit Agreement. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR. See "Summary of Provisions Relating to the GDRs while in Master Form." Pursuant to the Deposit Agreement, the Ordinary Shares represented by the GDRs will be held in Russia by ING Bank (Eurasia), as Custodian, for the benefit of the Depositary and for the further benefit of the holders and beneficial owners of GDRs. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement, interests in the Master

Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR, and vice versa.

Use of Proceeds . . . . Net proceeds to the Selling Shareholder from the Offering will be approximately U.S.$942.8 million, assuming no exercise of the Over-Allotment Option, or approximately U.S.$1,037.1 million, assuming that the Over-Allotment Option is exercised in full. The Selling Shareholder will use U.S.$150 million of the net proceeds of the Offering to repay in part financing it has received from affiliates of Credit Suisse Securities (Europe) Limited and Renaissance Securities (Cyprus) Limited in order to finance the acquisition of shares in OAO TMK from Dalecone Limited. See "Principal and Selling Shareholder." The Selling Shareholder has agreed to use net proceeds of the Offering in excess of this amount to repay to us in full the U.S.$780 million TMK Steel Loan, together with accrued interest and other amounts due thereon. We intend to use the amounts we receive from the Selling Shareholder to fund our strategic capital investment programme, to repay certain indebtedness and for general corporate purposes. We will not otherwise receive any proceeds from the Offering. See "Use of Proceeds."

Lock-up . . . . The Company, the Selling Shareholder and certain affiliates of the Selling Shareholder have each agreed with the Underwriters that, during the period beginning with the date of the Underwriting Agreement (as defined in "Subscription and Sale") and continuing to, and including the date 180 days after the Share Closing Date, they will not offer, allot, issue, sell, contract to sell, pledge (or charge in respect of the Selling Shareholder), grant options over or otherwise dispose of any securities (or publicly announce any such issuance, allotment, offer, sale or disposal) of OAO TMK that are substantially similar to the Ordinary Shares or GDRs, or enter into any transaction with the same economic effect as any of the foregoing, without the prior written consent of the Joint Global Coordinators. See "Subscription and Sale."

In addition, members of our management board who acquire shares in the Employee Offering (as defined below) have agreed with the Underwriters that, during the period beginning with the date on which they acquire such shares and continuing to, and including the date 180 days after the Share Closing Date, they will not offer, allot, sell, contract to sell, pledge, grant options over or otherwise dispose of any securities (or publicly announce any such allotment, offer, sale or disposal) of OAO TMK that are substantially similar to the Ordinary Shares or GDRs, or enter into any transaction with the same economic effect as any of the foregoing, without the prior written consent of the Joint Global Coordinators.

Control of the Company . . . . Following the Offering and the sale of 180,000,000 Ordinary Shares in the Offering, and assuming no exercise of the Over-Allotment Option and the sale of 2,650,000 Ordinary Shares in the Employee Offering, approximately 79.08% of our issued and outstanding share capital (or 77.02% if the Over-Allotment Option is exercised in full) will be owned directly and indirectly by the Selling Shareholder. Dr. Dmitriy Pumpyanskiy, chairman of our board of directors, has a beneficial interest in 100% of the Selling

Shareholder. See "Risk Factors—Risks Relating to Our Business and the Pipe Industry—The interests of our controlling beneficial owner could conflict with those of the holders of our Ordinary Shares and the GDRs" and "Principal and Selling Shareholder."

Dividend Policy . . . . Holders of Ordinary Shares, including the Depositary, will be entitled to receive amounts (if any) paid by us as dividends on the Ordinary Shares. The Company expects to declare and pay an annual dividend amounting to between 20% and 25% of annual IFRS net profits depending on our financial performance, capital expenditure, availability of funds from external sources and other relevant factors, as well as any legal restrictions pursuant to Russian law. The Selling Shareholder intends to rely on dividend payment from OAO TMK to fund its financial obligations, including those described under "Principal and Selling Shareholder." See "Dividend Policy."

Voting . . . . The Depositary will endeavour to exercise on behalf of holders of GDRs, at any meeting of holders of the ordinary shares of which the Depositary receives timely notice, the voting rights relating to whole numbers of ordinary shares underlying the GDRs in accordance with instructions it receives from holders of GDRs, but only if we notify the Depositary of the resolution to be voted upon. Holders of ordinary shares are generally entitled to one vote per share at a shareholders' meeting. See "Description of Share Capital and Applicable Russian Legislation—General Meetings of Shareholders."

Taxation . . . . For a discussion of certain United States federal, United Kingdom and Russian income tax consequences of purchasing and holding the Ordinary Shares and GDRs, see "Taxation."

Listing and Market for the Ordinary Shares and GDRs . . . . The Company has applied (i) to the Financial Services Authority, in its capacity as competent authority under the FSMA, to admit up to 76,387,000 GDRs, consisting of up to 30,150,000 GDRs to be issued on the Closing Date, up to 4,500,000 additional GDRs to be issued pursuant to the Over-Allotment Option, as described herein, and additional GDRs to be issued from time to time against the deposit of Ordinary Shares with the Depositary, to the Official List and (ii) to the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's market for listed securities and in particular on the International Order Book (the "IOB"). The Company expects that conditional trading in the GDRs through the IOB will commence on a "when and if issued" basis on or about 31 October 2006, and that unconditional trading in the GDRs through the IOB will commence on or about the GDR Closing Date. **All dealings in the GDRs before commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.** Application has also been made to have the Rule 144A GDRs designated as eligible for trading in PORTAL.

The Company's Ordinary Shares have been admitted to trading on the RTS, and were listed on the RTS on 6 October 2006. The Company expects trading in the Ordinary Shares on the RTS to commence on or about 31 October 2006.

Following the Offering, as a result of certain Russian regulatory requirements, it may not be possible to deposit additional Ordinary Shares into the GDR facilities against the issuance of additional GDRs. See "Risk Factors—Risks Relating to the Securities and the Trading Market—The number of Ordinary Shares that can be deposited into the GDR facilties is limited" and "Description of Share Capital and Applicable Russian Legislation—Certain Russian law considerations for the Offering—Offering Outside the Russian Federation."

Settlement Procedures . . . . Payment for the GDRs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream, Luxembourg on or about the GDR Closing Date. The Depositary has applied to DTC to have the Rule 144A GDRs accepted into DTC's book-entry settlement system. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co., as nominee for DTC. Book-entry interests in the GDRs held through Euroclear and Clearstream, will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited and held by The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs, evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See "Settlement and Transfer."

Each purchaser of the Ordinary Shares in the Offering is required to pay for any Ordinary Shares in same-day funds in U.S. dollars and the Ordinary Shares will be delivered to such purchasers on or before the Share Closing Date. In order to take delivery of the Ordinary Shares, potential purchasers may be required to have a depo account at one or more depositaries designated by us able to hold the Ordinary Shares in accordance with applicable laws and market practice. Upon taking delivery of the Ordinary Shares, purchasers may choose to hold the Ordinary Shares through a direct account with our share registrar. In addition, in order for holders of Ordinary Shares to trade those Ordinary Shares on the RTS, they may be required to further transfer the Ordinary Shares to an account at a different depositary. See "Settlement and Transfer."

The Ordinary Shares and GDRs will be subject to certain restrictions on transfer as described under "Settlement and Transfer—Transfer Restrictions."

Ordinary Shares	ISIN: RU000A0B6NK6
Regulation S GDRs	CUSIP Number: 87260R201 ISIN: US87260R2013 Common Code: 027164862 SEDOL: B1FY0V4

	Rule 144A GDRs	CUSIP Number: 87260R102 ISIN: US87260R1023 Common Code: 027164943
	RTS Ordinary Share Trading Symbol:	TRMKG
	London Stock Exchange GDR trading symbol:	TMKS
	PORTAL Rule 144A GDR trading symbol:	OATGPD298
Employee Offering	TMK Steel agreed to sell a total of 2,650,000 Ordinary Shares, representing approximately 0.3% of the issued and outstanding Ordinary Shares, to our employees (the "Employee Offering") at a price of RUB 123 (approximately U.S.$4.60 as of 30 October 2006) per Ordinary Share. The Employee Offering commenced on 18 October 2006 and closed on 30 October 2006. Certain members of our management board and board of directors have agreed to purchase a total of 1,580,553 Ordinary Shares in the Employee Offering, amounting to approximately 0.2% of the outstanding and issued Ordinary Shares. Members of our management board who agreed to purchase Ordinary Shares in the Employee Offering have entered into agreements as described above under "Lock-up."	

RISK FACTORS

An investment in the Ordinary Shares or GDRs involves a high degree of risk. Prospective investors in the Ordinary Shares or GDRs should consider carefully, among other things, the risks set forth below and the other information contained in this document prior to making a decision to invest in the Ordinary Shares or GDRs. Any of the risks highlighted below could have a material adverse effect on our business, financial condition and results of operations, in which case the trading price of the Ordinary Shares or GDRs could decline, resulting in the loss of all or part of their investment in the GDRs.

Prospective investors should note that the risks described below are not the only risks we face. We have described only the risks we consider to be material. However, there may be additional risks that we currently consider immaterial or of which we are currently unaware, and any of these risks could have the effect set forth above.

Risks Relating to Our Business and the Pipe Industry

Our business is substantially dependent on the oil and gas industry, and fluctuations in the price of oil and natural gas and other factors affecting the oil and gas industry in Russia and globally could adversely affect our business, financial condition and results of operations.

The oil and gas industry is the principal consumer of steel pipe products worldwide and accounts for most of our sales, in particular sales of OCTG, line pipes and large-diameter welded pipes. In the first six months of 2006 and 2005, approximately 61% and 59% of our sales volumes of pipes were from sales to the oil and gas industry, respectively, including approximately 10.5% and 23.7% of our respective sales volumes of pipes from sales to our largest customer, Gazprom, the world's largest natural gas company, and its subsidiaries. The oil and gas industry has historically been volatile and downturns in the oil and gas markets adversely affect demand for our products. Demand for our products depends upon, among other factors, the number of oil and gas wells being drilled, completed and reworked and the depth and drilling conditions of these wells. The level of these activities, in turn, depends primarily on current and expected future prices of oil and gas, which are in turn affected by factors such as supply and demand for oil and natural gas and global economic and geopolitical conditions. Economic conditions and the level of oil inventories in the largest oil consuming nations, including the leading industrial nations in the world, China and India, also play a significant role in oil prices and the worldwide level of drilling activity. When the price of oil and gas falls, oil and gas companies generally reduce investment in drilling and exploration activities and their purchases of steel pipe products.

Customers in Russia accounted for approximately 67% and 69% of our net sales in the first six months of 2006 and in 2005. The Russian oil and gas industry is subject to significant political, economic and other factors which could affect our business. For example, the subsoil licensing regime in Russia is currently being amended in ways which may restrict the extent to which non-Russian companies may obtain rights to new hydrocarbon reserves in Russia. Any such restrictions may adversely affect the level of foreign participation in Russian oil and gas exploration and development and, consequently, the overall level of investment in oil and gas exploration and development and transportation in Russia. In addition, the Russian oil industry is subject to substantial taxes, including significant resources production taxes and significant export customs duties, and changes to the tax regime and customs duties rates may adversely affect the level of oil and gas exploration and development in Russia.

Reduced investment activity by the oil and gas industry, either in Russia or globally, may result in declining demand for our products which could adversely affect our business, financial condition and results of operations.

Increases in the cost of raw materials may have a material adverse effect on our financial condition and results of operations.

We require substantial quantities of raw materials to produce steel pipes. Our principal raw material requirements include scrap metal, pig iron, ferroalloys and refractories for use in our in-house steel-making operations, steel billets for producing seamless pipes, and steel coils and plates for producing welded pipes. In the first six months of 2006 and in 2005, the costs of raw materials accounted for approximately 65% and 68% of our costs of production. The availability and price of a significant portion of the raw materials we require are subject to market conditions and governmental regulations, such as customs duties on scrap exports from Russia and customs duties on steel products imported into Russia, which affect supply and demand for such raw materials and can affect their availability and purchase costs. See "—We benefit from limitations on the export of scrap metal from Russia that may be eliminated in the

future.” In recent years, the cost of raw materials, including scrap metal and semi-finished steel products (primarily billets), used in our business has increased due to the increased demand for steel products in general.

We purchase significant amounts of steel coil and plate from a limited number of third-party suppliers for use in our welded pipe production. The costs of steel coil, which we use to manufacture spiral welded pipes, and steel plate, which we use to manufacture longitudinally welded steel pipe, increased by approximately 70% between the beginning of 2004 and the end of 2005. Moreover, limited quantities of steel plate are produced in Russia, as a result of which we expect the cost of such plate to increase in the future as overall market demand increases.

Although increases in our internal steel-making capacity in recent years have reduced our consumption of steel billets purchased from third parties and thus our exposure to fluctuations in the price of steel products, we remain subject to increases in the prices of scrap, which is the principal raw material in our steel-making operations. Moreover, as Russian steel-makers modernise their production facilities, including through the installation of electric arc furnaces, which use scrap metal as their principal input, we expect demand for scrap in Russia to increase, which may result in increased scrap prices and tighter supply. While we plan to take steps to increase our internal steel scrap sourcing capabilities, and may acquire a scrap collection business, we nevertheless may experience higher scrap prices or limitations in scrap supplies in the future. We also consume significant quantities of energy, particularly electricity and gas. See “—Increasing tariffs and restructuring in the Russian energy sector could adversely affect our business.”

While we have historically been able to pass a large portion of our raw material cost increases to our customers by increasing our selling prices, there can be no assurance that we will continue to be able to do so in the future.

Our large-diameter welded pipe business is largely dependent on our largest customer, Gazprom, and is subject to increasing competitive pressures.

Gazprom, the world’s largest gas producer, is our largest customer, accounting, together with its subsidiaries, for approximately 20.6% and 30.3% of our consolidated net sales for the six months ended 30 June 2006 and the year ended 31 December 2005, including more than 68% and 88% of our consolidated sales volumes of large diameter welded pipes during such periods. Gazprom is currently the principal customer for our 1,420 mm diameter welded pipes used for construction of gas trunk pipelines. Until recently, our Volzhsky plant was the only manufacturer in Russia of 1,420 mm welded pipes. However, in April 2005, the ZAO United Metallurgical Company (“UMC”) group, the third largest pipe producer in Russia, started production of 1,420 mm diameter welded pipe. In addition, OAO Severstal, Russia’s third largest steelmaker, recently completed construction of a new pipe production facility that will specialise in large-diameter welded pipes. We also face ongoing competition in the supply of large-diameter welded pipe in Russia from OAO Khartyzsk Pipe Plant in Ukraine. We also understand that there has been internal and external criticism regarding the costs of Gazprom’s purchases of pipe products. In addition, UMC and Severstal supply or will supply Gazprom with longitudinal welded large-diameter pipe, which has a single straight weld, whereas we supply Gazprom with spiral large-diameter welded pipe. We believe that Gazprom may favour longitudinal welded pipe over spiral welded pipe for certain high pressure applications, including underwater applications and for use in severe arctic climates. As a result of these or other factors, Gazprom may review its pipe products procurement procedures and may reduce its purchases of pipes from us. Increased competition in the large-diameter welded pipe sector or a change in our relationship with Gazprom could negatively affect our competitive position in 1,420 mm diameter pipe market, resulting in decreased revenues from sales of these products and adversely affecting our business, financial condition and results of operations.

Our large-diameter welded pipe business also depends significantly upon the level of construction of new oil and gas pipelines in Russia and the CIS. We currently supply pipes to a number of significant pipeline projects, including the extension of the Central-Asia Centre gas pipeline, and expect to participate in other projects in the future, including the Northern European Gas Pipeline, which will connect Russia to Germany via the Baltic Sea, and the Eastern Siberian Pacific Ocean pipeline, an oil pipeline which is expected to extend from Western Siberia to the Pacific coast. The delay, cancellation or other changes in the scale or scope of these projects, or the selection by the sponsors of such projects of other suppliers or any decision to limit our participation in such projects could have a material adverse effect on our sales of large-diameter welded pipes, and thus on our financial condition and results of operations.

We operate in competitive markets, and an inability to compete successfully may adversely affect our financial condition and results of operations.

The global market for steel pipe products, particularly in the oil and gas sector, is highly competitive, primarily based on price, quality and service. In the Russian and CIS markets, we face competition primarily from OAO Chelyabinsk Tube Rolling Plant ("ChTRP"), which produces both welded and seamless pipes, and UMC, which produces principally welded pipes. Moreover, we face increasing competition in the market for large-diameter welded pipe. See "—Our large-diameter welded pipe business is largely dependent on our largest customer, Gazprom, and is subject to increasing competitive pressures." Outside Russia and the CIS, we compete against a limited number of producers of premium-quality principally seamless steel pipe products, including Tenaris S.A., Vallourec and Mannesman Tubes AG ("V&M Tubes") and Sumitomo Corporation. Global producers of premium quality pipe products, including Tenaris, V&M Tubes and Sumitomo, offer a broader mix of value-added downstream pipe services, such as premium threading services and repair and field services, than we currently offer. While we currently face competition from lower-end producers in China and Ukraine principally in the industrial seamless pipe segment, competition from producers in such countries is increasing as they improve the range and quality of their pipes. In particular, we expect that Chinese producers, including the state-owned Shanghai Baosteel Group Corporation ("Baosteel") and Tianjin Pipe International Economic and Trading Corporation ("TPCO"), will increase their seamless pipe production capacity significantly over the next several years. Though we have not yet faced significant direct competition from Chinese producers on the Russian, CIS and international markets, to the extent that these producers increase the quality of their products, they may become strong competitors in both our domestic and international markets. We also face significant competition from a large number of domestic manufacturers in our industrial welded pipe business. We may not be able to compete effectively against existing or potential producers and preserve our current share of geographical or product markets. A failure to compete effectively could adversely affect our business, financial condition and results of operations.

Anti-dumping proceedings and other import restrictions may limit sales of our products in important geographical markets, including Europe.

We face numerous protective tariffs which reduce our competitiveness in, and limit our access to, particular markets. In particular, producers in the European Union have filed anti-dumping actions against us and other producers in their home jurisdictions in several instances in the past. Most recently, in June 2006, the European Council issued a regulation imposing anti-dumping duties on sales into the European Union of certain types of the seamless pipes we produce in Russia and in Romania. Our exports of various seamless pipes into India and Mexico are also subject to anti-dumping duties. Anti-dumping duty proceedings or any resulting penalties or any other form of import restrictions may limit our access to export markets, and in the future additional markets could be closed to us as a result of similar proceedings, thereby adversely impacting our sales or limiting our opportunities for growth. Currently, as a result of the high duty levels on our seamless products, the European Union market is effectively closed to our principal seamless pipe products produced in Russia. While TMK-Artrom has been granted a quota to export limited volumes of seamless pipes into the European Union free from anti-dumping duties, the anti-dumping duties on Romanian pipes may nevertheless have a negative effect on TMK-Artrom's sales prior to Romania's expected accession to the European Union in 2007. The imposition of further such measures by the European Union or in other jurisdictions could adversely affect our business, financial condition and results of operations.

We benefit from barriers on the import of steel pipe products into Russia, the removal of which could lead to increased competition and adversely affect our financial condition and results of operations.

Russia has in place import duties on steel pipe products. Furthermore, Russian anti-dumping duties on Ukrainian pipes for the oil and gas industry, for instance, generally range from approximately 9% to 18% of the customs value of the imported pipes, and the Russian government is currently considering the imposition of additional duties on Ukrainian pipes. These measures limit the competition we face in the sale of pipe products in Russia and generally result in increased prices for pipe products sold in Russia. These protective measures may be reduced or eliminated in the future, which could materially adversely affect our results of operations and prospects.

Russia is currently conducting negotiations to join the World Trade Organisation ("WTO"), and according to published press reports may complete this process as early as 2007. If Russia accedes to the WTO, Russia may be required to reduce or remove customs duties on pipe products, resulting in increased

competition in the Russian pipe market from foreign producers. A reduction in the levels of customs duties or the removal of other limitations on imports of pipe products into Russia could materially adversely affect our business, financial condition and results of operations.

We benefit from limitations on the export of scrap metal from Russia that may be eliminated in the future.

We make significant purchases of scrap metal to produce steel used in our pipe manufacturing operations. Purchases of scrap metal accounted for approximately 14% of our total cost of production in 2005. The price that we pay for scrap metal in Russia is generally significantly below world benchmark scrap prices. For example, in 2005, based on data from the industry publications Metal Bulletin and Metal Courier, the delivery price for heavy metal scrap for international delivery, HMSI—FOB Rotterdam, was approximately U.S.$250 per ton on average, whereas we paid approximately U.S.$135 per ton on average for comparable delivered scrap. Our favourable scrap purchase prices are due in part to high customs duties on the export of Russian scrap metal and other restrictions on the export of scrap deliveries outside of Russia as a result of lobbying by the Russian steel industry as well as the generally high costs of transporting scrap metal over long distances. In the event that restrictive measures on the export of scrap from Russia were to be removed, the prices that we pay for scrap metal could increase, which could have a material adverse effect on our financial condition and results of operations.

We have a significant capital expenditure programme which will require substantial cash resources and the failure to implement the programme successfully could have a material adverse effect on our business, financial condition, results of operations and prospects.

We plan to make significant capital investments in our production facilities in the next five years. Our strategic investment programme through 2010 is principally targeted at increasing our seamless pipe production capacity, increasing the efficiency of our pipe production processes, improving the quality and range of our products and increasing our ability to produce high value-added products. See "Business—Strategic Capital Expenditure Programme." We expect our total capital expenditures (excluding maintenance capital expenditures) from the beginning of 2006 through the end of 2010 to amount to approximately U.S.$1.2 billion. We expect to fund these capital expenditures from both operating cash flows, existing cash balances, debt financing and other sources as appropriate. These sources of financing may not be available to us in the future in the amounts we require or at an acceptable cost for reasons including, without limitation, the unavailability of external financing sources on satisfactory terms; changes in the terms of existing financing arrangements; pursuit of new business opportunities or significant additional investment in existing businesses; fluctuations in the Russian or global steel pipe markets; cost overruns in connection with our projects; and regulatory developments. If sufficient sources of financing are not available in the future for these or for other reasons, we may not be able to implement fully our capital expenditure programme, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, due in part to the size and complexity of our planned capital improvements, we may be unable to manage the cost and/or implementation of the programme successfully. Any failure to successfully manage our capital expenditure programme may result in costs that are greater than expected or result in significant delays. Any such cost overruns or completion delays may have a material adverse effect on our business, financial condition and results of operations.

We may seek to make further acquisitions, or enter into partnerships, which we may not be able to integrate or manage successfully.

As part of our growth strategy, we review acquisition prospects, as well as proposals for business combinations and strategic alliances or partnerships, that may complement our existing business. For example, we have recently agreed to acquire OAO Orsk Engineering Plant, a Russian manufacturer of tool joints, in order to enhance our drill pipes business and have recently entered into or announced our intention to enter into joint ventures with foreign partners to enhance our capacity to produce premium connection pipes and to expand our production to include large-diameter longitudinal welded pipes. See "Business—Planned Joint Ventures and Acquisitions." However, in making such acquisitions or entering into such partnerships, due to competition in the identification of acquisition targets or strategic partners, or due to other factors, we may make an acquisition or enter into a partnership on unfavourable terms. Moreover, if we are not able to successfully integrate or manage any acquired company or strategic alliance or partnership, the acquisition or strategic alliance may fail to achieve the desired benefits. In

addition, we may be unable to manage our relationship with our partners, and management's attention may be diverted away from other ongoing business concerns.

The integration of newly acquired businesses may be difficult for a variety of reasons, including different management cultures and styles, poor records or internal controls and difficulty in establishing immediate control over cash flows. As a result, potential further acquisitions of additional assets pose significant risks to our existing operations, in particular as they may result in increased overall complexity of our business, requiring greater personnel and other resources and significant cash expenditure to integrate the new acquisitions.

Any failure to successfully integrate future acquisitions or to manage strategic alliances could adversely affect our business, financial condition and results of operations. Moreover, even if we are successful in integrating newly acquired assets, acquiring additional assets and entering into partnerships, we may not be able to realise expected synergies, cost savings and other benefits to our business.

Equipment failures or production curtailments or shutdowns could adversely affect our production.

Our production capacities are subject to equipment failures and to the risk of catastrophic loss due to unanticipated events, such as fires, explosions and adverse weather conditions, including extremely cold weather. Our manufacturing processes depend on critical pieces of steel-making and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of unanticipated failures, which could require us to close part or all of the relevant production facility or cause us to reduce production on one or more of our production lines. Any interruption in production capability may require us to make significant and unanticipated capital expenditures to effect repairs, which could have a negative effect on our profitability and cashflows. We do not currently maintain business interruption insurance, and any recoveries under insurance coverage that we may obtain in the future may not offset the lost revenues or increased costs resulting from a disruption of our operations. A sustained disruption to our business could also result in a loss of customers. Any or all of these occurrences could materially adversely affect our business, financial condition and results of operations.

We depend on the Russian railroad network for the transportation of our raw materials and pipe products.

Railway transportation is our principal means of transporting raw materials and steel products to our facilities and pipe products to our Russian and CIS customers, as well as to ports for onward transportation to non-CIS export customers. As a result, increases in transportation costs may adversely affect our ability to compete successfully in our principal markets. Currently, the Russian government sets rail tariffs. These tariffs have approximately doubled since 2001 and the Russian government may further increase these tariffs. Moreover, in 2003, legislation was enacted which sets out the framework for the privatisation of certain state-owned railway enterprises, and in 2004 their assets were contributed into the share capital of a state-owned company, OAO Russian Railways. If the privatisation of Russian Railways or other factors were to result in increased railway transportation costs, our results of operations could be materially adversely affected.

In addition, Russian rolling stock is generally in a poor state of repair. While we are considering the purchase and lease of long-wheelbase rail cars for the transport of our large-diameter pipes and related raw materials to reduce our dependence on rolling stock owned by Russian Railways, such assets would be sufficient for only a portion of our total transportation requirements. The failure of Russian Railways to upgrade its rolling stock within the next few years could result in a shortage of available working rolling stock, lead to a disruption in transportation of our raw materials and products and cause rail tariffs to increase. Any such occurrences could adversely affect our business, financial condition and results of operations.

Increasing tariffs and restructuring in the Russian energy sector could adversely affect our business.

In the first six months of 2006 and in 2005, our Russian operations purchased approximately 1,060 million and 2,076 million kilowatt-hours (kWh) of electricity, respectively, representing approximately 100% of our requirements in Russia, from local subsidiaries of RAO Unified Energy Systems of Russia ("RAO UES"), the government-controlled national holding company for the Russian power sector, as well as from local electricity providers. Domestic electricity prices are regulated by the Russian government. The Russian government is currently in the early stages of implementing a restructuring plan for the power sector aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market-based system by 2008. Our average cost of electricity in Russia was 2.8 U.S. cents per kWh in 2004, 3.2 U.S. cents per kWh in 2005 and

U.S.3.7 cents per kWh in the first six months of 2006. The Russian government is also aiming at attracting private investment capital into electricity generating companies through public offerings and other means. These efforts may also result in increases in electricity tariffs, particularly for industrial customers. Further price increases for electricity may also occur in the future as the industry is restructured and controlled to a greater extent by the private sector. If we are required to pay higher prices for electricity in the future, our costs will rise and our results of operations and prospects could be materially adversely affected.

Our Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity, and heat energy at our facilities, from subsidiaries of Gazprom. Gazprom is a state-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the government, and have been rising over the last few years. In May 2004, in connection with an agreement on Russia's potential accession to the WTO, Russia and the European Union agreed that Russia would raise domestic gas prices to U.S.$37-42 per thousand cubic meters for natural gas by 2006 and to U.S.$49-57 per thousand cubic meters by 2010. Our average cost for gas in Russia was approximately RUB 1,252 (approximately U.S.$44.30) per thousand cubic meters in 2005, an increase of approximately 18% from 1 January 2004. Despite these recent price increases, natural gas prices in Russia remain significantly below western European levels, helping to provide us with a cost advantage over our competitors. If we are required to pay higher prices for natural gas, our costs will rise and our results of operations and prospects could be materially adversely affected.

Our Romanian operations may be subject to higher costs and greater regulation than our Russian operations.

Many of the competitive advantages that we enjoy in Russia are not available to us in Romania, or, if available, are of less benefit to us. For example, Romania is not self-sufficient in energy resources. Energy prices in Romania, which are higher than the prices we pay in Russia, have increased significantly in recent years and may continue to increase in the future, which might hurt the profitability of our operations in Romania. For example, in 2005, the price we paid for natural gas increased by approximately 40% in Romania. Shortages in energy supplies, including administrative limitations during peak usage, may also limit our production capacity and efficiency and hinder our output. If we are unable to obtain these resources on acceptable terms, the operations of our Romanian subsidiaries could be materially adversely affected, which would have a material adverse effect on our business, financial condition and results of operations.

In addition, preparations for Romania's admission into the European Union may result in increased environmental liabilities, labour costs and other expenditures for our Romanian operations as Romania adopts more stringent environmental and labour laws required for admission to the European Union. Entrance into the European Union, which is expected to occur on 1 January 2007, requires the restructuring of Romania's major metallurgical entities, including our Romanian subsidiary TMK-Resita. As part of this process, we were required to conclude a viability plan with European Union consultants and incorporate such plan into our business plans. In addition, in connection with our acquisition of TMK-Resita we agreed to make certain minimum investments and expenditures through 2009. While we currently expect to fulfill all remaining requirements associated with the acquisition of TMK-Resita by the end of 2008, there can be no assurance that we will be able to do so. The costs of complying with new or more stringent requirements may be substantial and could materially adversely affect our Romanian operations.

Following the completion of certain debt financing transactions into which we entered in order to fund a loan to our controlling shareholder, we are relatively highly leveraged and we are required to meet certain financial and other restrictive covenants under the terms of our indebtedness.

We are relatively highly leveraged with a ratio of total short- and long-term borrowings to total equity as of 30 June 2006 of 0.92 to 1.00 as adjusted for the incurrence of the debt financing related to the funding of the TMK Steel Loan (as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan") in the aggregate principal amount of U.S.$754 million, but not for any other changes subsequent to 30 June 2006. We are subject to certain financial and other restrictive covenants under the terms of our indebtedness that limit our ability to, among other things:

- borrow money;
- create liens;

- give guarantees;
- make acquisitions;
- sell or otherwise dispose of assets;
- engage in mergers, acquisitions or consolidations; and
- pay dividends.

The terms of our current and expected future indebtedness also require us to operate within certain specified financial ratios. For example, some of our loan agreements require or will require us to maintain a specified ratio of consolidated gross debt to consolidated EBITDA and consolidated gross debt to consolidated tangible net assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness." Some of our loan agreements also restrict our ability to pay dividends. See "Dividend Policy."

The requirement to observe these financial ratios and other restrictions could hinder our ability to carry out our business strategy. In addition, a breach of the terms of our indebtedness could cause a default under the terms of our indebtedness, causing some or all of our indebtedness to become due and payable. In addition, there can be no assurance that we will be able to generate the funds necessary to repay our indebtedness in the event of its acceleration.

In addition, in connection with the issuance of Loan Participation Notes (as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan"), we agreed to procure that Seversky, Sinarsky and Tagmet would provide additional guarantees of OAO TMK's obligations not more than 90 days after the Issue Date of the Notes (which was 29 September 2006), and under certain circumstances we may also be required to procure that further subsidiaries guarantee our obligations. If we fail to procure the provision of any required guarantee in a timely manner, the issuer of the notes will be obligated to make an offer to repurchase such notes and we will be required to prepay our obligations under the loan. There can be no assurance that, if required to prepay our obligations in whole or in part, that we would have, or be able to obtain, the funds required to make such payments in a timely manner or at all.

Fluctuations in the value of the Russian rouble against the U.S. dollar may materially adversely affect our results of operations.

Our products are typically priced in roubles for Russian sales and in U.S. dollars for CIS and international sales, and our direct costs, including raw materials, labour and transportation costs, are largely incurred in roubles, while other costs, such as interest expense, are incurred in roubles, U.S. dollars and euro, and capital expenditures are incurred principally in euro. The mix of our revenues and costs is such that appreciation in real terms of the Russian rouble against the U.S. dollar tends to result in an increase in our costs relative to our revenues, while depreciation of the Russian rouble against the U.S. dollar in real terms tends to result in a decrease in our costs relative to our revenues.

The Russian rouble appreciated in real terms against the U.S. dollar by 9.1% in the first six months of 2006, 10.5% in 2005, 13.6% in 2004, and 15.0% in 2003, according to the CBR. However, in recent years the effect of the real appreciation of the Russian rouble against the U.S. dollar has been more than offset by increased prices for our pipe products, both in Russia and internationally. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations." Further real appreciation of the Russian rouble against the U.S. dollar may materially adversely affect our financial condition and results of operations.

In addition, fluctuations in the value of the Romanian lei, or ROL, against the euro and the U.S. dollar may adversely affect the results of our Romanian operations. Our exports from TMK-Artrom and TMK-Resita are priced largely in U.S. dollars and euro, while our direct costs are incurred largely in ROL and U.S. dollars. The mix of our revenues and costs with respect to our Romanian operations is such that appreciation in real terms of the ROL against the euro and the U.S. dollar tends to result in an increase in the costs of our Romanian operations relative to their revenues.

We are currently considering the use of derivative instruments, including forward contracts and currency swaps, under the control of our finance department, to manage our foreign exchange risks with respect to fluctuations of the U.S. dollar against the Russian rouble. We can provide no assurance, however, that such instruments will be available to us or that the use of such instruments will mitigate our currency exposures.

We face risks associated with the expansion of our business into the CIS and Eastern and Central Europe.

We currently have two production plants in Romania and sales and trading operations in several CIS countries, and we may acquire additional operations in the CIS and in Eastern and Central Europe. As with Russia, these countries are emerging markets subject to greater political, economic, social and legal risks than more developed countries. In many respects, the risks inherent in transacting business in these countries are similar to those in Russia, especially those risks set out below under "Risks relating to the Russian Federation—Economic Risks," "Risks relating to the Russian Federation—Political and Social Risks" and "Risks relating to the Russian Federation—Legal and Legislative Risks."

Moreover, these countries are new operating environments for us, located, in some instances, a great distance from our Russian operations and across multiple international borders. We thus expect to have less control over their activities and these businesses may face more uncertainties with respect to their operational needs. These factors may adversely affect the profitability of our current and future operations in these countries.

The costs of complying with environmental regulations and potentially unforeseen environmental liabilities may adversely affect our financial condition and results of operations.

We are subject to a wide range of local, regional and federal laws, regulations, permits and decrees relating to the protection of human health and the environment and incur and will continue to incur expenditures to comply with those regulations. The expenditures necessary to remain in compliance with these laws and regulations, including site or other remediation costs, or unforeseen environmental liabilities, could have a material adverse effect on our financial condition and results of operations.

Under current Russian environmental legislation, we must make payments for air and water discharges as well as waste which are within specified limits and make increased payments for discharges and waste in excess of these limits. Our total payments associated with such discharges and waste were approximately U.S.$1.0 million in 2005. We also recorded an environmental provision of U.S.$2.6 million relating to TMK-Resita as of 30 June 2006.

Although it has been enhanced since the Soviet era, environmental legislation in Russia and Romania is generally weaker and less stringently enforced than in the European Union or the United States. New laws or regulations, the imposition of more stringent requirements with respect to licences or stricter enforcement or new interpretations of existing environmental laws, regulations or licences may require further expenditures to modify operations, install pollution control equipment, perform site clean-ups and reclamation, curtail or cease operations, or pay fees, fines or other payments for discharges or other breaches of environmental standards. See also "—Our Romanian operations may be subject to higher costs and greater regulation than our Russian operations." Moreover, in the course of, or as a result of, an environmental investigation, regulatory authorities in Russia can issue an order reducing or halting production at a facility that has violated environmental standards. In the event that production at one of our facilities were partially or wholly prevented due to this type of sanction, our business could suffer and our operating results would be adversely affected.

The implementation of the Kyoto Protocol to the United Nations Framework Convention on Climate Change from February 2005 may impose new and/or additional rules or more stringent environmental norms. Complying with any such requirements may entail additional capital expenditures or modifications in operating practices. The resulting impact on us will depend on, among other factors, the base level against which permissible levels of emissions are to be measured and the allocation of quotas for such emissions, which is currently uncertain.

Potential environmental, product liability and other claims may create significant liabilities for us that would have an adverse effect on our business, financial condition and results of operations.

Our OCTG and line pipe products are sold primarily for use in oil and gas drilling and transportation activities, which are subject to inherent risks, including well failures, line pipe leaks and fires, that could result in death, personal injury, property damage, environmental pollution or loss of production. Any of these hazards and risks can result in the release of hydrocarbons, environmental liabilities, personal injury claims and property damage. Similarly, defects in our other industrial seamless and welded pipe products could result in death, personal injury, property damage, environmental pollution or loss of production.

We normally warrant the OCTG and line pipe products we sell or distribute in accordance with customer specifications, but as we pursue our business strategy of providing customers with supply chain

services, we may be required to warrant that the goods we sell and services we provide are fit for their intended purpose. Actual or claimed defects in our products may give rise to claims against us for losses and expose us to claims for damages. We do not currently have product liability insurance to protect us against such risks, and there can be no assurance that we will be able to obtain such coverage in the future or that any insurance coverage we do obtain would be adequate or available to protect us in the event of a claim.

In the event that the title to any company acquired by us through privatisation or otherwise is successfully challenged, we may lose our ownership interest in that company or its assets.

Almost all of our production assets in Russia consist of companies that have been privatised or that we acquired directly or indirectly from others who had acquired them through privatisation, and we may seek to acquire additional companies that have been privatised or that have undergone bankruptcy proceedings. Privatisation legislation in Russia is vague, internally inconsistent and in conflict with other elements of Russian legislation. As a result, most, if not all, privatisations are arguably deficient and vulnerable to challenge at least on formal grounds. Although the statute of limitations for challenging transactions entered into in the course of privatisations has recently been reduced from ten years to three years, the application of the three-year limitation period is still subject to controversial interpretation by the courts. In addition, we cannot assure you that the statute of limitations will not be further amended.

While we believe that we have complied with applicable legislation and regulations with respect to the acquisitions of our assets, if any of such acquisitions are challenged as having been improperly conducted and we are unable successfully to defend ourselves, we may lose our ownership interests, which could materially adversely affect our business, financial condition and results of operations.

The interests of our controlling beneficial owner could conflict with those of the holders of our Ordinary Shares and the GDRs.

Following the Offering, assuming no exercise of the Over-Allotment Option, and upon the conclusion of the Employee Offering, approximately 79.08% of our issued and outstanding shares (or 77.02% if the Over-Allotment Option is exercised in full) will be owned directly and indirectly by TMK Steel, the Selling Shareholder, which is beneficially owned by Dr. Pumpyanskiy, the chairman of our board of directors. As a result of Dr. Pumpyanskiy's interests in our shares, he has the ability to exert significant influence over certain actions requiring shareholder approval, including increasing or decreasing our authorised share capital (in cases other than decisions on share capital increases that are adopted by our board of directors), the election of directors, declaration of dividends, the appointment of management and other policy decisions. In addition, Dr. Pumpyanskiy may engage in business activities that compete with us. The interests of Dr. Pumpyanskiy could at times conflict with the interests of holders of our Ordinary Shares and the GDRs, and any such conflict of interest could adversely affect our business, financial condition and results of operations, and therefore the value of an investment in the Ordinary Shares and GDRs could be adversely affected.

Restrictive currency regulations may adversely affect our business and financial condition.

The CBR has, from time to time, imposed various currency control regulations in attempts to support the Russian rouble and may take further such actions in the future. For example, Russian companies currently must repatriate proceeds from export sales. In the past, they also had to convert 10%-75% of such proceeds into roubles, though the CBR abolished this requirement with effect from 10 May 2006. However, the CBR retains the right to reinstate the requirement for Russian companies to convert up to 30% of the proceeds of export sales into roubles.

Because of the limited development of the foreign currency market in Russia, we may experience difficulty converting roubles into other currencies. Furthermore, the CBR and the Russian government may impose requirements governing currency operations from time to time, as they have done in the past. Any delay or other difficulty in converting roubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the acceleration of debt obligations and cross-defaults.

Furthermore, there are only a limited number of available rouble-denominated instruments in which we may invest our excess cash. Any balances maintained in roubles will give rise to losses if the Russian rouble devalues against major foreign currencies. Moreover, these restrictions could prevent or delay any acquisition opportunities outside of Russia that we might wish to pursue.

We do not carry insurance against all potential risks and losses, and our insurance might be inadequate to cover all of our losses or liabilities or may not be available on commercially reasonable terms.

We have only limited, and potentially an insufficient level of, insurance coverage for expenses and losses that may arise in connection with property damage, work-related accidents and occupational illness, natural disasters and environmental contamination. We have no insurance coverage for loss of profits or other losses caused by the death or incapacitation of our senior management, product liability insurance or business interruption insurance. Losses or liabilities arising from these or other such events could increase our costs and could adversely affect our operating results and financial condition.

Sustained periods of high inflation could adversely affect our business.

Our principal production assets are located in Russia, and the majority of our direct costs are incurred in Russia. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% in that year. Notwithstanding recent reductions in the inflation rate, which was 11.7% in 2004, 10.9% in 2005 and 6.2% in the first six months of 2006, we tend to experience inflation-driven increases in certain of our costs, such as salaries, that are linked to the general price level in Russia. However, we may not be able to increase the prices that we receive for our products sufficiently in order to preserve operating margins, particularly in the case of our export sales, when such inflation is accompanied by real appreciation of the Russian rouble against the U.S. dollar. Accordingly, high rates of inflation in Russia could increase our costs and decrease our operating margins.

Our accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting, and any such shortcomings in these systems could have a material adverse effect on our business, financial condition and results of operations and thus the value of the Ordinary Shares and the GDRs.

Our system of internal control over financial reporting is not designed for the preparation of consolidated IFRS financial statements. For example, we do not have integrated information systems; each of our subsidiaries has its own accounting platform and chart of accounts. Our Russian, Romanian, Swiss and German subsidiaries prepare separate financial statements under local accounting standards for statutory purposes. In addition, we do not currently prepare monthly or quarterly consolidated IFRS accounts. The preparation of IFRS consolidated financial statements is a manual process that involves, first, the transformation of the statutory financial statements of our subsidiaries into IFRS financial statements through accounting adjustments and, second, a consolidation of all subsidiaries' financial statements. This process is complicated and time-consuming, requires significant attention from our senior accounting personnel at our corporate headquarters and subsidiaries and may make it difficult for us to detect or prevent material misstatements in our IFRS financial statements.

We have taken, and plan to continue to take, steps to improve our accounting systems and internal controls, including the implementation of an Enterprise Resource Planning ("ERP") system that will integrate the financial reporting of our various plants, development and documentation of control procedures over the financial statements closing process and hiring additional qualified personnel in the area of financial reporting. As a key step in these processes, in January 2006, we put into operation a SAP R/3 ERP system at Volzhsky, and we plan to extend this system to our other major operating units. Despite these steps, we may not be able to detect or prevent a material misstatement in our annual or interim IFRS consolidated financial statements or to ensure that our IFRS consolidated financial statements are prepared in a timely manner.

We depend on key accounting staff for the preparation of our IFRS financial information, and the loss of these persons could disrupt our ability to report IFRS financial information timely and accurately and have an adverse effect on our business and the value of the Ordinary Shares and the GDRs.

The preparation of our IFRS financial information is a difficult task requiring IFRS-experienced accounting personnel at each of our principal subsidiaries and at our Moscow corporate office. However, there is a limited number of accounting personnel with IFRS expertise in Russia. Moreover, there is an increasing demand for such personnel as more Russian companies are beginning to prepare financial statements on the basis of IFRS or other international standards. Such competition, combined with the remote locations of our Russian subsidiaries, which such personnel may not find suitable in comparison to other opportunities, makes it difficult for us to hire and retain such personnel, and our key accounting staff

may leave. Any inability to hire or to retain qualified accounting staff could adversely affect our business and the value of the Ordinary Shares and the GDRs.

Our subsidiaries are in many cases the largest employers in their respective cities, and as a result, we may be limited in our ability to make rapid and significant reductions in numbers of employees.

Our subsidiaries are in many regions the largest employers in the cities in which they operate, such as Volzhsky (where Volzhsky is located), Taganrog (where Tagmet is located) and Kamensk-Uralsky (where Sinarsky is located). While we do not have any specific legal social obligations or responsibilities with respect to these regions, our ability to effect alterations in the numbers of our employees may nevertheless be subject to political and social considerations. In addition, we have agreed as a condition of our acquisition of TMK-Resita that we will not reduce employment at TMK-Resita below a specified level until after April 2007. Any inability to make planned reductions in numbers of employees or other changes to our operations in such regions could have an adverse effect on our results of operations and prospects.

Our ability to pay cash dividends depends on the results of operations and financial condition of our subsidiaries and may be restricted by legal, contractual or other limitations.

We conduct all of our production, sales and marketing operations through subsidiaries. Our primary source of funds to pay our expenses, including interest expenses, are dividends and other intercompany transfers of funds from our subsidiaries. The ability of our subsidiaries to pay dividends and make other payments to us depends on their results of operations and financial condition and may be restricted by, among other things, applicable corporate and other laws and regulations (including those imposing currency controls or transfer restrictions) financing arrangements and other agreements and commitments of such subsidiaries. In addition, our ability to pay dividends is subject to legal and other requirements and restrictions at the holding company level. For example, we may only pay dividends out of net profits calculated in accordance with RAS. See "Description of Share Capital and Applicable Russian Legislation—Description of Share Capital and Certain Rights and Obligations of Shareholders—Dividends" and "Dividend Policy." In addition, one of our debt facilities currently restricts OAO TMK from paying dividends in respect of any financial year which would exceed 50% of our consolidated net income (as defined in the debt facility) with respect to that financial year.

Our competitive position and future prospects depend to a large extent on the experience and expertise of our senior management.

The involvement in our management of one of our controlling beneficial owners, Dr. Dmitriy Pumpyanskiy, who serves as the chairman of our board of directors, has been, and we believe will continue to be, important in the pursuit and implementation of our strategy. However, there can be no assurance that Dr. Pumpyanskiy will continue to make his services available to us in the future. Our business could suffer if Dr. Pumpyanskiy ceased to participate actively in the management of our company.

In addition, our ability to maintain our competitive position and to implement our business strategy is dependent to a significant extent on the services of our senior managers, and in particular the members of our management board. We depend on our current senior management including, in particular, our General Director, Mr. Semerikov, for the implementation of our strategy and the operation of our day-to-day activities. Furthermore, personal connections and relationships of members of senior management are important to the conduct of our business. However, there can be no assurance that these individuals will continue to make their services available to us in the future.

The loss or diminution of the services of our controlling beneficial owner or senior managers or an inability to attract and retain additional senior management personnel could have a material adverse effect on our business, financial condition, results of operations or prospects. Moreover, competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and this situation could seriously affect our ability to retain our existing senior management and attract additional suitably qualified senior management personnel. As a result, the departure of key managers could have a material adverse effect on our business, financial condition, results of operations or prospects.

Some transactions between our Russian subsidiaries and their interested parties, affiliates and other members of the TMK Group require the approval of disinterested directors or disinterested shareholders.

We own less than 100% of the shares in most of our Russian subsidiaries, including Seversky, Sinarsky and Tagmet. These subsidiaries have in the past carried out, and continue to carry out, numerous

transactions with other companies within our consolidated group and our affiliates that may be considered "interested party transactions" under Russian law, requiring prior approval by a majority vote of the "disinterested directors," "independent disinterested directors" or "disinterested shareholders." See "Description of Share Capital and Applicable Russian Legislation—Interested Party Transactions." In particular, our production subsidiaries rely to a large extent on the supply of raw materials from related parties, including TMK Trade House, and sales to TMK Trade House and TMK Global.

The concept of "interested parties" is defined with reference to the concepts of "affiliated persons" and "group of persons," which are subject to many different interpretations under Russian law. Moreover, the provisions of Russian law defining which transactions must be approved as "interested party" transactions are subject to different interpretations. We cannot be certain that our compliance with these provisions will not be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to our business. Although we generally use our best efforts to obtain the required approvals for interested party transactions, in some cases, as a practical matter, we may not be able to obtain them. Failure to obtain the necessary approvals for transactions involving our Russian subsidiaries or any successful challenge to such transactions could result in the invalidation of such transactions and could have a material adverse effect on our business, financial condition, results of operations or prospects.

Emerging markets are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt our business, as well as cause the price of the GDRs or Ordinary Shares to fall.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Russia and, to some extent, Romania, are subject to rapid change and that the information set forth in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity and debt markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Likewise, a rise in interest rates in Western countries leading to an increase in the cost of capital and increased aversion to risk from investors, could result in an outflow of Western funds from emerging market securities. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country or a market increase in the cost of capital in the West could adversely affect our business, as well as result in a decrease in the value of the Ordinary Shares or GDRs.

Risks Relating to the Securities and the Trading Market

The Offering may not result in an active or liquid trading market for the Ordinary Shares or the GDRs, and their price may be highly volatile.

Before this Offering, there has been no prior market for the GDRs or the Ordinary Shares. Although application has been made to the UKLA for the approval of this Prospectus and up to 76,387,000 GDRs (of which 30,150,000 will be admitted on or about the GDR Closing Date) to be admitted to the Official List and to the London Stock Exchange to admit such GDRs to trading on its regulated market for listed securities, and the Ordinary Shares have been listed on RTS, an active public market for the Ordinary Shares and GDRs may not develop or be sustained after the Offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the GDRs or Ordinary Shares does not develop, the price of the GDRs or Ordinary Shares may become more volatile and it may be difficult to complete a buy or sell order for such GDRs or Ordinary Shares.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. However, there may only be a limited public free float of the Ordinary Shares in the future. Moreover, the Share Closing Date is scheduled to occur after the GDR Closing Date, and under certain circumstances the Underwriters may terminate the Underwriting Agreement (as defined under "Subscription and Sale") subsequent to the GDR Closing Date but prior to the Share Closing Date,

as a result of which there may be very little or no public free float for the Ordinary Shares. See "Subscription and Sale."

The trading prices of the Ordinary Shares and GDRs may be subject to wide fluctuations in response to many factors, including:

- variations in our operating results and those of other steel pipe producers;
- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by us or our competitors;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia; or
- extreme price and volume fluctuations on Russian or other emerging market stock exchanges.

In addition, Russian stock markets have experienced extreme price and volume fluctuations. These market fluctuations could adversely affect the value of the Ordinary Shares or GDRs. Moreover, the market price of the Ordinary Shares or the GDRs may decline below the Offer Price, which will be determined by the results of the book building exercise being conducted by the Underwriters.

Future sales of the Ordinary Shares or GDRs may affect the market price of the Ordinary Shares and the GDRs.

Sales, or the possibility of sales, by us or our controlling shareholder of a substantial number of GDRs or our ordinary shares in the public markets following the Offering could have an adverse effect on the trading prices of the Ordinary Shares or the GDRs or could effect our ability to obtain further capital through an offering of equity securities. Subsequent equity offerings may also reduce the percentage ownership of shares by our existing shareholders and of investors in the Offering. In addition, in connection with financing that it received in order to finance the acquisition of OAO TMK's shares from Dalecone Limited, a former minority shareholder in OAO TMK, TMK Steel has granted warrants over certain of the currently outstanding shares in OAO TMK that it holds, exercisable on a date that is three years after the issue date. Affiliates of Credit Suisse Securities (Europe) Limited and Renaissance Securities (Cyprus) Limited, which are Underwriters in the Offering, and any investors in the financing of TMK Steel and the warrants, may manage their risk on the financing and the warrants by borrowing, shorting or buying Ordinary Shares in cash or through derivative transactions. See "Principal and Selling Shareholder."

The number of Ordinary Shares that can be deposited into the GDR facilities is limited.

Under applicable Russian legislation and implementing regulations, the offer or trading in shares of a Russian company in the form of GDRs, including deposits of shares into an existing GDR facility, requires that a permit be issued by the FSFM. On 10 October 2006, the FSFM granted a permit for the deposit of up to 183,330,210 Ordinary Shares into our GDR facilities being established in connection with the Offering, representing 21% of OAO TMK's issued share capital. Any deposit of Ordinary Shares over this number (up to the maximum limit of 35% of the Company's charter capital) would require another permit from the FSFM, which may be granted only in connection with a share issuance by the Company or a sale of shares by any of its shareholders. The FSFM may decline to grant such a permit if, among other reasons:

- more than 35% of the class of shares eligible for deposit into the GDR programme will circulate outside Russia, including in the form of GDRs; or
- the GDR programme contemplates the voting of the shares underlying the GDRs other than in accordance with the instructions of the GDR holders.

Accordingly, following the Offering, investors may not be able to deposit shares into our GDR programme in order to receive GDRs. See "Description of Share Capital and Applicable Russian Legislation—Certain Russian law considerations for the Offering—Offering Outside the Russian Federation."

Because the Depositary may be considered a beneficial owner of the Ordinary Shares underlying the GDRs, these Ordinary Shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Because Russian law may not recognise GDR holders as beneficial owners of the underlying shares, it is possible that the prospective investors could lose all their rights to, and all the money invested into, the Ordinary Shares underlying the GDRs if the Depositary's assets in Russia are seized or arrested.

Russian law may treat the Depositary as beneficial owner of the Ordinary Shares underlying the GDRs. This is different from the way other jurisdictions treat GDRs, for example, in the United States, although shares may be held in the Depositary's name or to its order, making it a "legal" owner of the shares, the GDR holders are the "beneficial" or real owners. In U.S. or U.K. courts, an action against the Depositary, the legal owner of the shares, would not result in the beneficial owners losing their shares. Russian law, however, may not make the same distinction between legal and beneficial ownership, and it may recognise the underlying shares as "owned" by the Depositary. Thus, in proceedings brought against a depositary, whether or not related to shares underlying GDRs, Russian courts may treat those underlying shares as the assets of the Depositary and thus open to attachment. In a past lawsuit against a depositary bank a claimant sought the attachment of Russian companies' shares represented by depositary receipts issued by that depositary. If a Russian court were to order the seizure or attachment of a depositary's assets in Russia, GDR holders could lose all of their rights to Ordinary Shares underlying such GDRs.

The Deposit Agreement and Deed Poll for the GDRs and relevant requirements of Russian law limit the voting rights of holders of GDRs with respect to the Ordinary Shares represented by GDRs.

The GDR holders will not have any direct voting rights with respect to the Ordinary Shares represented by the GDRs. The GDR holders will be able to exercise their voting rights with respect to the Ordinary Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement and the Deed Poll underlying such GDRs and relevant requirements of Russian law. However, there are practical limitations upon the GDR holders' ability to exercise their voting rights due to the additional procedural steps involved in communicating with such holders. For example, the Joint Stock Companies Law and our charter require us to notify shareholders not less than 30 days prior to the date of any meeting and at least 20 days prior to the date of an extraordinary meeting to elect our board of directors (see "Description of Share Capital and Applicable Russian Legislation—General Meetings of Shareholders—Notice and Participation"). Our ordinary shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreement, we will provide the notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no U.S., English or Russian legal prohibitions (including, without limitation, the rules of the London Stock Exchange or the rules of any Russian stock exchange on which the Ordinary Shares are listed or admitted to trading), to send to the GDR holders notice of such meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, the GDR holders must then instruct the Depositary how to vote the Ordinary Shares represented by their respective GDRs. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Ordinary Shares and there can be no assurance that the GDR holders will receive voting materials in time to enable them to return their voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Ordinary Shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the Ordinary Shares in the same manner. The GDR holders may thus have significant difficulty in exercising voting rights with respect to the Ordinary Shares underlying their GDRs. There can be no assurance that holders and beneficial owners of GDRs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, did not participate in the voting or has not given voting instructions. See "Terms and Conditions of the Global Depositary Receipts—Voting Rights."

Holders of GDRs may be unable to repatriate distributions made on the Ordinary Shares.

We intend to pay dividends on our Ordinary Shares in roubles, and Russian law currently permits such rouble funds to be converted into U.S. dollars by the Depositary without restriction. The ability to convert roubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of roubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency future markets, the further development of this market is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside of Russia and the CIS and no viable market in which to hedge rouble and rouble-denominated investments.

Non-resident holders of GDRs or Ordinary Shares may not be able to benefit from double tax treaties with respect to any dividends paid by the Company.

Under Russian law, dividends paid to a Non-Resident Holder (as defined under "Taxation—Russian Tax Considerations") of the Ordinary Shares or the GDRs will generally be subject to Russian withholding income tax at a rate of 15% for legal entities and organisations and at a rate of 30% for individuals. This tax may be reduced under the provisions of the relevant double tax treaty between Russia and the country in which the holder of the ordinary shares or GDRs is resident for tax purposes. In particular, this tax may be reduced to 5% or 10% for legal entities and organisations and to 10% for individuals under the United States-Russia double tax treaty for U.S. holders and to 10% under the United Kingdom-Russia double tax treaty for U.K. holders that are beneficial owners of the dividends and entitled to treaty benefits.

However, in the absence of any specific provisions in the tax legislation with respect to the concept of beneficial ownership, the taxation of income of beneficial owners or the treatment of GDRs, it is unclear how the tax authorities and courts will ultimately treat the GDR holders in this regard. Thus, in the absence of any official interpretative guidance on the beneficial ownership concept, we will likely withhold tax at higher rates when paying dividends on the Ordinary Shares represented by GDRs, and non-resident holders of GDRs, including U.S. and U.K. holders, may be unable to benefit from the relevant income tax treaties. For more details see "Taxation—Russian Tax Considerations."

In particular, we will be required to withhold Russian tax at the standard domestic non-resident rate of 15% irrespective of the provisions of any applicable double tax treaty, when paying dividends via the Depositary to any of the Non-Resident Holders, including U.S. and U.K. holders, unless the Company receives sufficient information together with a full set of documentation for the respective GDR Holders from the Depositary prior to the first payment of dividend in each calendar year. For more details on the list of such information and documents and on resulting tax liabilities for Non-Resident Holders see "Taxation—Russian Tax Considerations."

Although Non-Resident Holders of GDRs may apply for a refund of an excessive portion of the Russian tax withheld if there is an applicable double tax treaty, there is no assurance that such refund will be obtained. See "Taxation—Russian Tax Considerations—Tax Treaty Procedures" for more details.

Capital gains from the sale of Ordinary Shares or GDRs by non-resident holders may be subject to Russian withholding income tax.

Under Russian tax legislation, gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs that are circulated (i.e., listed and traded) on foreign stock exchanges on such stock exchanges by Non-Resident Holders that are legal entities or organisations, otherwise than through their permanent establishment in the Russian Federation, fall outside the scope of Russian taxes. Therefore, as long as the GDRs remain listed and traded on the London Stock Exchange, gains arising from the sale, exchange or other disposition of GDRs on the London Stock Exchange by non-resident legal entities or organisations that have no permanent establishment in Russia to which such sale, exchange or disposition could be connected should not be subject to Russian withholding income tax and, hence, to taxation in Russia.

In addition, under current Russian tax legislation, capital gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs that are not circulated (i.e., listed and traded) on foreign stock exchanges by non-resident holders that are legal entities or organisations should be subject to tax in Russia if our immovable property located in Russia constitutes more than 50% of our assets. Because the determination of whether 50% or more of a company's assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and because the relevant

legislation and regulations are not entirely clear, there can be no assurance that the immovable property located in Russia is not and will not in the future be found to constitute more than 50% of our assets.

If more than 50% of our assets were found to consist of immovable property located in Russia, capital gains derived by non-resident holders that are legal entities or organisations may be subject to withholding tax imposed at the rate of 24% or 20%, depending on the applicable tax basis.

If a withholding income tax liability arises on the sale, exchange or other disposition of the Ordinary Shares or GDRs, the tax must be withheld by the Russian legal entity or foreign legal entity with a permanent establishment in Russia (though in practice Russian tax authorities may claim that an obligation to withhold exists for any registered presence of a foreign legal entity in Russia) that acquires the Ordinary Shares or GDRs from a non-resident holder that is a legal entity and organisation. Entities that are obligated to withhold tax on capital gains may have insufficient information regarding the OAO TMK's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the seller of such Ordinary Shares or GDRs.

Where the buyer is neither a Russian legal entity nor a non-Russian legal entity with a permanent establishment in Russia (or, arguably, with any registered presence), the tax liability referred to above for the holder still exists, but there may be no practical mechanism to assess and withhold the tax.

Gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs outside of Russia by holders who are individuals not resident in Russia for tax purposes should not be considered Russian source income and therefore should not be taxable in Russia. However, as there is no definition of what should be considered to be a "sale in Russia" or "sale outside Russia," the Russian tax authorities have a certain amount of freedom to conclude whether transactions take place inside or outside of Russia. Gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs in Russia by holders who are individuals not resident in Russia for tax purposes will be subject to tax either at source in Russia or based on a tax return, which they may be required to submit to the Russian tax authorities. See "Taxation—Russian Tax Considerations."

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in Russia for persons qualifying for the relevant treaty benefits. See "Taxation—Russian Tax Considerations" regarding the details of the United States—Russia Tax treaty and the United Kingdom—Russia Tax Treaty. However, non-resident holders of Ordinary Shares or GDRs may not be able to benefit from double taxation treaties in respect of capital gains realised on such Ordinary Shares and GDRs due to administrative difficulties in timely obtaining and submission to the payor of income, having the obligation to withhold the tax, the confirmation of treaty tax residence. See "Taxation—Russian Tax Considerations."

Resident Holders (individuals) of the GDRs may be subject to increased effective rates of tax on dividends due to the lack of clarity in the Russian tax law in respect to beneficial ownership

The Russian tax law is silent as to whether the Depositary or the Holders must be viewed by the payor of dividends as beneficial owners of shares. Private clarifications of the Ministry of Finance suggest that the beneficial owners are Holders; however, these clarifications are not the statement of law and there could be no assurance that this position will sustain for the future. If Depositary is viewed as a beneficial owner of the dividends, the Company may be obligated to withhold income tax at a rate of 15% from dividend payments on Ordinary Shares represented by GDRs. By virtue of receiving dividend payments from Depository rather than from the Company, Resident Holders (individuals) may be required to report these dividends in their tax returns as dividends from foreign sources, and pay additional tax on the declared amount at a rate of 9%, and would likely be unable to reclaim the tax initially withheld by the Company.

Holders of the Ordinary Shares or the GDRs may have limited recourse against us and our directors and executive officers because we generally conduct our operations outside the United States and the United Kingdom and the majority of our directors and executive officers reside outside the United States and the United Kingdom.

Our presence outside the United States and the United Kingdom may limit the legal recourse of holders of the Ordinary Shares and the GDRs against us. We are incorporated under the laws of the Russian Federation. The majority of our directors and executive officers reside outside the United States and the United Kingdom, principally in the Russian Federation. All or a substantial portion of our assets and the assets of our directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, holders of the Ordinary Shares or the GDRs may not be able to effect service of process within the United States or the United Kingdom upon us or our directors and executive officers or to enforce U.S. or U.K. court judgments obtained against us or our directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of the U.S. securities laws. In addition, it may be difficult for the holders of the Ordinary Shares or the GDRs to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

The Russian Federation is not a party to any multilateral or bilateral treaties with most Western jurisdictions (including the United States and the United Kingdom) providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. Consequently, should a judgment be obtained from a court in any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. However, the Russian Federation (as successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"), and the Deposit Agreement and the Deed Poll in respect of the GDRs contain provisions allowing for the arbitration of disputes. A foreign arbitral award obtained in a state which is party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation), but in practice, reliance upon international treaties and enforcement of arbitral awards in the Russian Federation may be difficult due to a number of factors, including the inexperience of Russian courts in international commercial transactions, political resistance to enforcement of awards against Russian companies in favour of foreign investors, and Russian courts' inability to enforce such orders.

Holders of the GDRs may not be able to benefit from certain U.K. anti-takeover protections.

As we are not resident in the United Kingdom, the City Code on Takeovers and Mergers does not apply to us. As a result, a bid for, or creeping acquisition of control over, our shares is presently unregulated. For a discussion of Russian anti-takeover protection see "Certain Regulatory Matters—Antimonopoly Regulation" and "Description of Share Capital and Applicable Russian Legislation—Change of Control—Anti-takeover Protection."

Risks Relating to the Russian Federation

Political and Social Risks

Political and governmental instability could adversely affect the value of the GDRs.

Since 1991, Russia has moved from a one-party state with a centrally-planned economy to a federal republic with democratic institutions and a market-oriented economy, but the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian government—the prime minister and the other heads of federal ministries—has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. During his term as president, Vladimir Putin has generally maintained governmental stability. In addition, the elections to the lower house of the legislature, the State Duma, in December 2003 resulted in a substantial majority for parties supportive of President Putin.

In February 2004, just prior to his election to a second term as president, President Putin dismissed his entire cabinet, including the prime minister. He subsequently appointed Mikhail Fradkov as Prime

Minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various agencies of the government of the Russian Federation and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. In addition, a new law was adopted pursuant to which the executives of sub-federal political units (e.g., governors) are nominated by the President of Russia and confirmed by the legislature of the sub-federal political unit. Moreover, pursuant to legislation that was adopted on 18 May 2005 and that will take effect on 7 December 2006, single-member-district elections for the State Duma will be eliminated and all votes will instead be cast on a party-list basis. Elections for the State Duma are scheduled for late 2007, and the next presidential election is scheduled for 2008.

Future changes in the government, major policy shifts or lack of consensus between the President, the Russian government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on us and thus the value of the Ordinary Shares and the GDRs.

We are heavily dependent on our operations in the Russian Federation, and the reversal of reform policies or government policies could harm our business as well as investments in Russia more generally.

Since President Putin took office as prime minister and then president in 1999, the political and economic situation in Russia has generally become more stable and conducive to investment. However, signs of a breakdown in the consensus among key governmental officials are beginning to appear, raising questions about the direction of future economic reforms. Any significant struggle over the direction of future reforms, or the reversal of the reform programme, could lead to a deterioration in Russia's investment climate that might constrain our ability to obtain financing in the international capital markets, hinder our access to raw materials and limit our sales in Russia, and otherwise harm our business and results of operations. In May 2005, President Putin ordered Prime Minister Fradkov to submit to the Russian parliament draft laws limiting foreign ownership in sectors that "ensure state security," which may include defence, oil and metals. To date, no such draft laws have been submitted. The nature and scope of any such limitations that may be proposed is currently uncertain.

In March 2005, President Putin announced that the government was considering plans to reform the system of tax collection and administration, and in his Annual Address to the Federal Assembly on 25 April 2005, President Putin stated that tax authorities should not "terrorise" taxpayers by repeatedly inspecting the same matters. For further discussion of recent activities by Russian tax authorities, see "—Legal and Legislative Risks—Selective, arbitrary or unlawful government action may have an adverse effect on our business and the value of the Ordinary Shares and the GDRs."

Political, social and other conflicts, and corruption, create an uncertain operating environment that hinders our long-term planning ability and could adversely affect the value of our investments in Russia.

The Russian Federation is a federation of 88 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently carrying out our business strategy. See also "—Risks Relating to Our Business and Pipe Industry—In the event that the title to any company acquired by us through privatisation or otherwise is successfully challenged, we may lose our ownership interest in that company or its assets" and "—Legal and Legislative Risks—Weaknesses in the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on our business and the value of the Ordinary Shares and the GDRs."

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflicts, such as the conflict in Chechnya and acts of terrorism in other parts of Russia. The intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, or could cause disruptions to domestic

commerce and exports from Russia, and could materially adversely affect our results of operations and prospects, and thus the value of the Ordinary Shares and the GDRs.

The implementation of Russia's economic reforms has also led from time to time to social protest. For example, in early 2005, pensioners in cities across Russia protested the replacement of certain in-kind benefits with cash allowances. Further reforms could cause, under certain circumstances, social unrest that could have an adverse effect on our ability to conduct our business.

Finally, the Russian and international media have reported high levels of corruption in Russia and elsewhere in the CIS. Press reports have also described instances in which Russian government officials have engaged in selective investigations and prosecutions to further the interests of the government and individual officials or business groups. Moreover, certain members of the Russian media appear to have published biased articles in exchange for payment. In addition, persons who are hostile to us and/or our management and/or our beneficial owners may allege, in the press or elsewhere, that we and/or our management and/or our beneficial owners have engaged in illegal activities. Demands of corrupt officials, claims that we or our management or our beneficial owners have been involved in corruption or illegal activities or biased articles and negative publicity could adversely affect our ability to conduct our business in Russia and the value of the Ordinary Shares or the GDRs.

Economic Risks

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could cause the price of the Ordinary Shares or the GDRs to suffer.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn, while the purchasing power of customers weakens. In addition, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could result in a decrease in the price of the Ordinary Shares or the GDRs.

Economic instability in Russia could adversely affect our business.

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- high levels of capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its rouble-

denominated securities, the CBR stopped its support of the Russian rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Russian rouble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of 17 August 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies.

Since the 1998 crisis, the Russian economy has experienced positive trends, such as an increase in gross domestic product, a relatively stable rouble, a reduced rate of inflation and positive capital and current account balances resulting in part from rising prices in world markets for the crude oil, gas and metals that Russia exports. In addition, the Russian government has achieved budget surpluses in recent years and has accumulated a sizeable "stabilisation fund," and the Central Bank of Russia has considerable hard currency reserves. No assurance can be given, however, that this positive situation will continue. For example, according to the Ministry for Economic Development and Trade, economic growth in Russia slowed from 7.2% in 2004 to 6.4% in 2005. A decline in the prices of crude oil, gas or metals could have an adverse effect on Russia's economy.

The Russian banking system remains underdeveloped, and there are a limited number of creditworthy Russian banks.

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretation and inconsistent application. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind internationally accepted norms. Banking supervision is also often inadequate, as a result of which many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks.

Recently, there has been a rapid increase in lending by Russian banks, which may be accompanied by a deterioration in the credit quality of the loan portfolio of those banks. In addition, a robust domestic corporate debt market is leading Russian banks to hold increasingly large amounts of Russian corporate rouble bonds in their portfolios, which is further deteriorating the risk profile of the assets of Russian banks. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, in 2004, the CBR revoked the licences of some Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Several privately-owned Russian banks collapsed or ceased or severely limited their operations, although Russian banks owned or controlled by the government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. If a banking crisis were to occur, Russian companies could be subject to severe liquidity constraints due to the limited supply of domestic savings and the potential withdrawal of foreign funding sources.

Russia's physical infrastructure is in poor condition, which could disrupt our normal business activities.

Russia's physical infrastructure largely dates back to Soviet times, and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. In May 2005, an accident at a power plant in Moscow caused lengthy blackouts in several large districts of the city. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for use and safety. The poor condition of Russia's infrastructure inhibits economic development, makes transportation of goods more difficult, increases the costs of conducting business in Russia and may cause financial and operational disruptions, thus adversely affecting our business.

To enhance the prospects of infrastructure improvement, the Russian government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisations may result in increased charges and tariffs and may not result in the anticipated capital investment that is needed to repair, maintain and improve these systems. Significant increases in charges and tariffs, or further deterioration of Russia's infrastructure may limit economic growth, disrupt the

transportation of goods and supplies and interrupt our business operations, our customers and suppliers, any or all of which could have a material adverse effect on our business and the value of the Ordinary Shares and the GDRs.

Legal and Legislative Risks

Weaknesses in the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on our business and the value of the Ordinary Shares and the GDRs.

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies:

- inconsistencies among (i) federal laws; (ii) decrees, orders and regulations issued by the president, the government and federal ministries; and (iii) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation;
- a lack of judicial independence from political, social and commercial forces;
- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

Additionally, several fundamental laws in Russia have only recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the overall Russian legal system. The enforceability and underlying constitutionality of several recently enacted laws are in doubt, and many new laws remain untested. Moreover, courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our legal rights in Russia, including rights under our contracts, or to defend against claims by others in Russia.

The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is also less than complete. The court system is understaffed and underfunded; judicial precedents generally have no binding effect on subsequent decisions; and most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims may be used in furtherance of political aims, and law enforcement agencies do not always enforce or follow court judgments. We may be subject to such claims and may not be able to have a fair trial.

These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of our entities in Russia, their assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on our business and prospects.

The lack of developed corporate and securities laws and regulations in Russia may limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and

fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the FSFM;
- the Ministry of Finance;
- the Federal Antimonopoly Service ("FAS");
- the CBR; and
- various professional self-regulatory organisations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to our company. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance.

Selective, arbitrary or unlawful government action may have an adverse effect on our business and the value of the Ordinary Shares and the GDRs.

Governmental authorities have a high degree of discretion in Russia and, in the views of certain commentators, at times may be perceived as acting selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law and often influenced by political or commercial considerations. Moreover, the Russian government also has the power in certain circumstances, by regulation or governmental act, to nullify, terminate or interfere with the performance of contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary governmental action, if directed at our operations in Russia, could have a material adverse effect on our business, results of operations and prospects and on the value of the Ordinary Shares and the GDRs.

In 2003, Russian authorities arrested Mikhail Khodorkovsky and Platon Lebedev, key shareholders and managers of OAO NK Yukos, then Russia's largest oil company by production, on tax evasion and related charges. Significant back tax claims have since been brought against Yukos, resulting in the auction of its major production subsidiary, OAO Yuganskneftegaz, and the effective dismantling of Yukos. Yuganskneftegaz was acquired, indirectly, by Rosneft, a state-owned oil company, resulting in the first effective renationalisation of a significant company privatised during the 1990s. In May 2005, Mr. Khodorkovsky was sentenced to nine years in prison by a Russian district court. Currently, Yukos is undergoing bankruptcy proceedings that may result in its liquidation.

In addition, according to publicly available sources, since 2003, the Ministry for Taxes and Collections (now succeeded by the Federal Tax Service) has begun to investigate the use of tax-optimisation schemes by certain Russian companies, and press reports have speculated that related enforcement actions have been selective. For example, the Russian Federal Tax Service determined that Yukos owed in excess of U.S.$28 billion in back taxes and related penalties. In addition, the press has reported significant claims for back taxes and related penalties against other oil companies, including TNK-BP, telecommunications companies, including OAO Vimpelcom, and other major companies. In March 2005, President Putin announced that the government was considering plans to reform the system of tax collection and administration. Although we believe that we are currently in compliance with all of our tax obligations with respect to our operations in the Russian Federation, there can be no assurance that the Federal Tax Service will not become more aggressive in respect of future tax audits, which may have an adverse effect on our results of operations and prospects.

Legal protections of minority shareholders and corporate governance standards in Russia are generally weaker than in more developed markets.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for some corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in the voting on some types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "Certain Regulatory Matters—Antimonopoly Regulation" and "Description of Share Capital and Applicable Russian Legislation—Change of Control—Anti-takeover Protection." While these protections are similar to the types of protections available to minority shareholders in U.S. corporations, in practice, corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have on occasion suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. Some companies have conducted shareholder meetings in an irregular manner, shareholder resolutions have not always been respected by management and shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

In addition, the supermajority shareholder approval requirement is satisfied by a vote of 75% of all voting shares that are present at a shareholders' meeting. As a result, a controlling shareholder owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where a controlling shareholder effectively has 75% or more of the voting power at a shareholders' meeting, that controlling shareholder is in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. Any such actions by our controlling shareholders or management could materially and adversely affect the value of the Ordinary Shares and GDRs.

While the Joint Stock Companies Law provides that shareholders owning not less than 1% of the company's stock may bring an action for damages suffered by the company, Russian courts to date have not had much experience with respect to such lawsuits. In addition, Russian law does not contemplate class action litigations. Accordingly, your ability to pursue legal redress against us and the Selling Shareholder may be limited.

Disclosure and reporting requirements and anti-fraud legislation have only recently been enacted in Russia. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies or shareholders is also relatively new and not well developed.

Shareholder rights provisions under Russian law may impose additional costs on us, which could materially adversely affect our financial condition and results of operations.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganisation;
- the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth more than 50% of the gross book value of our assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of a company's charter in a manner that limits shareholder rights.

Our obligation to purchase shares in these circumstances, which is limited to 10% of our net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects. See "Description of Share Capital and Applicable Russian Legislation—Description of Share Capital and Certain Rights and Obligations of Shareholders—Share Capital Decrease, Share Repurchases."

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our Ordinary Shares, including the Ordinary Shares underlying the GDRs.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licenced registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licenced registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in the Russian Federation, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the Depositary, under the terms of the Deposit Agreement, will not be liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See "Description of Share Capital and Applicable Russian Legislation—Description of Share Capital and Certain Rights and Obligations of Shareholders—Registration and Transfer of Shares."

Russian corporate governance and disclosure requirements differ significantly from those applicable in other jurisdictions.

Our corporate affairs and our corporate governance system are regulated by the laws governing companies incorporated in the Russian Federation and by our charter. The rights of shareholders and the responsibilities of members of our board of directors and our management board under Russian law are different from, and we may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom and other jurisdictions.

A principal objective of the securities laws of the United States and the United Kingdom and other countries is to promote the full and fair disclosure of all material corporate information to the public. We are subject to Russian law requirements, which oblige Russian companies to publish, among other things, annual financial statements under Russian accounting standards and information on material events relating to Russian companies (such as major acquisitions and increases in charter capital). However, there is less information publicly available about us than about comparable companies in the United States, the United Kingdom or certain other jurisdictions.

Weaknesses and changes in the Russian tax system could materially adversely affect our business and the value of the Ordinary Shares and the GDRs.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value-added tax or VAT, excise taxes, social and pension contributions and property tax. All of these taxes are subject to change. The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in the Ordinary Shares and the GDRs.

Laws related to these taxes, such as the Russian Federation Tax Code (the "Tax Code"), have been in force for a short period relative to tax laws in more developed market economies, and the implementation of these tax laws by the Russian government is often unclear or inconsistent. Accordingly, few precedents with respect to the interpretation of these laws have been established. Often, differing opinions regarding legal interpretation exist both between companies subject to such taxes and the Government and within Government ministries and organisations, such as the former Ministry of Taxes and Collections (the functions of which have since March 2004 been divided between the Federal Tax Service and the Ministry of Finance) and its various inspectorates, creating uncertainties and areas of conflict.

In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often must resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent

enforcement. Tax declarations, together with related documentation, such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayer activities are subject to inspection for the three-year period immediately preceding the year in which the tax audit is carried out. As previous audits do not exclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that effectively allowed the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the Tax Code if a court determines that the taxpayer has obstructed the course of tax inspection. Recent amendments to Part One of the Tax Code to become effective as of 1 January 2007 provide for the possibility of extension of the three-year term in cases where actions of the audited taxpayer created insurmountable obstructions to the tax authorities audit. Since the term "obstructed" is not properly defined in the Russian Law, the tax authorities may attempt to interpret this term broadly, effectively linking any difficulty experienced in the course of their tax audit with the obstruction by the taxpayer and using that as a basis to seek tax adjustment and penalties beyond the three-year term. Furthermore, in some instances, changes in the tax regulations have been given retroactive effect. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

In its decision of 26 July 2001, the Constitutional Court also introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for it. Similarly, this concept is not defined in Russian tax law. Nonetheless, this concept is increasingly used by the tax authorities to deny, for instance, the taxpayer the right to rely on the letter of the tax law. The tax authorities often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

There is no concept of a tax group in Russia, nor can a consolidated filing be made by Russian companies for tax purposes. Therefore, Russian companies and each of their Russian subsidiaries pay their own Russian taxes and may not surrender profits or losses to other group companies for tax purposes.

In addition, payments of dividends between two Russian companies are currently subject to a withholding income tax of 9% at the time they are paid out of profits albeit that the effective rate of this tax may be lower than 9% if the company paying the dividends has received, in the same or a preceding tax period, dividends from other Russian companies.

The conditions mentioned above create tax risks in Russia that are more significant than those typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations and management resources. In addition to creating a substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant fines and penalties and enforcement measures, and could adversely affect our business, financial condition and results of operations and the value of the Ordinary Shares or GDRs, or both. In addition, there can be no assurance that the current tax rates will not be increased or that new taxes will not be introduced. In some instances, the Russian tax authorities have applied new provisions retroactively in violation of Russian law. For a further discussion of the risks and uncertainties associated with the enforcement and application of the tax regime in Russia, see "—Legal and Legislative Risks—Selective, arbitrary or unlawful government action may have an adverse effect on our business and the value of the Ordinary Shares and the GDRs."

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may affect our results of operations.

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and any transactions with significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20% within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities or derivatives. While the Tax Code has no direct provisions on the application of transfer pricing rules to interest on loans, there has been at least one case in the recent Russian court practice in which the tax authorities succeeded in such application. The Russian transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by Russian tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment.

Furthermore, we understand that a draft law is under discussion in the Russian government that will tighten Russian transfer pricing rules. At this point we cannot predict when the aforementioned amendments will be enacted, if at all, what the provisions or effect on us may be.

While members of the TMK Group engage in numerous transactions between related parties, we seek to conduct such transactions based on prices at which we believe similar sales could be made to unrelated parties, which we believe is the market price. However, it is not always possible to determine a relevant market price, and the Russian tax authorities may take a view as to what constitutes an appropriate market price that differs from our view. As a result, Russian tax authorities may challenge our prices in such transactions and propose adjustments. If any such price adjustments are upheld by the Russian courts and implemented, we could face losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have an adverse effect on our financial condition and results of operations. See also "—Risks Relating to the Russian Federation—Legal and Legislative Risks—Weaknesses and changes in the Russian tax system could materially adversely affect our business and the value of the Ordinary Shares and the GDRs."

USE OF PROCEEDS

Net proceeds to the Selling Shareholder from the Offering will be approximately U.S.$942.8 million, assuming no exercise of the Over-Allotment Option, or approximately U.S.$1,037.1 million, assuming that the Over-Allotment Option is exercised in full. Total underwriting commissions, taxes, fees, and expenses payable by the Selling Shareholder from the proceeds of the Offering are to be approximately U.S.$29.2 million, assuming no exercise of the Over-Allotment Option, or approximately U.S.$32.1 million, assuming that the Over-Allotment Option is exercised in full.

The Selling Shareholder will use U.S.$150 million of the net proceeds of the Offering to repay in part financing it has received from affiliates of Credit Suisse Securities (Europe) Limited and Renaissance Securities (Cyprus) Limited in order to finance the acquisition of shares in OAO TMK from Dalecone Limited. See "Principal and Selling Shareholder." The Selling Shareholder has agreed to use net proceeds of the Offering in excess of this amount to repay to us in full the U.S.$780 million TMK Steel Loan, together with accrued interest and other amounts due thereon. We intend to use the amounts we receive from the Selling Shareholder to fund our strategic capital investment programme, to repay the Dresdner Facility (as defined under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Additional debt financing in connection with the TMK Steel Loan") and for general corporate purposes. We will not otherwise receive any proceeds from the Offering.

DIVIDEND POLICY

We expect to declare and pay an annual dividend, subject to any legal restrictions pursuant to Russian law. Pursuant to the Regulations on Dividend Policy approved by our board of directors on 30 June 2006, we target to pay dividends of between 20% and 25% of our annual IFRS net profits depending on our financial performance, capital expenditures and availability of funds from external sources, as well as other relevant factors. The Selling Shareholder intends to rely on dividend payments to OAO TMK to fund its financial obligations, including those described under "Principal and Selling Shareholder."

Dividend payments, if any, must be recommended by our board of directors and approved by our shareholders. In particular, dividends may be declared based on OAO TMK's three months, six months, nine months and/or annual results calculated according to Russian Accounting Standards ("RAS") and as long as the following conditions have been met:

- OAO TMK's share capital has been paid in full;
- the value of OAO TMK's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of OAO TMK's share capital and OAO TMK's reserve fund;
- OAO TMK has repurchased all shares from shareholders that have exercised their right to demand repurchase; and
- OAO TMK is not insolvent, and would not become insolvent, as a result of the proposed dividend payment.

RAS differ significantly from, and are not comparable to, IFRS.

Dividends on ordinary shares may be declared and paid only out of the Company's net profits calculated under RAS. Dividends, if declared, are payable to shareholders within 60 days of the declaration unless a shorter time period is set forth by the shareholders' decision approving payment of the dividends. For a further description, see "Description of Share Capital and Applicable Russian Legislation—Description of Share Capital and Certain Rights and Obligations of Shareholders—Dividends." In addition, one of our debt facilities with Dresdner Bank currently restricts OAO TMK from paying dividends in respect of any financial year which would exceed 50% of our consolidated net income (as defined in the debt facility) with respect to that financial year. As described under "Use of Proceeds," we plan to repay this facility upon repayment to us of the TMK Steel Loan. We also have debt facilities with Moscow Narodny Bank and Bank Natexis that restrict OAO TMK from paying dividends in respect of any financial year which would exceed 80% of our consolidated net income with respect to that financial year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtendness."

We did not declare or pay any dividends in respect of the years ended 31 December 2003 and 2004. In 2005, we paid interim dividends of approximately RUB 73.33 million (U.S.$2.59 million), or RUB 0.084 per share, in respect of the first quarter of 2005. In addition, in 2006, we paid annual dividends of approximately RUB 473.36 million (U.S.$17.10 million), or RUB 0.542 per share, in respect of the year ended 31 December 2005.

As a holding company, the level of OAO TMK's stand-alone income and its ability to pay dividends depends primarily on the receipt of dividends and distributions from its subsidiaries. The payment of dividends by OAO TMK's subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable profits and restrictions arising under the laws of their jurisdictions of incorporation, including the Russian Federation. Our board of directors, however, recently approved plans to merge our Volzhsky subsidiary into OAO TMK by way of accession under Russian law, and the shareholders of OAO TMK also approved the accession on 30 October 2006. See "Business—Overview—Manufacturing Operations."

To the extent that dividends are declared and paid by us in the future, owners of the GDRs on the relevant record date will be entitled to receive dividends payable in respect of the Ordinary Shares underlying the GDRs, subject to the terms and conditions of the Deposit Agreement. We expect to pay cash dividends in respect of the GDRs to the Depositary in roubles, which will be converted into U.S. dollars by the Depositary and distributed to holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the rouble and the U.S. dollar. In addition, dividends that we distribute to the Depositary will be subject to applicable Russian withholding taxes. See "—Risks Relating to the Securities and the Trading Market—Holders of GDRs may be unable to repatriate distributions made on the Ordinary Shares" and "Taxation—Russian Tax Considerations."

CAPITALISATION

The following table sets forth our consolidated (a) historical (i) cash and cash equivalents, (ii) short-term borrowings and finance lease liabilities, (iii) and long-term borrowings and finance lease liabilities, (iv) equity and (v) total capitalisation at 30 June 2006 and (b) as adjusted to give effect to the indebtedness we incurred and repaid from 30 June 2006 through 27 October 2006 and the granting of the TMK Steel Loan, and (c) as further adjusted to give effect to (i) the Offering and the repayment of the entire principal amount of the U.S.$780 million TMK Steel Loan by the Selling Shareholder from the proceeds of the Offering and (ii) the application by us of a portion of the proceeds from the repayment of the U.S.$780 million TMK Steel Loan to repay the Dresdner Facility in the aggregate principal amount of U.S.$160.0 million (as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan"). For further information regarding our financial condition, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Annual Financial Statements and Interim Financial Statements included elsewhere in this Prospectus.

	As of 30 June 2006		
	Historical[(1)]	**As adjusted for indebtedness we have incurred and repaid from 30 June 2006 through 27 October, and granting of the TMK Steel Loan[(1)(2)]**	**As further adjusted for the Offering, repayment of the TMK Steel Loan and repayment of certain indebtedness[(1)(3)]**
	(thousands of U.S. dollars)		
Cash and cash equivalents	46,448	33,807	653,807
Short-term borrowings (including current portion of long-term borrowings)	439,963	722,856	562,856
Finance lease liabilities, current portion	107	107	107
Total short-term obligations	440,070	722,963	562,963
Long-term borrowings (excluding current portion)	247,683	778,597	778,597
Finance lease liabilities, net of current portion	158	158	158
Total long-term obligations	**247,841**	**778,755**	**778,755**
Equity:			
Parent shareholders' equity:			
Issued capital: 873,001,000 shares authorised, issued and outstanding with a par value of 10 roubles at 30 June 2006	305,407	305,407	305,407
Additional paid-in capital	137,198	137,198	137,198
Accumulated profits	808,606	808,606	808,606
Reserve capital	15,387	15,387	15,387
Foreign currency translation reserve	171,518	171,518	171,518
Total parent shareholders' equity	**1,438,116**	**1,438,116**	**1,438,116**
Minority interests	79,094	79,094	79,094
Total equity	**1,517,210**	**1,517,210**	**1,517,210**
Total capitalisation[(4)]	**1,765,051**	**2,295,965**	**2,295,965**

(1) Unaudited.

(2) Adjusted to give effect since 30 June 2006 to the incurrence of additional long-term borrowings and draw-downs on existing long-term loan agreements, additional short-term borrowings, and repayments of short-term loans and current portion of long-term borrowings through 27 October 2006, including the incurrence of indebtedness in the aggregate principle amount of U.S.$754.0 million in connection with the funding of the TMK Steel Loan, but not for any other changes subsequent to 30 June 2006. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan."

(3) Adjusted as set forth in note 2, above, as well as to give effect to (i) the Offering and the repayment of the entire principal amount of the U.S.$780 million TMK Steel Loan by the Selling Shareholder from the proceeds of the Offering and (ii) the application by us of a portion of the proceeds from the repayment to us of the entire principal amount of the U.S.$780 million TMK Steel Loan to repay the Dresdner Facility in the aggregate principal amount of U.S.$160 million (as described under

"Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan") but not for any other changes subsequent to 30 June 2006. Expected proceeds to us from the repayment of the entire principal amount of U.S.$780 million TMK Steel Loan less amounts used to repay the Dresdner Facility of U.S.$160 million, have been added to cash pending their use as described under "Use of Proceeds."

(4) Total of long-term obligations (excluding current portion) and total equity.

Except as described above, there has been no material change in our total capitalisation since 30 June 2006.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows our historical consolidated financial information and other operating information as of and for the years ended 31 December 2005, 2004 and 2003 and as of and for the six months ended 30 June 2006 and 2005. The financial information set forth below as of and for the years ended 31 December 2005, 2004 and 2003 has been extracted without material adjustment from, and should be read in conjunction with, the Annual Financial Statements included elsewhere in this Prospectus. The financial information set forth below as of and for the six months ended 30 June 2006 and 2005 has been extracted without material adjustment from, and should be read in conjunction with, the Interim Financial Statements included elsewhere in this Prospectus. Results of operations for the six-month period ended 30 June 2006 are not necessarily indicative of results for the full year ending 31 December 2006 or for any other interim period or for any future fiscal year. The selected consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our results of operations for the periods presented are affected by acquisitions. Results of operations of acquired businesses are generally included in our consolidated financial statements for the periods after their respective dates of acquisition. However, certain transactions, including a transfer of a controlling interest in Sinara Trading (currently named TMK Global), which occurred in May 2005, and Sinara Handel, which occurred in March 2006, represent reorganisations under common control, and are therefore accounted for using the pooling of interests method. As a result, these transfers are consolidated with effect from 1 January 2003 as if they had occurred at such date. Accordingly, the presentation of our historical consolidated financial condition and results of operations as of and for the years ended 31 December 2005, 2004 and 2003 differs, as a result of the transfer of a controlling interest in Sinara Handel, from this information as previously published, in order to reflect the consolidation of this entity retrospectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Accounting for Business Combinations."

See also "Presentation of Financial and Other Information—Presentation of Financial Information" for important information about the financial information presented herein.

	Six months ended 30 June		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
	(millions of U.S. dollars, except per share data)				
CONSOLIDATED INCOME STATEMENT DATA					
Net sales	1,576.3	1,437.9	2,938.2	1,984.0	1,368.5
Cost of sales	(1,076.8)	(1,086.1)	(2,191.8)	(1,597.5)	(1,216.3)
Gross profit	**499.5**	**351.8**	**746.4**	**386.5**	**152.2**
Selling expenses	(85.8)	(69.3)	(147.8)	(143.4)	(74.0)
Advertising and promotion expenses	(2.3)	(1.3)	(3.1)	(1.8)	(1.4)
General and administrative expenses	(66.8)	(59.4)	(123.2)	(85.7)	(59.6)
Research and development expenses	(3.2)	(3.1)	(5.5)	(3.5)	(2.0)
Other operating expenses	(12.0)	(10.8)	(26.1)	(26.0)	(11.0)
Other operating income	0.1	1.3	0.3	0.7	0.7
Foreign exchange gain/(loss), net	4.6	(10.3)	(14.6)	4.3	1.0
Loss on net monetary position	—	—	—	—	(2.6)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	—	—	—	94.8	—
Finance costs	(30.6)	(41.8)	(78.2)	(100.9)	(37.6)
Finance income	1.2	1.6	1.8	3.3	8.4
Profit (loss) before tax	**304.7**	**158.7**	**350.0**	**128.3**	**(25.9)**
Income tax expense	(75.6)	(40.3)	(95.8)	(13.1)	(1.2)
Net profit (loss)	**229.1**	**118.4**	**254.2**	**115.2**	**(27.1)**

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars, except per share data)				
Attributable to:					
Equity holders of the parent entity	**218.9**	**114.3**	**244.3**	**112.7**	**(24.2)**
Minority interests	**10.2**	**4.1**	**9.9**	**2.5**	**(2.9)**
Earnings (losses) per share attributable to equity holders of the parent entity (in U.S. dollars)	**0.25**	**0.13**	**0.28**	**0.95**	**(24,182.00)**[1]
Seamless pipes segment					
Net sales	1,064.2	908.3	1,788.0	1,314.4	901.6
Cost of sales	619.5	618.6	1,193.2	994.3	781.9
Gross profit	444.7	289.7	594.8	320.1	119.7
Welded pipes segment					
Net sales	393.7	409.0	912.9	487.9	371.3
Cost of sales	344.3	353.0	784.1	426.6	350.9
Gross profit	49.4	56.0	128.8	61.3	20.4
Other operations					
Net sales	118.5	120.6	237.3	181.7	95.6
Cost of sales	113.1	114.5	214.5	176.6	83.5
Gross profit	5.4	6.1	22.8	5.1	12.1

	As of 30 June	As of 31 December		
	2006	2005	2004	2003
	(millions of U.S. dollars)			
CONSOLIDATED BALANCE SHEET DATA				
Cash and cash equivalents	46.4	47.8	13.5	14.2
Total assets	2,792.7	2,453.0	2,494.3	1,670.9
Total loans and borrowings (long-term and short-term)	687.6	621.9	763.2	307.6
Total equity	1,517.2	1,252.7	1,085.4	922.1

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars)				
CONSOLIDATED CASH FLOW DATA					
Net cash from (used in) operating activities	179.2	108.7	414.3	113.7	(65.9)
Net cash used in investing activities	(163.3)	(39.4)	(138.1)	(62.6)	(48.2)
Net cash (used in) from financing activities	(19.9)	(71.7)	(241.9)	(52.5)	120.0

	As of or for the six months ended 30 June		As of or for the year ended 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars, except percentages)				
Non-IFRS Measures					
EBITDA[2]	391.2	248.4	532.1	321.3	72.2
Adjusted EBITDA[3]	393.3	262.0	561.3	233.6	74.2
Adjusted EBITDA margin[4]	24.9%	18.2%	19.1%	11.8%	5.4%
Gross profit margin[4]	31.7%	24.5%	25.4%	19.5%	11.1%
Net profit margin[4]	14.5%	8.2%	8.7%	5.8%	(1.9)%
Net Debt[5]	641.6	719.7	575.4	754.7	299.2

(1) The magnitude of the loss per share recorded in 2003 as compared to the earnings per share in other periods reflects the fact that in 2004, OAO TMK issued an additional 873,000,000 ordinary shares, bringing the weighted average number of ordinary shares outstanding from 1,000 in 2003, to 119,263,295 in 2004 and 873,001,000 in 2005. See Note 13 to the Annual Financial Statements.

(2) EBITDA represents profit before interest (finance cost and finance income), taxes, depreciation and amortisation.

(3) Adjusted EBITDA represents EBITDA as adjusted to exclude the following items: loss on disposals of property, plant and equipment, charitable donations, loss (gains) on sales of current assets included in other operating expenses, foreign exchange loss/(gain), excess of acquirer's interest in fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, and other non-recurring operating income and expenses. We present EBITDA and Adjusted EBITDA because we consider EBITDA and Adjusted EBITDA to be an important supplemental measure of our operating performance and believe EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

EBITDA and Adjusted EBITDA are measures of our operating performance that are not required by, or presented in accordance with, IFRS. EBITDA and Adjusted EBITDA are not measurements of our operating performance under IFRS and should not be considered as alternatives to gross profit, net profit or any other performance measures derived in accordance with IFRS or as alternatives to cash flow from operating activities or as measures of our liquidity. In particular, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and potential investors should not consider them in isolation, or as substitutes for analysis of our operating results as reported under IFRS. Some of these limitations include:

- EBITDA and Adjusted EBITDA do not reflect the impact of financing or financing costs on our operating performance, which can be significant and could further increase if we were to incur more debt.
- EBITDA and Adjusted EBITDA do not reflect the impact of income taxes on our operating performance.
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation and amortisation on our operating performance. The assets of our businesses which are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA and Adjusted EBITDA, EBITDA and Adjusted EBITDA do not reflect our future cash requirements for these replacements. EBITDA and Adjusted EBITDA also do not reflect the impact of a loss on disposal of property, plant and equipment.
- Other companies in our industry may calculate EBITDA and Adjusted EBITDA differently or may use them for purposes different from ours, limiting their usefulness as comparative measure.

We compensate for these limitations by relying primarily on our IFRS operating results and using EBITDA and Adjusted EBITDA only supplementally. See our Annual Financial Statements and Interim Financial Statements included elsewhere in this Prospectus.

Reconciliation of EBITDA and Adjusted EBITDA to profit before tax is as follows:

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars)				
Profit before tax	**304.7**	**158.7**	**350.0**	**128.3**	**(25.9)**
Depreciation and amortisation	57.1	49.5	105.7	95.4	68.9
Finance costs	30.6	41.8	78.2	100.9	37.6
Finance income	(1.2)	(1.6)	(1.8)	(3.3)	(8.4)
EBITDA	**391.2**	**248.4**	**532.1**	**321.3**	**72.2**
Loss on disposal of property, plant and equipment	0.4	2.2	4.5	1.3	2.5
Charitable donations	5.6	2.3	7.5	3.5	1.1
Loss/(gain) on sale of current assets included in other operating expenses[(a)]	(0.1)	(0.2)	(0.2)	(0.6)	0.1
Foreign exchange loss/(gain)	(4.6)	10.3	14.6	(4.3)	(1.0)
Excess of acquirer's interest in fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost[(b)]	—	—	—	(94.8)	—
Other non-recurring operating income and expenses[(c)]	0.8	(1.0)	2.8	7.2	(0.7)
Adjusted EBITDA	**393.3**	**262.0**	**561.3**	**233.6**	**74.2**

(a) Loss/(gain) on sale of current assets included in other operating expenses represents net proceeds from occasional sales of spare parts and supplies not utilised in our own productions.

(b) Excess of acquirer's interest in fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost represents negative goodwill that we recorded as income in connection with our acquisition of TMK-Resita in July 2004.

(c) Other non-recurring operating income and expenses principally represents an accrual made in 2004 in connection with a potential tax claim that was reversed after a court dismissed the claim in 2005 as well as general claims and penalties in respect of taxes and commercial contracts.

(4) Margins are calculated as a percentage of net sales.

(5) Net Debt represents long-term loans and borrowings plus short-term loans and borrowings plus finance lease liabilities less cash and cash equivalents. Net Debt is not a balance sheet measure under IFRS, and it should not be considered as an alternative to other measures of financial position. Our calculation of Net Debt may be different from the calculation used by other companies and therefore comparability may be limited.

Net Debt is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Although Net Debt is a non-IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. We believe Net Debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from our available cash. Net Debt allows us to show investors the trend in our net financial condition over the periods presented. However, the use of Net Debt effectively assumes that gross debt can be reduced by our cash. In fact, it is unlikely that we would use all of our cash to reduce our gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and its ratio to equity, or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business and financial targets. Our management monitors the net debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess our liquidity and financial structure relative to such companies. Our management also monitors the trends in our Net Debt and leverage in order to optimise the use of internally generated funds versus funds from third parties.

Net Debt has been calculated as follows:

	As of 30 June		As of 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars)				
Net Debt calculation					
Add:					
Short-term loans and borrowings and current portion of long-term loans and borrowings	440.0	356.7	456.9	646.1	230.7
Finance lease liabilities, current portion	0.1	2.3	1.3	3.8	5.1
Long-term loans and borrowings, net of current portion	247.7	371.6	164.9	117.1	76.9
Finance lease liabilities, net of current portion	0.2	0.2	0.1	1.2	0.7
Less:					
Cash and cash equivalents	46.4	11.1	47.8	13.5	14.2
Net Debt	**641.6**	**719.7**	**575.4**	**754.7**	**299.2**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations are based on, and should be read in conjunction with, our Annual Financial Statements and our Interim Financial Statements included elsewhere in this Prospectus. This section presents our financial condition and results of operations on a consolidated basis.

Certain information contained in this section and presented elsewhere in this Prospectus, including information with respect to our plans and strategy, includes forward-looking statements that involve risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements." In evaluating this discussion and analysis, you should specifically consider the various risk factors described under "Risk Factors" that could cause our results to differ materially from those expressed in such forward-looking statements.

Overview

We are Russia's largest manufacturer and supplier of steel pipes and are among the world's largest steel pipe producers, with an approximately 3% worldwide market share for steel pipes by sales volume in 2005, according to our estimates. We also estimate that we had an approximately 34% market share for steel pipes in Russia by sales volume in 2005. In 2005, we sold 2.94 million tons of steel pipes, including 1.89 million tons of seamless pipes, of which 817,000 tons comprised OCTG. In the first six months of 2006 we sold 1.46 million tons of steel pipes, including 971,000 tons of seamless pipes, of which 483,000 tons comprised OCTG. Pipes for the oil and gas industry accounted for approximately 59% of our total sales volume in 2005 and approximately 61% of our total sales volume in the first six months of 2006. We are also Russia's largest exporter of pipes, with sales outside of Russia accounting for approximately 27% of our total sales volume in 2005 and 28% of our total sales volume in the first six months of 2006.

We produce both seamless and welded pipes but are principally focused on developing our seamless pipe business, which we believe has better growth opportunities. We divide our pipes business into two main business segments and five principal product lines. Our two main business segments are seamless pipes, consisting of seamless OCTG, which are used in oil and gas production applications; seamless line pipes, which are used for oil and gas transportation; and seamless industrial pipes, which are used in various industrial applications by the machine-building, chemicals and petrochemicals, power generation, automotive and other industries; and welded pipes, consisting of large-diameter welded pipes, which are used for the transportation of oil and gas; and industrial welded pipes, which are used in a wide variety of infrastructure and industrial applications. In 2005, our annual production capacity was approximately 3.8 million tons of pipes, including 2.0 million tons of seamless pipes. We also operate our own steel-making facilities. In 2005, we produced approximately 2.2 million tons of steel, which satisfied approximately 80% of our steel billet requirements for our seamless pipe production segment. We also purchase steel plate and coils for use in our welded pipe segment.

We launched our strategic capital investment programme in 2004. This programme is primarily focused on increasing our seamless pipe production and increasing the efficiency of our production processes. We expect to make total capital expenditures of approximately U.S.$1.2 billion from the start of 2006 through the end of 2010 under the programme. We made capital expenditures of U.S.$161.6 million in connection with our seamless pipe business in 2004 and 2005 and U.S.$105.6 million in the first six months of 2006. We plan that upon the completion of our strategic investment programme in 2010, we will have increased our seamless pipe production capacity by 1.1 million tons per annum to 3.1 million tons per annum and our steel-making capacity by 1.0 million tons per annum to 3.4 million tons per annum. In September 2006, we also entered into MOUs with Welspun Gujarat, an Indian welded pipe manufacturer, and Corinth Pipeworks, a Greek welded pipe manufacturer, for the establishment of joint venture subsidiaries for the production of welded pipes principally for use in oil and gas applications. We expect that our joint venture with Welspun Gujarat will have the capacity to produce more than 550,000 tons of large-diameter longitudinal welded pipes per annum and that our joint venture with Corinth Pipeworks will have the capacity to produce more than 300,000 tons of medium-diameter welded pipes per annum.

We deliver our products to customers in more than 60 countries. Our principal customers include major Russian oil and gas companies, such as Gazprom, LUKOIL, Surgutneftegaz, TNK-BP and Rosneft, major multinational oil and gas companies, such as the Shell Group, and national oil companies, such as ONGC, Saudi Aramco and KOC. In addition, we have participated as a supplier of pipes in many major national and international projects, such as the Caspian Pipeline Consortium oil pipeline, the Baltic

Pipeline System oil pipeline, the Yamal-Europe gas pipeline, and are currently participating, among other things, as a supplier in the expansion of the Central Asia-Centre gas pipeline project.

We operate primarily through our six production subsidiaries, four of which—Volzhsky, Seversky, Tagmet and Sinarsky—are in Russia, and two of which—TMK-Artrom and TMK-Resita—are in Romania. In 2005, we had total consolidated net sales of U.S.$2,938.2 million and profit before tax of U.S.$350.0 million, as compared to consolidated net sales of U.S.$1,984.0 million and profit before tax of U.S.$128.3 million in 2004. For the six months ended 30 June 2006, we had total consolidated net sales of U.S.$1,576.3 million and profit before tax of U.S.$304.7 million, as compared to consolidated net sales of U.S.$1,437.9 million and profit before tax of U.S.$158.7 million in the six months ended 30 June 2005. As of 30 June 2006 we had total assets of U.S.$2,792.7 million.

Formation and Development of TMK

We achieved our present holding company corporate structure in February 2004 through a series of transactions with entities under common control with TMK, when the controlling ownership interests in three pipe plants, Sinarsky, Seversky and Volzhsky, as well as in TMK Trade House, a trading entity, were transferred to us by entities ultimately controlled by Dr. Pumpyanskiy, our controlling beneficial shareholder. As the TMK Group was formed through a reorganisation of entities under common control, its consolidated financial statements have been prepared using the pooling of interests method and, as such, our financial statements have been presented as if the transfer to us of the interests in Sinarsky, Seversky, Volzhsky and TMK Trade House had occurred as of 1 January 2003, the date such interests were initially acquired by entities under the control of Dr. Pumpyanskiy. We have recorded the assets and liabilities of companies transferred under common control in our financial statements at the historical cost of the transferring entity. Any difference between the total book value of the net assets as recorded by the transferring entity and the consideration paid by the purchasing entity is accounted for in our financial statements as an adjustment to shareholders' equity.

Additional entities have subsequently been added to the group through acquisitions from our controlling shareholder. In May 2005, we acquired a 100% ownership interest in Sinara Trading (now named TMK Global), our distributor of pipe products to certain countries outside Russia, for U.S.$7.8 million from Sinara Group S.A., which was controlled by Dr. Pumpyanskiy. In March 2006, we acquired a 100% interest in Sinara Handel for U.S.$40.0 million from Sinara Group S.A. Sinara Handel holds an 80.56% interest in a Romanian pipe plant, TMK-Artrom, and a 99.45% interest in a Romanian steel plant, TMK-Resita. Because these transactions involved entities under common control and were also viewed as reorganisations of entities under common control, these business combinations have also been accounted for using the pooling of interests method and our financial statements have been presented as if the transfer to us of the interests in Sinara Trading and Sinara Handel had occurred with effect from 1 January 2003. See "Presentation of Financial and Other Information—Presentation of Financial Information."

Acquisitions

As discussed above, we received controlling interests in each of Volzhsky, Sinarsky, Seversky, TMK Trade House, TMK Global and Sinara Handel from entities ultimately controlled by Dr. Pumpyanskiy and these acquisitions have been accounted for under the pooling of interests method. Our acquisition of Tagmet, the acquisition of TMK-Resita by Sinara Handel and the acquisition of a controlling interest in Eurosinara S.r.l., on the other hand, were accounted for under the purchase method of accounting.

On 26 February 2004, our controlling shareholder, Dr. Pumpyanskiy, exchanged a 33% interest in TMK Steel, a holding company which at the time held a 100% interest in OAO TMK, for a 94.59% interest in Tagmet, which was transferred to OAO TMK. For accounting purposes, this transaction was treated as an acquisition by TMK of an interest in Tagmet for a 33% interest in OAO TMK. The aggregate cost of the business combination, based on the fair value of consideration exchanged in the transaction, was U.S.$264.8 million. We recorded goodwill of U.S.$35.1 million in connection with the acquisition. As a result, Tagmet has been included in our consolidated financial statements with effect from 26 February 2004. Tagmet accounted for approximately 22.7% of our consolidated shipments in 2005.

Sinara Handel acquired its interest in TMK-Resita through a privatisation tender organised by the Romanian government on 15 July 2004 for total consideration of U.S.$653 thousand. As a result we began consolidating the results of operations of TMK-Resita with effect from 15 July 2004. We recorded negative goodwill as a gain of U.S.$94.8 million in connection with the acquisition, representing the excess of our

interest in the net fair value of TMK-Resita's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition. TMK-Resita recorded a net loss of U.S.$13.1 million for the period from 15 July 2004 to 31 December 2004.

The acquisitions of Tagmet and TMK-Resita had a significant impact on our results of operations in 2004, the year both companies were acquired, as compared to the previous year and, to a lesser extent, in 2005, during which such companies were consolidated for the entire year, as compared to 2004, when they were only consolidated for a part of the year. While we did not consolidate the results of operations of Tagmet in our results in 2003, we purchased substantially all of Tagmet's production of core products in 2003 and resold them to third parties. Our net sales in 2003 therefore include all of the pipe products we purchased from Tagmet and resold to third parties. Our costs of purchasing these products in 2003 are reflected as cost of merchandise in our statements of operations.

In December 2000, one of our consolidated subsidiaries acquired a 50% interest in Eurosinara S.r.l, an Italian company which acts as our distributor of pipe products in southern Europe, and we accounted for this interest using the equity method. On 16 May 2006, we acquired the remaining 50% interest in Eurosinara for EUR 1.0 million. As of the date of acquisition, Eurosinara had net liabilities of U.S.$9.8 million, and we recorded a reduction in accumulated profits in the amount of U.S.$4.9 million on our balance sheet for the six months ended 30 June 2006 with respect to the 50% interest in Eurosinara we held prior to obtaining control over Eurosinara. We recorded goodwill of U.S.$6.2 million in connection with the acquisition of control of Eurosinara. Eurosinara recorded a net loss of U.S.$62 thousand for the period from 16 May 2006 to 30 June 2006.

From time to time we acquire shares of our subsidiaries on the open market or otherwise:

- in the year ended 31 December 2005, we purchased 0.73% of Tagmet's outstanding shares, 0.48% of Seversky's outstanding shares and 2.43% of Sinarsky's outstanding shares for an aggregate of U.S.$8.5 million; and
- during the six-month period ended 30 June 2006, we purchased 0.42% of Tagmet's outstanding shares, 0.21% of Seversky's outstanding shares and 1.17% of Sinarsky's outstanding shares for an aggregate of U.S.$12.8 million.

Recent Developments

In August 2006, we entered into an agreement to purchase a 75% interest in Orsk Engineering Plant for U.S.$45.5 million from Sinara Group S.A., an entity under common control with us. Under the terms of the agreement, we are obligated to pay for this interest by 1 December 2006 and the seller is obligated to transfer the shares to us by 31 January 2007. Orsk Engineering Plant specializes in the production of tool joints, which are critical components for drill pipes, as well as pump barrels and other equipment for the oil and gas and other industries. Because this acquisition involves entities under common control, it will be accounted for using the pooling of interests method. As a result, when we publish our consolidated financial information as of 30 June 2007 and for the six months then ended, our financial statements for the periods preceding the transfer of interests in Orsk Engineering Plant to us, including our Annual Financial Statements, will be restated as if the transfer to us of Orsk Engineering Plant had occurred as of the date when entities under common control with us obtained control over Orsk Engineering Plant.

We have recently entered into a number of agreements related to the establishment of joint ventures with international partners for the production of, among other things, premium threaded seamless pipes and longitudinal welded pipes. See "Business—Planned Joint Ventures and Acquisitions."

Certain Factors Affecting Our Results of Operations

Our results of operations are affected by a number of factors, including the demand for seamless and welded pipes from the oil and gas industry, Russian macroeconomic trends, production costs (in particular, raw materials costs) and currency exchange fluctuations. See "—Results of Operations" for a description of the extent to which these factors have affected our results of operations.

The Global and Russian Oil and Gas Industry

Sales to oil and gas companies worldwide represent a high percentage of our total sales and demand for seamless and welded steel pipes from the global oil and gas industry is a significant factor affecting the general level of volumes and prices for our products. Downward pressures on oil and gas prices in the

international markets usually result in lower oil and gas drilling activity and consequently lower demand for our steel pipe products from our oil and gas customers and, in some circumstances, upward pressures can result in higher demand from these customers.

The international price level of oil depends on a number of factors. On the supply side, major oil- and gas-producing nations collaborate to control the supply (and thus the price) of oil in international markets, such as through OPEC. Several of our major customers are state-owned companies in member countries of OPEC, or that may from time to time cooperate with OPEC in controlling the supply and price of oil. The political and socioeconomic conditions of oil-producing countries and the persistence of armed conflicts affecting the Middle East region, where a substantial proportion of the world's known oil reserves are located, also affect the international price of oil. On the demand side, economic conditions and the level of oil inventories in the leading industrial nations of the world, and more recently China and India, which constitute the largest oil consuming nations, also play a significant role in oil prices.

Since 2003, international oil prices have increased significantly, and in 2006 have reached levels in excess of U.S.$70 per barrel. Demand for oil and gas in recent years has increased in part due to the continuing economic growth in China and elsewhere in Asia and additionally to strong economic conditions in North America and Europe. At the same time, based on industry sources, the rate of production decline from established reserves has been accelerating. These factors contributed to a significant increase in drilling activity in 2004, 2005 and the first six months of 2006 and higher demand for seamless pipes from the global oil and gas industry. Moreover, new drilling activity is increasingly occurring at greater depths and in more corrosive environments, leading to an increase in demand for more sophisticated, high value-added seamless pipes.

Since 2003, international gas prices, which are generally linked to oil prices, have also risen significantly, increasing demand for our pipe products for the gas industry. In addition, the gas transmission infrastructure in Russia and the CIS countries is generally in poor condition and in need of significant modernisation and repair. As a result, the primarily state-controlled gas transmission companies in Russia and the CIS countries have been investing heavily in the repair and modernisation of their gas transmission lines, in addition to constructing new transmission pipelines. We believe that this modernisation and repair has resulted, and will continue to result, in strong demand for our large diameter welded pipes and seamless line pipes from the gas industry in Russia and the CIS.

Our management believes that, if global demand for oil and gas continues to increase at current rates, the factors which have resulted in the current level of oil prices and the increased drilling activity and demand for pipes from the oil and gas industry shown in 2005 will persist in the near term due to the long lead times and significant capital expenditures required for the development of major new oil and gas reserves and the modernisation and repair of existing pipelines and construction of planned pipelines.

Russian Macroeconomic Trends

Most of our operations are based in Russia, and we generate a significant, though declining, proportion of our sales in Russia, with 66.7%, 68.4%, 69.5%, 71.9% and 79.4%, respectively, of total net sales being made in Russia in the first six months of 2006 and 2005 and in 2005, 2004 and 2003, respectively. As a result, Russian macroeconomic trends, including the overall growth in the economy and in the markets in which we operate, significantly influence our results of operations, particularly sales of industrial seamless and welded pipes. The table below summarises certain key macroeconomic indicators relating to the Russian economy for the periods indicated.

	Six months ended 30 June		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
GDP growth	6.5%	5.3%	6.4%	7.1%	7.3%
Consumer price index	6.2%	8.0%	10.9%	11.7%	12.0%
Unemployment rate	7.5%	7.3%	7.6%	8.2%	8.6%

Source: Central Bank of Russia

In recent years, Russia has been able to overcome the consequences of the 1998 financial crisis. GDP growth rates in Russia since 2002 have remained relatively high compared to those in North America and Europe. In particular, since 2002 the Russian economy has benefited from exports of oil and oil products, natural gas, other natural resources and commodity products and high oil, gas and commodity prices on

international markets. Domestic economic growth has also contributed to the growth in Russia's federal budget surplus, which has been a significant factor behind federal government spending and increasing support for the development of Russia's infrastructure. These factors have resulted in increased consumption of pipes in Russia in 2005 by 7.6% as compared to 2004, and by 23.9% for the first six months of 2006 as compared to the first six months of 2005. However, these factors have also resulted, in general, in upward pressure on our costs of raw materials as well as on other costs of production, such as labour and energy.

Raw Materials Costs

We require substantial amounts of raw materials in the pipe and steel production process. We purchase large volumes of scrap metal, pig iron and ferroalloys for use in our in-house steel-making operations, steel billets, for use in our seamless pipe operations, and steel plates and coils, for use in our welded pipe operations. See "Business—Raw Materials." Prices for most of the raw materials that we use increased during 2004 and 2005, reflecting increased Russian and global demand for these products. The prices of most of our raw materials remained generally constant or decreased in the first six months of 2006 as compared to the first six months of 2005, which contributed to the strong growth in our gross profit in the six months ended 30 June 2006 as compared to the six months ended 30 June 2005. See "Risk Factors—Risks Relating to Our Business and the Pipe Industry—Increases in the cost of raw materials may have a material adverse effect on our financial condition and results of operations."

Currency Exchange Fluctuations

Our products are typically priced in roubles for Russian sales and in U.S. dollars for CIS and international sales, and our direct costs, including raw materials, labour and transportation costs, are largely incurred in roubles, our capital expenditures are incurred principally in euro, and other costs, such as interest expense, are incurred in roubles, U.S. dollars and euro. As a consequence we are exposed to currency rate fluctuations between the rouble and both the U.S. dollar and the euro. See "Risk Factors—Risks Relating to Our Business and the Pipe Industry—Fluctuations in the value of the Russian rouble against the U.S. dollar may materially adversely affect our results of operations."

The table below shows the nominal exchange rate and real rouble appreciation against the U.S. dollar and the euro in 2005, 2004 and 2003.

	Six months ended 30 June		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
Nominal exchange rate (roubles per U.S. dollar)(1)	27.68	27.96	28.29	28.81	30.68
Real rouble appreciation against U.S. dollar(2)	7.2%	13.1%	10.8%	15.1%	13.6%
Nominal exchange rate (roubles per euro)(1)	38.99	36.04	35.26	35.81	34.67
Real rouble appreciation against euro(2)	14.6%	9.8%	12.1%	5.6%	n/a

Source: Central Bank of Russia

(1) The weighted average of the exchange rates on each day during the relevant period.

(2) Real rouble appreciation against the U.S. dollar or the euro, as the case may be, represents changes in the consumer price index adjusted for changes in the nominal exchange rate over the same period.

Seasonality

Seasonal effects have a relatively limited impact on our results of operations. While the prices of most of our raw materials are not subject to seasonal variations, the price of scrap metal fluctuates seasonally, typically rising in spring and autumn and falling in summer and winter, reflecting the accumulation of seasonal stockpiles. We also generally consume more energy during winter and our costs of transporting, unloading and storing raw materials in winter are also generally higher as a result of the more extreme climatic conditions. Furthermore, our sales volumes of industrial welded pipes decline in winter as construction activity in Russia declines as a result of generally colder weather. However, demand for our OCTG products from Russian customers tends to increase in winter as oil companies can more readily transport rigs in the Russian oil producing regions during winter than during summer, when muddy ground conditions make travel more difficult in these regions.

Business Segments

We prepare our consolidated financial statements in two segment reporting formats: business and geographical. See Note 1 to our Annual Financial Statements and Note 1 to our Interim Financial Statements. There are no sales or other transactions between the business segments.

Business segments

Our primary segment reporting format is business segments. A business segment comprises a distinguishable component of TMK 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. We present our net sales, gross profit, assets, liabilities and depreciation costs based on the main groups of products segregated into seamless pipes, welded pipes and other operations. Other operations consist primarily of our sales of steel billets to third parties.

Geographical segments

Our secondary segment reporting format for disclosure of our operating activities in the financial statements is geographical segments. A geographical segment is a distinguishable component of TMK 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. In our financial statements, we disclose our net sales based on the location of the purchasing entity, and not on the location of the end-user. See "Business—Sales and Marketing." We present segment assets and long-term investments based on the location of our assets. For the periods discussed herein, the substantial majority of our production assets were located in Russia.

Results of Operations

The following table sets forth our consolidated operating results as a percentage of consolidated net sales for the periods indicated.

	Six months ended 30 June		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	(68.3)%	(75.5)%	(74.6)%	(80.5)%	(88.9)%
Gross profit	**31.7%**	**24.5%**	**25.4%**	**19.5%**	**11.1%**
Selling expenses	(5.4)%	(4.8)%	(5.0)%	(7.2)%	(5.4)%
Advertising and promotion expenses	(0.1)%	(0.1)%	(0.1)%	(0.1)%	(0.1)%
General and administrative expenses	(4.2)%	(4.1)%	(4.2)%	(4.3)%	(4.4)%
Research and development expenses	(0.2)%	(0.2)%	(0.2)%	(0.2)%	(0.1)%
Other operating expenses	(0.8)%	(0.8)%	(0.9)%	(1.3)%	(0.8)%
Other operating income	0.0%	0.1%	0.0%	0.0%	0.1%
Foreign exchange (loss)/gain, net	0.2%	(0.7)%	(0.5)%	0.2%	0.1%
Loss on net monetary position	—	—	—	—	(0.2)%
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	—	—	—	4.8%	—
Finance costs	(2.0)%	(3.0)%	(2.7)%	(5.1)%	(2.8)%
Finance income	0.1%	0.1%	0.1%	0.2%	0.6%
Profit (loss) before tax	**19.3%**	**11.0%**	**11.9%**	**6.5%**	**(1.9)%**
Income tax expense	(4.8)%	(2.8)%	(3.2)%	(0.7)%	(0.1)%
Net profit (loss)	**14.5%**	**8.2%**	**8.7%**	**5.8%**	**(2.0)%**
Attributable to:					
Equity holders of the parent entity	13.9%	7.9%	8.4%	5.7%	(1.8)%
Minority interests	0.6%	0.3%	0.3%	0.1%	(0.2)%

Net Sales

Net sales represent our total sales to customers net of value-added tax and product returns. Our consolidated net sales increased in each of the periods presented due to a combination of higher average selling prices and higher sales volumes for our pipe products.

Sales volumes

The following table shows our pipe sales volumes for the periods indicated.

	Six months ended 30 June		Year ended 31 December			% change between six months ended 30 June 2006 and 2005	% change between years ended 31 December 2005 and 2004	% change between years ended 31 December 2004 and 2003
	2006	2005	2005	2004	2003			
	(thousands of tons)							
Russia	648	581	1,154	1,129	1,239	12%	2%	(9)%
Outside Russia	323	347	740	684	411	(7)%	8%	66%
Seamless pipes	**971**	**928**	**1,894**	**1,813**	**1,650**	**5%**	**4%**	**10%**
Russia	403	406	949	607	695	(1)%	56%	(13)%
Outside Russia	88	45	97	109	52	96%	(12)%	110%
Welded pipes	**491**	**451**	**1,046**	**716**	**747**	**9%**	**46%**	**(4)%**
Total pipes	**1,462**	**1,379**	**2,940**	**2,529**	**2,397**	**6%**	**16%**	**6%**
of which								
Russia	1,051	987	2,103	1,736	1,934	6%	21%	(10)%
Outside Russia	411	392	837	793	463	5%	6%	71%

Our seamless pipe sales growth has been primarily driven by continuing strong demand from oil and gas companies as a result of increased drilling activity in the oil and gas sector which has been largely attributable to higher oil and gas prices. In particular, sales volumes of our highest margin products, seamless OCTG for the oil and gas industry, increased in each of the periods presented. In the first six months of 2006 as compared to the first six months of 2005 and in 2005 as compared to 2004, we had lower sales of line pipes as we redeployed our seamless production capacity to focus on the production of OCTG.

While overall sales volumes of welded pipes increased in the first six months of 2006 as compared to the first six months of 2005, sales volumes of large-diameter welded pipes decreased in the first six months of 2006 as compared to the first six months of 2005 due principally to production workshop stoppages for repairs that took longer than expected.

The significant increase in welded pipes sales in 2005 as compared to 2004 was predominantly attributable to increased sales to Gazprom of large diameter welded pipes. At the end of 2003 we commenced production of 1,420 mm large diameter welded pipes at our Volzhsky plant, and during 2005 we concluded new contracts with Gazprom to supply these types of pipes, which Gazprom had previously purchased from non-Russian producers. The decrease in sales of welded pipes to non-Russian customers in 2005 as compared to 2004 resulted from the reallocation of production capacity to meet the significant demand from Gazprom for welded pipes. Significant growth in industrial welded pipes sales in 2005 as compared to 2004 was attributable to both increases in sales volumes and increases in selling prices.

The decrease in sales volumes of welded pipes in 2004 as compared to 2003 primarily resulted from reduced sales of large-diameter welded pipes ranging from 530 mm to 1,220 mm (other than 1,420 mm diameter welded pipes) and industrial welded pipes due to significant competition with other Russian pipe producers. This decline was partially offset by the launch of production of large diameter welded pipes at the end of 2003, as discussed above.

Net sales by business segment

The following table shows our net sales by business segment for the periods indicated.

	Six months ended 30 June		Year ended 31 December			% change between six months ended 30 June 2006 and 2005	% change between years ended 31 December 2005 and 2004	% change between years ended 31 December 2004 and 2003
	2006	2005	2005	2004	2003			
	(millions of U.S. dollars)							
Seamless pipes	1,064.2	908.3	1,788.0	1,314.4	901.6	17.2%	36.0%	45.8%
Welded pipes	393.6	409.0	912.9	487.9	371.3	(3.8)%	87.1%	31.4%
Other operations	118.5	120.6	237.3	181.7	95.6	(1.7)%	30.6%	90.1%
Total net sales	**1,576.3**	**1,437.9**	**2,938.2**	**1,984.0**	**1,368.5**	**9.6%**	**48.1%**	**45.0%**

The following table shows our net sales by business segment as a percentage of total net sales for the periods indicated.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
Seamless pipes	67.5%	63.2%	60.8%	66.2%	65.9%
Welded pipes	25.0%	28.4%	31.1%	24.6%	27.1%
Other operations	7.5%	8.4%	8.1%	9.2%	7.0%
Total net sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Seamless Pipes. In each of the periods presented, we recorded both higher sales volumes and higher average selling prices for our seamless pipes. These increases were largely attributable to increasing demand from the oil and gas industry in light of the high levels of hydrocarbons prices globally.

In the first six months of 2006 as compared to the six months of 2005, the increase in our seamless pipe sales was primarily attributable to increases in the prices for our seamless pipes as well as increased sales volumes of our highest priced product, seamless OCTG. Average selling prices for seamless pipes increased by 12% to U.S.$1,096 per ton in the first six months of 2006 from U.S.$978 per ton in the first six months of 2005. The volume of our seamless pipes sold increased by 5% in the first six months of 2006 as compared to the first six months of 2005, with sales volumes of OCTG increasing by 20% in the same period.

In 2005 as compared to 2004, the increase in our net sales of seamless pipes was primarily attributable to increases in prices for seamless pipes as well as increased sales of OCTG. Average selling prices for seamless pipes increased by 30% to U.S.$944 per ton in 2005 from U.S.$725 per ton in 2004. The volume of seamless pipes sold increased by 4% in 2005 as compared to 2004, with sales volumes of OCTG increasing by 12% during such period.

In 2004 as compared to 2003, the increase in our net sales of seamless pipes was primarily attributable to increased prices for our seamless pipes as well as increases in sales volumes of each principal category of seamless pipes, and OCTG in particular. Average selling prices for seamless pipes increased by 33% to U.S.$725 per ton in 2004 from U.S.$546 per ton in 2003. The volume of our seamless pipes sold increased by 10% in 2004 as compared to 2003, with sales volumes of OCTG increasing by 14% during such period.

Welded Pipes. Our welded pipes business is largely dependent on sales to Gazprom, our principal customer, and particularly for sales of large-diameter welded pipes.

In the first six months of 2006 as compared to the first six months of 2005, the decrease in our net sales of welded pipes was primarily attributable to a reduction in the volumes of large-diameter pipes sold to Gazprom due principally to production work stoppages for repairs at Volzhsky that took longer than expected. The resulting decline was partially offset by an increase in the sales volumes of industrial welded pipes. Our average selling prices for welded pipes decreased by 12% to U.S.$801 per ton in the first six months of 2006 from U.S.$906 per ton in the first six months of 2005, principally attributable to the change in product mix described above as large-diameter welded pipes typically command higher prices than medium- and small-diameter welded pipes.

The increase in our welded pipes sales in 2005 as compared to 2004 resulted primarily from orders from Gazprom for 1,420 mm diameter welded pipes, the production of which we commenced at the end of 2003. On average, welded pipes prices increased by 28% to U.S.$870 per ton in 2005 from U.S.$682 per ton in 2004 principally reflecting our passing on of increased manufacturing costs attributable to higher raw material costs to our customers as well as the change in our product mix, in particular increased sales volumes of 1,420 mm diameter welded pipes.

The increase in our welded pipes sales in 2004 as compared to 2003 resulted from higher average sales prices for welded pipes in 2004 as compared to 2003. On average, welded pipes prices increased by 37% in 2004 to U.S.$682 per ton in 2004 from U.S.$497 per ton in 2003 principally reflecting our ability to pass on to our customers increased manufacturing costs attributable to higher raw material costs as well as changes in product mix, and in particular our start of large-scale production of large-diameter welded pipes (i.e., pipes with diameters from 530 mm to 1,420 mm). The percentage of our total welded pipes sales volumes represented by 1,420 mm diameter welded pipes increased to 20% in 2004 from 14% in 2003. Our sales volume of 1,420 mm diameter welded pipes increased by 30% during this period, while sales volumes of other large-diameter welded pipes fell by 27% during such period.

The following table provides an analysis of our net sales growth attributable to changes in prices and volumes of pipes for the periods indicated.

	Welded pipes	Seamless pipes	Total	Welded pipes	Seamless pipes	Total
	(millions of U.S. dollars, except percentages)					
Six months ended 30 June 2006 as compared to 30 June 2005						
Changes in price	(47.4)	109.2	61.8	309%	70%	44%
Changes in volumes	32.0	46.7	78.7	(209)%	30%	56%
Total change	**(15.4)**	**155.9**	**140.5**	**100%**	**100%**	**100%**
2005 as compared to 2004						
Changes in price	137.6	396.1	533.7	32%	84%	59%
Changes in volumes	287.4	77.5	364.9	68%	16%	41%
Total change	**425.0**	**473.6**	**898.6**	**100%**	**100%**	**100%**
2004 as compared to 2003						
Changes in price	137.1	295.4	432.5	118%	72%	82%
Changes in volumes	(20.5)	117.4	96.9	(18)%	28%	18%
Total change	**116.6**	**412.8**	**529.4**	**100%**	**100%**	**100%**

Other Operations. Other operations principally include sales of steel (predominantly billets) and various supplementary services, such as energy distribution, to third parties. Net sales from other operations grew by 90.1% in 2004 as compared to 2003 principally as a result of the consolidation of TMK-Resita starting from July 2004, which makes significant sales of steel billets to third parties, sales of raw materials from TMK Trade House to Tagmet in the first two months of 2004 prior to Tagmet's consolidation on 26 February 2004, as well as increases in steel prices. Prior to 1 January 2004, we did not procure raw materials for Tagmet. Net sales from other operations increased by 30.6% in 2005 as compared to 2004 primarily due to the consolidation of TMK-Resita for all of 2005 and increases in steel prices. Net sales from other operations decreased by 1.7% in the first six months of 2006 as compared to the first six months of 2005 principally due to a decrease in prices for steel billets.

Net sales by geographical segment

The following table shows our net sales by geographical area based on the location of the purchaser for the periods indicated.

	Six months ended 30 June		Year ended 31 December			% change between six months ended 30 June 2006 and 2005	% change between years ended 31 December 2005 and 2004	% change between years ended 31 December 2004 and 2003
	2006	2005	2005	2004	2003			
	(millions of U.S. dollars)							
Russia	1,051.6	984.2	2,041.5	1,426.4	1,087.0	6.8%	43.1%	31.2%
Europe	303.6	276.7	514.3	315.0	146.0	9.7%	63.3%	115.8%
Middle East & Gulf Region	95.1	56.3	127.4	77.8	43.1	68.9%	63.8%	80.5%
Americas	37.2	45.2	126.7	74.5	25.3	(17.7)%	70.1%	194.5%
Central Asia & Caspian Region	73.2	48.2	77.2	65.0	29.2	51.9%	18.8%	122.6%
Asia & Far East	5.1	25.2	47.6	21.2	36.2	(79.8)%	124.5%	(41.4)%
Africa	10.5	2.1	3.5	4.1	1.7	400.0%	(14.6)%	141.2%
Total sales	**1,576.3**	**1,437.9**	**2,938.2**	**1,984.0**	**1,368.5**	**9.6%**	**48.1%**	**45.0%**

The following table sets forth our consolidated net sales by geographical area based on the location of the purchaser as a percentage of total net sales for the periods indicated.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
Russia	66.7%	68.5%	69.5%	71.9%	79.4%
Europe	19.3%	19.2%	17.5%	15.9%	10.7%
Middle East & Gulf Region	6.0%	3.9%	4.4%	3.9%	3.2%
Americas	2.4%	3.1%	4.3%	3.7%	1.9%
Central Asia & Caspian Region	4.6%	3.4%	2.6%	3.3%	2.1%
Asia & Far East	0.3%	1.8%	1.6%	1.1%	2.6%
Africa	0.7%	0.1%	0.1%	0.2%	0.1%
Total sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Growth in our net sales has principally been driven by increased demand in Russia, though sales in Russia as a percentage of our total net sales have been declining as we focus greater marketing efforts on export markets. Our net sales of pipes in Russia increased significantly in each of 2005 and 2004 as compared to the previous years due to increases in both volumes and average selling prices in the Russian markets, reflecting strong growth in the Russian oil and gas industry, including increased sales to Gazprom. The rate of increase in our net sales of pipes in Russia slowed in the first six months of 2006 as compared to the rate of increase in the previous years principally due to lower sales of 1,420 mm welded pipe to Gazprom and the fact that our plants were operating at capacity limits for certain seamless pipe product lines in the first six months of 2006, which limited the growth of our seamless pipe deliveries in Russia for the period.

The significant increase in net sales to the Middle East & Gulf Region in the first six months of 2006 as compared to the first six months of 2005 is primarily attributable to increased sales to Saudi Aramco and increased selling prices. The decline in our net sales to the Americas is predominantly attributable to the reallocation of seamless pipes deliveries to the Middle East & Gulf Region as we reduced sales to our North American distributor Lone Star to meet increased demand from direct customers in the Middle East and the Gulf region. Our net sales to the Asia & Far East region decreased sharply in the first six months of 2006 as compared to the first six months of 2005 due primarily to heightened competition from Chinese producers. The significant increase in net sales to Africa in the first six months of 2006 as compared to the first six months of 2005 is primarily attributable to the start of pipe deliveries to Repsol YPF, S.A. in Libya.

The significant increase in sales to Europe in 2005 as compared to 2004 is generally attributable to the increases in seamless pipe prices, as most of our deliveries in Europe consist of seamless pipes, and increased sales of our Romanian operations, in part due to the consolidation of TMK-Resita for the whole

of 2005. Increases in sales to the Middle East & Gulf Region and the Americas in 2005 as compared to 2004 were generally due to our overall increase in marketing efforts in those jurisdictions. Growth in net sales to Asia & Far East in 2005 as compared to 2004 is predominantly attributable to significant sales to ONGC in India.

The significant increase in sales to Europe in 2004 as compared to 2003 is attributable principally to increased sales prices, increased sales to Southern Europe to meet the rising demand from the construction sector and the consolidation of TMK-Resita in our results of operations in 2004 from 15 July 2004. Increases in sales to other jurisdictions in 2004 as compared to 2003, including to the Middle East and Gulf Region, were generally due to our overall increase in marketing efforts in those jurisdictions. The decrease in net sales to Asia and Far East was due to the reallocation of our seamless pipe deliveries to the Middle East and Gulf Region. Increases in sales to the Americas in 2004 as compared to 2003 relate principally to the commencement of our distributor relationship with Lone Star. Increases in sales to the Central Asia and Caspian region in 2004 as compared to 2003 were attributable to growing sales to Uzbekistan and Kazakhstan in connection with the start-up of operations of our subsidiary TMK-Kazakhstan.

Cost of Sales

Gross profit

Our gross profit, which represents our net sales less our cost of sales, increased by 42.0% in the first six months of 2006 as compared to the first six months of 2005, 93.1% in 2005 as compared to 2004 and 153.9% in 2004 as compared to 2003, as a result of volume growth, overall sales price increases in excess of raw material input price increases, improved product mix and improved operating efficiency.

The table below illustrates our gross margin percentages by business segment for the periods indicated.

	Six months ended 30 June		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
Seamless pipes	41.8%	31.9%	33.3%	24.4%	13.3%
Welded pipes	12.5%	13.7%	14.1%	12.6%	5.5%
Other operations	4.6%	5.0%	9.6%	2.8%	12.6%
Overall gross margin	**31.7%**	**24.5%**	**25.4%**	**19.5%**	**11.1%**

Seamless pipes. Gross margins for our seamless pipes increased in the first six months of 2006 as compared to the comparable period in 2005, and in each of 2005 and 2004 as compared to the previous years principally as a result of an increasing proportion of higher-priced OCTG products, which tend to generate higher margins, in our product mix and improved efficiency at our pipe rolling mills as a consequence of the ongoing modernisation of our plants. In addition, in each of 2005 and 2004, our gross margins benefited from our integrated steel operations as the growth in market prices for scrap, which is the most significant raw material input for our steel production, in both years was less than the growth in market prices for semi-finished steel products, such as billets, and finished steel products, including our seamless pipes.

Welded pipes. Gross margins for our welded pipes decreased in the first six months of 2006 as compared to the first six months of 2005 as a result of a decrease in our sales of large-diameter welded pipes, which generally generate higher margins than our industrial welded pipes, as a percentage of our overall welded pipe sales during such periods. However, we benefited from lower plate and coil raw materials prices in the first six months of 2006 as compared to the comparable period in 2005, partially offsetting the effect of the change in product mix.

Gross margins for our welded pipes increased in 2005 as compared to 2004 due principally to an increase in our sales of large-diameter welded pipes as a percentage of our overall welded pipes sales in 2005. Sales price increases were otherwise generally in line with increases in raw materials prices for welded pipes in 2005 as compared to 2004.

Gross margins for our welded pipes increased significantly in 2004 as compared to 2003 due principally to a significant increase in our sales of 1,420 mm diameter welded pipes as a percentage of our overall welded pipes sales in 2004. The production of these pipes commenced at the end of 2003 at our Volzhsky plant. In addition, we benefited from improved production efficiencies in the second half of 2004 through the implementation of new welding technologies for large diameter welded pipes.

Other operations. Gross margins generated by other operations in the first six months of 2006 as compared to the first six months of 2005 decreased, primarily as a result of lower prices for steel billets, which is the major component of sales of other operations, while prices for steel scrap, the major raw material of other operations, increased slightly.

The increase in our gross margins generated by other operations in 2005 as compared to 2004 was principally the result of increased steel billet prices relative to scrap.

The significant decrease in our gross margins from other operations in 2004 as compared to 2003 reflects the acquisition of TMK-Resita in July 2004, which has less efficient billet production than our Russian operations.

The table below sets out our cost of sales for the periods indicated.

	Six months ended 30 June				Year ended 31 December					
	2006		2005		2005		2004		2003	
	millions of U.S. dollars	% of total cost of production	millions of U.S. dollars	% of total cost of production	millions of U.S. dollars	% of total cost of production	millions of U.S. dollars	% of total cost of production	millions of U.S. dollars	% of total cost of production
Direct costs										
Raw materials	686.0	64.9%	726.2	67.9%	1481.5	68.0%	1032.9	65.5%	656.5	65.2%
Energy	53.1	5.0%	44.4	4.2%	82.7	3.8%	65.4	4.1%	39.1	3.9%
Add-on materials of production	37.5	3.5%	40.8	3.8%	80.7	3.7%	58.6	3.7%	42.5	4.2%
Labour costs	42.4	4.0%	36.4	3.4%	76.3	3.5%	55.8	3.5%	36.1	3.6%
Contracted services	4.8	0.5%	3.1	0.3%	4.6	0.2%	4.7	0.4%	4.0	0.4%
Total direct costs	823.8	77.9%	850.9	79.6%	1725.8	79.2%	1217.4	77.2%	778.2	77.3%
Production overheads										
Salaries and wages	81.5	7.7%	73.2	6.8%	150.6	6.9%	116.9	7.4%	71.9	7.1%
Utilities	32.4	3.1%	27.3	2.6%	59.8	2.7%	41.8	2.7%	26.7	2.7%
Depreciations	51.9	4.9%	47.5	4.4%	98.9	4.5%	88.1	5.6%	66.0	6.6%
Supplies	39.4	3.7%	43.2	4.0%	86.7	4.0%	71.7	4.5%	38.0	3.8%
Other	27.9	2.7%	27.1	2.6%	58.0	2.7%	40.4	2.6%	25.8	2.5%
Total production overheads	233.1	22.1%	218.3	20.4%	454.0	20.8%	358.9	22.8%	228.4	22.7%
Total cost of production	**1,056.9**	**100.0%**	**1,069.2**	**100.0%**	**2,179.8**	**100.0%**	**1,576.3**	**100.0%**	**1,006.6**	**100.0%**
Changes in inventory	12.5		7.5		(7.1)		(89.0)		(40.0)	
Cost of merchandise	6.8		6.0		16.7		110.2		248.6	
Inventory adjustment	0.6		3.4		2.4		0.0		1.0	
Total cost of sales	1,076.8		1,086.1		2,191.8		1,597.5		1,216.2	

Raw materials, labour costs and energy costs are the major components of our cost of production.

Raw materials and add-on materials of production

Raw materials costs consist principally of our purchases of steel plates and coil, steel billets, scrap metal and pig iron, and costs of add-on materials of production consist of purchases of ferroalloys and certain other materials used in our production processes. Raw materials costs and costs of add-on materials of production decreased in the first six months of 2006 as compared to the first six months of 2005, reflecting lower prices for certain of our raw materials, including steel coils and steel billets. The prices we paid in Russia for steel billets in the first six months of 2006 as compared to the first six months of 2005 decreased by approximately 15%, prices for our purchases of pig iron decreased by approximately 19%-26% (depending on the region in Russia) and prices for our purchases of steel coil decreased by approximately 10%-18% (depending on the region in Russia). On the other hand, scrap prices increased slightly in the first six months of 2006 as compared to the first six months of 2005.

The increase in raw materials costs and costs of add-on materials of production in 2005 as compared to 2004 was attributable to the increase in volumes of materials consumed resulting from sales volume growth as well as increased prices for raw materials used in the manufacture of welded pipes. In particular, prices for steel coils and plates increased significantly in 2005 as compared to 2004, while prices for scrap remained stable and prices for pig iron declined. The increase in raw materials costs and costs of add-on materials of production was also attributable to the fact that TMK-Resita's and Tagmet's costs of

production in 2005 were included in our results of operations for the whole year while in 2004 they were included in our results of operations from 15 July 2004 with respect to TMK-Resita and from 26 February 2004 with respect to Tagmet.

The increase in raw materials costs and costs of add-on materials of production in 2004 as compared to 2003 relates principally to the consolidation of Tagmet and TMK-Resita from 26 February 2004 and 15 July 2004, respectively, in addition to increases in volumes of materials consumed resulting from sales volume growth as well as increased prices for billets and steel coil and plate.

Labour cost and salaries and wages

Labour costs and salaries and wages together constitute the second largest component of cost of sales. Labour costs include costs of our personnel directly engaged in our pipe and steel production. Salaries and wages expense included in production overheads represents labour costs attributable to personnel engaged in auxiliary workshop activities. Labour costs and salary and wages include salaries and wages of production personnel and social and pension contributions attributable to these salaries. We make these social and pension contributions to Russian Federation governmental funds at the statutory unified social tax rates in force (a rate ranging in the first six months of each of 2006 and 2005 and in 2005 from 26% to 2% and in 2004 and 2003 from 35.6% to 2%, applied on a regressive basis). We also make these contributions to Romanian governmental funds at the statutory unified social tax rates in force (at rates ranging from 36.9% in the first six months of 2006, 38.9% in the first six months of 2005 and in 2005, 36.8% in 2004 and 39.8% in 2003). Labour costs also include post-employment benefit expenses we recognise in our financial statements.

The increase in labour costs and salaries and wages in the first six months of 2006 as compared to the first six months of 2005 was driven principally by salary and wage increases in line with inflation as well as by increased production volumes, as the salaries of our employees are linked to performance indicators. Our average number of employees decreased by 1.6% in the first six months of 2006 as compared to the first six months of 2005.

The increase in labour costs and salaries and wages in 2005 from 2004 was attributable principally to wage and salary increases in line with inflation as well as to increases in the net post-employment benefit expenses we recognised. We measure the present value of our post-employment benefit obligations in connection with the preparation of our audited or reviewed financial statements using the actuarial valuation method. See "—Critical Accounting Policies—Post-Employment Benefits." We recorded additional expenses in 2005 as a result of changes in actuarial assumptions and due to overall increases in the compensation levels of our employees. The increase in labour costs and salaries and wages in 2005 was also related to the fact that TMK-Resita's and Tagmet's labour costs and salaries were consolidated for the whole year in 2005 but only from 15 July and 26 February 2004, respectively, in 2004. The increase was partly offset by the reduction of the maximum unified social tax rate in 2005 from 35.6% to 26% and a slight reduction in our average number of employees, by 3.5% in 2005 as compared to 2004.

Labour costs and salaries and wages increased in 2004 as compared to 2003 principally due to the consolidation of results of operations of Tagmet and TMK-Resita from 26 February 2004 and 15 July 2004, respectively, which largely accounted for the increase in our average number of employees increased by 31.9% in 2004 as compared to 2003. Labour costs and salary and wage costs also increased to compensate for inflation.

Energy

Energy costs include principally purchases of electricity from RAO UES and purchases of natural gas from Gazprom.

Energy costs increased in the first six months of 2006 as compared to the first six months of 2005 and in each of 2005 and 2004 as compared to the prior years principally due to increased production and higher energy prices.

Our weighted average prices for natural gas and electrical energy increased by approximately 10-12% in the first six months of 2006 as compared to the first six months of 2005 by approximately 15-16% in 2005 as compared to 2004 and by approximately 10-12% in 2004 as compared to 2003.

Our energy cost in 2004 also increased as compared to 2003 as a result of our acquisition of Tagmet and TMK-Resita with effect from 26 February 2004 and 15 July 2004, respectively.

Utilities

Utilities costs mainly comprise costs for heat, electricity, gas and water that are not directly used in our production processes.

Our utility costs increased in the first six months of 2006 as compared to the first six months of 2005, and in each of 2005 and 2004 as compared to the prior years principally due to higher energy and utilities prices. The increase in utilities costs in 2005 was also due in part to the fact that TMK-Resita's and Tagmet's costs of production were included in our consolidated results for the whole year in 2005 while in 2004 they were included in our financial statements from the respective dates of acquisition of 15 July 2004 and 26 February 2004. The increase in utilities costs in 2004 as compared to 2003 was principally due to the acquisition of Tagmet and TMK-Resita in 2004.

Supplies

Supplies costs mainly consist of our purchases of supplies for repair and maintenance of machinery and equipment, fuels and lubricants, fire proof materials and certain other materials used in our production processes.

Supplies costs decreased in the first six months of 2006 as compared to the first six months of 2005, due primarily to the deferral of repair and maintenance activities at our plants that were scheduled for the first half of 2006 to the second half of the year.

Supplies costs increased in 2005 as compared to 2004, reflecting the consolidation of TMK-Resita and Tagmet for all of 2005 whereas in 2004 they were included in our financial statements only following their acquisitions on 15 July 2004 and 26 February 2004, respectively. In addition, supplies costs increased in 2005 as compared to 2004 due to the increase in volumes of materials consumed resulting from the growth in assets, principally equipment, put into operation during the year.

The increase in supplies costs in 2004 as compared to 2003 was driven by additional production costs arising from the acquisition of Tagmet and TMK-Resita in 2004.

Depreciation

Depreciation costs increased in the first six months of 2006 as compared to the first six months of 2005 principally as a result of the decision to replace existing open hearth furnaces and related equipment at our Tagmet and Seversky plants starting in the second half of 2005 in connection with our strategic investment programme and management's reassessment of the remaining estimated useful lives of such furnaces and related equipment. Management's decision to shorten the estimated useful lives of such furnaces and related equipment resulted in increased depreciation costs in the first six months of 2006 as compared to the first six months of 2005 and in 2005 as compared to 2004.

The increase in depreciation costs in 2005 as compared to 2004 was mainly attributable to the increase in assets put into operation during the period as well as to the consolidation of TMK-Resita and Tagmet for the whole of 2005, whereas in 2004 they were included in our financial statements only following their acquisitions on 15 July 2004 and 26 February 2004, respectively. The increase in depreciation costs in 2004 as compared to 2003 resulted primarily from the acquisition of Tagmet and TMK-Resita in 2004.

Changes in inventory and cost of merchandise

Change in inventory represents decreases (increases) in the balances of our semi-manufactured goods, finished goods, goods in transit and work-in-progress. The increase in changes in inventory in 2004 as compared to 2003 was caused by the increase in goods in transit related to sales outside Russia and by the general increase in the level of our production and sales in 2004 as compared to 2003.

Cost of merchandise represents the cost of inventories we purchase from our suppliers and sell to our customers without further processing by us. Cost of merchandise of U.S.$6.8 million in the first six months of 2006, U.S.$6.0 million in the first six months of 2005 and U.S.$16.7 million in 2005 relates primarily to the resale by our Russian subsidiaries of raw materials initially purchased for their own consumption.

Cost of merchandise of U.S.$110.2 million in 2004 relates primarily to certain transactions we engaged in with Tagmet in the first two months of 2004 prior to our acquisition of Tagmet. Prior to our acquisition of Tagmet, Tagmet sold all of its core products to and obtained most of its raw materials from our subsidiary TMK Trade House, as a result of which the cost of finished products sold by Tagmet to us for

resale and the cost to us of raw materials purchased by Tagmet from us in January and February 2004 is included in cost of merchandise.

Cost of merchandise in the amount of U.S.$248.6 million in 2003 relates primarily to our purchases of substantially all of Tagmet's pipe production products from Tagmet for subsequent resale. We did not purchase raw materials for Tagmet in 2003.

Selling Expenses

The following table shows a breakdown of our selling expenses for the periods indicated.

	Six months ended 30 June				Year ended 31 December					
	2006		2005		2005		2004		2003	
	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales
Salaries and wages	15.3	1.0%	11.3	0.8%	23.7	0.8%	18.6	0.9%	10.4	0.8%
Freight	50.9	3.2%	41.4	2.9%	88.9	3.0%	61.2	3.1%	39.1	2.9%
Professional services	6.5	0.4%	4.5	0.3%	10.4	0.4%	39.1	2.0%	12.8	0.9%
Other	13.1	0.8%	12.1	0.8%	24.8	0.8%	24.5	1.2%	11.7	0.8%
Total selling expenses	**85.8**	**5.4%**	**69.3**	**4.8%**	**147.8**	**5.0%**	**143.4**	**7.2%**	**74.0**	**5.4%**

Freight costs and salaries and wages attributable to our sales activities account for most of our selling expenses.

Freight costs: Railway transportation is our principal means of transporting pipe products to our Russian and CIS customers, as well as to ports for onward transportation overseas. Rail tariffs in Russia are currently regulated by the Russian government. The increases in freight costs were attributable to increased sales volumes and increases in tariffs. Transportation costs with respect to raw materials are reflected in raw materials costs.

Salaries and wages: The increase in salaries and wages during each of the periods under review was due to the increased salaries in our selling units and higher bonus payments linked to increases in our sales volumes.

Professional services: Professional services relate principally to commissions relating to customs clearance and transportation processing as well as marketing fees related to our export activities. In 2004, professional services also included commissions and marketing fees of U.S.$29.7 million paid to related parties which acted as intermediaries in connection with the sales of our products, as well as for marketing services provided to a party under common control with us. We have not incurred any of these related party fees in subsequent periods, and do not expect to incur such costs in the future.

General and Administrative Expenses

The following table shows a breakdown of our general and administrative expenses for the periods indicated.

	Six months ended 30 June				Year ended 31 December					
	2006		2005		2005		2004		2003	
	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales
Salaries and wages	39.4	2.5%	33.9	2.4%	66.3	2.3%	49.0	2.5%	38.5	2.8%
Professional services	8.5	0.5%	10.8	0.8%	22.3	0.8%	9.8	0.5%	5.6	0.4%
Other	18.9	1.2%	14.7	0.9%	34.6	1.1%	26.9	1.3%	15.5	1.2%
Total general and administrative expenses	**66.8**	**4.2%**	**59.4**	**4.1%**	**123.2**	**4.2%**	**85.7**	**4.3%**	**59.6**	**4.4%**

General and administrative expenses consist principally of salaries and wages of our administrative personnel and professional services costs, which include costs of our financial, legal and accounting advisers. The increase in salaries and wages during each of the periods under review is attributable to salary increases in line with inflation and to the increase in administrative staff headcount. The increase in professional services in 2005 as compared to prior years is attributable to advisers, including management

consultants, investment banking, accounting and legal advisers, retained in connection with planned financing activities.

Research and Development Expenses

Research and development expenses consist primarily of the salaries and wages of our research personnel. We recorded research and development costs of U.S.$3.2 million and U.S.$3.1 million in the first six months of 2006 and 2005, respectively, and U.S.$5.5 million, U.S.$3.5 million and U.S.$2.0 million in 2005, 2004 and 2003, respectively.

The increase in research and development expenses in 2005 as compared to 2004 was attributable to additional professional services related to studies in respect of seamless pipe production. The increase in research and development expenses in 2004 as compared to 2003 resulted primarily from the acquisition of Tagmet in 2004, which has its own research and development operations.

Other Operating Expenses

The following table shows a breakdown of other operating expenses for the periods indicated.

	Six months ended 30 June				Year ended 31 December					
	2006		2005		2005		2004		2003	
	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales	millions of U.S. dollars	% of net sales
Social and social infrustructure maintenance	5.2	0.3%	6.2	0.4%	11.1	0.4%	14.0	0.7%	7.2	0.5%
Loss on disposal of property, plant and equipment	0.4	0.0%	2.2	0.2%	4.5	0.2%	1.3	0.1%	2.6	0.2%
Charitable donations	5.6	0.4%	2.3	0.2%	7.5	0.3%	3.5	0.2%	1.1	0.1%
Loss on sale of current assets	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.1	0.0%
Other	0.8	0.1%	0.1	0.0%	3.0	0.0%	7.2	0.3%	0.0	0.0%
Total other operating expenses	**12.0**	**0.8%**	**10.8**	**0.8%**	**26.1**	**0.9%**	**26.0**	**1.3%**	**11.0**	**0.8%**

Social and social infrastructure maintenance expenses represent costs related to the maintenance of sport, medicine, culture and other social infrastructure facilities used by our employees and expenses related to social events. Social and social infrastructure maintenance expenses decreased in the first six months of 2006 as compared to the first six months of 2005 and in 2005 as compared to 2004 due to the implementation of new policies whereby employees are required to bear a larger portion of such costs themselves. Social and social infrastructure costs increased in 2004 as compared to 2003 due to costs incurred in connection with the celebration of Sinarsky's 70th anniversary.

Charitable donations, which comprise donations and membership fees to non-commercial organizations, increased in the first six months of 2006 as compared to the first six months of 2005 and in each of 2005 and 2004 as compared to the prior year as a result of increased sponsorship of sports activities and local sports teams.

We recorded a loss on disposal of property, plant and equipment of U.S.$4.5 million in 2005 largely as a result of the disposal of equipment used in the production of cast-iron pipes, a product which we ceased to produce in 2005. Other expenses relate principally to an accrual made in connection with a potential tax claim in 2004 that was reversed after a court dismissed the claim in 2005.

Foreign exchange (loss)/gain

The functional currency of OAO TMK and our subsidiaries located in the Russian Federation and Switzerland is the Russian rouble. The functional currency of our Romanian subsidiaries is the Romanian lei and of Sinara Handel and Eurosinara is the euro. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currencies of OAO TMK and our subsidiaries on the relevant balance sheet date. We record changes in the values of such assets and liabilities as a result of exchange rate changes in our results of operations under the line item foreign exchange (loss)/gain.

We recorded foreign exchange gains of U.S.$4.6 million in the first six months of 2006 as compared to loss of U.S.$10.3 million in the first six months of 2005 and losses of U.S.$14.6 million in 2005 as compared

to gains of U.S.$4.3 million in 2004 and U.S.$1.0 million in 2003. Foreign exchange gains and losses relate primarily to the revaluation of U.S. dollar denominated loans as at the end of the reporting periods into roubles. During the periods under review, we had net monetary liabilities denominated in U.S. dollars as a result of our U.S. dollar borrowings, and as a result, a decrease in the nominal value of the dollar relative to the Russian rouble has historically resulted in foreign exchange gains and an increase in the nominal value of the U.S. dollar relative to the Russian rouble has historically resulted in foreign exchange losses. In the first six months of 2006 we recorded foreign exchange gains as a result of appreciation of the Russian rouble against the dollar as at 30 June 2006 as compared to 31 December 2005. This gain was partly offset by losses incurred in connection with the conversion of U.S. dollars from export proceeds into roubles. For the six months ended 30 June 2005, we recorded foreign exchange losses as a result of the depreciation of the Russian rouble against the U.S. dollar as at 30 June 2005 as compared to 31 December 2004, as well as from losses related to the conversion of the U.S. dollar loan proceeds into Russian roubles during the period.

As at 31 December 2005, the Russian rouble depreciated against the U.S. dollar as compared to 31 December 2004, resulting in foreign exchange losses. As at 31 December 2004, the Russian rouble appreciated against the U.S. dollar as compared to 31 December 2003, resulting in foreign exchange gains. In addition, in 2004 we recorded foreign exchange gains at TMK-Artrom, which had net monetary liabilities denominated in U.S. dollars, as a result of the appreciation of the ROL against the U.S. dollar. This gain was partly offset by losses incurred on the conversion of U.S. dollar loan proceeds into roubles.

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

We, through a subsidiary, acquired a 99.45% interest in TMK-Resita effective 15 July 2004 for total consideration of U.S.$653 thousand. As of the date of acquisition, TMK-Resita had net assets of U.S.$96.0 million. In connection with the acquisition, we recorded U.S.$94.8 million of negative goodwill as a gain in 2004, reflecting the excess of our interest in the net fair value of TMK-Resita's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition. See Note 11 to the Annual Financial Statements. We did not record such gains during any of the other periods under review.

Finance costs

Finance costs principally reflect our interest expense, including amortisation of arrangement fees we pay in connection with our borrowings. We recorded finance costs of U.S.$30.6 million in the first half of 2006 as compared to U.S.$41.8 million in the first half of 2005, and U.S.$78.2 million in 2005 as compared to U.S.$100.9 million in 2004 and U.S.$37.6 million in 2003. Our interest expense decreased in the first six months of 2006 as compared to the first six months of 2005 and in 2005 as compared to 2004 primarily due to prepayment from the fourth quarter of 2004 to the third quarter of 2005 of a loan from Dresdner Bank due 2014 in the principal amount of U.S.$600.0 million. We entered into this loan in 2004 in order to finance the payment for shares of Sinarsky, Seversky and Volzhsky transferred to TMK by Dr. Pumpyanskiy in connection with the formation of the TMK Group. The entry into this loan contributed to an increase in our interest expenses in 2004 as compared to 2003.

Income tax expense

We recorded income tax expense of U.S.$75.6 million in the first six months of 2006 as compared to U.S.$40.3 million in the first six months of 2005, and U.S$95.8 million in 2005 as compared to U.S.$13.1 million in 2004 and U.S.$1.2 million in 2003. Our income tax expense increased in each of these periods as a result of our increase in profit before tax. Our effective tax rate, which is defined as income tax expense as a percentage of profit before tax, decreased from 25.4% in the first six months of 2005 to 24.8% in the first six months of 2006 principally as a result of the decreasing share of non-deductible expenses, such as certain social maintenance expenses, in relation to our profit before tax, as non-deductible expenses generally remained at the same level from period-to-period while profit before tax grew significantly in light of our overall sales volume growth. Our effective tax rate increased to 27.4% in 2005 as compared to 10.2% in 2004 as a result of the acquisition of TMK-Resita in 2004 and the recognition of a gain in connection with the acquisition as described above (negative goodwill), which amount was not subject to income tax. We incurred a loss before tax of U.S.$25.9 million in 2003.

Net profit

For the reasons set forth above, our net profit increased by 93.5% in the first six months of 2006 as compared to the first six months of 2005 and by 120.7% in 2005 as compared to 2004. We incurred a net loss of U.S.$27.1 million in 2003.

Liquidity and Capital Resources

Capital Requirements

We expect that working capital requirements, repayment of outstanding debt, capital expenditures and acquisitions will represent our most significant uses of funds for the next several years.

Historically, we have relied on cash provided by operations and short-term debt to finance our working capital and other capital requirements, and our management expects that these will continue to be important sources of cash in the future. At the same time, we intend to increase our utilisation of long term debt relative to short term debt in order to better match our capital resources to our planned expenditures. We do not currently make use of off-balance sheet financing arrangements.

OAO TMK is currently a holding company with limited direct operations. OAO TMK's ability to repay its debts depends primarily upon the receipt of dividends, distributions and other payments from our subsidiaries and from additional borrowings. Our board of directors, however, recently approved plans to merge Volzhsky into OAO TMK by way of accession under Russian law, and the shareholders of OAO TMK approved the accession on 30 October 2006. If this transaction is approved, OAO TMK would accede to all of the assets, liabilities and cash flows of Volzhsky. See "Business—Corporate Organisation—Developments Regarding our Corporate Structure."

Capital Expenditures

We are implementing a strategic capital expenditure programme, which began in 2004 and extends through 2010, that is aimed at increasing our seamless pipe production, increasing the efficiency of our production facilities, improving the quality and range of our products and increasing our production of high value-added products. See "Business—Strategic Capital Expenditure Programme."

Our total capital expenditures by types of activities for the first six months of 2006 and 2005 and for each of 2005, 2004 and 2003 are set forth below.

	Six months ended 30 June		Year ended 31 December			% change between six months ended 30 June 2006 and 2005	% change between years ended 31 December 2005 and 2004	% change between years ended 31 December 2004 and 2003
	2006	**2005**	**2005**	**2004**	**2003**			
	(millions of U.S. dollars)							
Seamless pipes	105.6	31.8	119.6	42.0	42.1	232.1%	184.8%	(0.2)%
Welded pipes	1.2	1.0	1.7	3.3	5.5	20.0%	(48.5)%	(40.0)%
Other operations	0.8	1.9	4.2	3.5	5.3	(57.9)%	20.0%	(34.0)%
Unallocated	9.2	4.2	13.8	12.0	2.6	119.0%	15.0%	361.5%
Total capital expenditures	116.8	38.9	139.3	60.8	55.5	200.3%	129.1%	10.5%

The largest component of our capital expenditures in the first six months of 2006 and in 2005 and 2004 related to the installation of new continuous casting machines at Tagmet and Seversky, a new reducing mill at Sinarsky, a new piercing mill at Seversky, upgrades of our electric furnace and continuous casting machine at Volzhsky and improvements on the heat treatment and finishing capacity of our pipe plants. From 2006 to 2010, we expect to make additional capital expenditures of approximately U.S.$1.2 billion (net of VAT) in connection with our strategic investment plan. See "Business—Strategic Capital Expenditure Programme."

We expect to continue to finance most of our capital expenditure needs through our operating cash flows, existing cash balances, as well as debt financing and other sources as appropriate.

Cash flows

The table below sets forth our summarised cash flows for the periods indicated.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(millions of U.S. dollars)				
Profit before tax	**304.7**	**158.7**	**350.0**	**128.3**	**(25.9)**
Non-cash and other adjustments	81.1	108.1	206.8	102.0	103.7
Changes in operating assets and liabilities	(114.4)	(117.7)	(35.2)	(94.8)	(133.9)
Income taxes paid	(92.2)	(40.4)	(107.3)	(21.8)	(9.8)
Net cash from (used in) operating activities	**179.2**	**108.7**	**414.3**	**113.7**	**(65.9)**
Net cash used in investing activities	**(163.3)**	**(39.4)**	**(138.1)**	**(62.6)**	**(48.2)**
Net cash (used in) from financing activities	**(19.9)**	**(71.7)**	**(241.9)**	**(52.5)**	**120.0**
Effect of exchange rate changes on cash and cash equivalents	**2.6**	**0.0**	**0.1**	**0.7**	**0.4**
Net increase/(decrease) in cash and cash equivalents	**(1.4)**	**(2.4)**	**34.4**	**(0.7)**	**6.3**

Operating activities. Cash provided by operating activities primarily consists of net income adjusted for certain non-cash items including depreciation, amortisation and other items, and the effect of financing changes in working capital.

Net cash from operating activities was U.S.$179.2 million and U.S.$108.7 million for the first six months 2006 and 2005, respectively, and U.S.$414.3 million, U.S.$113.7 million in the years ended 31 December 2005, 2004, respectively. We had net cash used in operating activities of U.S.$65.9 million in 2003. The increase in net cash from operating activities during these periods was primarily due to the increased profitability of our business.

Investing activities. Net cash used in investing was U.S.$163.3 million and U.S.$39.4 million in the first six months 2006 and 2005, respectively, and U.S.$138.1 million, U.S.$62.6 million and U.S.$48.2 million in the years ended 31 December 2005, 2004 and 2003, respectively. Substantially all the cash used in investing activities related to purchases of property, plant and equipment, purchases of shares in subsidiaries, in 2004, a loan granted to Sinara Group S.A., a related party, and in 2003, a loan granted to Tagmet, which at that time was not consolidated with us.

Financing activities. Net cash used in financing activities of U.S.$19.9 million during the first six months of 2006 was due principally to interest paid of U.S.$25.0 million and a distribution paid of U.S.$20.0 million in connection with the acquisition of Sinara Handel, offset by net proceeds from borrowings of U.S.$28.3 million. Net cash used in financing activities during the first six months of 2005 was mainly due to net repayments of borrowings of U.S.$16.9 million, interest paid of U.S.$42.0 million and distributions of $7.7 million in connection with the acquisition of TMK Global.

Net cash used in financing activities during 2005 of U.S.$241.9 million was due principally to net repayments of borrowings of U.S.$127.5 million, interest paid of U.S.$77.8 million and distributions of U.S.$20.0 million in connection with the acquisition of Sinara Handel. Net cash used in financing activities during 2004 of U.S.$52.5 million was primarily due to distributions paid to owners of U.S.$607.1 million and interest paid of U.S.$97.8 million, offset by net proceeds from borrowings of U.S.$355.9 million and proceeds from the issuance of share capital of U.S.$305.4 million. Distributions paid to the owners in 2004 were in connection with the transfer of Sinarsky, Seversky, Volzhsky and TMK Trade House to OAO TMK and the acquisition of Tagmet, and were financed principally by borrowings from international banks. Net cash received from financing activities during 2003 of U.S.$120.0 million was primarily due to net proceeds from borrowings of U.S.$155.5 million, partially offset by interest paid in the amount of U.S.$32.0 million.

Dividends. In May 2005, we paid interim dividends in the total amount of U.S.$2.59 million.

Indebtedness

The following table summarises our outstanding interest-bearing debt, including loans and other borrowings, by currency and interest rate as of 30 June 2006.

	U.S. dollar-denominated	rouble-denominated	euro-denominated	Total
		(thousands of U.S. dollars)		
Total debt, of which	**39,861**	**545,464**	**92,520**	**677,845**
Fixed-rate debt	—	545,464	20,703	566,167
Variable-rate debt	39,861	—	71,817	111,678

As of 30 June 2006, we had loans in the principal amount of U.S.$110.7 million that were secured by collateral consisting of property, plant and equipment with an aggregate carrying value of U.S.$165.0 million and inventory with an aggregate carrying amount of U.S.$43.9 million.

As of the date hereof, there were no encumbrances over the shares of TMK Trade House, Volzhsky, Seversky, Tagmet or Sinarsky.

As of 30 June 2006, we had unutilised borrowing facilities in the amount of U.S.$110.4 million.

The following table summarises our currency exposure and interest rates on our outstanding debt as of 30 June 2006.

		Expected maturity as of 30 June 2006						
		Through 30 June						
	Currency	2007	2008	2009	2010	After 30 June 2010	Total	Annual interest rate
		(thousands of U.S. dollars, except percentages)						(%)
Variable-rate debt								
Natexis	U.S.$	9,511	—	—	—	—	9,511	U.S. Federal Funds plus 1.6%
Moscow Narodny Bank	U.S.$	15,000	3,750	—	—	—	18,750	LIBOR plus 2.0%
ZAO Raiffeisenbank Austria	U.S.$	—	11,600	—	—	—	11,600	LIBOR plus 3.75%
Total U.S.-dollar denominated		*24,511*	*15,350*	—	—	—	*39,861*	
Banca Commerciala Romana	EUR	22,978	—	—	—	14,199	37,177	EURIBOR plus 2.4%
Gazprombank	EUR	1,596	7,396	5,017	3,254	17,377	34,640	EURIBOR plus 3.5%-5.5%
Total euro-denominated		*24,574*	*7,396*	*5,017*	*3,254*	*31,576*	*71,817*	
Fixed-rate debt								
Amsterdam Trade Bank	EUR	20,703	—	—	—	—	20,703	6.50%
Total euro-denominated		*20,703*	—	—	—	—	*20,703*	
IMB	RUB	64,257	7,386	—	—	—	71,643	7.85%-7.95%
MDM-Bank[1]	RUB	22,157	—	—	—	—	22,157	10.25%
Sberbank	RUB	65,016	—	—	—	—	65,016	6.80%-8.00%
Bonds	RUB	73,858	—	—	—	—	73,858	10.30%
Gazprombank	RUB	17,357	—	—	—	—	17,357	6.50%
Bonds[2]	RUB	110,787	184,646	—	—	—	295,433	Various
Total rouble-denominated		*353,432*	*192,032*	—	—	—	*545,464*	
Total debt		**423,220**	**214,778**	**5,017**	**3,254**	**31,576**	**677,845**	

(1) OAO MDM-Bank is an affiliate of Dalecone Limited, which prior to 12 October 2006 owned 33% of our outstanding ordinary shares. See "—Related Party Transactions—Borrowings from Related Parties." As a result of the acquisition of these shares by TMK Steel, MDM-Bank is no longer a related party with us. See "Principal and Selling Shareholder."

(2) The maturity date reflects the time at which we are required to offer holders of the bonds a buy-back option.

As of 30 June 2006, our most significant borrowings included the following:

Loan Agreements with International Moscow Bank ("IMB"). Between August and October 2005, each of our Russian pipe plants entered into loan agreements with IMB. Tagmet entered into two one-year loan agreements with IMB in the aggregate principal amount of RUB 540 million which bear interest at 7.85%; Sinarsky entered into two one-year loan agreements with IMB in the aggregate principal amount of RUB 820 million which bear interest at 7.85%; Volzhsky entered into a two-year loan agreement with IMB in the aggregate principal amount of RUB 300 million which bears interest at 7.95%; and Seversky entered into a one-year loan agreement with IMB in the aggregate principal amount of RUB 420 million which bears interest at 7.85%. As of 30 June 2006, an aggregate of RUB 1,940 million was outstanding under these loans. As of the date of this Prospectus, an aggregate of RUB 360 million remained outstanding under these loans.

Credit facility agreements with Moscow Narodny Bank Limited ("MNB"). On 25 August 2005, Sinara Trading (currently named TMK Global) entered into a U.S.$25.0 million facility agreement with MNB. The loan bears interest at a rate of one-month LIBOR plus 2.0% per annum and matures on 30 September 2007. Amounts due under the facility agreement are guaranteed by Seversky. Under this agreement, Sinara Trading assigned for the benefit of the lenders all of its rights, title and interest in and to designated contracts with third-party buyers of pipes produced at Seversky, including the proceeds from such contracts, and has further granted to the lenders a floating charge over certain accounts into which the proceeds of the end buyer contracts are to be deposited. As of 30 June 2006, U.S.$18.75 million was outstanding under the loan. The loan was repaid on 31 August 2006.

Loan from Deutsche Zentral-Genossenschaftsbank ("DZ Bank") and *AB Gazprombank (ZAO)* ("*GPB*"). On 14 March 2005, Tagmet, Volzhsky and Seversky each entered into credit facility agreements with DZ Bank and GPB in the aggregate principal amount of EUR 43.75 million, consisting of a EUR 19.9 million credit facility with Tagmet, a EUR 19.8 million credit facility with Seversky and a EUR 4.0 million credit facility with Volzhsky. Funds provided under the credit facilities were designated to finance the acquisition by Tagmet, Seversky and Volzhsky of equipment from SMS Demag AG and OAO Uralmashzavod. The credit facilities have terms of between 54 and 112 months and bear interest at rates of EURIBOR plus between 3.5% and 5.5%. OAO TMK, Trade House TMK, Sinarsky and the borrowers under each of these facilities have guaranteed the performance of each of Tagmet, Seversky and Volzhsky under the credit facility agreements. The facilities are secured by pledges of real property of Tagmet, existing equipment of Volzhsky, and equipment to be delivered to the respective borrowers by SMS Demag. As of 30 June 2006, EUR 13.8 million, EUR 10.2 million and EUR 3.6 million in principal amount were outstanding under the Tagmet, Seversky and Volzhsky facilities, respectively.

Credit Lines with GPB. On 22 May 2006, Volzhsky entered into a RUB 500 million credit line agreement with GPB for a period until 21 September 2007. Within the framework of this agreement Volzhsky entered into a RUB 270 million facility agreement on 19 June 2006 which bore interest at 6.5% and which was repaid at maturity on 15 September 2006, and a RUB 230 million facility agreement on 14 August 2006 which bears interest at 6.5% and matures on 10 November 2006.

Loan from ZAO Raiffeisenbank Austria (Bank) ("Raiffeisenbank"). On 7 April 2005, Tagmet and Sinarsky each entered into separate U.S.$12.0 million credit facility agreements with Raiffeisenbank. Under these facilities, Tagmet and Sinarsky were each entitled to borrow funds on a revolving basis until 7 September 2006 and the outstanding principal amount under the facility is then subject to repayment in 18 equal instalments commencing in October 2006 and ending on 31 March 2008. The loans bear interest at one month LIBOR plus 3.75% per annum. The funds provided under the credit facility agreements are to be used only to finance the repayment of recourse obligations arising from the borrowers' liabilities to Raiffeisenbank in connection with payments under certain letters of credit and the financing of customs duties for equipment purchased under import contracts and general pipe production expenses.

The credit facility agreements are secured by (i) pledges of property as provided in separate pledge agreements between each of Tagmet and Sinarsky and Raiffeisenbank and (ii) pledges of the rights of Tagmet and Sinarsky under certain sales contracts to off-takers. OAO TMK and Trade House TMK have also guaranteed the obligations of Tagmet and Sinarsky under the credit facility agreements. As of 30 June 2006, Tagmet had U.S.$5.0 million outstanding under its Raiffeisenbank credit facility and Sinarsky had U.S.$6.6 million outstanding under its Raiffeisenbank credit facility.

Loans from Natexis (Paris). On 27 February 2006, TMK Global and TMK North America, Inc. entered into a U.S.$30.0 million uncommitted revolving secured transactional financing facility agreement

with Natexis. The loan bears interest at the United States Federal Funds rate plus 1.6% per annum. As of 30 June 2006, U.S.$9.5 million was outstanding under the loan.

Loans from Savings Bank of the Russian Federation ("Sberbank"). On 10 April 2006, Tagmet entered into a non-revolving credit line agreement with Sberbank in the total principal amount of RUB 360 million. This loan bore interest at 8.0% and was repaid at maturity on 6 October 2006. As of 30 June 2006, RUB 360 million was outstanding under the loan.

On 27 April 2006, Tagmet and Volzhsky each entered into a separate revolving facility agreement with Sberbank in the total principal amount of RUB 600 million each at an annual interest rate of 6.8% due 26 July 2006. As of 30 June 2006, an aggregate of RUB 1,000.6 million was outstanding under the facilities. On 23 May 2006, Seversky entered into a revolving credit line agreement with Sberbank in the total principal amount of RUB 500 million at an annual interest rate of 7.5% due 17 November 2006. As of 30 June 2006, RUB 400 million was outstanding under the credit line.

Loans from Joint Stock Commercial Bank Moskovsky Delovoy Mir (OAO) ("MDM-Bank"). On 28 July 2005, TMK Trade House entered into a loan agreement with MDM-Bank in the total principal amount of RUB 300 million. The loan bore interest at 10.25% per annum and was repaid at maturity on 28 July 2006. Amounts due under the facility agreement were guaranteed by OAO TMK. As of 30 June 2006, RUB 300 million was outstanding under the loan.

On 7 July 2005, Seversky entered into a loan agreement with MDM-Bank in the total principal amount of RUB 300 million. The loan bore interest at an annual interest rate of 10.25% and was repaid at maturity on 7 July 2006. Amounts due under the facility agreement are guaranteed by OAO TMK. As of 30 June 2006, RUB 300 million was outstanding under the loan.

Loans from Amsterdam Trade Bank N.V. ("ATB"). On 25 November 2005, TMK Global entered into a EUR 16.5 million loan agreement with ATB. The loan bore interest at a rate of 6.5% per annum and was repaid on 24 October 2006. Amounts due under the facility agreement were guaranteed by Sinarsky. As of 30 June 2006, EUR 16.5 million was outstanding under the loan.

Loans from Banca Commerciala Romania. On 27 October 2005, TMK-Artrom entered into a loan agreement with Banca Commerciala Romania in the total principal amount of EUR 23.1 million. The facility agreement is guaranteed by TMK-Resita and is secured by the pledge of certain real property held by TMK-Resita and equipment held by TMK-Resita and TMK-Artrom. The loan bears interest at a rate of six-month EURIBOR plus 2.4% per annum and matures on 27 October 2010. As of 30 June 2006, EUR 11.3 million was outstanding under the loan.

On 11 April 2006, TMK-Artrom entered into a loan agreement with Banca Commerciala Romania in the total principal amount of EUR 18.4 million. Amounts due under the loan agreement are guaranteed by TMK-Resita. The facility agreement is secured by the pledge of certain real property held by TMK-Resita and TMK-Artrom and equipment held by TMK-Resita and TMK-Artrom and by certain proceeds to TMK-Artrom from contracts with TMK Global and Sinara Handel. The loan bears interest at a rate of three-month EURIBOR plus 2.75% per annum and matures on 10 April 2007. As of 30 June 2006, EUR 18.3 million was outstanding under the loan.

Russian Bond Issuances

In 2003 and 2005, we issued Russian rouble-denominated bonds, the proceeds of which were used to finance working capital additions, capital expenditures and repay short-term borrowings:

Series 01 RUB 2 billion bond issue. On 21 October 2003, we issued documentary non-convertible bonds, each with a nominal value of RUB 1,000, in the aggregate principal amount of RUB 2 billion. The bonds have six semi-annual interest coupons. The annual interest rate for the first, second and third coupon was 14% per annum and the interest rate for the fourth, fifth and sixth coupon is 10.3% per annum. Sinarsky, Seversky, Tagmet and Volzhsky each guaranteed a portion of the bonds. On 20 April 2006, we paid interest of RUB 102.7 million with respect to the third coupon of the series 01 bonds. As of 30 June 2006, all of the series 01 bonds remained outstanding. All of the series 01 bonds were redeemed on 20 October 2006.

Series 02 RUB 3 billion bond issue. On 29 March 2005, we issued documentary non-convertible bonds in the aggregate principal amount of RUB 3 billion which mature on 24 March 2009. The bonds have eight semi-annual interest coupons. The annual interest rate for the first two coupons was set at 11.09% and the annual rate for the third and fourth coupons at 10.09%. The fifth, sixth, seventh and eight coupon rates will

be determined by us within five days before the fourth coupon date, which is 27 March 2007. Under the terms of the bonds, investors are entitled to redeem the bonds within five days of the fourth coupon period, from 724 to 728 days from the date of issuance. Sinarsky, Seversky, Tagmet and Volzhsky have each guaranteed a portion of the bonds. As of 30 June 2006, all of the series 02 bonds remained outstanding.

Series 03 RUB 5 billion bond issue. On 29 November 2005, we registered and on 21 February 2006 we issued documentary non-convertible bonds in the aggregate principal amount of RUB 5 billion and due on 15 February 2011. The bonds have ten semi-annual interest coupons. The annual interest rate for the first four coupons was set at 7.95%. The fifth, sixth, seventh, eighth, ninth and tenth coupon rates will each be determined by us within 10 days before the previous interest payment date. Under the terms of the bonds, we are obliged to offer investors in the bonds a buy-back option within 10 days before commencement of the next coupon period. TMK Trade House has guaranteed the bonds. As of 30 June 2006, all of the series 03 bonds remained outstanding.

Certain credit facilities entered into after 30 June 2006

During July and August 2006, Volzhsky, Tagmet, Sinarsky and Seversky entered into short-term revolving credit line agreements with Sberbank in the principal amounts of RUB 1,300 million, RUB 600 million, RUB 420 million and RUB 240 million, respectively. Amounts drawn under the credit lines bear interest at rates ranging between 7.2% to 7.5% per annum and all amounts are subject to repayment on dates ranging from November 2006 to February 2007. As of the date of this Prospectus, all of these credit lines are fully drawn.

In August 2006, Tagmet and Sinarsky each entered into one-year loan agreements with IMB in the principal amounts of RUB 260 million and RUB 400 million, respectively. The loans bear interest at 7.0% per annum.

In July 2006, TMK Trade House entered into a one-year credit line agreement with OAO AKB Uralsib in the principal amount of RUB 1.0 billion. Within the framework of this agreement TMK Trade House made a draw down in the amount of RUB 100 million on 10 August 2006 at an interest rate of 8.3% per annum, which was repaid at maturity on 10 September 2006.

In September 2006, TMK Trade House entered into a two-year credit line agreement with OAO AKB Rosbank in the principal amount of RUB 1.3 billion. In October 2006 within the framework of this agreement TMK Trade House made a draw down in the amount of RUB 800 million. Amounts drawn under the credit line bear interest at 7.95% per annum and the credit line matures on 28 December 2006. As of the date of this Prospectus, RUB 800 million is outstanding under the credit line.

In July 2006 TMK Trade House entered into additional agreements extending the terms of a short-term credit line agreement with OAO AKB Uralsib, originally entered into in July 2005, in the principal amount of RUB 800 million. During July and August 2006 within the framework of this agreement TMK Trade House made a draw down in the amount of RUB 800 million. Amounts drawn under the credit line bore interest at rates ranging between 7.5% to 8.3% per annum and were repaid on dates ranging from August 2006 to September 2006. As of the date of this Prospectus, no amounts are outstanding under the credit line.

In September 2006, Seversky and Tagmet entered into loan agreements with Bayerische Hypo-Und Vereinsbank Aktiengesellschaft in the principal amounts of EUR 22.7 million and EUR 69.1 million, respectively. The agreements provide that amounts drawn under the loan shall bear interest at a rate of EURIBOR plus 0.26% per annum. OAO TMK has guaranteed the obligation of Seversky and Tagmet under the loan. As of the date of this Prospectus, no amounts are outstanding under these loans.

In October 2006, Seversky entered into a one-year loan agreement with IMB in the principal amount of RUB 650 million. The loan bears interest at 7.0% per annum. As of the date of this Prospectus, RUB 550 million is outstanding under the loan.

Additional debt financing in connection with the TMK Steel Loan

In connection with the funding of the TMK Steel Loan (as described under "Related Party Transactions") by us, we incurred the following debt.

Dresdner Facility. On 29 September 2006, we entered into a facility agreement with Dresdner Bank that provides for a bridge loan facility in the principal amount of U.S.$160 million, with a term of 364 days from the date of signing. Advances under the facilities will bear interest at LIBOR plus 1.75% per annum.

Any proceeds we receive in connection with a public offering of shares in OAO TMK, whether directly by OAO TMK or indirectly through repayment of the TMK Steel Loan, or proceeds from other borrowings (except the Medium Term Finance Facility, Bank Natexis Facility and Loan Participation Notes, each as described below) will be applied to prepay amounts received under this facility. The facilities are to be initially guaranteed by Volzhsky and TMK Trade House, and we are required to procure that Seversky, Sinarsky and Tagmet shall accede as additional guarantors to the facility no later than 60 days from the date of the execution of the facility agreement. In addition, in the event that a public offering of our ordinary shares does not take place prior to 30 November 2006, OAO TMK will be required to provide collateral to the lender in the form of a pledge over 25% plus one share of the share capital of each of Seversky and Tagmet. The terms of the facility require us to maintain a ratio of consolidated indebtedness to tangible net worth of not more than 1.5 to 1; a ratio of consolidated indebtedness to 12-month consolidated EBITDA of not more than 3.5 to 1; and a tangible net worth of at least U.S.$900 million. The facility also restricts our ability to pay dividends that would exceed 50% of our consolidated net income (as defined in the facility) in any financial year. As of the date of this Prospectus, we have drawn U.S.$160 million under this facility.

Medium Term Finance Facility. We entered into a medium term finance facility on 2 October 2006 with Moscow Narodny Bank and Commerzbank in the principal amount of U.S.$140 million. The facility is fully drawn. The term of the facility is 24 months, to be repaid in 16 equal monthly instalments starting nine months from the date of the first disbursement of the facility, which occurred on 4 October 2006. Advances under the facility bear interest at a rate of one-month LIBOR plus 1.75% per annum. The terms of the facility require us to maintain a ratio of financial indebtedness to tangible net worth of not more than 1.5 to 1; a ratio of financial indebtedness to EBITDA of not more than 3.5 to 1; and an IFRS tangible net worth of at least U.S.$900.0 million. The facility also restricts our ability to pay dividends that would exceed 80% of our net profits in any financial year. Volzhsky has entered into a separate suretyship agreement with the facility providers pursuant to which Volzhsky has guaranteed the performance by OAO TMK of its obligations under the finance facility. As of the date of this Prospectus, we have drawn U.S.$140 million under this facility.

Bank Natexis Facility. On 25 September 2006, we entered into a syndicated facility agreement with Bank Natexis, as arranger, in an aggregate principal amount of up to U.S.$155.0 million with OAO TMK and TMK Trade House as borrowers. We may draw amounts in U.S. dollars or euro under the facility at our option, provided that the aggregate amount drawn under the facility may not exceed U.S.$155.0 million. The facility has a term of 30 months from the date of the first drawdown, which occurred on 26 September 2006, and amounts drawn under the facility are to be repaid in 21 equal instalments commencing ten months from the first drawdown. The maturity date of the facility may be extended in certain circumstances at the election of OAO TMK and TMK Trade House. Advances under the facility bear interest at a rate of one-month LIBOR (or one-month EURIBOR in the case of euro borrowings under the facility) plus 2.20% per annum. In connection with these agreements, TMK Trade House has assigned the rights to receive payment under pipe off-take contracts with certain of our principal Russian oil and gas customers as security for amounts drawn under the facility. The loan is also secured by a pledge of certain of Volzhsky's inventory and other assets. The terms of the facility require us to maintain a ratio of financial indebtedness to consolidated net worth of not more than 1.25 to 1; and a ratio of consolidated financial indebtedness to consolidated EBITDA of not more than 3.5 to 1. TMK Trade House is required to maintain a ratio of total financial indebtedness to revenues from its main business activity of not more than 2 to 1. The facility also restricts our ability to pay dividends that would exceed 80% of our consolidated net income in any financial year. As of the date of this Prospectus, we have drawn the equivalent of U.S.$155 million under this facility.

Loan Participation Notes. On 29 September 2006, we completed an offering of U.S.$300 million 8.5% loan participation notes due September 2009. The notes were issued by TMK Capital S.A, a Luxembourg special purpose vehicle, for the sole purpose of funding a loan to OAO TMK. OAO TMK's obligations under the loan are initially unconditionally and irrevocably guaranteed by TMK Trade House and Volzhsky, and OAO TMK has also undertaken to secure similar guarantees from each of Seversky, Sinarsky and Tagmet within 90 days of the issuance of the notes. In the event that OAO TMK fails to procure the guarantees of any of Seversky, Sinarsky or Tagmet in connection with the loan within the 90-day period, the holders of the notes shall have the right to sell the notes to TMK Capital at the price per note of 101% of the principal amount thereof, plus accrued and unpaid interest thereon, up to the date of repurchase, and OAO TMK shall have the obligation to prepay the corresponding amount of the loan plus the premium to TMK Capital. The notes have been admitted to trading on the Gilt-Edged and Fixed

Interest Market of the London Stock Exchange. The terms of the notes require us, among other things, to maintain a ratio of consolidated indebtedness to 12-month consolidated EBITDA of not more than 3.5 to 1. The terms of the notes also contain certain restrictions on our ability to incur liens, to engage in assets sales, to engage in transactions with affiliates and to engage in mergers and similar transactions.

See "Related Party Transactions" for a description of the TMK Steel Loan.

Contractual Commitments

As of 30 June 2006, we had contractual commitments for the acquisition of property, plant and equipment from third parties in the aggregate amount of U.S.$213.9 million (net of VAT) related principally to our strategic capital investment programme. As of 30 June, we had paid advances of U.S.$58.2 million with respect to such commitments.

Disclosures about Market Risk

We are exposed in the ordinary course of business to risks related to changes in exchange rates, interest rates, commodity prices and energy and transportation tariffs.

Foreign Currency Exchange Rate Risk

While we generate most of our net sales in Russian roubles, we also generate significant net sales in other currencies, primarily U.S. dollars, from our export operations. As we sell a significant portion of our production outside of Russia, we are exposed to foreign currency risk in connection with these sales. Our sales outside of Russia in 2005 were 27% of our total sales volume compared to 26% in 2004 and our sales outside of Russia in the first six months of each of 2006 and 2005 were 28% of our total sales volume.

Our products are typically priced in roubles for Russian and CIS sales and in U.S. dollars for international sales, and our direct costs, including raw materials, labour and transportation costs, are largely incurred in roubles, our capital expenditures are incurred principally in euro, while other costs, such as interest expense, are incurred in roubles, U.S. dollars and euro. The mix of our revenues and costs is such that appreciation in real terms of the Russian rouble against the U.S. dollar tends to result in an increase in our costs relative to our revenues, while depreciation of the Russian rouble against the U.S. dollar in real terms tends to result in a decrease in our costs relative to our revenues. The Russian rouble appreciated in real terms against the U.S. dollar by 15.1% in 2004, 12.3% in 2005 and by 7.2% in the first six months of 2006, according to the CBR. However, in recent years the effect of the real appreciation of the Russian rouble against the U.S. dollar has been more than offset by increased prices for our pipe products, both in Russia and internationally.

Due to our foreign currency denominated assets and liabilities, we are subject to the risk arising from foreign exchange rate fluctuations. We seek to minimise earnings and cash flow volatility associated with foreign exchange rate changes. The following table sets forth our foreign currency position as at 30 June 2006 and 31 December 2005.

	As of 30 June 2006		As of 31 December 2005	
	RUB	Other currencies	RUB	Other currencies
	(millions of U.S. dollars)			
Cash and cash equivalents	23.2	23.3	31.9	15.9
Accounts receivable	155.9	93.9	71.8	53.2
Accounts payable and other liabilities	145.9	75.8	127.3	69.5

Until recently, the Russian rouble was generally not convertible outside Russia. A market existed within Russia for the conversion of roubles into other currencies, but the limited availability of other currencies might have inflated their value relative to the Russian rouble. From 1 July 2006, the Central Bank abolished existing restrictions on currency operations creating the conditions for rouble to become a freely convertible currency. It is too early at this stage, however, to determine whether an active international market in the Russian rouble will develop. As a result of the historical currency restrictions in Russia, the market for instruments to manage our foreign currency exchange rate risks is in its early stages and the availability of such types of instruments is currently limited.

A hypothetical and instantaneous 10% depreciation of the Russian rouble against both the U.S. dollar and euro as of 30 June 2006 would have resulted in additional interest expense at our Russian subsidiaries of approximately U.S.$0.9 million, reflecting the increased costs of servicing their foreign currency-

denominated indebtedness outstanding as of 30 June 2006 through the final maturity dates of such indebtedness.

A hypothetical and instantaneous 10% depreciation of the Russian rouble against the U.S. dollar as of 30 June 2006 would have resulted in an estimated foreign exchange loss of approximately U.S.$12.6 million with respect to foreign currency-denominated liabilities held by our Russian subsidiaries as of 30 June 2006.

Commodity Price Risk

Our revenue is exposed to the market risk of price fluctuations related to the sale of our pipe products. Prices for the pipe products that we sell both inside and outside Russia are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of our raw material inputs) and global and Russian economic growth. Adverse changes in any of these factors may reduce the revenue that we receive from the sale of our pipe products. Our costs are also exposed to fluctuations in prices for the purchase, processing and production of scrap metal, steel billets and other raw material inputs.

Credit Risk

We are subject to credit risk, principally in the form of trade receivables. We have policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Our maximum exposure to credit risk is represented by the carrying amount of our accounts receivable on our balance sheet net of provisions for impairment of receivables. Although collection of receivables may be influenced by economic factors, we believe that we are not subject to significant risk of loss in excess of the provision already recorded.

Interest Rate Risk

We are exposed to variations in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate debt. As of 31 December 2005, approximately U.S.$303.3 million, or 51.4%, of our total interest-bearing loans and borrowings consisted of variable interest rate debt, while U.S.$287.2 million or 48.6% of our total interest-bearing loans and borrowings consisted of fixed interest rate debt. As of 30 June 2006, approximately U.S.$214.7 million, or 32.3%, of our total interest-bearing loans and borrowings was variable interest rate debt, while U.S.$450.8 million, or 67.7%, of our total interest-bearing loans and borrowings was fixed interest rate debt. We may in the future incur significant debt obligations and become more exposed to interest rate fluctuations, in particular in order to fund acquisitions or our capital expenditure requirements.

A hypothetical, instantaneous and unfavourable change of 100 basis points in the interest rate applicable to our floating-rate financial liabilities held as of 30 June 2006 would have resulted in additional net interest expense to us of approximately U.S.$1.6 million from servicing the interest on such liabilities through the final maturity dates of such liabilities.

Critical Accounting Policies

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the period under review, and the reported amount of revenues and expenses during the period. Our management regularly evaluates these estimates. Our management estimates are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Accordingly, actual results may differ materially from current expectations under different assumptions of conditions. Our management believes that the following are the most significant judgments and estimates used in the preparation of our financial statements.

Accounting for Business Combinations

Acquisitions of subsidiaries are accounted for under the purchase method of accounting. In accordance with IFRS 3, Business Combinations, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The accounting for business combinations under the purchase method is complicated and involves the use of significant judgment. The excess of purchase price over the fair value of our share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of our share of identifiable net assets of the subsidiary acquired, we would reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination and would recognize directly in the income statement any excess remaining after that reassessment.

Determining the fair values of the assets and liabilities involves the use of judgment, particularly in relation to the property, plant and equipment since the fair market value of the unique production complexes do not have fair values that are readily determinable. We may use different techniques to determine fair values, including, among others, market prices, where available, appraisals, comparisons to transactions for similar assets and liabilities and present value of estimated future cash flows. Since these estimates involve the use of significant judgment, they can change as new information becomes available. We use all available information to assess the fair value of the assets acquired through business combinations and, for major business acquisitions, typically engage an outside appraisal firm to assist in the fair value determination of the acquired long-lived assets.

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 at the historical cost of the predecessor. The differences between the total book value of net assets, including the predecessor's goodwill, and the consideration paid is accounted for as an adjustment to equity.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post acquisition changes in our share of net assets of the associate. Our share of our associates' profits or losses is recognised in the income statement and its share of movements in reserves is recognised in equity. When our share of losses in an associate equals or exceeds its interest in the associate we do not recognise further losses, unless we are obligated to make further payments to, or on behalf of, the associate.

Impairment of Property, Plant and Equipment

Impairment loss with respect to property, plant and equipment assets is recognised for the difference between the estimated recoverable amount and the carrying value of such assets. The carrying amounts of such assets are reduced to their 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.

We assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, we estimate the recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating units to which the item is allocated. Estimating the value in use requires us 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 development of the value in use amount requires us to estimate the life of the asset, its expected cash flows over that life, estimated future salvage values, and the appropriate discount rate, which is generally based on our weighted average cost of capital, itself subject to additional estimates and assumptions. Changes in one or all of these assumptions can lead to us either recognising or avoiding impairment charges. We did not recognise any impairment losses with respect to property, plant and equipment in 2005, 2004 or 2003 or in the first six months of either 2006 or 2005.

Useful Lives of Items of Property, Plant and Equipment

Items of property, plant and equipment are stated at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value.

Our management considers the following factors in determining the useful life of an asset:

(a) the expected usage of the asset by the enterprise;

(b) the expected physical wear and tear;

(c) technical obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

The estimation of the useful life of an item of property, plant or equipment is a matter of management judgment based on the experience of the enterprise with similar assets.

Our management calculates depreciation on a straight-line basis over the estimated useful lives of the assets 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

We assess the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, any changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." In 2005, the change in estimate of useful lives of property, plant and equipment resulted in additional depreciation expense of approximately U.S.$4.9 million. We did not recognise any changes in estimates of the remaining useful lives of items of property, plant and equipment in the first six months of 2006 and 2005, respectively.

Impairment of Goodwill

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

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 expected to benefit from the synergies of the combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

We determine 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 us 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. Changes in the estimates of the future cash flows, the weighted average cost of capital (including the assumptions related to the estimated long-term risk free rate, our optimal capitalisation structure and our company specific beta, or volatility) can result in a goodwill impairment charge being either avoided or recorded. The carrying amount of goodwill on our consolidated balance sheet as at 30 June 2006 and 31 December 2005 was U.S.$45.6 million and U.S.$37.2 million, respectively, which relate principally to our acquisition of Tagmet.

Post-Employment Benefits

In addition to defined contributions to Russian Federation state pension, social insurance, medical insurance and unemployment funds at statutory rates in force, our subsidiaries provide 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 and the completion of a minimum service period and is determined based on the amount of the benefits stipulated in the collective bargaining agreements.

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

We use 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 (including mortality, both during and after employment, rates of employee turnover, disability and early retirement) as well as financial assumptions (including discount rate, future inflation rates and future salaries). Changes in one or all of these assumptions can result in higher or lower expense. Finally, the accrual basis costs recognised in our financial statements for post-employment benefits are not necessarily similar to the cash flow requirements of those obligations. In each of the six-month periods ended 30 June 2006 and 2005 and in each of the years ended 31 December 2005, 2004 and 2003, we recognised net benefit expense of U.S.$1.2 million, U.S.$3.8 million, U.S.$7.4 million, U.S.$0.9 million and U.S.$1.1 million, respectively.

Allowances

We make allowances for doubtful accounts receivable. Our management uses significant judgment in estimating doubtful accounts. In estimating doubtful accounts, we consider such factors as current overall economic conditions, industry-specific economic conditions and 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 our consolidated financial statements. As of 30 June 2006, 31 December 2005 and 2004 we had recorded allowances for doubtful accounts of U.S.$9.0 million, U.S.$8.5 million and U.S.$8.7 million, respectively.

We make allowances for obsolete and slow-moving raw materials and spare parts. As of 30 June 2006, and 31 December 2005, 2004 and 2003, we recorded an allowance for obsolete and slow-moving items of U.S.$8.3 million, U.S.$5.9 million, U.S.$3.8 million and U.S.$2.8 million, respectively. In addition, certain of our finished goods are carried at net realisable value. We estimate allowances for obsolete and slow-moving inventories based on inventory levels on hand, future purchase commitments, and current and forecasted product demand. Our allowance level, and as a result our overall profitability, is therefore subject to our ability to reasonably forecast future consumption levels versus quantities on hand and existing purchase commitments. Forecasting and resource planning are subject to extensive assumptions that we must make regarding, among other variables, expected market changes, overall supply and demand, pricing incentives and raw material availability. We make estimates of net realisable value of finished goods based on the most reliable evidence available at the time the estimates are made. In making these estimates, we take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Deferred Income Taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves a jurisdiction-by-jurisdiction estimation of actual current tax exposure and the assessment of the temporary differences resulting from differing treatment of items, such as accruals and amortisation, among others, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must assess in the course of our tax planning process our ability and the ability of our subsidiaries to obtain the benefit of deferred tax assets based on expected future taxable profit and available tax planning strategies. If in management's judgment, the deferred tax assets recorded will not be recovered, a valuation allowance is recorded to reduce the deferred tax asset.

Significant management judgment is required in determining our provision for income taxes, deferred tax assets, deferred tax liabilities and valuation allowances to reflect the potential inability to fully recover deferred tax assets. In our financial statements the analysis is based on the estimates of taxable income in the jurisdictions in which we operate and the period over which the deferred tax assets and liabilities will be recoverable. If actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could adversely affect our financial position and results of operations.

INDUSTRY OVERVIEW

The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources we believe to be reliable. We accept responsibility for accurately reproducing such information, data and statistics but accept no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

Global Steel Pipe Industry Overview

Steel pipe is used in a wide range of applications across numerous industries. The principal industries in which steel pipe is used include the oil and gas, power generation, mechanical engineering, automotive, chemicals and petrochemicals industries, and steel pipe is also used in a number of other industrial applications. The oil and gas industry uses both seamless threaded pipe and welded pipe. Seamless threaded pipe is used by the oil and gas industry, together with special joints, for drilling operations and to equip oil and gas wells, and welded steel pipe is principally used for transmission pipelines. The pipe used by the power generation industry must be capable of withstanding extreme conditions of temperature and pressure used in fossil fuel plants (both conventional and combined cycle) as well as in nuclear power plants. The mechanical engineering industry uses pipes in applications for machine tools, agricultural machinery and lifting equipment. Pipes are also supplied for the automotive industry to carmakers and parts manufacturers. The chemicals and petrochemicals industry uses pipes mostly in pipework in chemical and petrochemical installations, particularly refineries. Other applications include specific products for various industrial applications.

The United States has historically been, and remains, the world's largest national market for the pipe industry and accounted for 39.4% of the global market in 2005 according to Global Industry Analysts, Inc. ("GIA"). The market for steel pipe has expanded significantly in recent years as a result of the recent increase of energy demand in emerging economies, in particular Brazil, Russia, India and China. The following table sets forth the estimated geographical breakdown of the pipe market for the periods indicated.

	2001	2002	2003	2004	2005
			(thousands of tons)		
United States	30,715	30,810	31,634	32,628	33,719
Canada	2,364	2,393	2,427	2,468	2,516
Japan	8,602	8,774	8,964	9,177	9,415
Europe[1]	23,404	23,768	24,205	24,719	25,318
Asia-Pacific	7,566	7,713	7,887	8,089	8,323
Latin America	4,147	4,232	4,329	4,440	4,567
Middle East	1,531	1,549	1,570	1,596	1,626
Total	**78,330**	**79,238**	**81,017**	**83,118**	**85,485**

Source: GIA

(1) Includes Russia and the CIS.

The steel pipe industry is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity and the existence of, and fluctuations in, exchange rates, inflation and protective trade measures. Steel pipe prices respond to supply and demand and have fluctuated in response to general and industry-specific economic conditions.

Seamless and Welded Steel Pipe

Steel pipes can be classified as either seamless or welded, depending on the manufacturing process. Seamless pipe is used in applications that require high strength and toughness and where stringent standards and tolerances have to be met. Seamless pipes are manufactured from mild steel and alloys, depending on the particular application. The uniformity of structure and high resistance properties mean seamless pipe is primarily used in demanding applications in the oil and gas exploration and distribution sectors, chemical processing, defence equipment and bearings markets. Products for the oil and gas sector are manufactured to particularly exacting standards. These products are usually classified into casing (which is used principally as the structural liner in oil and gas wells and which represents the largest OCTG market), tubing (which is placed within casing pipes and used to convey oil and gas to the surface), and drill pipes (which are used to drill wells and which represent the smallest OCTG market).

Seamless pipe is generally used in circumstances in which its superior strength and quality are of vital importance. These include, in particular, applications involving exploration and production of oil and gas, and chemicals processing. Production costs in the seamless segment are high in comparison to the welded segment due to the more complicated production process involved in their manufacture as well as the reluctance of customers to switch to untested suppliers due to the high costs associated with product failures. Such barriers to entry have resulted in a fewer number of worldwide integrated manufacturers of seamless pipe as compared to the number of other pipe manufacturers.

Welded pipe accounts for nearly 70% of the global pipe market, and is used in a wide range of applications. Welded pipe is used in many of the same industries as seamless pipe, but generally in less demanding applications. These include onshore oil and gas large and small diameter transmission pipelines, onshore and shallower water (less than 12,500 feet) exploration and production hydrocarbon wells and other industrial and engineering applications such as construction and the manufacture of heavy equipment.

The following table represents the estimated global breakdown of pipe production by the seamless and welded segments for the periods indicated.

	2001	2002	2003	2004	2005
			(thousands of tons)		
Seamless pipes	27,898	28,433	29,062	29,789	30,628
Welded pipes	50,432	50,805	51,955	53,329	54,857
Total	**78,330**	**79,238**	**81,017**	**83,118**	**85,485**

Source: GIA

Manufacturing Process

Seamless pipe primarily involves hollowing out steel billets or rounds, with the resulting material rolled into the final desired size and shape. Welded pipe is produced by rolling and welding flat steel (using steel plate, strip or coil as feedstock) along the edge. The welding process itself weakens the metal and causes stress in the tube, while the weld forms the weakest part of the welded pipe. The entire manufacturing process associated with seamless products is much more capital and energy intensive than the process associated with welded products.

Industry Trends

As with other commodity markets, the steel pipe market exhibits cyclical trends. In recent years, the pipe market has been driven primarily by drilling activity in the oil and gas industry, the overall raw materials cycle, general levels of economic activity and the scale and pace of industrialisation in emerging markets. Historically, the pipe market has tended to move in sequence with the dynamics of the overall steel market, though generally exhibiting less volatility. However, in recent years the resurgence in activity in oil and gas exploration, consolidation in the industry and the requirement for more specialised products has resulted in the pipe market varying more from the steel market as a whole.

Drilling activity in the oil and gas industry is generally seen as the key indicator of the strength of the pipe market. Baker Hughes Incorporated publishes data on the worldwide count of active drilling rigs on a monthly basis, and reviews this data geographically. September 2006 data show a total rig count of 3,046 globally (2,097 in the United States/Canada, 949 elsewhere), an increase of approximately 4% over September 2005. In 2005 oil and gas sales accounted for approximately 62% and 43%, respectively, of the sales of the two largest pipe producers, Tenaris and V&M Tubes. Demand for pipe has increased with the rise in activity levels of the oil and gas industry in recent years, as higher oil prices have attracted more investment in the oil industry.

Demand for seamless pipe has also increased as conventional hydrocarbon sources deplete and the oil and gas industry increasingly turns to unconventional sources, including heavy oil, oil in deepwater basins, tight gas, liquefied natural gas ("LNG"), acid sour crude oil and Arctic oil, to meet global demand. Exploring and developing unconventional oil resources typically requires pipes of higher strength and durability than would be required by conventional oil extraction, as the operational conditions are typically much harsher and more demanding. For example, deepwater wells require pipes that can withstand very high pressures at great depths, while heavier, more sour oil exerts greater wear and tear on transmission pipelines. Increasing well complexity can also have a disproportionate impact on the demand for high

quality seamless pipe products, as an offshore well, for example, may consume several times as much volume of pipe as a shallow onshore well of similar dimensions. An offshore well would also necessitate a higher proportion of special grade pipe and premium connections. Customers also increasingly demand more value-added services, such as premium connections, when purchasing pipes, particularly in more developed markets such as North America.

The industry enjoys significant scale barriers to entry as there are significant technological hurdles to potential new entrants, particularly in the manufacture of seamless pipes. In addition, customers generally require potential suppliers to acquire the appropriate certifications, either from the customers themselves or from third parties such as the American Petroleum Institute, before they will consider procuring higher-end pipe from producers, and receipt of these certifications may be time consuming.

Russian Pipe Market

The Russian pipe market ranks third in the world by production volumes. In 2005, according to Rosstat, Russia produced 6.7 million tons of seamless and welded pipe. This production level reflects an 11% increase as compared to 2004 and continued the trend of significant volume growth that Russian producers have realised since 1999.

Since 2000, the Russian pipe industry has experienced a significant turnaround, driven by the general economic recovery in Russia and, in particular, by the strong performance of the country's oil and gas industry around which the Russian pipe industry has been built. Notwithstanding considerable growth over the last five years, Russian pipe production volumes remain considerably lower than the peak reached in the early 1990s.

The following chart sets forth the estimated breakdown of the production of both seamless and welded pipes in Russia for the periods indicated.

	1997	1998	1999	2000	2001	2002	2003	2004	2005
				(thousands of tons)					
Seamless	1,677	1,462	1,706	2,338	2,382	2,350	2,576	2,669	2,776
Welded	1,797	1,380	1,594	2,642	3,023	2,811	3,558	3,365	3,919
Total	**3,474**	**2,842**	**3,300**	**4,980**	**5,405**	**5,161**	**6,134**	**6,034**	**6,695**

Source: Rosstat

The Russian pipe industry serves three principal end markets: oil and gas; machinery building; and housing and utilities. Of these three end markets, oil and gas is the dominant driver of Russian pipe demand and the Russian pipe market is characterised by a high historical correlation between crude oil production volumes and pipe volumes. Based on recent announcements by major Russian and international market participants in the oil and gas markets, it is expected that there will be an increase in the number of offshore rigs and rigs operating in challenging environments in Russia, underpinning expected future demand for seamless pipes in the Russian market.

Industry analysts generally expect the demand for pipes in Russia from large-scale export infrastructure projects, including oil pipelines such as the Baltic Pipeline System and the Eastern Siberian Pacific Ocean pipeline and gas pipelines such as the Yamal-Europe pipeline and the North European Gas Pipeline, to continue to provide significant demand for large diameter welded products in the near to mid-term. Key sources of demand in Russia include ongoing maintenance capital expenditure and demand growth from exploration and production in frontier areas such as Eastern Siberia and the Far East.

Competitive Environment

The global market for seamless steel pipe products is highly competitive. The production of seamless pipe products following the stringent requirements of major oil and gas companies requires the development of specialised skills and significant investments in manufacturing facilities. In comparison, seamless pipe products for standard applications can be produced in most seamless pipe mills worldwide and such products are subject to competition from welded pipe products for certain applications. Welded pipe, however, is not generally considered a satisfactory substitute for seamless steel pipe in high-pressure or high-stress applications. Our principal competitors within the international seamless pipe market include Tenaris, V&M Tubes and Sumitomo Metals, while our principal competitors within the Russian market include ChTRP, UMC and Severstal. See "Business—Competition."

BUSINESS

Overview

We are Russia's largest manufacturer and supplier of steel pipes and among the world's largest steel pipe producers, with an approximately 3% worldwide market share for steel pipes by sales volume in 2005, according to our estimates. We also estimate that we had an approximately 34% market share for steel pipes in Russia by sales volume in 2005. In 2005, we sold 2.94 million tons of steel pipes, including 1.89 million tons of seamless pipes, of which 817,000 tons comprised OCTG, and in the first six months of 2006 we sold 1.46 million tons of steel pipes, including 971,000 tons of seamless pipes, of which 483,000 tons comprised OCTG. Pipes for the oil and gas industry accounted for approximately 59% of our total sales volume in 2005 and approximately 61% of our total sales volume in the first six months of 2006. We are also Russia's largest exporter of pipes, with sales outside of Russia accounting for approximately 27% of our total sales volume in 2005 and 28% of our total sales volume in the first six months of 2006.

We produce both seamless and welded pipes but are principally focused on developing our seamless pipe business, which we believe has better growth opportunities. We divide our pipes business into two main business segments and, within these segments, five principal product lines. The two main business segments are seamless and welded pipes and the five principal product lines are seamless OCTG, which are used in oil and gas production applications; seamless line pipes, which are used for oil and gas transportation, seamless industrial pipes, which are used in various industrial applications by the machine-building, chemicals and petrochemicals, power generation, automotive and other industries; large-diameter welded pipes, which are used for the transportation of oil and gas; and industrial welded pipes, which are used in a wide variety of infrastructure and industrial applications. In 2005, our annual production capacity was approximately 3.8 million tons of pipes, including 2.0 million tons of seamless pipes. We also operate our own steel-making facilities. In 2005, we produced approximately 2.2 million tons of steel, which satisfied approximately 80% of our steel billet requirements for our seamless pipe segment; we also purchase steel plate and coils for use in our welded pipe segment.

We launched our strategic capital investment programme in 2004 which is principally focused on increasing our seamless pipe production and increasing the efficiency of our production processes. We expect to make total capital expenditures of approximately U.S.$1.2 billion from the beginning of 2006 through the end of 2010 under the programme. We made capital expenditures of U.S.$161.6 million in connection with our seamless pipe business in 2004 and 2005 and U.S.$105.6 million in the first six months of 2006. We plan that upon the completion of our strategic investment programme in 2010, we will have increased our seamless pipe production capacity by 1.1 million tons per annum to 3.1 million tons per annum and our steel-making capacity by 1.0 million tons per annum to 3.4 million tons per annum. In September 2006, we also entered into MOUs with Welspun Gujarat, an Indian welded pipe manufacturer, and Corinth Pipeworks, a Greek welded pipe manufacturer, for the establishment of joint venture subsidiaries for the production of welded pipes principally for use in oil and gas applications. We expect that our joint venture with Welspun Gujarat will have the capacity to produce more than 550,000 tons of large-diameter longitudinal welded pipes per annum and that our joint venture with Corinth Pipeworks will have the capacity to produce more than 300,000 tons of medium-diameter welded pipes per annum.

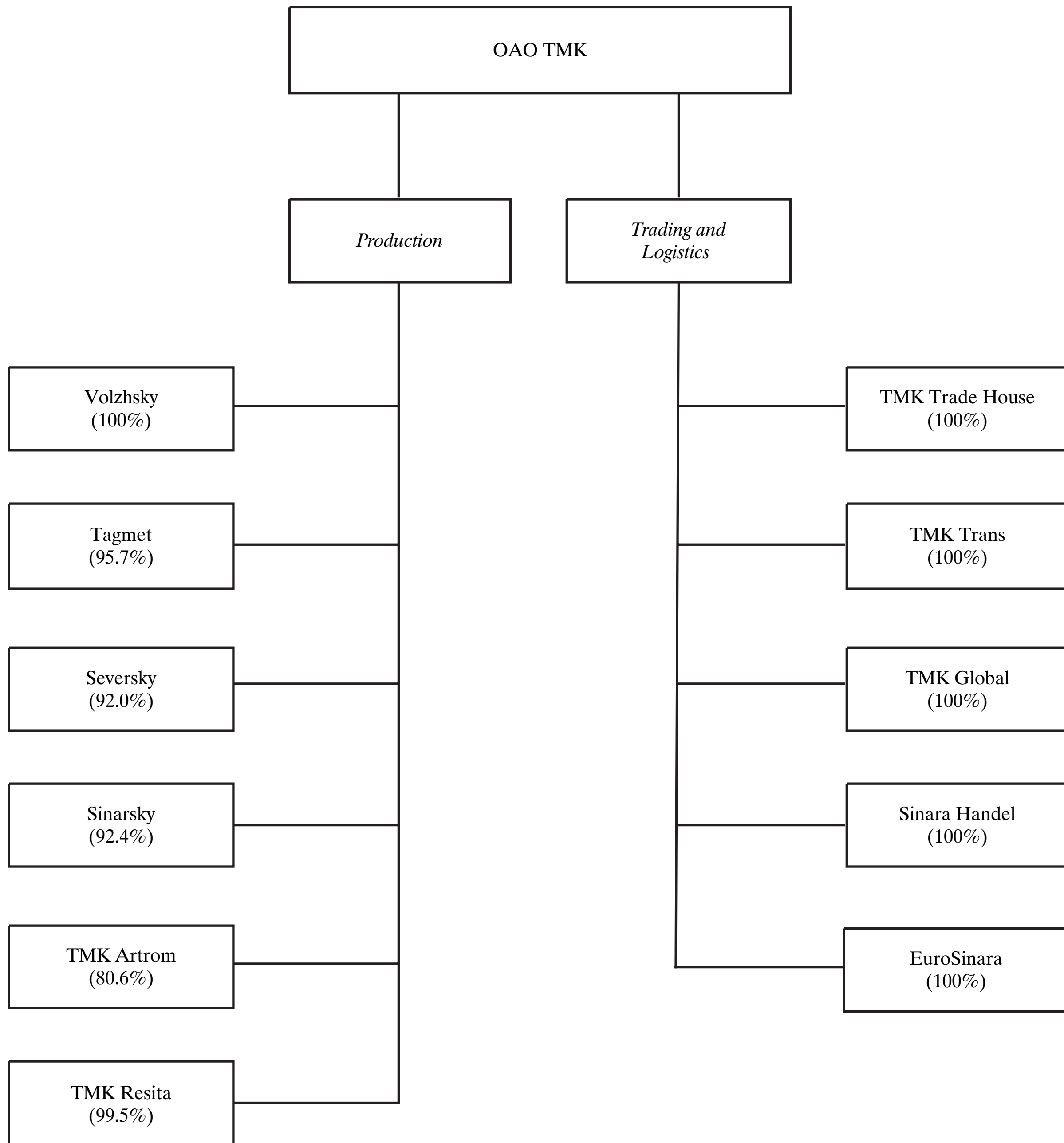
We deliver our products to customers in more than 60 countries. Our principal customers include major Russian oil and gas companies, such as Gazprom, LUKOIL, Surgutneftegaz, TNK-BP and Rosneft, major multinational oil and gas companies, such as the Shell Group, and national oil companies, such as ONGC, Saudi Aramco and KOC. In addition, we have participated as a supplier of pipes in many major national and international projects, such as the Caspian Pipeline Consortium oil pipeline, the Baltic Pipeline System oil pipeline and the Yamal-Europe gas pipeline. We are currently participating as a supplier in the expansion of the Central Asia-Centre gas pipeline project.

We operate primarily through our six production subsidiaries, four of which—Volzhsky, Seversky, Tagmet and Sinarsky pipe plants—are in Russia, and two of which—TMK-Artrom and TMK-Resita—are in Romania. In 2005, we had total consolidated net sales of U.S.$2,938.2 million and profit before tax of U.S.$350.0 million, as compared to total consolidated net sales of U.S.$1,984.0 million and profit before tax of U.S.$128.3 million in 2004. For the six months ended 30 June 2006, we had consolidated net sales of U.S.$1,576.3 million and profit before tax of U.S.$304.7 million, as compared to consolidated net sales of U.S.$1,437.9 million and profit before tax of U.S.$158.7 million for the six months ended 30 June 2005. As of 30 June 2006, we had total assets of U.S.$2,792.7 million. See "Selected Consolidated Financial Information."

Corporate Organisation

We conduct all of our production, sales and marketing operations through our subsidiaries. For a more detailed description of the operations of our subsidiaries, see "—Production Facilities" and "—Sales and Marketing."

The following chart presents the main production, trading and logistics companies within our group, including our total direct and indirect percentage of ownership in these companies as of the date of this Prospectus.



Manufacturing Operations

We conduct all of our manufacturing operations at our six plants:

- *Volzhsky,* which produces both steel and pipes, is located in the Volgograd region near the Volga River.
- *Seversky,* which produces both steel and pipes, is located in the Sverdlovsk region near the Ural Mountains.

- *Tagmet,* which produces both steel and pipes, is located in the Rostov region near the Azov Sea.
- *Sinarsky,* which produces only pipes, is located in the Sverdlovsk region.
- *TMK-Artrom,* which produces only pipes, is located in Slatina, in southern Romania.
- *TMK-Resita,* which produces only steel, is located in Resita, in southwestern Romania.

Trading Services

- *TMK Trade House,* incorporated in the Russian Federation, is primarily responsible for sales of our products in Russia and other CIS markets. TMK Trade House has branches or representative offices in several countries including Azerbaijan and China.
- *TMK Global,* incorporated in Switzerland, is primarily responsible for the distribution of our pipe products to customers outside Europe, Russia and the CIS countries. TMK Global operates a network of trade representatives, agents and distributors and has subsidiaries in the Arab Emirates, and the United States.
- *Sinara Handel,* incorporated in Germany, currently distributes our products in Europe, including, through its subsidiary, Eurosinara, Southern Europe.

Transportation and Logistics

- *TMK-Trans,* incorporated in Russia, manages our transportation and logistical needs. TMK-Trans arranges for the delivery of our products to customers in over 60 countries in the CIS and non-CIS markets and delivers raw materials to our production facilities.

Developments Regarding our Corporate Structure

Our board of directors recently approved plans to merge our Volzhsky plant into OAO TMK by way of accession under Russian law, and the shareholders of OAO TMK approved the accession on 30 October 2006. It is expected that the shareholders of Volzhsky will vote to approve the accession in the second quarter of 2007. Upon the completion of the shareholder approvals, and any necessary regulatory approvals, Volzhsky will be merged into OAO TMK and OAO TMK will accede to all of the assets and liabilities of Volzhsky.

From time to time we acquire shares of our subsidiaries on the open market or otherwise:

- in the year ended 31 December 2005, we purchased 0.73% of Tagmet's outstanding shares, 0.48% of Seversky's outstanding shares and 2.43% of Sinarsky's outstanding shares for an aggregate of U.S.$8.5 million; and
- during the six-month period ended 30 June 2006, we purchased 0.42% of Tagmet's outstanding shares, 0.21% of Seversky's outstanding shares and 1.17% of Sinarsky's outstanding shares for an aggregate of U.S.$12.8 million.

Pursuant to recent amendments to the Joint Stock Companies Law, effective as of 1 July 2006, existing shareholders of open joint stock companies may demand that any person who holds more than 95% of the voting shares in the company make an offer to purchase the minority shareholders' shares within one year from 12 August 2006 (the date of entry into force of the relevant amendments to the Joint Stock Companies Law). Persons who hold more than 95% of the voting shares in the company may require minority shareholders to sell their shares to such person within one year from 12 August 2006. The offer price for such shares must be determined by an independent appraiser, the report of which must be reviewed by a self-regulating appraisers' association. To date, however, regulations on the review procedures of an independent appraiser's report by a self-regulating appraisers' association have not yet been adopted. We currently hold a 95.7% interest in Tagmet and have held more than 94.59% of the outstanding shares of Tagmet since February 2004. As a result, in the event that the obligatory offer requirements contained in the recent amendments to the Joint Stock Companies Law enter into practical effect, we will be required to make an offer to the minority shareholders of Tagmet to purchase their shares upon the demand of such shareholders.

Investment Highlights

We believe that the following investment highlights should be considered by potential investors.

Important Participant in the Highly Attractive Hydrocarbons Market.

The global pipe industry has exhibited strong growth in recent years, in large part due to the rise in global demand for hydrocarbons and historically high oil and gas prices. Our product portfolio is strongly oriented toward higher value-added technologically sophisticated products necessary for the production chain of the global oil and gas industry, including OCTG, seamless line pipe and large-diameter welded pipe. Strong demand for hydrocarbons in recent years and the decline in production at existing oil and gas fields have been primary drivers behind increasing exploration and production expenditures by oil and gas companies. According to the International Energy Agency, approximately 11% of exploration and production budgets of oil and gas companies are spent on OCTG and approximately 40% of oil and gas pipeline construction costs are for seamless and welded line pipe. In addition, the operating environment for oil and gas companies is becoming increasingly complex, leading to increasingly capital-intensive drilling activity, such as offshore drilling and exploration and production in challenging environments which require higher value-added pipes. As the leading manufacturer of steel pipes in Russia, we also benefit from the strong Russian economy and the current high levels of drilling and well completion activity in Russia. We further believe that in light of the relative underinvestment in the oil and gas and power infrastructure in Russia since the collapse of the Soviet Union, and the strong state support of the oil and gas industry, investment in oil and gas exploration, production and transportation in Russia and, consequently, demand for pipes for the oil and gas industry will continue to be strong.

Leader in a Consolidated Industry with High Barriers to Entry. Our strategic focus is on seamless pipes for the oil and gas, energy, automotive and other industries. We estimate that we had approximately 52% of the seamless pipe market in Russia by sales volume and approximately 7% of the global seamless pipe market by sales volume in 2005. The global seamless pipe industry is characterised by a high degree of concentration, with a small number of large international producers, high barriers to entry and high margins relative to other pipe products. The capital intensive nature of the production, the high technological sophistication of the production process and products and the need for certifications by industry bodies and approvals from major international oil and gas companies all serve as barriers to entry. In Russia, we are significantly larger than our principal competitor in the seamless pipe market and benefit from strong relationships with many of the principal oil and gas production and distribution companies in Russia, including Gazprom, TNK-BP, LUKOIL, Rosneft and Surgutneftegaz.

Strong Export Platform. We were the leading exporter of pipes from Russia in 2005, with an estimated 53% share of all steel pipe exports from Russia, an estimated 71% share of total seamless pipe exports, an estimated 75% share of OCTG exports and an estimated 45% share of total line pipe exports from Russia. Two of our plants, Volzhsky and Tagmet, are strategically located in the southwestern part of Russia near Black Sea shipping routes and the Volga River and transit routes to the Caspian region, which gives them a strong export orientation. Our two Romanian plants, TMK-Artrom and TMK-Resita, provide us with a potentially strong base from which to access European markets, particularly following Romania's expected entry into the European Union. In 2004, we entered into a three-year distribution agreement with Lone Star Steel Company, a manufacturer of welded OCTG and specialty tubular products in the United States, pursuant to which we appointed Lone Star as the exclusive distributor of our products in the United States and Canada to strengthen our position on the North American market.

Leading Cost Position. Russia is a low-cost region for pipe production, which we believe provides us with cost advantages as compared to our principal international competitors in the global seamless pipe market. In particular, we believe that we have lower unit labour costs, gas and electricity costs and seamless pipe raw material costs than our principal international competitors. We are able to source the main raw material for our seamless pipe production, steel scrap, at lower costs than on the international markets due to the significant supply of scrap in Russia and constraints on the export of steel scrap from Russia. Seversky and Sinarsky are located in the Urals region near transport routes linking the Russian industrial centres with the oil and gas regions in Western Siberia, which helps to reduce our transportation costs. In addition to these cost advantages, as the largest pipe producer in Russia we benefit from economies of scale in production and negotiating power with suppliers. To maintain our cost competitiveness, we continue to make significant capital investments to upgrade our facilities to increase productivity and quality. We have already achieved significant cost benefits from our capital investments at Volzhsky, which features technologically sophisticated steel-making, pipe-rolling and pipe finishing equipment and we believe is among the most efficient pipe-making plants in Russia.

Vertically-Integrated Producer. Three of our four Russian pipe plants have internal steel-making capabilities and supply their own billets for use in their seamless pipe-making operations. In addition, the

majority of TMK-Artrom's steel billet requirements are supplied by TMK-Resita and Volzhsky. As a result, we are able to achieve cost savings by reducing our need to purchase semi-finished steel products from third-party manufacturers. Having internal steel-making capabilities also enables us to have a greater degree of quality control over the steel used in our pipe-making operations. We also expect to increase the amount of billets we supply to our Sinarsky plant, which lacks internal steel-making capabilities, from our other plants thus reducing Sinarsky's dependence on billets purchased from third-party suppliers.

Strong Financial Performance. As an integrated low-cost producer of seamless and welded pipes that has already invested substantially in consolidating our existing plants and in modernising our operations, we have benefited from the recent improved market environment in the pipe market, recording gross profit in 2005 of U.S.$746.4 million and profit before tax of U.S.$350.0 million. In the first six months of 2006, we recorded gross profit of U.S.$499.5 million and profit before tax of U.S.$304.7 million. We also have a strong financial position, reflected by our net debt to total equity ratio as of 30 June 2006 of 0.92 to 1.00 as adjusted for the incurrence of the debt financing related to the funding of the TMK Steel Loan (as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan") in the aggregate principal amount of U.S.$754 million, but not for any other changes subsequent to 30 June 2006. We believe that our strong operating profit and financial position will help us to maintain and grow our business.

Strategy

Our strategy is to enhance our position as the leading producer of pipes in Russia and to consolidate our position as a leading global producer of seamless pipes. We intend to pursue this strategy by increasing our seamless pipe production, enhancing our product mix to improve our margin profile, expanding our global presence organically and through strategic alliances, working more closely with our customers to deliver higher value-added products and services and exercising greater discipline over our raw materials procurement to better control availability, quality and cost of our supplies. In particular, we plan to increase our revenues per ton of steel pipe sold.

We intend to continue to focus principally on higher growth seamless pipe products, especially on OCTG. In our welded pipes segment, we will continue to focus on large-diameter welded pipes for the oil and gas industry. We have also recently entered into a number of joint ventures with international partners regarding the production of, among other things, premium threaded seamless pipes for the oil and gas industry and longitudinal welded pipes that we believe will enhance our high margin product offering. Our strategic emphasis will be on expanding and developing our seamless pipe business through, among other things, significant capital investment, while we will seek to achieve controlled growth and protect our existing market share in our welded business with only limited capital investment.

Seamless Business

We seek to become the leading supplier of seamless OCTG and line pipes to the oil and gas industry in Russia and the CIS, the Caspian region, the Middle East and North Africa. We further aim to become a leading supplier of OCTG and line pipes to the global oil and gas industry by enhancing our product mix and combining our high-quality low-cost production in Russia with a global network of strategically located distribution, service, threading and finishing facilities. We seek to offer a complete range of seamless pipes enhanced by innovative solutions and supply-chain management for oil and gas customers. In the industrial seamless pipe sector, we aim to become a leading low-cost supplier of quality industrial seamless pipe across Russia, the CIS countries and Europe. We intend to accomplish these objectives by:

- ***Increasing the capacity and efficiency of our seamless pipe production through our strategic investment programme.*** We are in the process of implementing a U.S.$1.3 billion strategic investment programme to expand our capacity at each stage of the integrated seamless pipe production process, including steel-making, pipe-rolling, pipe finishing and quality control to meet the growing demand of our domestic and export customers. Our strategic investment programme provides for the installation of electric arc furnaces to replace existing open hearth furnaces and continuous casting machines to replace ingot casting technology at Tagmet and Seversky. We expect that these initiatives will significantly enhance the efficiency of our steel-making operations, increase our steel-making capacity by 1.0 million tons to 3.4 million tons by 2010 and significantly reduce our seamless pipe raw materials costs. In our pipe-rolling operations, we are replacing our pilger mills with modern continuous mills and upgrading our existing rolling mills, which we expect will increase our

seamless pipe capacity by 1.1 million tons to 3.1 million tons by 2010, while reducing our seamless pipe costs and enhancing our product mix. In our pipe finishing operations, we aim to double our production of value-added threaded and heat-treated pipe production through the installation of additional heat treatment and finishing lines. Our investment programme is targeted specifically at enhancing the capacity and product range of our OCTG and line pipes. See "—Strategic Capital Expenditure Programme." We believe that by increasing the range of our seamless pipe product offerings, we will be able more effectively to attract clients in more demanding global markets, including North America and the Persian Gulf region.

- ***Enhancing our product mix of pipes for the oil and gas industry to match global leaders.*** One of our strategic priorities is enhancing the range of technologically sophisticated high margin seamless pipe products we offer to the oil and gas industry. We plan to introduce new high performance pipes that are specifically intended for use in difficult high pressure drilling environments, such as deepwater offshore wells and arctic drilling, including alloyed steel OCTG and line pipes with stronger tolerances, high anticorrosion characteristics and greater resistance to cold. As an integral part of expanding our OCTG business, we intend to develop our threading capabilities and downstream services, such as threading repair and maintenance and sale of pipe accessories. By adding to our product range premium connections that can better withstand the extreme conditions encountered in high pressure, high temperature, deep and offshore oil and gas wells and horizontal drilling, we believe that we will be able to offer a more attractive product mix to global oil and gas companies and command higher prices for such premium products. In August 2006, we entered into an agreement with the Hydril Company, a U.S. company engaged in the engineering, manufacturing and marketing of premium connections used for oil and gas drilling and production, pursuant to which we plan to establish a joint venture for the manufacture of casing and tubing pipes with Hydril's premium connections. By working as a joint venture partner with one of the leading global providers of premium connections, we believe that we will be able to enhance our premium threading and downstream services more rapidly and to enhance our mix of higher margin premium products. In August 2006, we also agreed to purchase a majority interest in Orsk Engineering Plant, a Russian manufacturer of tool joints, which are critical components for drill pipes, and drilling accessories to enhance our premium drill pipe business. We believe that by enhancing our product mix and the value-added features of our oil and gas product portfolio, we will be able to achieve higher prices for our products and strengthen our profit margins.

- ***Strengthening our position as a leading supplier of OCTG and line pipe in Russia and other CIS countries and enhancing our position in the global market.*** In the Russian and CIS markets, we intend to strengthen our leading position in the seamless OCTG and line pipes segments by expanding our relationship with existing customers and by developing our downstream services and technological components business to complement our product offering. In major international markets, we plan to expand by developing a global network of commercial and distribution centres that will offer supply management, threading and downstream services in important oil and gas producing regions worldwide. We will also seek to obtain the necessary qualifications from major global oil and gas companies as a means of increasing global market acceptance. We believe that these initiatives will help us to develop an international brand. In addition, we may consider from time to time the acquisition of additional OCTG and line pipe manufacturing facilities in strategic locations outside Russia and will also seek to enter into commercial alliances and partnerships as an efficient means of strengthening our global presence.

- ***Strengthening alliances with suppliers of raw materials.*** Our steel-making operations for the production of seamless pipes require significant quantities of raw materials, and in particular steel scrap. We seek to enter into long-term alliances with a small number of large suppliers of such raw materials to better control the availability and quality of our scrap and other raw materials needs as well as to reduce our raw materials costs. We are also considering the acquisition of a major steel scrap collector in Russia to ensure the availability of high quality steel scrap.

- ***Focusing on select high margin segments within the industrial seamless pipe sector.*** To improve the utilisation of our existing production capacity, we intend to continue to focus on select high-margin segments within the industrial seamless pipe segment, such as boiler pipes for the power generation industry. We also intend to expand our capabilities throughout the value chain, concentrating on pipe accessories and components, particularly for automotive applications. Geographically, we plan to use TMK-Artrom, which is established as a supplier of industrial seamless pipes for major automotive and machine building industry customers, as a platform to expand our presence in the

European industrial seamless pipe market. We believe that our planned capital investment in our seamless pipe-making mills will enhance our ability to produce higher-margin industrial seamless pipes to European specifications and to penetrate markets to which we currently have limited access.

Welded Business

We plan to expand our welded business in a controlled manner, focusing on ways to achieve growth without significant capital investment. Our focus in this segment is on sales of large-diameter pipes to oil and gas companies and oil and gas pipeline projects in Russia, the CIS countries and the Caspian region. We do not plan to make any significant capital investments in our industrial welded pipe business.

We seek to expand our large-diameter welded pipe business by capitalising on the recent completion of our investment programme at our Volzhsky plant to increase production of large-diameter welded pipes and solidify our position as the only producer of spiral welded large-diameter pipes in Russia. We are closely monitoring developments in ongoing and proposed large-scale oil and gas transportation projects and have recently entered into agreements to establish joint venture subsidiaries with two international pipe producers to expand into the production of longitudinal welded large-diameter pipes, which we believe Gazprom and Transneft prefer for certain high pressure oil and gas applications. In September 2006, we entered into agreements with (i) Welspun Gujarat, India's largest manufacturer of high-end large-diameter pipes for the oil and gas industry, to establish a joint venture for the production of longitudinal single-seam welded pipes with diameters from 508 mm to 1,420 mm and (ii) Corinth Pipeworks, a leading producer of welded pipes in Greece, to establish a joint venture for the production of longitudinal welded pipes with diameters from 168 mm to 530 mm principally for use in the oil and gas industry. We believe that these joint ventures will help us to expand our medium diameter welded pipe product offering (in the case of the Corinth Pipeworks joint venture) and to enter into the production of high quality longitudinal welded pipes favored by oil and gas companies for high pressure applications such as for use in offshore and challenging environments (in the case of the Welspun Gujarat joint venture) without significant capital outlay. We further aim to pursue additional long-term supply and cooperation arrangements with key customers, such as Gazprom and Transneft. We are also considering a potential partnership with a supplier of metal coil and plate to better control the availability and quality of the feedstock for our large-diameter welded pipe production. In particular, we may seek to establish long-term supply arrangements with plate suppliers in connection with the production of our 1,420 mm diameter line pipe and are already working closely with Russian steel mills, including MMK, Severstal and Novolipetsk Steel, to ensure sufficient supplies and grades of coiled steel for the manufacture of spiral welded large-diameter pipes for use in high pressure gas transmission pipelines. We are also seeking to become actively involved with sponsors at all stages of such pipeline projects, from the initial planning stage to the development and implementation stages to enhance our opportunities to supply such projects with pipes.

Corporate History

The Company was incorporated as a closed joint stock company, ZAO TMK, on 17 April 2001 and registered as an open joint stock company, OAO TMK, on 16 June 2005. ZAO TMK was originally controlled by the MDM Industrial Group. In September 2002, the MDM Industrial Group finalised the sale of a controlling interest in ZAO TMK together with controlling interests in Seversky, Volzhsky and TMK Trade House to entities controlled by Dr. Pumpyanskiy, the General Director of ZAO TMK at that time. In addition, entities controlled by Dr. Pumpyanskiy acquired a controlling interest in Sinarsky during 2001 and 2002. In February 2004, Dr. Pumpyanskiy entered into an agreement with Dalecone Limited, a Cypriot company affiliated with the MDM Industrial Group, according to which Dalecone Limited contributed a 94.59% interest in Tagmet, a pipe plant then owned by affiliates of the MDM Industrial Group, to ZAO TMK in exchange for the transfer to it from Dr. Pumpyanskiy of a 33% interest in TMK Steel, a holding company which at that time held a 100% interest in ZAO TMK. As part of the transaction, Dr. Pumpyanskiy transferred his interests in Seversky, Sinarsky, Volzhsky and TMK Trade House to ZAO TMK. As a result, TMK began consolidating Tagmet in its financial statements with effect from 26 February 2004. In June 2005, the shareholders of TMK Steel restructured their investments in OAO TMK, pursuant to which Dalecone Limited received a 33% direct interest in OAO TMK in exchange for its 33% interest in TMK Steel, which was transferred to entities controlled by Dr. Pumpyanskiy. As a result of this transaction Dr. Pumpyanskiy became the beneficial owner of a 100% interest in TMK Steel, which in turn held a 67% interest in OAO TMK. On 11 October 2006, TMK Steel purchased Dalecone Limited's

33% interest in OAO TMK for U.S.$1.3 billion, thus acquiring, directly and indirectly, 100% control of OAO TMK. See "Principal and Selling Shareholder."

In May 2005, we acquired a 100% interest in Sinara Trading (subsequently renamed TMK Global) from Sinara Group S.A., an affiliate of our group controlled by Dr. Pumpyanskiy. TMK Global is primarily responsible for our sales and marketing operations outside Europe, Russia and the CIS countries.

In March 2006, we acquired a 100% interest in Sinara Handel GmbH for U.S.$40.0 million from Sinara Group S.A. Sinara Handel owns controlling interests in two plants in Romania, the pipe plant SC Artrom S.A. (subsequently renamed SC TMK-Artrom S.A.) and the steel plant SC C.S. Resita S.A. (subsequently renamed SC TMK-Resita S.A.).

In 2000, one of our consolidated subsidiaries acquired an initial a 50% interest in Eurosinara S.r.l, an Italian company which acts as our distributor of pipe products in Southern Europe. On 16 May 2006, we acquired the remaining 50% interest in Eurosinara for EUR 1.0 million.

In August 2006, we entered into an agreement to purchase a 75% interest in Orsk Engineering Plant for U.S.$45.5 million from Sinara Group S.A., an entity under common control with us. Under the terms of the agreement, we are obligated to pay the purchase price for the 75% interest in Orsk Engineering Plant in full by 1 December 2006 and the seller is obligated to transfer full title of the related shares to us no later than 31 January 2007. Orsk Engineering Plant specialises in the production of tool joints, which are critical components for drill pipes, as well as pump barrels, and other equipment for the oil and gas and other industries. Orsk Engineering Plant's principal customers include Surgutneftegas, TNK-BP and Gazprom Neft.

Our board of directors recently approved plans to merge our Volzhsky plant into OAO TMK by way of accession under Russian law. The shareholders of OAO TMK approved the accession of Volzhsky into OAO TMK at a shareholders' meeting held on 30 October 2006, and it is expected that the shareholders of Volzhsky will vote to approve the accession in the second quarter of 2007. Upon the completion of the shareholder approvals, and any necessary regulatory approvals, Volzhsky will be merged into OAO TMK and OAO TMK will accede to all of the assets and liabilities of Volzhsky.

Our legal and commercial name is OAO TMK. OAO TMK is an open joint stock company organised under the laws of the Russian Federation and was incorporated on 17 April 2001 as a closed joint stock company under registration No. 002.041.016. On 19 September 2002, OAO TMK was included in the Unified State Register of Legal Entities under registration No. 1027739217758. OAO TMK was registered as an open joint stock company in June 2005. Our registered office is located at 19/25 Alexander Nevsky Street, building 1, 125047 Moscow, Russian Federation, and our principal office is located at 5, Podsosensky Lane, Building 1, 105062 Moscow, Russian Federation. Our main telephone at our principal office is +7 (495) 775 7600.

Products

We produce and distribute a wide range of pipe products for application in the oil and gas industry, machine-building, chemicals and petrochemicals industry, power generation, automotive, construction, aviation and aerospace industries. Our products include seamless and welded pipes of various diameters, coatings and wall thicknesses. Our pipes are made of carbon, stainless and heat-resistant steel, titanium and nickel alloys and composite metals and covered with corrosion-resistant and heat-resistant coatings. The principal advantages of seamless pipe are derived from the elimination of seam-related defects. However, the cost of manufacture of seamless pipes is generally greater as compared to welded pipes. Welded pipes compete with seamless pipes in some lower pressure applications because of the lower cost involved in their production. For instance, welded pipes may be used as substitutes for seamless OCTG in shallower wells that do not require the strength of seamless pipe. Large-diameter welded pipes tend to be used principally for surface production lines such as oil and natural gas pipeline transmission systems.

One of the key differentiating factors in the modern pipe products market is the satisfaction of a customer's requirements with respect to product specifications and quality. This is particularly true in respect of products for the oil and gas industry, which are often used in severe climate conditions, such as the northern regions of Russia and on ocean shelves. These pipes must meet both international quality standards as well as the specific requirements of each individual customer. Pipes for the oil and gas industry are subject to strict requirements with respect to functional reliability and structural strength and need to be adjustable to particular petroleum chemical composition and temperature conditions. We believe that the extensive range of products we currently offer and our efforts to continually improve our

existing products and develop new products enable us to satisfy the high demands of our customers in an efficient manner.

The table below shows the sales volumes of our principal pipe products for the periods indicated.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(thousands of tons)				
Seamless pipes					
OCTG	483	389	817	728	641
Line Pipes	212	220	405	440	422
Industrial	276	319	672	645	587
Total seamless pipes	**971**	**928**	**1,894**	**1,813**	**1,650**
Welded pipes					
Large-diameter	195	233	503	309	339
Industrial	296	218	543	407	408
Total welded pipes	**491**	**452**	**1,046**	**716**	**747**
Total pipes	**1,462**	**1,379**	**2,940**	**2,529**	**2,397**

Seamless pipes

We are the leading producer of seamless pipes in Russia and one of the three largest seamless pipe producers in the world, with an estimated worldwide market share of seamless pipe production of approximately 7% in 2005 by volume. We produce seamless pipes with diameters from 1 mm to 426 mm and wall thickness from 0.1 mm to 65 mm. We sell our seamless products principally to the oil and gas, machine-building, chemicals and petrochemicals, power generation, automotive and aviation and aerospace industries.

Our principal seamless pipe products consist of:

OCTG consist of drill pipe, surface casing, production casing and production tubing. Drill pipe is used to drill wells; surface casing is used to protect water-bearing formations during the drilling of a well; production casing forms the structural liner in oil and natural gas wells to provide support and prevent collapse during drilling operations; and production tubing is placed within the casing and is used to convey oil and natural gas to the surface, and may be replaced many times during the life of a producing well.

Seamless line pipes are used to construct main oil and gas pipelines and to transport crude oil, oil products and natural gas to refineries, storage tanks and loading and distribution centres.

Industrial seamless pipes are used for various industrial applications, including in machinery, chemicals and petrochemicals applications and in the power generation and automotive industries, and are used for the construction of pipelines that require high performance pipes for the transportation of steam, water, gas and air under high pressure.

Welded pipes

We produce welded pipes with diameters from 8 mm to 2,520 mm and wall thicknesses from 1 mm to 25 mm. We are one of the principal producers of 1,420 mm diameter pipes for Gazprom. We make both longitudinal and spiral welded pipe. Longitudinal welded pipes are made from steel plate with only one weld seam joining the two edges of the rolled plate. Spiral welded pipes are manufactured through the helical rolling of steel coils. In contrast to longitudinally welded pipe production, in which each pipe diameter requires an exact plate width, various diameters of spiral welded pipe can be manufactured from a single steel coil width. Spiral weld construction is more flexible as it allows large-diameter pipe to be produced from narrower coils. While historically longitudinal welded pipe has been deemed to be more suitable for high pressure applications, spiral pipe is now widely used in high pressure oil and gas pipelines.

Our principal welded pipe products consist of:

Large-diameter welded pipes are used to construct main oil and gas pipelines for long distance transmission and to transport crude oil and natural gas from wells to refineries, storage tanks and loading and distribution centres. We produce spiral welded pipes of 1,420 mm diameter which are used by Gazprom for trunk gas pipelines.

Industrial welded pipes are used by the general industry for various applications, including mechanical engineering and construction. Industrial welded pipes are largely commodity products.

Steel Billets

Steel billets are square or round semi-finished steel products used in the production of seamless pipes as well as other finished steel products. Billets are delivered in bars of various diameters and cut into pieces of various lengths, corresponding to the length of the desired finished pipe.

We produce internally the majority of the steel we use in producing billets for our seamless pipe production. Although historically most billets at our pipe plants have been produced through ingot casting, we are currently investing in more modern continuous billet casting processes that are expected to considerably increase production volumes, enhance the quality of the products and reduce costs. For this purpose, we have installed continuous billet casting machines at our Volzhsky plant and have commenced the installation of continuous billet casting machines at our Seversky and Tagmet plants. See "—Strategic Capital Expenditure Programme."

Production Processes

Steel-Making

We make steel from raw materials for our seamless pipe production using two principal techniques.

Open hearth process. Open hearth furnaces produce steel by melting scrap, pig iron and iron ore by means of a direct flame. The furnace is charged with scrap, flux, pig iron and iron ore prior to heating. Open hearth furnaces burn fuel, in the form of gas, coal or oil, to provide the heat necessary to melt the raw materials. During melting, carbon and other impurities (such as silicon and manganese) are oxidised. Open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, slow melting processes and relatively low productivity, and they also emit relatively high volumes of pollutants. Open hearth furnaces are also less well suited for continuous casting than electric arc furnaces, as a result of which open hearth furnaces generally operate in conjunction with the less efficient ingot casting process. For a number of years, the general trend worldwide has been for open hearth furnaces to be replaced by more efficient and environmentally cleaner oxygen converters and electric arc furnaces. While we still utilise open hearth furnaces at our Tagmet and Seversky plants, we are in the process of replacing them with electric arc furnaces as part of our strategic investment programme.

Electric arc furnaces. Electric arc furnaces ("EAFs") produce steel by applying heat generated by electricity arcing between graphite electrodes and a metal bath. The steps in the EAF production process consist of charging, melting, oxidising or purifying and deoxidising or refining. The charge includes scrap, iron ore, fluxes (lime and fluorspar), a reducing agent (carbon) and ferroalloys. Temperatures in the electric arc furnace may reach as high as 3,500° C in order to melt alloying components that are otherwise difficult to melt. Lime, fluorspar and other materials are used to form slag, which absorbs impurities during the steel-making process. We use EAFs to produce steel at Volzhsky and TMK-Resita and, as part of our strategic investment programme, are installing EAFs at Tagmet and Seversky. Among other advantages, EAFs melt steel significantly faster than open hearth furnaces.

Steel Casting

The steel produced from an open hearth furnace or EAF is then cast in order to give it a basic shape that can be used for further processing. In ingot casting, molten steel is poured from a ladle into large stationary moulds to produce blocks of steel, or ingots. After the ingots solidify, the ingot moulds are removed and the ingots are placed in soaking pits to be heated and then hot-rolled in primary rolling mills to produce billets. The process of casting ingots in moulds produces large amounts of waste scrap steel, and the reheating of the ingot to soften it prior to hot-rolling requires large amounts of energy.

Ingot casting is increasingly being replaced by continuous casting, in which molten steel is cast directly into semi-finished products, such as the billets that we use for our pipe-rolling operations. Continuous

casting equipment produces a strand of moulded metal that is continuously withdrawn from the furnace at a set casting speed. The metal strand cools and solidifies and is then cut into billets and discharged for intermediate storage or hot charged for finished rolling. Casting the steel directly into semi-finished products, such as billets, eliminates several steps involved in ingot casting, and results in less waste and requires less energy than ingot casting.

Seamless Pipes

Seamless pipe production involves the piercing, elongation and reduction of steel billets to obtain the required length and diameter for the finished pipe. The billet is cut to the required length and heated to temperatures of up to 1300° C. The heated billet is then rolled under high pressure. This rotational pressure causes the billet to stretch and a hole to form in its center. A bullet shaped piercer point is pushed through the middle of the billet as it is being rolled in the piercing mill to create a uniform hollow in the billet. The size of the piercing point and the position of the rolls determine the hollow billet's outside diameter and the wall thickness.

The hollow billet then undergoes additional rolling processes that reduce the diameter and wall thickness of the billet. We use five principal types of pipe-rolling technologies in our plants: continuous rolling, Assel rolling, pilger rolling, tube extrusion and longitudinal rolling. In a continuous rolling mill, the mandrel, or metal rod, that pierced the billet is retained inside the billet and the billet is passed without reheating through a series of seven to nine rolling stands. In an Assel mill, the hollow billet is rolled using three tapered rolls arranged symmetrically around the billet. In a pilger mill, the hollow billet is rolled between two rolls which move back and forth as the mandrel rotates within the hollow billet. In an extrusion mill, the heated billet is pierced through the center by a mandrel driven by a hydraulic ram, which extrudes the material under the pressure exerted by the ram to form the tube. The material remaining in the extruder is subsequently cut from the tube as recyclable waste. We utilise longitudinal rolling in our tandem mill at Sinarsky, in which a hollow billet passes through a series of rolls rotated in opposite directions to reduce the size of the billet.

We use continuous rolling mills, pilger mills and tandem mills primarily to manufacture OCTG products; Assel mills primarily to produce industrial seamless pipes for the machine-building industry; and extrusion mills primarily to produce industrial seamless pipes using high-grade steel for the chemical and petrochemical, power-generation and aerospace industries. While pilger mills are effective for rolling thick walled pipes from ingots, and can be reconfigured quickly to produce pipes of different measurements, continuous mills work more efficiently with continuous casting machines. In addition, continuous rolling mills are significantly faster and less wasteful than pilger mills and produce higher quality pipes. Accordingly, as part of our strategic investment programme, we are replacing our pilger mills with continuous rolling mills at Seversky and Tagmet. While the extrusion process is highly effective for making pipes from grades of special steel, it requires expensive machinery, consumes more raw materials and has lower productivity than continuous rolling mills. The longitudinal process used by our tandem mills is effective for lower volume production, but less efficient than continuous mills for higher volume production.

Welded Pipes

The process of manufacturing welded pipes involves the bending of steel coil or plate and then welding the seam at the edges. We make both longitudinal and spiral welded pipe. Longitudinal welded pipes are made from steel plate with only one weld seam joining the two edges of the rolled plate. Spiral welded pipes are manufactured through the helical rolling of steel coils.

Pipe Finishing

Pipe finishing processes are important elements in ensuring that the finished pipe product meets customers' specifications. The pipe finishing stages for seamless and welded pipes are largely similar and may include heat treatment, upsetting, threading, hydrostatic and ultrasonic testing, inspection, coating and packing. Heat treatment involves the application of a combination of heating and cooling operations to the pipe to achieve desired physical and mechanical properties such as increased strength, hardness and ductility, to relieve internal stresses and reduce brittleness. Upsetting involves increasing the diameter and thickness of the ends of pipes, which allows the pipe to be connected to other sections of pipe in a more secure and efficient way. Threading involves the making of grooves at the end of a pipe to enable pipe sections to be screwed together. Hydrostatic testing involves testing the pipe for defects by filling the pipe with water and pressurising it. Pipes may also undergo anticorrosion coating treatment, including epoxy

and polypropylene coating. The final stage of the pipe finishing process generally involves marking, packing and storage.

A portion of our seamless industrial pipes, including pipes produced at our Sinarsky and TMK-Artrom facilities, also undergo subsequent cold finishing. Cold rolling and cold drawing involve rolling a pipe at room temperature or drawing a pipe through a die at room temperature. These cold working processes reduce the outside diameter and wall thickness of the pipe and improve the surface finish and mechanical properties of the pipe. These processes are often used in the production of pipes for use in machine-building and power generation applications, automobile production and other industrial applications.

Production Facilities

We produce our pipes at five of our operating plants: Volzhsky, Seversky, Sinarsky, Tagmet and TMK-Artrom, which are located in three regions in Russia and in Romania. We also produce steel at four of our plants: Volzhsky, Seversky, Tagmet and TMK-Resita. In recent years, we have sought to modernise our production facilities, which has enabled us to improve the quality of our products and to adapt our product range to the requirements of the international market, take significant steps toward import substitution of products and enter a number of new export market segments. We are currently in the early stages of our strategic capital expenditure programme for the period from 2004 to 2010 which is focused on further modernisation of our production facilities and on increasing the efficiency of our production processes. See "—Strategic Capital Expenditure Programme."

We believe that our production facilities are among the most cost-effective production facilities among major global pipe producers as a result of the following factors:

- strategically located plants near both important domestic customers and export routes;
- high levels of integration of our facilities as a result of our in-house steel production;
- access to low-cost, high quality raw materials and labour;
- access to low-cost energy;
- long operating history, which translates into solid industrial know-how;
- benchmarking and best-practices sharing among our different facilities; and
- increasing specialisation of each of our facilities in specific product ranges.

The table below shows our aggregate installed production capacity of seamless and welded pipes and steel billets, as well as the aggregate actual production volumes of such products, for the periods indicated. Data for effective annual capacity are based on our estimates of effective annual production capacity under present conditions.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(thousands of tons)				
Products					
Seamless pipes					
Effective capacity (annual)[1]	2,043	1,992	2,043	1,992	1,515
Actual production	969	953	1,877	1,800	1,357
Welded pipes					
Effective capacity (annual)[1]	1,784	1,672	1,784	1,672	950
Actual production	489	452	1,048	716	588
Steel billets					
Effective capacity (annual)[1]	2,360	2,280	2,360	2,280	1,400
Actual production	1,109	1,080	2,193	2,061	1,219

(1) Effective annual capacity is calculated based on standard productivity of production lines, estimated product mix allocations and considering the maximum number of possible working shifts and a continued flow of supplies to the production process.

The following table shows the production capacity and capacity utilisation of our manufacturing facilities in 2005.

	Seamless Pipe Production Capacity[1]	Seamless Pipe Capacity Utilisation	Welded Pipe Production Capacity[1]	Welded Pipe Capacity Utilisation	Steel Production Capacity[1]	Steel Capacity Utilisation
			(tons, except percentages)			
Volzhsky	636,000	78%	562,000	90%	800,000	100%
Seversky	320,000	100%	517,000	51%	800,000	83%
Tagmet	367,000	99%	705,000	40%	510,000	98%
Sinarsky	620,000	96%	—	—	—	—
TMK-Artrom	100,000	82%	—	—	—	—
TMK-Resita	—	—	—	—	250,000	92%

(1) Annual production capacity is calculated based on standard productivity of production lines, estimated product mix allocations and considering the maximum number of possible working shifts and a continued flow of supplies to the production process.

Volzhsky Pipe Plant

Volzhsky Pipe Plant started its operations in 1970 and underwent significant upgrades in the late 1980s and 1990s, and we have further expanded its capacity in the last several years. It is located in the Volgograd region, on the Volga River, near the city of Volzhsky. We own the facility and have a right of permanent use with respect to the land, comprising an area of approximately 4.76 million square metres, on which the facility is situated. We also lease approximately 1.3 million square metres of land near the facility. Our board of directors recently approved plans to merge Volzhsky into OAO TMK by way of accession under Russian law, and the shareholders of OAO TMK approved the accession on 30 October 2006. See "—Overview—Manufacturing Operations."

Volzhsky is our most modern plant, featuring modern steel-making, pipe-rolling and pipe welding equipment, most of which was supplied by European manufacturers. The plant is located close to rail, road and river transport routes and is linked by the Volga River to ports on the Caspian, Black, Baltic and Azov seas.

Volzhsky manufactures pipes of more than 800 sizes for various applications, including seamless casing and line pipe, spiral welded large-diameter pipes for oil pipelines, seamless pipes for steam boilers, seamless pipes for mechanical engineering and round and square steel billets. Volzhsky is currently the largest pipe manufacturer in Russia and one of two Russian plants that produces 1,420 mm pipes for high-pressure transmission gas pipelines in commercial volumes. Volzhsky supplies its entire output of spiral welded 1,420 mm diameter pipes to Gazprom, and Transneft is also a major customer for Volzhsky's welded pipe production.

Volzhsky's principal production facilities consist of:

- a steel shop, including an EAF, a ladle furnace and three continuous casting units;
- a continuous pipe-rolling mill, including three finishing lines and threading and cutting equipment, primarily used for the production of threaded or beveled OCTG and line pipe;
- an Assel pipe-rolling mill, principally used for the production of industrial seamless pipes;
- two extrusion lines, principally used for the production of seamless line pipes, seamless stainless steel pipes and seamless pipes for the power engineering and chemical industries; and
- ten pipe welding mills for automatic submerged arc welding, together with a heat treatment facility and two pipe finishing lines, primarily used for the production of large-diameter spiral welded pipes for oil and gas pipelines and petroleum and industrial process pipelines.

Seversky Pipe Plant

Seversky Pipe Plant commenced pipe-making operations in 1964. Seversky is located in the Sverdlovsk region, near the Ural mountains, in close proximity to major Russian oil and gas fields. We own the facility and the land, comprising approximately 4.49 million square metres, on which the facility is situated.

Seversky produces a variety of seamless and welded pipes principally for domestic oil and gas customers, including seamless casing and line pipes and electric welded line pipes, as well as industrial seamless pipes for general application and industrial welded pipes for the automotive and power industries.

Seversky's principal production facilities consist of:

- a steel shop, including four open hearth furnaces, a ladle furnace and ingot casting equipment;
- a pilger pipe mill, including a finishing line and threading equipment, principally used for the production of seamless casing and line pipes; and
- five electric welding pipe mills, including a hot galvinisation line, used to coat pipes with zinc to inhibit corrosion, which are used to produce a variety of longitudinal welded pipes.

Taganrog Metallurgical Works

Taganrog Metallurgical Works was founded in 1896 and its facilities were significantly upgraded in the 1990s. It is located in the Rostov region, near the Azov Sea, and benefits from its close proximity to raw materials and sea export routes. We own the facility and have lease rights and a right of permanent use with respect to the land, comprising an area of approximately 2.0 million square metres, on which the facility is situated. We also lease approximately 0.2 million square metres of land near the facility.

Tagmet produces principally drill, casing and line pipes, industrial seamless pipes and electric welded pipes.

Tagmet's principal production facilities consist of:

- a steel shop, including three open hearth furnaces, a ladle furnace and ingot casting equipment;
- two pilger pipe mills, including three finishing lines, and upsetting, threading and cutting equipment, as well as tool joint welding equipment, primarily used for the production of seamless drill, casing, tubing and line pipes as well as industrial seamless pipes; and
- four electric welding pipe mills, including a hot galvinisation line, which are used to produce a variety of longitudinal welded pipes.

Tagmet also operates its own research and development unit specialising in pressure-tight premium class joints, which join pieces of drill pipe together.

Sinarsky Pipe Plant

Sinarsky Pipe Plant was founded in 1934 and underwent significant modernisation in the 1990s. As with Seversky, Sinarsky is located in the Sverdlovsk region, near the Ural mountains, in close proximity to major Russian oil and gas fields. We own the facility and the land, comprising approximately 3.1 million square metres, on which the facility is situated. We also lease approximately 0.7 million square metres of land near the facility.

Sinarsky specialises in producing drill, casing, tubing and line pipes as well as special grade seamless steel pipes principally for the power-generation, chemical and machine-building industries. In 2005, OCTG accounted for approximately 60% of Sinarsky's total output. Sinarsky does not have any in-house steel-making capacity, but obtains steel billets from Volzhsky and third-party suppliers.

Sinarsky's principal production facilities consist of:

- a tandem mill, including a heat treatment line, a pipe upsetting area and two threading lines, principally used for the production of seamless drill and casing pipes;
- a continuous pipe-rolling mill, which is used for seamless tubing and high quality corrosion resistant pipes; and
- cold drawing and cold rolling mills, which are used for seamless industrial pipes.

TMK-Artrom

TMK-Artrom, a leading Romanian pipe manufacturer, was founded in 1982 and modernised in 1992. TMK-Artrom is located in Slatina, in southern Romania.

The plant produces seamless pipes for various applications, including for the mechanical engineering and automotive industries, as well as seamless line pipes for the oil and gas industry. TMK-Artrom's pipe products are exported to over 30 countries. TMK-Artrom does not have any in-house steel-making capacity.

TMK-Artrom's principal production facilities consist of:

- two Assel pipe-rolling mills, a heat treatment complex and a bevelling machine used in the production of hot rolled tubes; and
- four cold rolling mills, a continuous furnace, in which the material being heated moves steadily on a conveyor through the furnace, and a bevelling machine, used in the production of cold rolled tubes.

TMK-Resita

TMK-Resita, a Romanian steel mill, was founded in 1771 and has recently undergone a number of significant modernisations. TMK-Resita is located in Resita, in southwestern Romania, approximately 400 kilometres from TMK-Artrom.

TMK-Resita produces tubular billets for TMK-Artrom and other consumers, as well as heavy round profiles, blooms and square billets. The majority of TMK-Resita's steel production is delivered to TMK-Artrom.

TMK-Resita's principal production facilities consist of a steel shop, including an EAF, a ladle furnace and ingot casting equipment.

Strategic Capital Expenditure Programme

Our strategic capital expenditure programme for 2004-2010 is a key component of our strategy. Under our strategic investment programme, which we commenced in 2004, we plan to make expenditures of approximately U.S.$1.3 billion (excluding VAT) between 2004 and 2010 including U.S.$1.2 billion (excluding VAT) between 2006 and 2010. We are currently in the early stages of the programme, having made aggregate expenditures under the programme of U.S.$96.6 million in 2004 and 2005 and a further U.S.$79.1 million in the six months ended 30 June 2006. Our total capital expenditure budget under the programme for 2006 is U.S.$289.8 million. We also plan to make capital maintenance expenditures of approximately U.S.$60.0 million to U.S.$70.0 million per year outside of the strategic investment programme.

Our strategic investment programme is focused principally on:

- Increasing our seamless pipe production;
- Increasing the efficiency of our production processes, through both the modernisation and expansion of our steel-making operations and our pipe-rolling facilities;
- Improving the quality and range of our products;
- Increasing the production of high value-added products; and
- Reducing the environmental impact of our operations.

In 2004 and 2005, we made the following principal capital expenditures as part of our strategic investment programme:

- U.S.$58.4 million to modernise our steel-making facilities for seamless pipes;
- U.S.$19.7 million to increase production capacity for heat treatment and finishing of pipes;
- U.S$8.3 million to upgrade testing and control facilities;
- U.S.$5.9 million to increase production capacity for and improve the quality of seamless pipes;
- U.S.$3.2 million to increase production capacity for large-diameter welded pipes; and
- U.S.$1.1 million to enhance our environmental protection systems.

From 2006 to 2010, we expect to make aggregate capital expenditures of approximately U.S.$1.2 billion as part of our strategic investment programme, including:

- U.S.$534.0 million to increase production capacity of and improve the quality of seamless pipes;
- U.S.$379.0 million to modernise our steel-making facilities for seamless pipes;
- U.S.$226.6 million to increase capacity for heat treatment and finishing of pipes;
- U.S$18.4 million to upgrade testing and control facilities; and
- U.S.$11.3 million to enhance our environmental protection systems.

We have financed the first phase of our strategic capital expenditure programme primarily out of cash flows from operating activities and existing cash balances and we plan to continue to finance the second phase of our programme from these sources, as well as debt financing and other sources as appropriate. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

We believe that our experience in implementing large-scale capital investment programmes will be important for the success of our current capital expenditure programme. In particular, we expect to benefit from the experience of the management of Volzhsky, Russia's largest integrated pipe plant, a number of whom participated in a major modernisation of the plant in 1990 and its subsequent upgrades. We have also created a technical development department to oversee the implementation of our capital expenditure programme.

A more detailed description of our planned expenditures under our strategic investment programme on a plant-by-plant basis is set forth below.

Volzhsky

Volzhsky is our most modern facility in Russia. It was substantially modernised in 1990 and, as a result, it is already equipped with modern EAFs, continuous casting machines and a continuous rolling mill. We plan to make total capital expenditures at Volzhsky under our strategic investment programme of U.S.$172.5 million from 2006 to 2010, and we invested U.S.$14.7 million at Volzhsky in 2004 and 2005. Our principal capital expenditure projects at Volzhsky include:

- *New finishing line and a heat treatment line for casing and line pipes.* We plan to make capital expenditures of U.S.$118.0 million for this project in 2006 and 2007, which is expected to increase Volzhsky's production of high grade threaded and heat-treated line and casing pipes by over 150,000 tons and 200,000 tons per annum, respectively.
- *Upgrade of continuous rolling mill.* We plan to make capital expenditures of U.S.$37.0 million for this project in 2006 and 2007, which is expected to increase Volzhsky's output of seamless pipes by over 350,000 tons per annum.
- *Upgrade of EAF and continuous caster.* We plan to make capital expenditures of U.S.$4.9 million for this project in 2006, which is expected to improve the quality of Volzhsky's steel processing operations and increase steel billet output by approximately 180,000 tons per annum. We invested U.S.$9.8 million in this project in 2004-2005.
- *New testing, quality controls and environmental systems, including new pressure, ultrasonic testing and preservative paint lines and an EAF gas cleaning system.* We plan to make capital expenditures of approximately U.S.$9.5 million for these projects in 2006-2007, which are expected to improve Volzhsky's testing and painting capacities and reduce emissions.

Seversky

Seversky is our oldest plant and currently conducts its steel-making operations using open hearth furnaces and ingot casting machines, each of which will be replaced as part of our strategic investment programme. We plan to make total capital expenditures at Seversky of U.S.$349.6 million from 2006 to 2010, and we invested U.S.$32.5 million at Seversky in 2004 and 2005. Our principal capital expenditure projects at Seversky include:

- *New EAF to replace existing open hearth furnaces.* We plan to make capital expenditures of U.S.$116.0 million for this project in 2006 and 2007, which is expected to increase Seversky's steel output by 150,000 tons per annum, improve the quality of the steel it produces, significantly increase efficiency of its steel-making operations and reduce emissions.
- *New continuous casting machine to replace ingot casting facilities.* We plan to make capital expenditures of U.S.$60.2 million for this project in 2006, which is expected to improve Seversky's output of steel billets by 140,000 tons per annum, improve the quality of its steel and reduce costs.
- *New continuous rolling mill to replace existing pilger mill.* We plan to make capital expenditures of U.S.$145.0 million for this project between 2008 and 2010, which includes installation of a new piercing mill that is expected to be put into operation at the end of 2006 and to improve the productivity of Seversky's seamless pipe operations and the quality of its pipes and increase its seamless pipe output by over 220,000 tons per annum.

- *New testing and environmental systems, including new ultrasonic testing lines and an EAF gas cleaning system.* We plan to make capital expenditures of approximately U.S.$10.7 million for these projects in 2006-2007, which is expected to improve Seversky's testing capacities and reduce emissions.

In addition, we have substantially completed construction of a new piercing mill at Seversky, which is expected to improve the quality and increase the output of our seamless pipes. We expect to put the piercing mill into operation at the end of 2006. We invested a total of U.S.$22.4 million in this project.

Tagmet

Tagmet currently conducts its steel-making operations using open hearth furnaces and ingot casting processes, both of which we plan to replace as part of our strategic investment programme. We plan to make total capital expenditures at Tagmet of U.S.$387.5 million from 2006 to 2010, and we invested U.S.$40.0 million at Tagmet in 2004 and 2005. Our principal projects at Tagmet include:

- *New EAF to replace existing open hearth furnaces.* We plan to make capital expenditures of U.S.$116.0 million for this project in 2008 and 2009, which is expected to increase Tagmet's steel output by 400,000 tons per annum, improve the quality of the steel it produces, significantly increase the efficiency of its steel-making operations and reduce emissions.

- *New continuous casting machine to replace ingot casting facilities.* We plan to make capital expenditures of U.S.$37.2 million for this project in 2006, which is expected to increase Tagmet's output of steel billets by 60,000 tons per annum, improve the quality of its steel and reduce costs.

- *New continuous rolling mill to replace existing pilger mill.* We plan to make capital expenditures of U.S.$156.0 million for this project between 2006 and 2008, which is expected to improve the productivity of Tagmet's seamless pipe operations and the quality of its pipes and increase its seamless pipe output by 330,000 tons per annum.

- *New testing, control and environmental systems, including new ultrasonic and magnetic particle testing systems, a replacement press and an EAF gas cleaning system.* We plan to make capital expenditures of approximately U.S.$18.8 million for these projects between 2006 to 2009, which is expected to allow Tagmet to test newly developed premium threads, replace obsolete testing equipment and reduce emissions.

- *New heat treatment and finishing capacity for our seamless operations, including a heat treatment plant, new threading lines for premium threads, a new press for upset ends and the modernisation of painting lines.* We plan to make capital expenditures of approximately U.S.$59.5 million for these projects in 2006 and 2007, which is expected to increase Tagmet's ability to produce premium value-added pipes.

Sinarsky

Our capital expenditure programme for Sinarsky focuses on increasing the output and quality of its seamless production as well as enhancing its heat treatment and finishing capacity. We plan to make total capital expenditures at Sinarsky of U.S.$201.1 million from 2006 to 2010, and we invested U.S.$9.3 million at Sinarsky in 2004 and 2005. Our principal projects at Sinarsky include:

- *New continuous rolling mill.* We plan to make capital expenditures of U.S.$140.0 million for this project in 2008-2010, which is expected to increase Sinarsky's steel pipe output by 105,000 tons per annum and improve the quality of its pipes.

- *New reducing mill.* We plan to make capital expenditures of U.S.$4.2 million for this project in 2006, which is expected to improve Sinarsky's ability to use continuous cast billets acquired from our other plants rather than rolled billets from third-party suppliers and thus reduce costs.

- *New heat treatment and finishing capacity, including a heat treatment line, two upsetting presses and new pipe preservative painting facilities.* We plan to make capital expenditures of approximately U.S.$49.2 million for these projects in 2006-2009, which is expected to increase the plant's ability to produce premium value-added pipes.

- *New testing and environmental systems, including new non-destructive testing equipment and hydraulic pressure testing equipment and new water treatment facilities.* We plan to make capital expenditures

of approximately U.S.$7.7 million for these projects between 2006 and 2010, which is expected to improve the plant's testing capabilities and improve its sewage treatment capacity.

TMK-Artrom

The principal projects for TMK-Artrom under our capital expenditure programme include the installation of a new pipe-rolling line and completion of an Assel line. We plan to make capital expenditures of U.S.$34.0 million for these projects in 2006 and 2007, which is expected to increase TMK-Artrom's production capacity by approximately 250,000 tons.

TMK-Resita

Principal projects for TMK-Resita under our capital expenditure programme include installation of a new continuous casting machine to replace its ingot casting facilities, a general facilities upgrade, installation of a vacuum degassing facility and an upgrade of its environmental protection facilities. We plan to make capital expenditures of U.S.$27.9 million for these projects between 2006 and 2010, which is expected to increase TMK-Resita's steel output by 250,000 tons per annum, decrease its raw materials requirements, improve the quality of its steel billets and reduce emissions.

Our strategic investment programme, however, remains subject to revision and it is possible that our actual expenditures and production output results will differ, perhaps to a significant extent, from these estimates. In particular, our capital expenditure plans may change depending, among other things, on the evolution of market conditions and the cost and availability of funds. See "Risk Factors—Risks Relating to Our Business and the Pipe Industry—We have a significant capital expenditure programme which will require substantial cash resources and the failure to implement the programme successfully could have a material adverse effect on our business, financial condition, results of operations and prospects."

Planned Joint Ventures and Acquisitions

We have recently entered into a number of agreements related to the establishment of joint ventures with international partners for the production of, among other things, premium threaded seamless pipes for the oil and gas industry and longitudinal welded pipes that we believe will enhance our high margin product offering. In August 2006, we also agreed to purchase Orsk Engineering Plant, which we believe will help us to expand our oil and gas product offering. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

Joint Venture with Hydril. In August 2006, we entered into a shareholders' agreement with Hydril, a U.S. company that engages in the engineering, manufacturing and marketing of premium connections used for oil and gas drilling and production, pursuant to which we plan to establish a equally-owned joint venture to manufacture casing and tubing pipes with Hydril premium connections. Under the terms of the agreement, we and Hydril would each contribute RUB 100 million to fund the charter capital of the joint venture company. We would, among other things, lease the production site and supply the necessary production personnel for the joint venture and Hydril would, among other things, pursuant to a separate license agreement and technical services agreement, provide technological know-how and assistance for the manufacture of pipes with Hydril premium connections. Under the terms of the license agreement, the joint venture company is to pay Hydril a royalty fee of not more than 25% of the actual cost of the threading. Volzhsky is to supply plain end pipes to the joint venture and the output of the joint venture is to be sold to both Hydril and us in equal proportions. The shareholders' agreement may be terminated in the case of certain deadlock events. We expect that the joint venture will commence premium threading operations in the third quarter of 2007, and will have the capacity to produce 38,000 tons of premium threaded pipes per annum.

Planned Joint Venture with Welspun Gujarat. In September 2006, Volzhsky entered into an MOU with Welspun Gujarat Stahl Rohren Ltd., India's largest manufacturer of high-end large-diameter pipes for the oil and gas industry, to establish a joint venture for the production of double submerged arc welded ("DSAW") longitudinal single-seam welded pipes with diameters from 508 mm to 1,420 mm and spiral welded pipes. We will hold a 60% interest in the joint venture and Welspun Gujarat will hold a 40% interest in the joint venture. TMK Trade House is to act as exclusive agent for the sale of products produced by the joint venture in Russia and the CIS markets. The parties to the MOU have agreed to use their best efforts to enter into a shareholders' agreement in connection with the formation of the joint venture by the end of 2006, and intend for the joint venture to commence large-diameter welded pipe production in the first quarter of 2008. Upon completion of the equipping of the facility, we expect that the

joint venture will have the capacity to produce more than 550,000 tons of large-diameter longitudinal welded pipes per annum.

Planned Joint Venture with Corinth Pipeworks. In September 2006, Seversky entered into an MOU with Corinth Pipeworks S.A., a leading producer of welded pipes in Greece, to establish a joint venture for the production of electric resistance welded ("ERW") longitudinal welded pipes with diameters from 168 mm to 530 mm principally for use in oil and gas, construction and machine-building applications. We will hold 51% of the joint venture and Corinth will hold 49% of the joint venture. We are to contribute land and facilities to the joint venture and Corinth is to contribute welding equipment. Under the terms of the MOU, Corinth has an option to sell its interest in the joint venture back to us in the event of certain significant adverse changes in the economic, political or legal environment relating to the joint venture or in the case of deadlock. The establishment is subject to the execution of a shareholders' agreement no later than 31 December 2006, unless otherwise agreed. The joint venture is expected to commence welded pipe production in the second quarter of 2007. Upon completion of the equipping of the facility, we expect that the joint venture will have the capacity to produce more than 300,000 tons of welded pipes per annum.

Acquisition of Orsk Engineering Plant. In August 2006, we entered into an agreement to purchase a 75% interest in Orsk Engineering Plant for U.S.$45.5 million from Furdberg Services Limited, a party related to Sinara Group S.A., and an entity under common control with us. Under the terms of the agreement, we are obligated to pay the purchase price for the 75% interest in Orsk Engineering Plant in full by 31 December 2006 and the seller is obligated to transfer full title of the related shares to us no later than 31 January 2007. Orsk Engineering Plant specialises in the production of tool joints, which are critical components for drill pipes, as well as pump barrels, and other equipment for the oil and gas and other industries. Orsk Engineering Plant's principal customers include Surgutneftegas, TNK-BP and Gazprom Neft.

Raw Materials

Our raw material requirements consist principally of the following:

- *Integrated Seamless Pipe Operations:* Our principal raw materials are scrap metal, pig iron, ferroalloys and refractories purchased from third-party suppliers.
- *Other Seamless Pipe Operations:* Our principal raw materials are steel billets purchased from third-party suppliers as well as produced by our integrated steel operations.
- *Welded Pipe Operations:* Our principal raw materials for the production of welded pipes are steel plates and steel coils purchased from third-party suppliers.

In 2005, our raw material costs amounted to U.S.$1,481.5 million, which represented 68.0% of our total cost of production.

Seamless Pipe Operations. We produce steel for use in our seamless pipe-making operations at Volzhsky, Tagmet and Seversky. Our seamless pipe production facilities at Volzhsky, Tagmet and Seversky are now fully integrated, such that we supply substantially all of the steel billets required for our own seamless pipe production at such facilities with the exception of certain special high grade steel billets, of which we purchase approximately 5,000 tons per annum from third parties. In addition, TMK-Resita provides TMK-Artrom with substantially all of its steel billet requirements.

Sinarsky, which does not have internal steel-making facilities, purchases steel billet materials from a number of Russian integrated steel companies including Evraz Group S.A., OOO Ural Steel LLC, Orsky Metallurgical Plant, OAO ZMZ and OAO Mechel Steel Group. In addition, Volzhsky currently supplies Sinarsky with approximately 20% of its annual steel billet requirements and we plan to increase supplies of steel billets from Volzhsky, Seversky and Tagmet to Sinarsky in the future.

EAFs, which we operate at Volzhsky and TMK-Resita, consume almost exclusively scrap, whereas open hearth furnaces consume significant amounts of pig iron. As part of our capital expenditure programme, we plan to construct new EAFs to replace existing open hearth furnaces at Tagmet and Seversky, which we expect will reduce our pig iron and ferroalloy requirements and increase our scrap metal consumption.

We purchase scrap metal in Russia from over 300 suppliers and also obtain it internally from waste created in our steel-making and pipe-making operations. We believe that sourcing scrap from a large number of suppliers provides us with cost benefits as smaller suppliers of scrap in the Russian market tend to charge lower prices than larger suppliers in light of the relative inefficiency of marketing small volumes of scrap. We also have our own scrap collecting operations which account for approximately 10-15% of our annual scrap requirements. We purchase our pig iron in Russia principally from Evraz, Mechel and OAO Tulachermet. We purchase ferroalloys, which are used in various stages of the steel-making process, such as deoxidation, and provide properties needed to make particular steel products, principally from a number of Ukrainian suppliers, including Nikopol Ferroalloy. We purchase refractories, which are heat resistant materials used to line our open hearth furnaces and EAFs, from a number of Russian suppliers, including Satkinsky Magnesite. TMK-Resita sources most of its scrap from suppliers in Romania, Serbia, Hungary and Bulgaria and also derives a portion of its scrap requirements from the dismantling of its obsolete assets. TMK-Resita purchases most of its refractories from European producers.

Russian scrap prices are significantly below world benchmark scrap prices. In 2005, based on data from the industry publications Metal Bulletin and Metal Courier, delivery prices of heavy metal scrap—HMS1-FOB Rotterdam scrap—were approximately U.S.$250.0 per ton, whereas the average Russian scrap metal prices were approximately U.S.$175.0 per ton. We paid on average approximately U.S.$135.0 per ton of delivered scrap in 2005. We believe that we have a competitive advantage in scrap metal purchasing due in part to the fact that our principal plants in the Urals and Volga regions are located near Russia's principal scrap producing regions. We are also considering the acquisition of a major steel scrap collector in Russia to ensure the availability of high quality steel scrap. Scrap collectors are restricted from making scrap deliveries outside Russia. See "Risk Factors—Risks Relating to Our Business and the Pipe Industry—We benefit from limitations on the export of scrap metal from Russia that may be eliminated in the future."

We believe the benefits from having in-house steel production include reduced sensitivity to the steel price cycle, as the pricing of scrap, the principal raw material of our steel-making operations, tends to be less volatile than the price of semi-finished steel products such as billets, particularly in light of our plans to expand our own scrap production capacity; lower prices, as scrap is cheaper and less expensive to transport than semi-finished products; greater quality control and greater speed to market; and greater operational flexibility.

Welded Pipe Operations. For the production of welded pipes, we purchase steel plate and coils from international and Russian producers for processing into welded steel pipes. Our principal suppliers of steel plate include PJSC Azovstal, MMP Iljich and Voestalpine AG. Our principal suppliers of steel coil include MMK, Severstal, Novolipetsk and Zaporozhstal. We are currently considering the possibility of entering into a joint venture or other strategic alliance with a Russian steel producer for the manufacture of steel coils and plates.

Supply Agreements. Most of our raw material supply agreements represent framework agreements for a period of one calendar year, which may be extended for the following calendar year. Terms of delivery of products under our supply agreements are generally determined based on individual orders. While we generally enter into short-term one year supply agreements with our principal suppliers of raw materials, as a means of better securing the availability of key raw materials, in June 2005, we entered into a three-year agreement with MMK for the supply of strip rolled stock to be used by our Volzhsky plant in the production of large-diameter pipes for the oil and gas industry, including 1,420 mm diameter pipes. Annual purchase volume of strips under the agreement is estimated to be approximately 400,000 tons, which accounts for more than 50% of our needs for steel strips. According to the agreement, prices for the supplied products are to be adjusted quarterly.

Energy

Our steel-making and pipe-rolling operations require significant amount of electrical power and heat energy. In 2005, energy costs related to our direct costs of production amounted to approximately 3.8% of our total costs of production. During 2005, our Russian plants purchased 2,076 million kWh of electricity, as compared to 1,988 million KWh in 2004. During the first six months of 2006, our Russian plants purchased 1,060 million kWh of electricity, as compared to 1,012 million kWh in the first six months of 2005.

We purchase electricity from regional electricity generation subsidiaries of RAO UES. The average cost of electricity purchased from subsidiaries of RAO UES in 2005 was RUB 0.87 per kWh. In addition,

Sinarsky has it own electricity generating capabilities and produced 104 million kWh of electricity in 2005, which comprised approximately 25% of its total electricity consumption and 59.6 million kWh in the first six months of 2006, which comprised 28% of its total electricity consumption. Prices for electricity in the Russian market have continued to increase and we expect further increases as a result of the significant capital expenditure requirements of the Russian electricity industry and the restructuring of that industry. See "Risk Factors—Risks Relating to Our Business and the Pipe Industry—Increasing tariffs and restructuring in the Russian energy sector could adversely affect our business." We expect that with the planned installation of EAFs which consume electricity instead of natural gas at our Tagmet and Seversky plants our electricity costs will increase as a percentage of our total energy costs.

We also use natural gas, principally to heat our open hearth furnaces. We purchase all of our natural gas supplies from subsidiaries of Gazprom. In 2005, we purchased 920 million cubic metres of natural gas as compared to 927 million cubic metres in 2004. In the first six months of 2006, we purchased 490 million cubic metres of natural gas as compared to 477 million cubic meters in the first six months of 2005. Average natural gas tariffs have increased in recent years in Russia, by approximately 18% in 2005, as compared to 2004 and by 11% in the first six months of 2006, as compared to the first six months of 2005.

Sales and Marketing

We sell our products to customers in over 60 countries through two principal channels:

- directly, pursuant to ongoing supply contracts and tenders, to both Russian and non-Russian customers; and
- through wholesale traders for onward sale to end-use customers, principally in some of our export markets.

In addition, to satisfy the immediate demand of some of our customers, we maintain inventories of our products at our own warehouse facilities.

We sell our products in Europe, the Middle East, North America, Central Asia, South Asia and the Far East as well as to customers in Russia. In 2005 and the first six months of 2006, sales in Russia accounted for 73% and 72%, respectively, of our consolidated sales by volume. As a result of the strong demand from the Russian oil and gas industry, we make most of our sales to customers in Russia.

The following table shows our seamless and welded pipe deliveries by geographical region in terms of volume for the periods indicated.

	Six months ended 30 June				Year ended 31 December					
	2006		2005		2005		2004		2003	
	thousand of tons	% of total pipe volume	thousand of tons	% of total pipe volume	thousand of tons	% of total pipe volume	thousand of tons	% of total pipe volume	thousand of tons	% of total pipe volume
Region										
Russia	1,051.0	71.9%	987.0	71.6%	2,103.0	71.5%	1,736.0	68.6%	1,934.0	80.7%
Europe	138.0	9.4%	168.0	12.3%	323.0	11.1%	310.0	12.4%	161.0	6.8%
Central Asia & Caspian Region	119.0	8.2%	73.0	5.3%	181.0	6.2%	168.0	6.6%	116.0	4.8%
Middle East & Gulf Region	100.0	6.8%	84.0	6.1%	196.0	6.7%	171.0	6.8%	107.0	4.5%
Africa	9.0	0.6%	26.0	1.9%	38.0	1.3%	69.0	2.7%	43.0	1.8%
Americas	38.0	2.6%	21.0	1.5%	46.0	1.6%	32.0	1.3%	5.0	0.3%
Asia & Far East	7.0	0.5%	20.0	1.5%	53.0	1.8%	43.0	1.7%	31.0	1.3%
Total	**1,462.0**	**100.0%**	**1,379.0**	**100.0%**	**2,940.0**	**100.0%**	**2,529.0**	**100.0%**	**2,397.0**	**100.0%**

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" for a discussion of our net sales based on the legal location of the customer.

Our customers include leading Russian and international oil and gas companies, including Gazprom, TNK-BP, LUKOIL, Surgutneftegaz, Rosneft, Tatneft, Slavneft, the Shell Group, Total S.A., Wintershall AG, Occidental Petroleum Corporation, Anadarko Petroleum Corporation, ONGC, Statoil, Repsol YPF S.A., Eni S.p.A. and Conoco-Phillips Inc. In 2005 and the first six months of 2006, our five largest customers by net sales were Gazprom (including its subsidiaries), Surgutneftegaz, TNK-BP, LUKOIL and Rosneft, which together accounted for approximately 53% and 42%, respectively, of our total net sales.

Marketing

We seek to tailor our sales and marketing strategies to our customers and the markets we serve. Our subsidiary, TMK Trade House, headquartered in Moscow, coordinates all of our Russian and CIS sales and is principally responsible for establishing, expanding and maintaining contacts with customers, conducting market development studies, marketing and promotion. TMK Trade House has six branch offices in Russia as well as representative offices in Azerbaijan and the Republic of China. In Kazakhstan, our sales operations are carried out by our wholly-owned subsidiary, TMK-Kazakhstan. We also have a network of over 60 official distributors throughout Russia and the CIS, which principally market and sell our industrial welded pipes.

Our sales operations outside of Russia, CIS and Europe are coordinated principally by our subsidiary TMK Global, which is headquartered in Switzerland. Under agency agreements with TMK Trade House, our Russian plants deliver their products to TMK Trade House which in turn delivers the products to TMK Global for further distribution. TMK Global sells our products onward to our German subsidiary Sinara Handel for sales of our products in Europe, and through its Italian subsidiary Eurosinara for sales of our products in Southern Europe, and directly to third parties. We have also established a subsidiary in Houston, United States of America, TMK Sinara North America, Inc., to coordinate our marketing activities in North America.

We seek to develop close, long-term relationships with our customers, including end customers who purchase our products through international wholesale traders, by seeking to provide them with a consistent quality of products, competitive pricing and timely delivery of orders. We also seek to respond to our end-customers' individual requirements, ranging from specific packing or delivery requirements to the development of new products, including products manufactured using our own premium threaded connections. We periodically conduct customer satisfaction surveys and also arrange meetings with customers to discuss our products and services and their specific requirements. We attend major steel and pipe industry conventions to maintain and enhance our profile, and our press service issues regular press releases in various publications to publicise significant developments in our business operations.

As part of our downstream and marketing strategy, we plan to increase our distribution capabilities, including the opening of representative offices in Singapore and establishing warehouses for storage of our pipe products in Houston, where we already have offices, as well as Singapore. In addition, as an integral part of expanding our OCTG business, we intend to develop our threading capabilities and downstream services such as threading repair and maintenance. In August 2006, we entered into an agreement with Hydril, a U.S. company engaged in the engineering, manufacturing and marketing of premium connections used for oil and gas drilling and production, pursuant to which we plan to establish a joint venture to manufacture casing and tubing pipes with Hydril premium connections. Under the terms of the agreement, we would, among other things, lease the production site and supply the necessary production personnel for the joint venture and Hydril would, among other things, provide technological know-how and assistance for the manufacture of pipes with Hydril premium connections. Volzhsky is to supply plain end pipes to the joint venture and the output of the joint venture is to be sold to both Hydril and us in equal proportions. We also expect to enhance our international profile through our ongoing qualification programmes with target customers.

In addition, we derive a small portion of our net sales from leasing drill pipes, which can be reused, to our oil and gas customers.

Sales

We sell our products primarily pursuant to sales contracts with our customers, including our international wholesale trading partners, typically based on standard industry terms and conditions. We set prices for our customers on a quarterly basis in order to allow for adjustments in line with our price lists, which we revise each calendar quarter. We may in some circumstances, such as in the case of large volume orders, offer discounted prices. Generally, we require our Russian customers to pay us in advance of the delivery of our products, while we permit our export customers, including wholesale traders, to pay us within 60 days of delivery.

We have entered into framework supply agreements with many of our principal Russian customers, including Gazprom, Surgutneftegaz, LUKOIL and Slavneft. Under such agreements, each delivery of pipe products is made pursuant to individual purchase orders submitted by our customers. We have also entered

into long-term supply agreements with some of our principal customers, including TNK-BP. These long-term supply and cooperation agreements include:

- In May 2005, we entered into a supply agreement with TNK-BP pursuant to which we agreed to supply TNK-BP with OCTG and other kinds of oil and gas pipes through 31 December 2007. The agreement provides that TNK-BP shall provide us forecasts of their pipe requirements on a quarterly basis, and prices of pipes delivered under the contract are revised on a quarterly basis.
- In June 2006, we entered into a three-year strategic cooperation agreement with Salym Petroleum Development N.V., an affiliate of the Shell Group, for the supply of pipe products. Pipes supplied under the agreement are to be made pursuant to purchase orders, the terms and conditions of which are to be agreed on a quarterly basis. The agreement provides, among other things, for tentative delivery quantities of between 41,000 and 49,000 tons of OCTG per annum.
- In September 2004, we entered into a three-year exclusive marketing agreement with Lone Star, pursuant to which we appointed Lone Star as the exclusive distributor of our OCTG and drill pipes in the United States and Canada. Under the terms of the agreement, we and Lone Star agreed to target sales volumes of OCTG and drill pipes of 60,000 tons in 2006 and 80,000 tons in 2007.

We also participate as a supplier of both seamless and welded line pipes for major oil and gas pipelines in Russia and the CIS. We have previously participated in such large pipeline projects as the Caspian Pipeline Consortium oil pipeline, which connects the Tengiz oil field in western Kazakhstan to the Novorossiysk marine terminal in Russia; the Baltic Pipeline System oil pipeline, which connects oil fields in Western Siberia to the Russian port of Primorsk in the Gulf of Finland; and the Yamal-Europe gas pipeline, which connects Western Siberian gas fields to Poland and Western Europe. We are currently participating as a supplier for the Central Asia-Centre pipeline. In addition, we are currently involved in ongoing supply tenders or plan to bid for a number of large pipeline projects, including the North European Gas Pipeline and the Eastern Siberian Pacific Ocean Pipeline.

We are currently supplying pipes for the reconstruction of the Central-Asia Centre gas pipeline system, which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to Russia. We entered into a contract in May 2006 with purchasing agents of ZAO KazTransGas, the sponsor of the project, to supply 64,000 tons of pipes for the pipeline and we have delivered approximately 40,000 tons of pipes to date under the contract. The Northern European Gas Pipeline, which is sponsored by Gazprom, E.ON AG and BASF, is expected to extend from Russia to Germany via the Baltic Sea. Construction on the onshore portion of the project started in early 2006 and the pipeline is expected to be completed in 2010. The Eastern Siberian Pacific Ocean Pipeline, which is sponsored by Transneft, is expected to extend from Western Siberia to the Russian Pacific Coast. Construction of the pipeline is expected to commence in 2008.

Russian Sales

Our customers in Russia principally include the major oil and gas companies and machinery and power-generation enterprises located throughout Russia. Gazprom is our most significant customer in Russia, accounting, together with its subsidiaries, for 30.3% of our net sales in 2005 and 20.6% of our net sales in the first six months of 2006.

The following table sets forth, as a percentage of our total sales volumes in Russia, our consolidated sales volumes in Russia by seamless and welded pipes for the periods indicated.

	Six months ended 30 June		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
Seamless	61.7%	58.9%	54.9%	65.0%	64.0%
Welded	38.3%	41.1%	45.1%	35.0%	36.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Our Russian production facilities are located in large industrial areas and have long-standing relationships with local end-user customers dating from the Soviet era. In particular, our Sinarsky and Seversky plants, which are located in the Ural region near key oil and gas fields, are oriented to domestic market sales. Volzhsky and Tagmet, which are located close to the Black Sea ports, are more oriented to export markets.

We also operate warehouses in Moscow and the surrounding regions, where we sell primarily welded pipe products to wholesalers on a walk-in basis. We realise higher margins on these sales compared to our other sales, and we intend to open such warehouses in other Russian regions in the future. Through these sales, we also identify potential new end-user customers of our products and market our production capabilities and products directly to them. We have also recently opened a pilot service centre in Nizhnevartovsk, located near major oil and gas fields in Western Siberia. The centre supplies OCTG and other oil and gas products to customers on a retail basis. We are considering expanding the kinds of services provided by our warehouses and pilot service center to include the supply of spare parts, OCTG repair and threading operations. We are also considering opening additional storehouses in other important oil and gas producing regions in Russia. We sell most of our OCTG products domestically principally to large Russian oil and gas producers pursuant to tenders or directly under contracts with such customers.

In 2005, our five largest domestic customers of seamless pipes by net sales were Surgutneftegas, TNK-BP, LUKOIL, Gazprom and Rosneft, which together accounted for approximately 58% of our total volume of seamless pipe sales. In the first six months of 2006, our five largest domestic customers of seamless pipes by net sales were TNK-BP, Surgutneftegaz, LUKOIL, Gazprom Neft and Rosneft, which together accounted for approximately 37% of our total volume of seamless pipe sales. In 2005, our two largest domestic customers of welded pipes by sales volumes were Gazprom and Transneft, which together accounted for approximately 48% of our total volume of welded pipe sales in Russia. In the first six months of 2006, our two largest domestic customers of welded pipes by sales volume were Gazprom and RAO UES, which together accounted for approximately 27% of our total volume of welded pipe sales in Russia. Gazprom currently buys the entire output of 1,420 mm pipes produced at Volzhsky, amounting to approximately 440,000 tons of pipes in 2005 and approximately 132,600 tons of pipes in the first six months of 2006. In 2005 and the first six months of 2006, we sold approximately 93% and 90%, respectively, of our large-diameter welded pipes domestically.

Sales Outside Russia

Our sales outside of Russia consist primarily of OCTG and line pipe for the oil and gas industry and industrial seamless pipes. In 2005, OCTG and line pipe amounted to 48% of our total sales volumes outside of Russia, as compared to 44% in 2004. In the first six months of 2006, OCTG and line pipe amounted to 47% of our total sales volumes outside of Russia, as compared to 49% in the first six months of 2005. We expect, however, that, with our increased focus on our Romanian operations and TMK-Artrom's strength as a supplier in the automotive industry, in the future, our sales outside of Russia of industrial seamless pipes will increase as a percentage of our total non-Russian sales.

The following table sets forth, as a percentage of our total non-Russian sales volumes, our consolidated non-Russian sales volumes by seamless and welded pipes for the periods indicated.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
Seamless	78.6%	88.5%	88.5%	86.3%	88.8%
Welded	21.4%	11.5%	11.5%	13.7%	11.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Our sales of seamless pipes to customers in the European Union are limited by anti-dumping duties which apply to the import into the European Union of a broad range of seamless pipes manufactured by us. See "—Legal Proceedings—European Union Anti-dumping Proceedings" and "Risk Factors—Risks Relating to our Business and the Pipe Industry—Anti-dumping proceedings and other import restrictions may limit sales of our products in important geographical markets, including Europe." We do not currently believe, however, that such anti-dumping duties have a significant impact on our non-Russian sales. While a significant percentage of our pipes are purchased through European agents and representatives, few of the end customers for our OCTG and line pipe take delivery of and use our pipes in the European Union. In addition, TMK-Artrom has received permission from the European Union to export up to 24,000 tons of certain kinds of seamless pipes that are subject to the European Council Regulation (EC) No. 954/2006 (the "Anti-dumping Regulation") to the European Union free from anti-dumping duties. Furthermore, when Romania accedes to the European Union, which is expected to occur in 2007, the Anti-dumping Regulation will no longer apply to pipes produced by TMK-Artrom.

In 2005, our five largest export customers of seamless pipes by net sales were: ONGC, the largest oil company in India; Sonatrach, the Algerian state oil company; Syrian Petroleum Company; Shell; and Occidental Petroleum, which together accounted for 34% of our total seamless pipe export sales.

In 2005, our two largest export customers for welded pipes by sales volumes were Uztransgas, based in Uzbekistan, and Belarus Neft, which together accounted for approximately 17% of our total welded pipe export sales.

Transportation

Transportation costs affect the prices we charge customers for our products. We believe that our proximity to our Russian customers, many of which are located near our Sinarsky and Seversky plants, and the proximity of our export-oriented plants, Volzhsky and Tagmet, to ports on the Black Sea, has helped us to reduce the costs of transporting our products. We have also centralised our transportation and logistics operations in our subsidiary, TMK-Trans, to allow each of our operating facilities to benefit from its industry knowledge and logistical expertise.

Substantially all of our finished products produced at our Russian operations are transported by railway within Russia directly to customers or to ports for export. Our main provider of rail transportation services is Russian Railways. Tariffs for rail shipments are set by Russian Railways and are regulated by Russian Railways and the Federal Tariffs Service. We also plan to purchase over 230 long-wheelbase cars, of which there is a shortage in Russia, to transport our large-diameter welded pipes and the steel plates and coils used in their manufacture.

From Volzhsky and Tagmet, we have rail access to ports on the Azov Sea and the Black Sea from where, in 2005, 81% of our non-Russian sales were transported by sea. Our principal shipment routes include routes from the Black Sea ports and the Taganrog port to North America, the Middle East, Africa and the Far East and, during the navigable season, shipment via the Volga River to European destinations, including the Netherlands and Romania. The remaining portion of our exported products are transported by rail, mainly to customers in Europe and other CIS countries. For export sales, we generally deliver our products on the following terms: for pipes delivered by rail, FCA (free carrier) or CPT (carriage paid to); for pipes delivered by sea, FOB (free on board) (ports of Volzhsky, Taganrog, Astrakhan or other ports we ship from) or CIF (cost, insurance and freight)/CFR (cost and freight) (to different ports of destination).

For our Russian sales, title to the products generally transfers upon loading of products into railway wagons at our plants. We deliver substantially all of our domestic products by rail, and we arrange transportation of these products for additional fees. We have convenient rail access to the major oil and gas regions located in the Western Siberia region.

Research and Development

We engage in research and development of new products to meet the increasingly stringent requirements of our customers. Our research and development activities are carried out by the Directorate of the Chief Technologist, often in cooperation with Russian federal authorities, such as the Ministry of Industry and Science and Gosstandart, customers, such as Gazprom, and suppliers, such as Severstal and MMK. We also cooperate with leading Russian industrial institutions in the gas industry (VNIIGAS), ferrous metals industry (CNII Chermet), oil and gas transportation industry (VNIIST), pipe industry (ROSNITI) and energy equipment industry (CNIITMASH). Product development and research projects we currently conduct include:

- development of spiral welded pipes using strong steel grades, such as API steel grades X 70 and higher, which can withstand high levels of pressure;
- smelting and heat treatment of high-strength threaded cold-resistant and hydrogen sulphide-resistant pipes;
- development of drilling and pump compressor pipes with different types of coating and line pipe and pump compressor pipes made of microalloyed steels; and
- development of corrosion testing techniques.

In addition to research and development aimed at new or improved products, we continuously study opportunities to improve the efficiency of our manufacturing processes and, in particular, our steel production processes. See "—Strategic Capital Expenditure Programme" for a description of our current strategic investment initiatives.

We are also working with the Russian Fund for the Development of the Pipe Industry and other Russian pipe producers to develop new technical rules and national standards for pipes.

We also are considering the acquisition from a related party of a controlling interest in JSC "Russian Research Institute of the Tube and Pipe Industries" ("Rosniti"), which is engaged in the scientific and technological development of the Russian pipe industry, to increase our research and development capabilities. We have a long working relationship with Rosniti in carrying out joint research and development activities.

When appropriate, we seek to register rights to intellectual property that may result from our research and development efforts. As of 30 June 2006, our Russian plants had obtained 66 patents for inventions and 18 patents for design.

We spent U.S.$5.5 million for research and development in 2005, compared to U.S.$3.5 million in 2004. We spent U.S.$3.2 million for research and development in the first six months of 2006 as compared to U.S.$3.1 million in the first six months of 2005.

Competition

Global pipe markets are highly competitive. The primary competitive factors consist of quality, price and value-added features, such as premium threading.

Global Market

The global market for seamless steel pipe products is highly competitive. The production of seamless steel pipe products following the stringent requirements of major oil and gas companies requires the development of specialised skills and significant investments in manufacturing facilities. In comparison, seamless pipe products for standard applications can be produced in most seamless pipe mills worldwide and sometimes compete with welded pipe products for such applications. Welded pipe, however, is not generally considered a satisfactory substitute for seamless steel pipe in high-pressure or high-stress applications, which constitute a significant segment of our target market.

Our principal competitors in the international seamless steel pipe markets are:

- *Tenaris S.A.* is generally regarded as the world's largest supplier of seamless pipes, with a focus on seamless pipes to the oil and gas, energy and other industries. Tenaris has manufacturing facilities in Argentina, Venezuela, Mexico, Canada, Italy, Romania and Japan. We estimate that Tenaris had approximately 4.0% of the worldwide market for steel pipes by sales volume in 2005.
- *Vallourec & Mannesman Tubes,* a Franco-German venture, has mills in Brazil, France, Germany and the United States. V&M Tubes has a strong presence in the European market for seamless pipes for industrial use and a significant market share in the international market with customers primarily in Europe, the United States, Brazil and the Middle East. V&M Tubes is an important competitor in the international OCTG market, particularly for high-value premium joint products. We estimate that V&M Tubes had approximately 3.2% of the worldwide market for steel pipes by sales volume in 2005.
- *Sumitomo Metal Industries Limited,* based in Japan, has established a strong position in the markets in the Far East and the Middle East. It is internationally recognised for the high quality of its products and for its supply of high-alloy grade pipe products. We estimate that Sumitomo had approximately 2.0% of the worldwide market for steel pipes by sales volume in 2005.

In addition, Chinese producers, including BaoSteel and TPCO, and Ukrainian producers, including Interpipe, are becoming more significant competitors. While producers from these regions have historically competed primarily in the "commodity" sector of the market where price is more important than quality and service, these producers have been increasing their product quality and capacity and are becoming stronger competitors on the international market. Each of BaoSteel and TPCO is state-owned and has state financial support, and Interpipe also benefits from state support. Interpipe and certain other Ukrainian producers have established strong positions in the CIS markets. We estimate that BaoSteel, TPCO and Interpipe had approximately 1.8%, 1.4% and 1.3% of the worldwide steel pipes market by sales volume in 2005.

Russia

We estimate that we were the largest producer of steel pipes in the Russian market in 2005, with an estimated 34% of the market based on sales volume. As a result of restrictions on imports of steel pipes to Russia, which are subject to import duties of 5% to 20%, we face relatively limited competition in most market segments in Russia from imports. See "Risk Factors—Risks Relating to Our Business and the Pipe Industry—We benefit from limitations on the import of steel pipe products into Russia, the removal of which could adversely affect our financial condition and results of operations." We estimate that imports represented approximately 15% of the total sales of steel pipes in Russia by volume in 2005, most of which were supplied by Ukrainian producers in the "commodity" sector of the market.

OCTG. We currently estimate that we have an approximate 71% share in the Russian market for OCTG based on sales volumes. The only other significant producer of OCTG in Russia is the ChTPZ Group, which controls OAO Chelyabinsk Tube Rolling Plant and OAO Pervouralsky Novotrubny Works. UMC, which controls, among others, Vyksa Steel Works and Almetyevsky Pipe Plant, also produces certain grades of welded line pipes that compete with our seamless OCTG products for certain applications.

Seamless Line Pipe. We currently estimate that we have an approximate 67% share in the Russian market for seamless line pipe based on sales volumes. The ChTPZ Group is our only significant competitor in the Russian market, with a market share of approximately one-quarter of the market.

Seamless Industrial Pipe. We currently estimate that we have an approximate 24% share in the Russian market for seamless industrial pipe based on sales volumes. The ChTPZ Group is the largest producer in Russia in this segment with an estimated market share that exceeds 50%.

Large-Diameter Welded Pipe. We currently estimate that we have an approximate 29% share in the Russian market for large-diameter welded pipe based on sales volumes. The ChTPZ Group and UMC are our principal competitors in this segment. Competition in this sector is increasing following the launch by UMC in 2005 of 1,420 mm diameter pipe production using steel sheets supplied by Severstal, and the commissioning in July 2006 of a new facility for the production of such pipes by Severstal. In addition, UMC and Severstal supply or will supply Gazprom with longitudinal welded large-diameter pipe, which has a single straight weld, whereas we supply Gazprom with spiral large-diameter welded pipe. We believe that Gazprom may favour longitudinal welded pipe over spiral welded pipe for certain high pressure applications, including underwater applications and for use in severe arctic climates. We also compete with Khartsyzsk Pipe, which has historically been a significant supplier of double-seam welded pipes to Gazprom.

Industrial Welded Pipe. We currently estimate that we have an approximate 23% share in the Russian market for industrial welded pipe based on sales volumes. There are a large number of Russian producers in this market, of which we are among the largest, together with the ChTPZ Group and UMC. We are also subject to some competition in this market segment from importers, primarily from Ukraine.

Our principal competitors on the Russian market are:

ChTPZ Group. The ChTPZ Group, which includes OAO Chelyabinsk Tube Rolling Plant and OAO Pervouralsky Novotrubny Works, is located in the Urals region. ChTPZ has also been actively modernising its large-diameter welded pipe production. ChTPZ produces longitudinal double-welded pipes, which Transneft has indicated that it prefers over spiral-welded pipes. ChTPZ is also reportedly contemplating an investment to enhance its own steel-making facilities which would enable it to have greater control over production quality and speed of delivery, adding to its competitive strength in the industrial seamless pipe segment.

United Metallurgical Company. UMC, which includes Vyksa Steel Works and Almetyevsky Pipe Plant, is headquartered in the Nizhny Novgorod region of Russia and produces primarily welded pipes. UMC has also announced plans to install a new plant for coils production at the Vyksa Steel Works plant for industrial welded pipe, which it expects to complete by the end of 2008. This plant will produce hot-rolled strip of up to X65 and X70 API grades. Welded pipes meeting API specifications would compete with our seamless pipes for the oil and gas industry.

Severstal. Severstal, a major Russian steel producer, is a new entrant in the pipe market. Severstal constructed a new factory for the production of large-diameter welded pipe for long-distance pipelines, which was commissioned in July 2006. Severstal has announced that it plans to manufacture all steel coils

and steel plate required for the production of such pipes. We view Severstal as an emerging competitor threat to us in the large-diameter pipe market, particularly in light of its self-sufficiency in wide steel plate.

Product Quality Standards

All of our products are manufactured in accordance with a variety of internationally recognised and accepted standards set forth by the following standardisation organisations:

- American Petroleum Institute (API standards);
- ASTM International (ASTM standards);
- American Society of Nondestructive Testing (ASNT standards);
- German Standardisation Institute (Deutsches Institut für Normung, DIN standards);
- Technical Inspection Association (Technischer Überwachungs-Verein, TÜV standards);
- National standards introduced by Gosstandart and the Russian Federal Agency on Technical Regulating and Metrology (GOST standards); and
- International Standardisation Organisation (ISO certifications).

To help ensure compliance with industry standards and performance specifications, as well as the international competitiveness of our products, each of our plants has implemented an extensive quality management system. Currently, we maintain for all of our manufacturing operations the Quality System Certification ISO 9001:2000 granted by Germanischer Lloyd Certification (with respect to TMK-Resita and TMK-Artrom), TUV NORD Cert Germany (with respect to Volzhsky), Bureau Veritas Quality International (with respect to Seversky), the Quality Management Institute (with respect to Sinarsky and Tagmet) and the American Petroleum Institute Spec Q1 licence granted by the American Petroleum Institute (with respect to Seversky, Sinarsky, Volzhsky, Tagmet and TMK-Artrom).

The ISO 9001 quality management system is intended to ensure that the end product complies with applicable regulations and customers' quality requirements from the acquisition of raw materials to the delivery of the final product. ISO 9001 is designed to ensure the reliability of both the product and the process associated with the manufacturing operation.

API Spec Q1 licences are designed to cover all of the requirements of ISO 9001:2000 as well as additional quality control requirements that are considered valuable to the oil and gas industry. API Spec Q1 licencees are entitled to apply the API mark to the products they offer, thereby identifying themselves as the producers of safe high-quality equipment for the petroleum and natural gas industry.

Our products must also satisfy our customers' requirements. Many international oil and gas companies purchase pipes only from suppliers which have satisfied the rigorous qualification requirements of such oil and gas companies with respect to specific kinds of pipes. These companies often keep official lists of qualified suppliers. Since the beginning of 2005, our Russian plants have received qualifications covering various kinds of pipes from a number of large international oil and gas companies including Shell, Saudi Aramco, KOC, Statoil and Agip. We actively continue to seek to obtain qualifications from major global oil and gas companies as a means of increasing global market acceptance for our products.

Environmental Matters

We are subject to a wide range of local, regional and national laws, regulations, permits and decrees in Russia and Romania concerning, among other matters, human health, discharges to the air and water and the handling and disposal of solid and hazardous wastes. Compliance with these environmental regulations is a significant factor in our business.

We have introduced environmental management systems at each of our plants as a means of improving our environmental processes and reducing our emissions and waste. Each of our Russian plants has received ISO 14001-2004 certifications with respect to their environmental management systems.

We spent RUB 148.9 million (U.S.$5.5 million) on environmental protection measures in 2005, compared to RUB 59.9 million (U.S.$2.2 million) in 2004. Such measures related to the following main areas: (i) modernisation of equipment and implementation of environmentally safe processes and (ii) construction and reconstruction of purification facilities.

We are focusing specifically on improving our systems of waste management. We have also implemented a programme focusing on the regulation of greenhouse gas emission which is aimed at the

introduction of a method for the regulation of greenhouse gases emissions based on Russia's obligations under the Kyoto protocol.

We have not been fined for any material environmental violation in the last five years, and we are not aware of any current material legal or administrative proceedings pending against us with respect to environmental matters which could have an adverse material impact on our financial condition or results of operations.

Employees

The table below sets out the number of our employees as of the dates indicated.

TMK entity	As of 30 June 2006	As of 31 December 2005	2004	2003
OAO TMK	505	470	412	280
Volzhsky	11,858	11,646	11,533	11,566
Seversky	9,547	9,554	10,484	10,438
Tagmet	11,295	11,987	12,027	—
Sinarsky	12,788	12,751	12,671	12,852
TMK-Resita	1,665	1,658	1,550	—
TMK-Artrom	953	925	848	826
TMK Trade House	478	478	474	343
TMK Global	53	60	68	3
TMK-Kazakhstan	11	11	2	11
TK TMK-Trans	16	16	11	—
Sinara Handel	83	63	57	50
Eurosinara	10	—	—	—
TMK Eastern Europe	9	9	9	6
TMK North America	9	—	—	—
Total	**49,280**	**49,628**	**50,146**	**36,375**

We are currently seeking to optimise our personnel structure, primarily through a controlled reduction in the number of our employees, outsourcing non-production activities, such as cafeteria and repair services, and reducing administrative staff. While our productivity (as measured by tons of production per employee) is below western European standards, our production facilities are the principal employers in their respective towns and regions and reductions in the workforce are generally constrained by relevant Russian labour legislation as well as other political and social considerations. For these reasons, we manage reductions in the number of personnel we employ gradually and in a controlled manner. Approximately 80% of our employees were members of the Mining and Metallurgical Trade Union of Russia at the end of 2005. Each of our production facilities enters into biannual or annual collective bargaining arrangements with this trade union. Our collective bargaining agreements establish certain benefits and privileges for employees, including working conditions which are more favorable than those provided for under Russian labour law. The current agreements provide for an increase in employee wages which are indexed to the Russian consumer price index for the particular region and contain certain restrictions on layoffs, including restrictions on the use of part-time employees, the termination of temporary employees and substitutes, providing job search assistance to terminated employees and requiring us to provide notice to the trade union prior to making any major lay-offs.

We believe that our relations with our employees and the unions are good. We believe that this is due in part to our commitment to the social infrastructure of our host cities, our good history of timely salary payments and our strong commitment to the social welfare of our employees. There have been no strikes or other cases of industrial action at our production facilities since we acquired each of these facilities. We believe that average salaries at all of our production facilities are above average for the respective regions. In 2005, the average monthly wages at each of our four principal manufacturing facilities in Russia were between RUB 9,900 (U.S.$365.58) and RUB 11,500 (U.S.$424.67).

Our Russian subsidiaries make defined contributions on behalf of their employees to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the applicable rates (approximately 33%) based on gross salary payments. These contributions are expensed as incurred and we have no legal or constructive obligation to make any further payment in respect of such statutory

social and pension contributions. Furthermore, our subsidiaries provide additional pension 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, typically ranging in amounts from one to four months' salary, 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. Our payments relating to the additional pension and other post-employment benefits totalled approximately RUB 14.7 million (approximately U.S.$518 thousand) for the year ended 31 December 2005.

In addition, we and each of our Russian plants are parties to one-year agreements with each of the regional authorities in the regions where our Russian plants operate, which cover certain aspects of activities in the respective regions. In particular, we have undertaken in the agreements to contribute to the social infrastructure of the localities where each of our plants operate, including providing assistance to schools and medical facilities.

As part of our strategy of out-sourcing non-production activities, in September 2006, our Seversky plant entered into a preliminary agreement with SMS Demag regarding the creation of a joint venture focusing on increasing the quality of the maintenance and repair functions and improving the availability of equipment at Seversky. Under the terms of the planned agreement, the joint venture, the personnel of which would consist of 49 maintenance specialists from Seversky and six maintenance specialists from SMS DeMag, would provide general maintenance, spare parts management and other management services to Seversky. In turn, Seversky would be obligated to pay a monthly fee all of the joint venture's costs as a general fee to be agreed upon together with a bonus to be based upon the savings generated by using the services of the joint venture. The parties expect to enter into a definitive joint venture agreement in late 2006.

Insurance

The insurance industry has not yet been well developed in Russia, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. We have obtained property and casualty insurance coverage of up to an aggregate of U.S.$96.3 million as of July 2006. For 2004, 2005 and the first six months of 2006, we incurred expenses related to insurance premiums of approximately U.S.$1.7 million, U.S.$1.2 million and U.S.$0.6 million, respectively.

At present we insure, among other things:

- our real property and production facilities against fires and certain other natural disasters;
- our equipment against damage;
- accidents and theft related to goods in transit;
- our production operations against damages to third parties, including environmental liabilities; and
- transported goods against theft or damage.

We maintain obligatory insurance policies required by Russian law and provide employees with medical insurance as part of our compensation arrangements with our employees. We have also obtained directors and officers liability insurance policies for our board of directors and senior management.

Currently, we do not have business interruption insurance, although we plan to obtain such insurance.

Legal Proceedings

From time to time, we have been and continue to be involved in legal and arbitration proceedings both as plaintiff and defendant. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) during the last 12 months preceding the date of this Prospectus, which may have, or have had a significant effect on us or on our financial position or profitability, except as specifically described below.

European Union Anti-dumping Proceedings

In 1997, the European Union introduced trade protection measures against tube and pipe producers in Russia and certain other jurisdictions through Council Regulation (EC) No. 2320, which imposed, among other things, anti-dumping duties on non-alloyed plain end line pipe and plain end general purpose pipe of Russian origin. Under the Council Regulation, *ad valorem* duties of 26.8% were imposed on pipes

of the relevant type imported into the European Union and produced in Russia. Some Russian producers, including Tagmet, subsequently negotiated an agreement, pursuant to which they could export certain volumes of pipes into the European Union duty-free. In July 2004, the Commission published an amending regulation No. 1322/2004 that suspended the application of anti-dumping measures and all open review procedures with respect to Russian producers indefinitely.

On 27 June 2006, the European Council issued the Anti-dumping Regulation, which imposed anti-dumping duties on certain types of seamless pipes imported into the European Union and produced in Russia, Romania, Ukraine and Croatia, including certain types of our seamless pipes. The anti-dumping duties imposed by the Anti-dumping Regulation cover iron and steel seamless pipes and tubes with external diameters not exceeding 406.4 mm with a carbon equivalent value not exceeding 0.86. This regulation covers most of our production of seamless pipes, including most of our OCTG, line pipe and industrial seamless pipe production. The Anti-dumping Regulation imposes an anti-dumping duty of 35.8% (expressed as a percentage of the CIF European Union border price) on the relevant seamless pipes produced by our Russian pipe plants and an anti-dumping duty of 17.8% on the relevant seamless pipes produced by TMK-Artrom. Under the terms of the European Union anti-dumping rules, definitive anti-dumping measures are to expire five years from the date such duties are imposed unless it is determined in a review that the expiry of such duties would likely lead to a continuation or recurrence of the dumping and consequent injury to European Union producers.

We do not agree with the conclusions of the Anti-dumping Regulation and we have brought actions against the European Council and the European Commission in Luxembourg courts challenging the imposition of these anti-dumping duties. However, we cannot be certain whether any legal challenge we bring will be successful or whether these duties will be reduced or eliminated in the future, or that new duties will not be imposed.

TMK-Artrom has received permission from the European Union to export up to 24,000 tons of certain kinds of seamless pipes that are subject to Anti-dumping Regulation to the European Union free from anti-dumping duties. In addition, in the event that Romania accedes to the European Union, the Anti-dumping Regulation will no longer apply to pipes produced by TMK-Artrom.

In June 2000, Indian authorities imposed definitive anti-dumping duties on Russian and Romanian pipe products. The duty, which covers certain kinds of line and boiler pipe and casing and tubing, is currently U.S.$757 per ton on the landed value for certain grades of casing and tubing produced by Volzhsky and U.S.$1,001 per ton for other covered pipe products from Russia and Romania.

In 2004, Mexican authorities introduced 42% and 111.37% *ad valorem* duties on Romanian and Russian seamless carbon tube and pipe products. We do not export material quantities of pipes to Mexico.

Other Proceedings

In June 2006, the non-governmental organisation Unit of Veterans of Labour of the city of Volzhsky filed an action, on behalf of former shareholders of AOOT Volzhsky Pipe Plant, against OAO Volzhsky Pipe Plant demanding compensation for the value of shares held by former shareholders of AOOT Volzhsky Pipe Plant in connection with the liquidation of AOOT Volzhsky Pipe Plant in February 2000. Our subsidiary, OAO Volzhsky Pipe Plant, was incorporated in May 2001 and is not the legal successor to AOOT Volzhsky Pipe Plant. According to their claim, the former shareholders of AOOT Volzhsky Pipe Plant seek to recover damages in the amount of RUB 808.5 million (approximately U.S.$29.5 million). The claim was dismissed by the court of first instance in September 2006 and by the appeals court in October 2006. The Unit of Veterans of Labour of the city of Volzksky filed an appeal with the cassation court, but as of the date of this Prospectus, no decision has yet been made by the cassation court. We believe that we have strong defences to this claim and intend to contest it vigorously.

The Russian Federal Tax Service brought a claim against Volzhsky in connection with an alleged underpayment of VAT and profits tax. The amount of the alleged underpayment, together with fines and penalties accrued is RUB 56.9 million (approximately U.S.$2.2 million). In June 2006, a lower court ruled in favour of Volzhsky. The Federal Tax Service filed an appeal with the cassation court, which remanded the case to the lower court for reconsideration. As of the date of publishing this Prospectus, no decision has yet been made by the lower court.

RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties since 1 January 2003. For further details of these transactions, see note 30 to the Annual Financial Statements and note 17 to the Interim Financial Statements.

In the ordinary course of our business, we have engaged, and continue to engage, in transactions with parties that are under common control with us or that are otherwise related parties to TMK. Transactions with entities under common control with us constitute transactions with parties that have the same beneficial owners as TMK or parties that have directors who are also members of our board of directors. See "Directors and Management."

We seek to conduct all transactions with entities that are under common control or otherwise constitute related parties on market terms and in accordance with applicable law. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms. See "Risk Factors—Risks Relating to our Business and the Pipe Industry—Some transactions between our Russian subsidiaries and their interested parties, affiliates and other members of TMK Group require the approval of disinterested directors or disinterested shareholders" and "Risk Factors—Risks Relating to the Russian Federation—Legal and Legislative Risks—Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may affect our results of operations" for a discussion of applicable Russian requirements.

Transactions with related parties for the six months ended 30 June 2006 and 2005 and for the years ended 31 December 2005, 2004 and 2003 are set out below.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(thousands of U.S. dollars)				
Sales revenue					
Entities under common control with the Group	21,591	48,574	82,251	91,210	48,135
Entities under control of the minority shareholders of the Company	—	—	—	22,355	13,513
	21,591	**48,574**	**82,251**	**113,565**	**61,648**
Purchases of goods and services					
Entities under common control with the Group	21,833	18,081	32,059	29,838	675,077
Entities under control of the minority shareholders of the Company	32	1,179	1,318	39,526	188,504
	21,865	**19,260**	**33,377**	**69,364**	**863,581**
Purchases of equipment and intangible assets					
Entities under common control with the Group	—	—	1	7,530	—
Interest expenses from loans and borrowings					
Entities under common control with the Group	—	228	911	1,399	2,119
Entities under control of the minority shareholders of the Company	672	564	1,472	3,741	4,019
	672	**792**	**2,383**	**5,140**	**6,138**
Interest (income) from loans and borrowings					
Entities under common control with the Group	449	1,013	1,135	2,155	—
Entities under control of the minority shareholders of the Company	—	—	—	327	360
	449	**1,013**	**1,135**	**2,482**	**360**

Sales revenues from related parties relate principally to sales of our pipe products to related parties, including Eurosinara, which act as our intermediaries for sales to customers in certain countries outside of Russia. Purchases of goods and services from related parties relate to purchases by us of raw materials from related parties including Tagmet prior to its acquisition by us in February 2004, and purchases of pipe accessories such as tool joints from related parties such as Orsk Engineering Plant, a company controlled by the Sinara Group. We acquired an additional 50% interest in Eurosinara in May 2006, as a result of which it ceased to be a related party with us. On 25 August 2006 we signed an agreement to acquire a 75% interest in Orsk Engineering Plant, and following the completion of this transaction, which is expected to

occur no later than 31 January 2007, it will cease to be a related party with us. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

On 26 February 2004, our controlling shareholder, Dr. Pumpyanskiy, exchanged a 33% interest in TMK Steel, a holding company which at the time held a 100% interest in OAO TMK, for a 94.59% interest in Tagmet, which was at the time held by an affiliate of the MDM Industrial Group. Under the terms of the transaction, the 94.59% interest in Tagmet was transferred to OAO TMK and Dalecone Limited acquired a 33% indirect interest in our shares. Prior to 26 February 2004, we procured and sold raw materials to Tagmet and purchased pipe products from Tagmet for subsequent resale to our customers. We included our purchases of pipe products from Tagmet prior to 26 February 2004 in purchases of goods and services from entities under control of our minority shareholders and sales of raw materials to Tagmet prior to 26 February 2004 in sales revenue to entities under control of our minority shareholders.

In 2004, we incurred commissions and marketing fees, which are included under purchases of goods and services, in the aggregate amount of U.S.$29.7 million to related parties. We did not incur any of these related party fees in 2005 for the first six months of 2006 and do not expect to incur such costs in the future.

The following table sets forth our outstanding balances with related parties as of 30 June 2006 and 31 December 2005, 2004 and 2003.

	As of 30 June	As of 31 December		
	2006	2005	2004	2003
	(in thousands of U.S. dollars)			
Cash				
Entities under common control with the Group	—	12,489	227	227
Entities under control of the minority shareholders of the Company	—	5	28	658
	—	**12,494**	**255**	**885**
Accounts receivable—current				
Entities under common control with the Group	8,149	28,284	36,749	10,453
Entities under control of the minority shareholders of the Company	—	123	101	7,394
	8,149	**28,407**	**36,850**	**17,847**
Accounts receivable—non-current				
Entities under common control with the Group	5,752	8,486	6,898	—
Loans to related parties				
Entities under common control with the Group	—	—	870	2,317
Borrowing to related parties—non-current				
Entities under control of the minority shareholders of the Company	—	—	—	11,844
Prepayments—current				
Entities under common control with the Group	30	—	54	—
Entities under control of the minority shareholders of the Company	93	18	—	—
	123	**18**	**54**	**—**
Accounts payable—current				
Entities under common control with the Group	869	478	7,222	57,308
Entities under control of the minority shareholders of the Company	—	—	—	31,989
	869	**478**	**7,222**	**89,297**
Borrowings from related parties				
Entities under common control with the Group	—	—	7,504	31,656
Entities under control of the minority shareholders of the Company	22,238	31,394	6,070	14,635
	22,238	**31,394**	**13,574**	**46,291**

Borrowings from Related Parties

We have from time to time received loans from parties under common control with us and under the control of our minority shareholders.

- In July 2005, TMK Trade House entered into a loan agreement with MDM-Bank, an affiliate of our former minority shareholder, Dalecone Limited, in the aggregate principal amount of RUB 300 million (U.S.$11.1 million). The loan, which bore interest at 10.25% per annum, was repaid in full in July 2006.
- In July 2005, Seversky entered into entered into a loan agreement with MDM-Bank in the aggregate principal amount of RUB 300 million (U.S.$11.1 million). The loan, which bore interest at 10.25% per annum, was repaid in full in July 2006.

As a result of the acquisition by TMK Steel of all of the Ordinary Shares held by Dalecone Limited in October 2006, MDM-Bank ceased to be a related party with us.

Accounts Receivable from Related Parties

Accounts receivables from related parties relate principally to related parties, including Eurosinara in which we held a 50% interest, which act as our intermediaries for sales to customers in certain countries outside of Russia. We acquired the remaining 50% interest in Eurosinara in May 2006. Non-current accounts receivables from related parties include a long-term portion of receivables for securities sold in 2004.

TMK Steel Loan

On 6 October 2006, through OAO TMK and TMK Trade House, we made loans to our principal shareholder, TMK Steel, in the aggregate principal amount of U.S.$780 million for a term of up to five years. Of the aggregate amount, TMK Trade House made a loan to TMK Steel in the principal amount of U.S.$180.0 million and OAO TMK made a loan to TMK Steel in the principal amount of U.S.$600.0 million. We funded the TMK Steel Loan from the borrowings described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan." The TMK Steel Loan bears interest at 8.51% per annum and is unsecured. The Selling Shareholder has agreed to use net proceeds of the Offering in excess of U.S.$150 million to repay the TMK Steel Loan in full, together with accrued interest and other amounts due thereunder. See "Use of Proceeds."

Acquisitions from Related Parties

We have made several acquisitions from related parties since 1 January 2003. In May 2005, we acquired a 100% ownership interest in Sinara Trading (currently named TMK Global), a distributor of pipe products to certain countries outside Russia, for U.S.$7.8 million from the Sinara Group. In March 2006, we acquired a 100% interest in Sinara Handel, which, among other things, held controlling interests in TMK-Artrom and TMK-Resita, for U.S.$40.0 million from the Sinara Group. In August 2006, we entered into an agreement to purchase a 75% interest in Orsk Engineering Plant for U.S.$45.5 million from the Sinara Group. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Formation and Development of TMK" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

PRINCIPAL AND SELLING SHAREHOLDER

The following table sets forth information regarding the ownership of our shares as of the date hereof and as adjusted to reflect the Offering and the exercise of the Over-Allotment Option in full and the completion of the Employee Offering:

	Shares owned before the Offering		**Shares owned after the Offering and the Employee Offering**		**Shares owned after the Offering and the Employee Offering, assuming exercise of the Over-Allotment Option in full**	
Owner	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
TMK Steel Limited[1]	611,100,700	70.00%	428,450,700	49.08%	410,450,700	47.02%
Bravecorp Limited[2]	120,474,138	13.83%	120,474,138	13.80%	120,474,138	13.80%
Tirelli Holdings Limited[3]	141,426,162	16.23%	141,426,162	16.20%	141,426,162	16.20%
Employees, management and directors	—	—	2,650,000	0.30%	2,650,000	0.30%
Other[4]	—	—	180,000,000	20.62%	198,000,000	22.68%
Total	**873,001,000**	**100.00%**	**873,001,000**	**100.00%**	**873,001,000**	**100.00%**

(1) TMK Steel, which is incorporated in Cyprus, is indirectly under the sole control of Dr. Pumpyanskiy, chairman of the board of directors of OAO TMK.

(2) Bravecorp Ltd., which is incorporated in Cyprus, is a wholly-owned subsidiary of TMK Steel.

(3) Tirelli Holdings Limited, which is incorporated in Cyprus, is a wholly-owned subsidiary of TMK Steel.

(4) Ordinary Shares sold in the Offering.

Based on our shareholder register, we believe that we are not directly or indirectly owned or controlled by any other person, corporation or government, and that there are no arrangements, the operation of which may result in a change of control.

On 11 October 2006, TMK Steel purchased all 288,090,330 Ordinary Shares held by Dalecone Limited, representing 33% of our issued and outstanding shares, for a purchase price of U.S.$1.3 billion. As a result of this transaction, TMK Steel became the direct or indirect owner of 100% of our issued and outstanding Ordinary Shares.

In order to finance the acquisition of these shares from Dalecone Limited, in addition to entering into the TMK Steel Loan (as described under "Related Party Transactions"), TMK Steel entered into a three-year financing facility in the aggregate principal amount of U.S.$470 million (the "Shareholder Loan"), arranged by affiliates of Credit Suisse Securities (Europe) Limited and Renaissance Securities (Cyprus) Limited, which have syndicated this financing. The Shareholder Loan, along with accompanying three-year equity warrants exercisable three years from the date of issuance ("European-style") in respect of Ordinary Shares in OAO TMK, are secured (prior to an initial public offering) by 30% of the outstanding Ordinary Shares in OAO TMK, and following an initial public offering by sufficient collateral to maintain a specified collateral coverage ratio (for example, at a TMK valuation of approximately U.S.$4 billion, the collateral would be approximately 16% of OAO TMK's ordinary shares), declining as amortisation of the Shareholder Loan and/or increases in OAO TMK's share price occur, down to a minimum collateral of 5% of the currently outstanding Ordinary Shares in OAO TMK. Affiliates of Credit Suisse Securities (Europe) Limited and Renaissance Securities (Cyprus) Limited, and any investors in the Shareholder Loan or warrants, may manage their risk on the loan and the warrants by borrowing, shorting, or buying shares of OAO TMK in cash or through derivative transactions.

TMK Steel has also agreed to sell 2,650,000 Ordinary Shares, amounting to approximately 0.3% of the issued and outstanding Ordinary Shares, to our employees at a price of RUB 123 (approximately U.S.$4.60 as of 30 October 2006) per Ordinary Share in the Employee Offering. Certain members of our management board and board of directors have agreed to purchased an aggregate of 1,580,553 Ordinary Shares in the Employee Offering, amounting to approximately 0.2% of our issued and outstanding Ordinary Shares.

DIRECTORS AND MANAGEMENT

Our management bodies comprise the board of directors, the management board (collective executive body) and the General Director (sole executive body).

Board of Directors

Our directors, and their respective years of birth, positions and duties outside TMK as of the date hereof, are as follows:

Name	Year of birth	Position	Current duties outside TMK
Dmitriy A. Pumpyanskiy . . .	1964	Chairman of the board of directors	President of ZAO Sinara Group (Moscow branch); Chairman of the board of directors of ZAO Sinara Group; member of the board of directors of OAO SKB-BANK
Mychadin A. Eskindarov . . .	1951	Director	Member of the board of directors of OAO Moscow Bank and OAO AKB Rosbank; the Rector at the Financial Academy of the Government of the Russian Federation
Peter D. Galitzine	1955	Director	Chief Representative of BASF AG representative office in Russia; Managing Director of ZAO BASF
Andrey Yu. Kaplunov	1960	Director	Vice-President, member of the board of directors of ZAO Sinara Group (Moscow branch); member of the board of directors of OAO SKB-BANK
Igor B. Khmelevsky	1972	Director	Vice-President of ZAO Sinara Group (Moscow branch); member of the board of directors of ZAO Sinara Group; Director of Bravecorp Limited, Tirelli Holding Limited and TMK Steel
Adrian N.W. Cobb	1949	Director	Director of Moscow representative office of CP-Credit Privé S.A.
Josef Marous	1949	Director	Head of the representative office of Thyssen Krupp AG in Russia; member of the board of directors of OAO Thyssen Krupp Elevator; member of the board of directors of OAO Thyssen Krupp Materials; chairman of the Automobile Components Committee, European Business Association in Russia
Sergey T. Papin	1955	Director	Vice-President of ZAO Sinara Group (Moscow branch); member of the board of directors of ZAO Sinara Group; chairman of the board of directors of OAO Urals Plant of Railway Engineering
Alexander G. Shiryaev	1952	Director	Director General of ZAO Sinara Group; member of the boards of directors of OAO SKB-BANK, ZAO Sinara Group and OAO Urals Plant of Railway Engineering
Geoffrey Townsend	1949	Director	Member of the board of directors of OAO Raspadskaya

The term of our board of directors expires on the date of our next annual meeting of shareholders, which is expected to occur between 1 March and 30 June 2007.

Brief biographies of our directors are set out below.

Dmitriy A. Pumpyanskiy joined TMK in 2002 and has served as a member of our board of directors since 2004 and chairman of the board of directors since June 2005. Dr. Pumpyanskiy graduated from the Ural S.M. Kirov Polytechnic Institute in 1986. In 2001 Dr. Pumpyanskiy received a PhD degree in technical sciences. From 1994 to 1998 he held various administrative positions in metallurgical enterprises, including OAO Verkh-Ysetski Metallurgical Works, AOOT Inter-Industry Concern Uralmetprom and OAO Mechel. Between 1998 and 1999, he was a General Director of ZAO Trade House of Sinarsky Pipe Plant. In 1999-2002, Dr. Pumpyanskiy held a position as the first deputy General Director and the chairman of the board of directors of Sinarsky. During 2001-2002 he was a General Director of ZAO Sinara Group. Between 2002 and 2005, Dr. Pumpyanskiy was a General Director of TMK. Since 2001, Dr. Pumpyanskiy has been a member of the board of directors of OAO SKB-BANK. Since June 2005, Dr. Pumpyanskiy has held the position of President of ZAO Sinara Group (Moscow branch). Since July 2006, Dr. Pumpyanskiy has served as Chairman of the board of directors of ZAO Sinara Group.

Mychadin A. Eskindarov has served as a member of our board of directors since 2005. Dr. Eskindarov received a degree in economics from Moscow Financial Institute in 1976 and received a PhD degree in 1981. From 1992 to September 2006 Dr. Eskindarov was a First Pro-Rector for educational matters at the Financial Academy of the Government of the Russian Federation. Since September 2006, Dr. Eskindarov has been Rector of the Financial Academy of the Government of the Russian Federation. Since 2005, Dr. Eskindarov has been a member of the board of directors of OAO Moscow Bank and OAO AKB Rosbank.

Peter D. Galitzine has served as a member of our board of directors since 2005. Mr. Galitzine received a Bachelor of Science in Mechanical Engineering from Massachusetts Institute of Technology in 1978. Between 1993 and 2001, Mr. Galitzine was the Head of the representative office of Mannesmann AG in Russia. In 2001-2004, he served as a General Director at Galitzine Consulting Limited. Since 2005, he has been a Chief Representative of BASF AG representative office in Russia and a Managing Director of ZAO BASF.

Andrey Yu. Kaplunov joined TMK in 2001 and has served as a member of our board of directors since 2005. Mr. Kaplunov received a degree in economics from Moscow Financial Institute in 1982. Mr. Kaplunov received a PhD degree in economics in 1985. Between 1998 and 1999 he served as deputy Head of currency and financial department of the Russian foreign economic union Zarubezhneft. From 1999 to 2000, Mr. Kaplunov was a senior Vice-President and a Director of the human resources and corporate development department at ZAO KB Guta Bank. In addition, Mr. Kaplunov served as a Director of the human resources and organisational development department of AKB Rosbank in 2000-2001. From 2001 to 2005, he was a deputy General Director of TMK responsible for organisational development. Since 2003 Mr. Kaplunov has been a member of the board of directors of OAO SKB-BANK. Since 2005, Mr. Kaplunov has been a Vice-President of ZAO Sinara Group.

Igor B. Khmelevsky joined TMK in 2003 and has served as a member of our board of directors since 2004. Mr. Khmelevsky received a degree in laws from Ural State Law Academy in 1994 and a degree in foreign languages from State Teachers College of Shadrinsky in 1995. In 1999 he served as deputy Head of the legal department at OAO Mechel. Between 1999 and 2001, Mr. Khmelevsky was the deputy General Director responsible for legal matters, head of the legal department at Zlatoustovsky Metallurgical Plant. From 2001 to 2003, Mr. Khmelevsky served as a deputy General Director responsible for legal matters and Head of the legal department at ZAO Sinara Group and from 2003 to 2005 he was the deputy General Director of TMK responsible for legal matters. Since 2004 Mr. Khmelevsky has been a Director of TMK Steel. Since 2005, Mr. Khmelevsky has been a Vice-President and member of the board of directors of ZAO Sinara Group. Since 2006 Mr. Khmelevsky has been a Director of Bravecorp Limited and Tirelli Holding Limited.

Adrian N.W. Cobb has served as a member of our board of directors since 2005. Mr. Cobb received a Bachelor of Arts degree in Russian and French from Durham University in 1971 and graduated from the Institute of Chartered Accountants of England and Wales in 1975. Between 1997 and 2002, Mr. Cobb was Financial Director of Caspian Pipeline Consortium, Moscow. During 2002-2004, he served as a Senior Financial Advisor at Shell Exploration and Production Services B.V. Since 2006, Mr. Cobb has been the Director of the Moscow representative office of CP-Credit Prive S.A.

Josef Marous has served as a member of our board of directors since 2005. Mr. Marous received a degree in economics from Goethe University, Frankfurt in 1976. Mr. Marous currently holds the following

positions: a Head of the Representative office of Thyssen Krupp AG in Russia (since 1999); a member of the board of directors of OAO Thyssen Krupp Elevator (since 2002) and OAO Thyssen Krupp Materials (since 2004); and chairman of the automobile components committee of the European Business Association in Russia (since 2005).

Sergey T. Papin joined TMK in 2002 and has served as a member of our board of directors since 2005. Mr. Papin received a degree in metallurgical engineering from Donetsk Polytechnic Institute in 1977. Between 1996 and 2000, Mr. Papin was a Vice-President, a member of the management board and the Head of the expert and analytical council of OAO AB Incombank. From 2000 to 2002, he was the Vice-President and the Head of the department responsible for interaction with state authorities, advertising and the public relations at ZAO KB Guta Bank. From 2002 and 2005, Mr. Papin was deputy General Director of TMK responsible for public relations. Since 2005, Mr. Papin has been a Vice-President and member of the board of directors of ZAO Sinara Group and chairman of the board of directors of OAO Urals Plant of Railway Engineering.

Alexander G. Shiryaev joined TMK in 2003 and has served as a member of our board of directors since 2005. Mr. Shiryaev received a degree in economics from Sverdlov Institute of National Economics in 1991. From 1998 to 2000, Mr. Shiryaev served as the General Director and deputy General Director of OAO Uralshina. In 2001 Mr. Shiryaev served as deputy General Director responsible for strategic development at ZAO Trade House Sinarsky Pipe Plant. Between 2001 and 2003, he was the deputy General Director responsible for development at ZAO Sinara Group. In 2004-2005, Mr. Shiryaev worked as deputy General Director responsible for economics and finance at TMK Trade House. Since 2002, Mr. Shiryaev has been a member of the board of directors of OAO SKB-BANK and since 2006, a member of the board of directors of OAO Urals Plant of Railway Engineering. Since 2005, Mr. Shiryaev has been a General Director and member of the board of directors at ZAO Sinara Group.

Geoffrey Townsend has served as a member of our board of directors since 2005. Mr. Townsend received a MA degree in Physics from St. Catherine's College, Oxford in 1970. Between 1995 and 2002, Mr. Townsend held various positions within KPMG in Russia, including the head of the consulting department (1995-1997) and the head of the corporate finance department (1996-2000). Mr. Townsend was a partner in KPMG Deutsche Treuhand-Gesellschaft from 1990 until 2002. In 2003-2006, Mr. Townsend was an independent consultant at KPMG. Since September 2006, he has been a member of the board of directors of OAO Raspadskaya.

None of the above directors has any family relationship with any other director or with any member of senior management.

Management Board

Currently, our management board consists of fourteen members. Members of the management board, and their respective years of birth and positions as of the date hereof, are as follows:

Name	Year of birth	Position
Konstantin A. Semerikov	1959	General Director and the chairman of the management board of TMK
Vladimir V. Shmatovich	1964	Deputy Director General for Finance
Sergey I. Agafonov	1964	Deputy Director General for Procurement
Sergey I. Bilan	1962	Deputy Director General for Marketing
Oleg V. Borisov	1953	Deputy Director General for Security
Anatoly I. Brizhan	1942	Managing Director of Sinarsky
Alexey S. Degay	1958	Managing Director of Seversky
Nikolay I. Fartushny	1949	Managing Director of Tagmet
Natalia B. Khonina	1952	Chief Accountant
Alexander G. Lyalkov	1961	Deputy Director General for Operations
Leonid G. Marchenko	1951	Deputy Director General, Chief Engineer
Vladimir B. Oborsky	1961	Executive Director, General Director of TMK Trade House
Tigran I. Petrosyan	1968	Deputy Director General for Economy
Adrian Popesku	1961	Chairman of the Administrative Council at TMK-Artrom

Brief biographies of the members of the management board who are not directors of TMK are set out below.

Konstantin A. Semerikov joined TMK in 2003. Mr. Semerikov graduated from the Moscow Institute of Steel and Alloys in 1981 with an engineering degree in metallurgy. Since 1992, he has held various positions in Tagmet. In 2001 he was elected as a member of the management board of Tagmet. In 2002-2003 Mr. Semerikov was Mayor of Taganrog. In May 2003, he was nominated deputy Chief Engineer of TMK and in December 2003 deputy General Director for operations. In 2004-2005 Mr. Semerikov served as the General and Executive Director of TMK Trade House. Since July 2005, Mr. Semerikov has been our General Director and the chairman of our management board. Mr. Semerikov holds 86,680 shares in Tagmet, representing approximately 0.02% of the shares in Tagmet.

Sergey I. Agafonov joined TMK in 2001. Mr. Agafonov graduated from Sverdlovsk Mining Institute in 1989. Between 1992 and 1994, he served as a procurer and sales engineer at Uralsko-Sibirskaya Company. In 1995-2000, he held different positions in ZAO Uralsko-Sibirskaya Trade Industrial Company, including supply engineer (1995), deputy General Director (1995), and General Director (2000). Between 2000 and 2001, Mr. Agafonov served as a commercial director and General Director in ZAO Trade House Volzhsky Pipe Plant. In 2001-2002 he was a General Director of TMK Trade House. In 2002 Mr. Agafonov served as a General Director and later as Financial Director of ZAO Trade House Kuznetsky Ferrosplav. Between 2002 and 2004, he held a position of a deputy General Director of TMK Trade House responsible for interaction with fuel and energy enterprises. Currently Mr. Agafonov serves as a Director for procurement at TMK and TMK Trade House.

Sergey I. Bilan joined TMK in 2001. Mr. Bilan graduated from Rostov Institute of Railway's Engineers in 1984. Between 1984 and 2001, he worked at Tagmet. Since 2001 Mr. Bilan held the following positions at TMK: head of the department of procurement and marketing and head of the department for marketing of regional and CIS markets (2001-2002), and as acting and subsequently as a deputy General Director of TMK responsible for marketing (since 2002). In 2004-2006, he served as a deputy General Director of TMK Trade House and since February 2006 he has served as the first General Director of TMK Trade House. Currently Mr. Bilan is also our deputy General Director for marketing. Mr. Bilan holds 3,200 shares in Tagmet, representing less than 0.01% of the shares in Tagmet.

Oleg V. Borisov joined TMK in 2003. Mr. Borisov graduated from Sverdlovsk High Military and Political School for Tank and Artillery Studies in 1975. Between 1995 and 2001, he served as a Head of the security department and member of management board of AKB SKB-Bank. From 2001 to 2003, he was the head of security department in ZAO Sinara Group. Since 2003 Mr. Borisov has been deputy General Director for security.

Anatoly I. Brizhan joined TMK in 2003. Mr. Brizhan graduated from Ural Polytechnic Institute in 1970. Between 1961 and 2005, he held positions at Sinarsky, including as a Director (1984-1994), a General Director (1993-2003) and Managing Director (since 2005). In 2003-2005 he worked as a chief counsel to the General Director of the expert and analytical council of TMK. Mr. Brizhan currently serves as a member of the board of directors of SKB-BANK. Mr. Brizhan holds 71 shares in Sinarsky, representing less than 0.01% of the shares in Sinarsky.

Alexey S. Degay joined TMK in 2003. Mr. Degay graduated from Ural S.M. Kirov Polytechnic College in 1980. From 1987 to 2005 Mr. Degay held the following positions at Seversky: Head of the department for material and technical procurement (1991-1994), Commercial Director (1994-1995), first deputy General Director (1995-1997), General Director (1997-2004). Between 2003 and 2005, he worked as chief counsel to the general director of expert and analytical council of TMK. Since 2004 he has been a Managing Director of Seversky. Mr. Degay holds 1,198 shares in Seversky, representing less than 0.01% of the shares in Seversky.

Nikolay I. Fartushny joined TMK in 2004. Mr. Fartushny graduated from Dneprodzerzhinsky Industrial Institute after M.I. Arsenichev in 1973. Between 1973 and 2005, Mr. Fartushny held various positions at Tagmet, including Technical Director (1997-2003), General Director of Tagmet (2003), and subsequently the plant's Managing Director (since 2005). Between 2003 and 2005, Mr. Fartushny also served as a chief counsel to the general director of expert and analytical council of TMK.

Natalia B. Khonina joined TMK in 2003. Ms. Khonina graduated from Ural State University after A.M. Gorky in 1975. Ms. Khonina served as Chief Accountant at ZAO Uralregionprom (1997-1998), ZAO Trade House Sinarsky Pipe Plant (1998-2001), and ZAO Sinara Group (2001-2003). Ms. Khonina currently serves as Chief Accountant at TMK (since 2003) and TMK Trade House (since 2004).

Alexander G. Lyalkov joined TMK in 2003. Mr. Lyalkov graduated from Volgograd Polytechnic College in 1989. Between 1980 and 2005, Mr. Lyalkov worked at Volzhsky. He held a number of managing positions at Volzhsky including Operations Director (2001), first deputy Director of Volzhsky (2001-2002) and subsequently as the plant's General Director (2002-2004). From 2004 through August 2006, Mr. Lyalkov was a Managing Director of Volzhsky. Since August 2006 he has served as first deputy general director of TMK Trade House responsible for operational matters and deputy general director of TMK responsible for operational matters.

Leonid G. Marchenko joined TMK in 2002. Mr. Marchenko graduated from Ural S.M. Kirov Polytechnic College in 1973. From 1973 to 2002 Mr. Marchenko held various positions at Sinarsky including deputy Director (1999-2002) and as the first deputy General Director, the Chief Engineer (2002). In 2002-2004, he served as a Chief Engineer at TMK. Since January 2005 Mr. Marchenko has served as our deputy General Director, Chief Engineer.

Vladimir B. Oborsky joined TMK in 2003. Mr. Oborsky graduated from Kiev High Military School in 1982 and Military Academy named after M.V. Frunze in 1994. In 2000-2001 Mr. Oborsky was Head of the Division of VIP clients and tenders and Head of the Division for interaction with gas industry at ZAO Trade House of Volzhsky Pipe Plant. In 2001 he joined TMK Trade House; from 2001 to 2003 he served as a Head of the Department for interaction with AK Transneft and enterprises of the gas industry; between 2003 and 2005, he was Head of the Department for interaction with Gazprom, independent gas producers and AK Transneft. In 2005 through February 2006 Mr. Oborsky was deputy general director for procurement at TMK. Since 2005 he has served as a general director at TMK Trade House. Since February 2006 he has been our Executive Director.

Tigran I. Petrosyan joined TMK in 2001. Mr. Petrosyan graduated from Erevan State University in 1993. In 1993-1994 he held a position in the Ministry of Economy of Republic of Armenia. From 1994 to 1995 he served as an economist at AKB Noy and Volzhsky. Between 1995 and 1997, he was deputy General Director of OOO Volzhsky Audit. In 2000-2001 Mr. Petrosyan worked as a Head of Planning and economics department at OAO PO Volzhsky Pipe Plant. In 2001-2002 Mr. Petrosyan was a Head of Planning and economics department at TMK. From 2002 to April 2006 he served as a Director of the Economic and planning directorate of TMK. Since April 2006 Mr. Petrosyan has been our deputy General Director for economy.

Adrian Popesku joined TMK in 2006. Mr. Popesku graduated from Timosiara Polytechnic University Trayan Vuya in 1985. From 1999 through May 2006 Mr. Popesku was a General Director of Artrom. In May 2006 he assumed an office of the chairman of Administrative Council at TMK-Artrom. Mr. Popesku holds 476 shares in TMK-Artrom, representing less than 0.01% of the shares in TMK-Artrom.

Vladimir V. Shmatovich joined TMK in 2005. Mr. Shmatovich graduated from Moscow Financial Institute in 1982. From 1996 to 2002, Mr. Shmatovich worked as a General Director and deputy General Director of OAO Interros. He served as a deputy General Director for economy and finance at OAO Udmurtneft (2002) and as a director for financial control at OAO Sidanco (2002-2003). From 2003 to 2005 he was a deputy General Director and Director for economy and finance of OOO RusPromAvto, and from May 2005 to April 2006, he worked as a deputy General Director for economics and finance at TMK. Since June 2005 Mr. Shmatovich has been the deputy General Director for finance and economics at TMK Trade House. Since April 2006 Mr. Shmatovich has served as our Deputy General Director for Finance.

None of the above members of the management board has any family relationship with any director or with any other member of the management board.

Remuneration of Directors and Management

For the year ended 31 December 2005, and the six months ended 30 June 2006 members of the board of directors received an aggregate remuneration of RUB 80,360,629 (approximately U.S.$2.8 million) and RUB 23,086,950 (approximately U.S.$0.8 million), respectively, including salary, bonuses and other payments. The total amount of in-kind and other benefits set aside for members of our board of directors for the year ended 31 December 2005 and the six months ended 30 June 2006, amounted to RUB 8,000 (approximately U.S.$283) and RUB 0, respectively.

Our management board was established in its current form in June 2005. For the year ended 31 December 2005 and the six months ended 30 June 2006, members of the management board received remuneration of RUB 34,154,829 (approximately U.S.$1.2 million) and RUB 84,225,999 (approximately U.S.$3.0 million) including salary and bonuses. The total amount of in-kind and other benefits set aside for

our members of the management board for the years ended 31 December 2005 and the six months ended 30 June 2006 amounted to RUB 10,000 (approximately U.S.$354) and RUB 12,000 (approximately U.S.$434), respectively.

Members of the board of directors, including the chairman, serve in their capacities pursuant to written agreements with us. Agreements with the members of the board of directors, each of which contains largely standard identical terms, provide for the payment of monthly compensation to each member of the board of directors and annual remuneration to the chairman and members of the board of directors' committees, as well as reimbursement of certain expenses. Such agreements are valid until termination of the powers of such member of the board of directors. Relations with the chairman of the board of directors are governed by a separate agreement which is similar to agreements executed with the members of the board of directors. The chairman has a right to receive monthly remuneration for the execution of his duties and for reimbursement of certain expenses. The agreement with our chairman of the board is valid until termination of the powers of the chairman of the board or re-election of the chairman of the board of directors.

Members of our management board serve in their capacities pursuant to written labour agreements and contracts (*soglasheniya*) specifying their specific duties and responsibilities. Such contracts, containing identical terms, provide for the payment of monthly compensation and annual remuneration to each member of our management board. Annual remuneration is paid only if a member of the management board fully achieves the main objectives as provided under the contract. Furthermore, the General Director may grant to a member of the management board additional remuneration for specific achievements.

Interests of our Management

Prior to the Offering, Mr. Pumpyanskiy was the sole beneficial owner of our shares. Members of our management board and board of directors also agreed to purchase an aggregate of 1,580,553 shares in the Employee Offering (as described below), amounting to approximately 0.2% of our issued and outstanding Ordinary Shares. None of the members of our board of directors or management board has any options over our shares.

Certain members of our board of directors and management board have direct and beneficial interests and hold positions in management bodies in companies with which we have engaged in transactions, including those in the ordinary course of business. As a result, potential conflicts of interests between their duties to us and their private interests could arise. Under Russian legislation, certain transactions defined as "interested party transactions" require approval by our disinterested directors or shareholders. See "Description of Share Capital and Applicable Russian Legislation—Interested Party Transactions" and "Related Party Transactions."

Board Practices

Board of directors

Members of our board of directors are elected at our annual general shareholders' meeting by cumulative voting. See "Description of Share Capital and Applicable Russian Legislation—Board of Directors" for a description of the cumulative voting system. Each director is elected for a term that expires at the next annual shareholders meeting and may be re-elected for an unlimited number of periods. Our board of directors currently consists of ten members, including four independent directors. According to our charter the board of directors has the authority to make the principal management decisions for TMK, except in respect of those matters reserved for the shareholders. See "Description of Share Capital and Applicable Russian Legislation—General Meetings of Shareholders" for more information regarding our shareholders' meetings.

The standing committees of our board of directors are:

- the Audit Committee;
- the Nomination and Remuneration Committee; and
- the Strategic Planning Committee.

Audit Committee

Pursuant to our internal regulations, our Audit Committee consists of at least three members from our board of directors, each of whom is to be an independent director (or, if this is not reasonably possible, either an independent or non-executive director, an "independent" director generally being a director who does not hold, and did not hold during the last five years organisational, management or administrative positions with TMK, is not an affiliate of TMK, is not a representative of the state government, and who meets certain other criteria as provided in our Regulations of the management board, and a "non-executive director" being a director who does not hold an organisational, management or administrative position with TMK). The Audit Committee consists of Messrs. Mychadin A. Eskindarov, Adrian Cobb and Geoffrey Townsend and is headed by Mr. Geoffrey Townsend, each of whom was elected on 30 June 2006 and serves until our next annual meeting of shareholders.

The Audit Committee is principally responsible for:

- review of our financial statements;
- review of reports of the Internal Audit Commission and the internal control department;
- review of, and making recommendations to, the board of directors in relation to the standards and procedures for internal and risk control of TMK;
- evaluating the efficiency of internal control procedures and preparing proposals for their improvement;
- assessment of planned major and interested party transactions to be entered into by TMK; and
- analysis, together with the external auditors, of major issues with respect to the audit of financial and accounting reporting.

Nomination and Remuneration Committee

Pursuant to our internal regulations, our Nomination and Remuneration Committee consists of at least three members from our board of directors, each of whom is to be an independent director (or, if this is not reasonably possible, either an independent or non-executive director). Currently, the Nomination and Remuneration Committee consists of Messrs. Mychadin A. Eskindarov, Andrey Yu. Kaplunov and Josef Marous and is headed by Mr. Mychadin A. Eskindarov, each of whom was elected on 30 June 2006 and serves until our next annual meeting of shareholders.

The Nomination and Remuneration Committee encourages the recruitment of qualified specialists to our management and determines appropriate salary levels for our management.

The Nomination and Remuneration Committee is principally responsible for:

- establishing criteria for evaluation of candidates to the board of directors and the management board, as well as to the position of the General Director;
- defining principles and criteria for the amount of remuneration and compensation for the General Director and the members of the board of directors and the management board; and
- evaluating the performance of the General Director and the management board.

Strategic Planning Committee

Pursuant to our internal regulations, the Strategic Planning Committee consists of at least three members who are members of our board of directors and, if deemed necessary, other officers and employees of TMK. Currently, the Strategic Planning Committee consists of Messrs. Peter D. Galitzine, Josef Marous and Alexander G. Shiryayev and is headed by Mr. Josef Marous, each of whom was elected on 30 June 2006 and serves until our next annual meeting of shareholders.

The Strategic Planning Committee is principally responsible for:

- proposing our business priorities, including budgets, long-term plans, strategies and development programmes;
- proposing upgrades of our budgeting system, investment planning, monitoring and analysis processes;

• reviewing and making recommendations in relation to our investment policy;
• making proposals on dividend policy; and
• making proposals on the mergers and acquisitions policy and the sale of fixed assets.

Management of Subsidiaries

To achieve integrated control over the activities of our operating facilities, in December 2003 we have assumed the duty of a centralised management company. TMK has been appointed by the shareholders of each of Volzhsky, Seversky, Tagmet and Sinarsky as the management company until 31 December 2007.

These management contracts transfer all executive powers that are not under the direct control of the board of directors of these plants to TMK. We exercise the managing powers of a sole executive body of the companies that we manage including entering into transactions on behalf of each company (within the limits provided for by applicable law and restrictive charters), operate their bank accounts and represent them before various governmental and judicial agencies. Management is exercised by our officer acting under a power of attorney. Payments received by us are applied fully against our operating expenses and reflected fully in the appropriate line item of our consolidated financial statements.

Our appointment as a management company serves to centralise all management functions in a single body and facilitates the adoption of standard operating and financial management practices across all of our operations. The delegation of management functions to us also serves to improve the efficiency of management activities.

TMK-Artrom was appointed as the management company of TMK-Resita in June 2004 for a four-year period. Under the management contract TMK-Artrom provides organisation, management and administration services to TMK-Resita activities for which it is entitled to receive ROL 5.0 million (approximately U.S.$180.50 as of 30 October 2006) on a monthly basis.

Our board of directors recently approved plans to merge Volzhsky into OAO TMK by way of accession under Russian law, and the shareholders of OAO TMK approved the accession of 30 October 2006. See "—Overview—Corporate Organisation—Developments Regarding our Corporate Structure."

Corporate Governance

Our board of directors currently consists of ten members, four of whom are independent directors in accordance with the criteria set out in the Russian Joint Stock Companies Law and our internal corporate governance regulations, which differ in certain respects from the criteria for independent directors that are set out in the U.K. Combined Code. We refer to those directors as independent directors and we intend to maintain at least four such independent directors on our board of directors following the Offering.

Our corporate governance procedures have been prepared in accordance with general requirements of the Russian Joint Stock Companies Law, listing rules of the Russian stock exchanges, other regulatory acts governing operations of joint stock companies in the Russian Federation, our charter and internal regulations. We have adopted standards for relations with our shareholders, the composition and proceedings of our board of directors, the role of our executive officers, disclosure of information and the auditing of our financial performance that comply with the Recommended Corporate Governance Code adopted by the Federal Commission on Securities Market (the predecessor of the FSFM) on 4 April 2002. For the purposes of implementation of the provisions of the Recommended Corporate Governance Code, we have adopted the following documents relating to the corporate governance matters:

• Regulation on the General Shareholders' Meeting;
• Regulations on the board of directors;
• Regulations on the management board;
• Regulations on the Internal Audit Commission;
• Regulations on the Audit Committee of the board of directors;
• Regulations on the Strategic Planning Committee of the board of directors;
• Regulations on the Nomination and Remuneration Committee of the board of directors;
• Regulations on the Information Policy;
• Regulations on Use of Information with respect to TMK's Activities, Securities of TMK and Transactions Involving Them, which is not Public and the Disclosure of which May Cause Material Impact on the Market Value of TMK's Securities; and
• Dividend Policy.

We have approved an Ethics Code that establishes standards of professional activity and ethics for all our employees, including members of the board of directors, management board and Internal Audit Commission.

See also "Risk Factors—Risk Relating to the Russian Federation—Legal and Legislative Risks—Legal protection of minority shareholders and corporate governance standards in Russian are generally weaker than in more developed markets."

Certain Proceedings Against Our Management

At the date of this Prospectus, no member of our board of directors or management board for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Employee Offering

TMK Steel agreed to sell 2,650,000 Ordinary Shares, representing approximately 0.3% of the issued and outstanding Ordinary Shares, to our employees at a price of RUB 123 (approximately U.S.$4.60 as of 30 October 2006) per Ordinary Share. The Employee Offering commenced on 18 October 2006 and closed on 30 October 2006. The price per Ordinary Share in the Employee Offering represented a discount of approximately 15% to the Offer Price. Certain members of our management board and board of directors have agreed to purchase an aggregate of 1,580,553 Ordinary Shares in the Employee Offering, amounting to approximately 0.27% of our issued and outstanding Ordinary Shares.

CERTAIN REGULATORY MATTERS

General

Russia has not enacted any specific legislation governing the operation of pipe manufacturing activities. The production, sale and distribution of pipes in the Russian Federation is regulated by general civil legislation and special legislation relating to quality standards, industrial safety rules, environmental and other issues.

At the federal level, the Ministry of Industry and Energy of the Russian Federation is the principal state body supervising the operation of the pipes sector. The ministry is responsible for the development of governmental policy in the industry, including, among other things, attraction of investments, foreign trade, taxation, support of scientific research and employment, however, it lacks direct regulatory authority. In October 2002, the Ministry of Industry and Energy published the Programme for Development of the Russian Steel Industry up to 2010. This programme proposes measures supporting voluntary certifications of steel products and promotion of innovations in the industry, reduction of import duties for high-tech machinery and funding of scientific research and process design. The implementation of the Programme is expected to facilitate the modernisation of the Russian steel industry, increase its export potential, improve the quality of steel products and allow the sector to develop in a positive manner over the relevant period.

The Ministry of Economic Development and Trade of the Russian Federation regulates Russian export and imports of products and coordinates intergovernmental negotiations relating to export and import activity.

The federal ministries in Russia are not responsible for compliance control or management of state property and provision of services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that are relevant to our activities include:

- the Federal Service for Environmental, Technological and Nuclear Supervision, which sets procedures for, and oversees compliance with, industrial safety and environmental rules and issues licences for certain industrial activities and activities relating to safety and environmental protection;
- the Federal Service for the Supervision of the Use of Natural Resources oversees compliance with the terms and conditions of licences issued by the Ministry of Natural Resources and environmental legislation;
- the Federal Agency for Technical Regulation and Metrology, which determines and oversees levels of compliance with applicable guidelines; and
- the Federal Antimonopoly Service, which oversees the acquisition of controlling stakes in companies and dominant market positions.

Aside from the above federal executive bodies, which are directly involved in the regulation of and supervision over the Russian pipe industry, a number of other governmental bodies and agencies have authority over general issues connected with the pipe industry such as defense, rail transport and tax enforcement.

Licencing

We are required to obtain numerous licences, authorisations and permits from Russian governmental authorities in the conduct of our operations. Federal Law No. 128-FZ "On Licencing of Certain Types of Activities," dated 8 August 2001, which came into force in February 2002 (the "Licencing Law"), established a list of activities which can only be performed on the basis of licences issued by the relevant Russian authorities. The list of activities relating to the pipe industry includes, among other things, activities connected with hazardous waste, operation of explosive and chemically hazardous production facilities, construction of buildings and other structures connected with pipe manufacturing.

Under the Licencing Law, the minimum period for which a licence is issued is five years. These licences are usually issued for a period of five years and may be extended upon application by the licencee. Licences for the use of natural resources may be issued for shorter or longer periods. In particular, licences for the use of surface water resources may be issued for periods of up to 25 years. Upon the expiration of a licence, it may be extended upon application by the licencee. Certain types of licences may also have unlimited terms. A licence can be suspended by the licencing authority or by the court if the licencee

becomes subject to administrative liability for violation of conditions and requirements of a licence under the procedure stipulated by Russian law. If a licencee does not mitigate any breach of the licence granted to it within the period established by the court or the licencing authority, the licencing authority must apply to a court for the cancellation of that licence.

Certification

Federal Law No. 184-FZ "On Technical Regulation," dated 27 December 2002, as amended, (the "Technical Regulation Law"), introduced new rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

The Technical Regulation Law represents the first step in the seven-year reform of Russian standardisation and certification legislation. The overall goal of the reform is to replace the Soviet-era GOST system (which contains a large number of requirements as to safety and production quality of goods and services) with a new system of state control over safety of goods.

The Technical Regulation Law provides for voluntary confirmation of products' compliance with technical regulations and envisages the mandatory confirmation of such compliance in certain instances. Confirmation of compliance may take the following two forms: declaration of compliance by producers or sellers, or certification.

Violation of the rules of mandatory certification, i.e. sale of goods subject to mandatory certification without required certificates, may lead to an administrative fine.

Our products and products of our subsidiaries are certified to conform to the international standards including, among others, API 5L, 5CT, TUV, ASTM and DIN.

Land Use Rights

Russian legislation prohibits the carrying out of any commercial activity on a land plot without appropriate land use rights.

Under the Land Code of the Russian Federation of 25 October 2001, as amended, (the "Land Code"), companies generally have one of the following rights with regard to land in the Russian Federation: (1) ownership; (2) right of free use for a fixed term; or (3) lease.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities which, through public auctions or tenders or through private negotiations, can sell, lease or grant other use rights to the land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, Federal Law No. 137-FZ "On Introduction of the Land Code," dated 25 October 2001, with certain exceptions, requires companies using land pursuant to rights of perpetual use either to purchase the land from, or to enter into a lease agreement relating to, the land with the relevant federal, regional or municipal authority owner of the land by 1 January 2008.

Our subsidiaries generally have a right of ownership or perpetual use of their plots or have entered into long-term lease agreements. A lessee has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Antimonopoly Regulation

Currently competition in Russia is primarily regulated by the Russian Federation Law No. 948-I "On Competition and Limiting Monopoly Activity on the Commodities Markets," dated 22 March 1991, as amended, (the "Competition Law"). Certain regulatory powers are vested in the Federal Anti-Monopoly Service, or the FAS.

We are subject to regulation by the FAS in connection with some acquisitions that we make.

The FAS is authorised by law to approve (i) acquisitions of more than 20% of the voting shares in a Russian business entity; (ii) acquisitions of more than 10% of the fixed and intangible assets of companies;

and (iii) acquisition of control over companies, in each case if the combined assets of the target and acquirer's group of persons exceed 30 million statutory minimum wages, currently equivalent to RUB 3 billion (approximately U.S.$111 million) or if the target, the acquirer or a company in the acquirer's group of persons is registered as having more than a 35% share of a particular commodity market. The FAS is also authorised to approve the merger or consolidation, and to monitor the appointment of certain members of the management, of Russian business entities.

As a condition to issuing such approvals, the FAS may impose certain conditions designed to promote competition, including restrictions on conducting business, such as limitations on prices, geographical expansion, associations and agreements with competitors. In addition, a company holding a market share in a particular commodity market that exceeds 65% is presumed to hold a dominant position in that market. Such company is prohibited from abusing such a position, which includes activities that are characterised as restraining or eliminating the competition. Companies holding such a dominant position may not (i) limit sales in order to create a deficit or to increase prices; (ii) impose unfavourable contractual terms that are not justified by the subject matter of the contract (for example, unjustified demands for the transfer of assets or property rights); (iii) impose discriminatory terms on access of competitors to the market; (iv) create barriers to entry into or exit from the market; (v) violate legal or regulatory requirements relating to pricing; (vi) fix excessively high or excessively low prices; (vii) decrease or terminate production of goods that are in demand or that are ordered by consumers when there is a possibility of producing such goods without sustaining loss; or (viii) arbitrarily refuse to enter into a sales agreement with particular customers, if it is feasible to produce or deliver the relevant goods.

The FAS is authorised to issue binding orders on companies holding a dominant position, such as requiring companies to treat customers equally or imposing pricing restrictions. In addition, the FAS has the power to require a spin-off or split of business operations of a company which holds a dominant position when the following conditions are met: the company has repeatedly (i.e., twice within three years) violated Russian antimonopoly regulations; the spin-off would increase competition; a structural unit of the company may be organisationally and territorially separated from the company; there is no tight technological interconnection between structural units of the company (in particular, less than 30% of the relevant structural unit's output is consummated internally); and the legal entities resulting from such spin-off may function autonomously.

On 26 July 2006 Federal law No. 135-FZ "On Competition Protection" (the "New Competition Law") was adopted, and the New Competition Law entered into force on 26 October 2006. It will entirely replace the Competition Law.

The New Competition Law provides for the antimonopoly regulation over the transactions which result in (i) shareholding of more than 25%, 50% and 75% of the voting shares in a joint stock company; (ii) acquisition of rights to more than one third, 50% or two thirds of the shares in a limited liability company; or (iii) acquisition of more that 20% of the main production or intangible assets.

Under New Competition Law, the acquirer must obtain the prior consent of the FAS in respect of the above transactions if the aggregate book value of assets of the acquirer and a target company exceeds RUB 3 billion, or their consolidated sales revenue for the last calendar year exceeds RUB 6 billion, and provided that the book value of assets of a target company exceeds RUB 150 million or any of the parties involved in the transaction is registered as having more than a 35% share in a particular product market.

Subsequent notification to the FAS in respect of the above transactions is required if either the sum of the book value of the assets of a target company and the acquirer or their consolidated sales revenue for the last calendar year exceeds RUB 200 million, and provided that the book value of the assets of a target company exceeds RUB 30 million or any of the parties involved in the transaction is registered as having more than a 35% share in a particular product market.

Prior antimonopoly control is required for the establishment of a business entity when the charter capital of the entity is paid by the shares or property of another business entity if founders and/or business entity shares/property of which are contributed to the charter capital meet certain requirements provided by the New Competition Law.

The New Competition Law modifies the definition of the "dominant position" of a company by reducing the size of the market share allowing to qualify the company as having a dominant position from 65% to 50%. In addition, companies are presumed to have a dominant position, if (i) the aggregate share of not more than three companies exceeds 50% where each company has a share larger than other companies on the respective commodity market; or (ii) the aggregate share of not more than five

companies exceeds 70% where each company has a share larger than other companies of the respective commodity market.

Environmental Matters

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by Federal Law No. 7-FZ "On Environmental Protection," dated 10 January 2002 (the "Environmental Protection Law"), as well as by a number of other federal and local legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The Ministry of Natural Resources has established standards relating to the permissible impact on the environment and, in particular, limits for emissions and disposal of substances, waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Ecological approval

Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with Federal Law No. 174-FZ "On Ecological Expert Examination," dated 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described under "—Environmental liability."

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and Ministry of Natural Resources is responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Environmental protection programmes

We have been developing and implementing environmental protection programmes at all of our pipes manufacturing subsidiaries. Such programmes include measures to aid in adhering to the limits imposed on air and water pollution and storage of industrial waste, introduction of environmentally friendly industrial

technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the recycling of water and industrial waste.

We strive to ensure that the activity of our subsidiaries conforms to world standards and environmental legislation. Our primary goal in this respect is to make environmental protection an integral part of our business. Our subsidiaries have implemented and constantly upgraded the integrated environmental management system that complies with ISO 14001 international standards.

Health and Safety

Due to the nature of our business, substantially all of our operating activities are conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is Federal Law No. 116-FZ "On Industrial Safety of Dangerous Industrial Facilities," dated 21 July 1997, as amended (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used. There are also regulations that address safety rules for the steel smelting and the production of pipes. Additional safety rules also apply to certain industries, including the metallurgical industry.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licenced expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia effective 1 February 2002, as amended (the "Labour Code"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order. In addition, the Labour Code provides for the state inspections of work safety to verify, in particular, the compliance of work conditions to state standards as well as compensations to employees due to hazardous work conditions.

Besides, companies with more than 50 employees must have a special work safety service or a work safety officer. Business entities are required to spend 0.2% of their production expenses on improvement of work safety.

Furthermore, on 29 May 2006, the Ministry of Public Health and Social Development of the Russian Federation issued Order No. 413 approving the model regulations on work safety to be used by employers.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken or will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Federal Service for Environmental, Technological and Nuclear Supervision has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code.

Employment contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law. The Labour Code specifies where the employer must enter into term contracts, and where the employer may, but not be obliged to, conclude such contracts subject to parties' mutual agreement. The employment contracts with chief executive officer may be concluded either for a fixed or for indefinite term. The term contracts with pensioners may only be concluded upon their hiring (i.e. the indefinite term contract may not be necessarily replaced by the term contract at the employee obtains the status of pensioner).

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence or health problems;
- systematic failure of the employee to fulfill his or her duties;
- any single gross violation by the employee of his or her duties; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or disabled child under the age of 18 or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother.

In case of unsuitability of the employee for the position due to health condition the employer is required to transfer him to another position suitable to his health condition. In case the employee refuses the offered transfer or there is no suitable position the employment contract is terminated.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees whose work subjects them to potentially harmful production operations may be entitled to additional paid vacation ranging from seven to 14 working days. The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, the retirement age for male who have worked in potentially harmful

production operations and hot workshops for at least 10 years, and females for at least seven years and six months, is 50 years and 45 years, respectively.

Salary

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is RUB 1,100 from 1 May 2006 (approximately U.S.$40.74). Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

Trade Unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, our management routinely interacts with trade unions in order to ensure the appropriate treatment of employees and the stability of our business.

The activities of trade unions are generally governed by the Labour Code and by Federal Law No. 10-FZ "On Trade Unions, Their Rights and Guaranties of Their Activity," dated 12 January 1996, as amended (the "Trade Union Law").

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;

- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Code of the Russian Federation on Administrative Misdemeanours of 30 December 2001, nor the Criminal Code of the Russian Federation of 13 June 1996, currently has provisions specifically relating to these violations, general provisions and sanctions may be applicable. The Code on Administrative Misdemeanours only establishes liability for violations of labour protection laws.

DESCRIPTION OF SHARE CAPITAL AND APPLICABLE RUSSIAN LEGISLATION

This section describes our share capital, the material provisions of our charter in effect as of the date of this Prospectus and certain requirements of Russian legislation applicable to the Ordinary Shares and their holding and disposal. This description, however, is not complete and is qualified in its entirety by reference to our charter and applicable Russian law.

Our Purpose

Article 6 of our charter provides that our purpose is to receive profit. We are entitled to carry out various activities permissible under Russian law, such as conducting of operational and managerial activities relating to the production sector, including foreign trade operations, conducting scientific and technical research activities and implementing results arising therefrom, provision of marketing services, distribution of technical equipment, ownership of securities and other activities provided for by our charter and applicable Russian legislation.

Description of Share Capital and Certain Rights and Obligations of Shareholders

General Matters

Upon our incorporation, the share capital of OAO TMK was RUB 10,000. On 12 July 2004, the shareholders' meeting of OAO TMK decided on a share capital increase from RUB 10,000 to RUB 8,730,010,000 through an issuance of 873 million ordinary shares with a nominal value of RUB 10 each. The issuance of shares was registered with the FSFM on 31 August 2004. In November 2004, all of the newly issued shares were placed with TMK Steel by way of a closed subscription.

The following table sets forth the changes in OAO TMK's share capital from its formation until the Offering:

Registration Date	Means of issuance	Change in number of shares	Change in share capital	Total number of shares	Total share capital	Nominal value
			(in roubles)		(in roubles)	(in roubles)
26 July 2001	Distribution among founders	1,000	10,000	1,000	10,000	10
31 August 2004	Closed subscription	873,000,000	8,730,000,000	873,001,000	8,730,010,000	10

Under Russian legislation, share capital refers to the aggregate nominal value of the issued and outstanding shares. Pursuant to our charter and the Joint Stock Companies Law, OAO TMK may issue registered ordinary shares, preferred shares of different types and other securities provided for by the legislation of the Russian Federation with respect to securities. Currently, we have an issued share capital of RUB 8,730,010,000, represented by 873,001,000 registered ordinary shares, each with a nominal value of RUB 10, issued, fully paid and outstanding.

Pursuant to our charter, we are authorised to issue an additional 436,500,500 ordinary shares, each with a nominal value of RUB 10, at any time in the future.

No preferred shares are outstanding or authorised.

The Joint Stock Companies Law in certain cases allows or, as the case may be, requires us to repurchase our shares. See "—Share Capital Decrease, Share Repurchases." Repurchased shares are referred to as treasury shares. Russian law does not permit voting for the treasury shares. The treasury shares must be resold at market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease our share capital.

Our ordinary shares have been admitted to off-list trading on the RTS under the symbol TRMKG since 30 August 2005. Our ordinary shares were included in the quotation list "V" on RTS on 6 October 2006. See "—Share Capital Decrease, Share Repurchases."

Rights Attaching to Ordinary Shares

Holders of our ordinary shares have the right to vote at all shareholders' meetings. As required by the Joint Stock Companies Law and our charter, all of our ordinary shares have the same nominal value and

grant identical rights to their holders. Each fully paid ordinary share, except for treasury shares, entitles its holder to:

- participate in our management as provided for by the Joint Stock Companies Law and our charter;
- participate in shareholders' meetings and vote on all matters within shareholders' competence;
- elect and be elected to our executive and controlling bodies;
- receive dividends on a pro rata basis;
- upon liquidation, receive a proportionate amount of our property after our obligations to the creditors have been settled;
- if holding, alone or with other shareholders, 2% or more of the voting shares, within 30 days after the end of our financial year, submit proposals for the annual shareholders' meeting and nominate candidates to the board of directors and the audit committee;
- if holding, alone or with other shareholders, 10% or more of the voting shares, demand that the board of directors convene an extraordinary shareholders' meeting or an unscheduled audit by the Internal Audit Commission or by the external auditor;
- have access to certain of our documents and receive copies thereof;
- freely transfer the shares without the consent of our other shareholders;
- acquire our shares by exercising pre-emptive rights on a pro rata basis in relation to his existing holding of our shares as provided for by the Joint Stock Companies Law and our charter;
- demand repurchase by us of all or some of the shares held by shareholder, as long as such shareholder voted against or did not participate in the voting on a decision approving the following:
  - —our reorganisation;
  - —conclusion of a major transaction, the value of which exceeds 50% of the book value of the company's assets; or
  - —amendment of our charter that restricts the shareholder's rights;
- transfer voting rights to a representative on the basis of a power of attorney; and
- exercise other rights of a shareholder as provided by our charter and Russian legislation.

Pre-emptive Rights

The Joint Stock Companies Law and our charter provide shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law and our charter provide shareholders with a pre-emptive right to purchase shares or securities convertible into shares during a closed subscription if the shareholders voted against or did not participate in the voting on a decision approving such subscription. The pre-emptive right does not apply to a closed subscription for shares by existing shareholders, provided that such shareholders may each acquire a whole number of the shares or securities convertible into shares being placed, in proportion to their existing shareholdings. We must notify shareholders of the opportunity to exercise their pre-emptive rights and the period within which such pre-emption rights may be exercised, which, as a general rule, may not be shorter than 45 days from the date when notification is sent to the shareholders, and in the case where share issuance documents expressly specify that the placement price in respect of shares placed under an open subscription is to be determined following the expiration of the pre-emptive rights period, this period may be shortened to 20 days.

Dividends

The Joint Stock Companies Law and our charter set forth a procedure for determining the dividends that we distribute to our shareholders. According to our charter, we may declare dividends based on our three months, six months, nine months and/or annual results. The amount of dividends is recommended to a shareholders' meeting by a majority vote of the board of directors, and approved by a majority vote of the General Shareholders' Meeting. The amount of dividends approved at such shareholders' meeting may not exceed the amount recommended by the board of directors. Pursuant to the Regulations on Dividend

Policy approved by our board of directors on 30 June 2006, we target to pay dividends in the amount of between 20% and 25% of our IFRS net profits depending on our financial performance, capital expenditures and availability of funds from external sources, as well as other relevant factors. See "Dividend Policy."

A decision on three months, six months and nine months dividends must be taken at a shareholders' meeting within three months of the end of the respective quarter, and a decision on annual dividends must be taken at the annual General Shareholders' Meeting. Dividends are distributed to holders of our shares as of the record date of the shareholders' meeting approving the dividends. See "—General Meetings of Shareholders—Notice and Participation."

Dividends are paid in cash. Dividends are not paid on treasury shares. Declared dividends are subject to tax. See "Taxation—Russian Tax Considerations."

The Joint Stock Companies Law allows dividends to be declared only out of our net profits calculated in accordance with RAS and as long as the following conditions have been met:

- the share capital of the company has been paid in full;
- the value of the company's net assets is not less, and would not become less as a result of the proposed dividend payment, than the sum of its share capital, the reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares, if any;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase; and
- the company is not, and would not become as a result of the proposed dividend payment, insolvent.

Distribution to Shareholders upon Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter stipulate that the Company may be liquidated:

- by a three-quarters majority vote of our shareholders' meeting; or
- by a court order.

Following a decision to liquidate the Company, the right to manage its affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by the shareholders' meeting and, in the case of compulsory liquidation, is appointed by the court. Our creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code of the Russian Federation (the "Civil Code") sets forth the following order of priority between the creditors during liquidation:

- individuals claiming compensations relating to death or injury;
- employees entitled to salary and severance payments, as well as remunerations under copyright agreements;
- secured creditors;
- federal and local governmental entities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- other creditors in accordance with Russian legislation.

Federal Law No. 127-FZ "On Insolvency (Bankruptcy)," dated 26 October 2002, as amended, provides for a somewhat different order of priority of creditors' claims in the event of insolvent liquidation.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;

- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of ordinary and preferred shares on a pro rata basis.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of such company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an "effective parent") is capable of determining decisions made by another (an "effective subsidiary"). The person or entity capable of determining such decisions is called an "effective parent." The person or entity whose decisions are capable of being determined is called an "effective subsidiary." The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives binding instructions to the effective subsidiary.

Accordingly, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective subsidiary. In other words, our shareholders will not be personally liable for our debts or those of our effective subsidiaries, unless such shareholders control our business.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, such liability could arise through ownership of voting securities or by contract. In these instances, shareholders (other than the effective parent) of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing in advance that such action or failure to take action would result in losses.

Share Capital Increase

We may increase our share capital by issuing new shares, or increasing the nominal value of already issued and outstanding shares.

According to our charter, a decision on increasing the nominal value of issued shares requires a simple majority vote of a shareholders' meeting. In addition, the issuance of shares above the number of authorised and non-issued shares provided in our charter necessitates a charter amendment, which requires a three-quarters majority vote of a shareholders' meeting.

A decision to issue shares or securities convertible into shares by closed subscription, or to issue ordinary shares or securities convertible into ordinary shares constituting 25% or more of the number of issued ordinary shares by open subscription, requires a three-quarters vote of a shareholders' meeting. A decision to issue shares among all shareholders by way of conversion of our assets to share capital, or to issue ordinary shares or securities convertible into ordinary shares constituting less than 25% of the number of issued and outstanding ordinary shares by open subscription, requires a unanimous vote by our board of directors.

The Joint Stock Companies Law requires that newly issued shares be sold at market price, except when existing shareholders exercise a pre-emptive right to purchase shares at not less than 90% of the price paid by third parties. Fees of intermediaries participating in the placement of shares cannot exceed 10% of the share price. The price may not be set below the nominal value of the shares. The board of directors and an independent appraiser evaluate any in-kind contributions for new shares.

Federal Law No. 39-FZ "On the Securities Market," dated 22 April 1996, as amended (the "Securities Market Law") and the FSFM regulations set out detailed procedures for the registration and issuance of shares of a joint stock company, including:

- adoption of a placement decision;
- approval of a share issue resolution;

- registration of the share issuance with the FSFM;
- placement of the shares; and
- registration of the placement report or, as the case may be, filing the placement notification with the FSFM.

Share Capital Decrease, Share Repurchases

The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which currently is RUB 100,000 for an open joint stock company. Our charter and the Joint Stock Companies Law require that any decisions to reduce our share capital, through the reduction of the nominal value of the shares or through the repurchase and cancellation of our shares, are to be made by a a three-quarters majority vote of shareholders' meeting. The shares repurchased pursuant to a decision of the shareholders' meeting to decrease the overall number of shares are cancelled at their redemption.

Additionally, within 30 days of a decision to reduce our share capital, we must notify our creditors in writing and publish this notification. Our creditors would then have a right to demand, within 30 days of publication or receipt of such notice, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law and our charter allow our shareholders to authorise the repurchase by the Company of up to 10% of our outstanding shares in exchange for cash. The shares repurchased pursuant to a shareholders' decision must be resold at market price but, in any case, no less than a nominal value of shares within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease our share capital.

The Joint Stock Companies Law allows a company to repurchase its shares only if, at the time of repurchase:

- the share capital of the company is paid in full;
- the value of the company's net assets is not less, and would not become less as a result of the repurchase, than the sum of its share capital, the reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares, if any;
- the company is not, and would not become as a result of the repurchase, insolvent; and
- the company has repurchased all shares from shareholders having the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation and our charter provide that our shareholders may demand repurchase of all or some of their shares as long as the shareholder demanding the repurchase voted against or did not participate in the voting on a decision approving any of the following:

- our reorganisation;
- conclusion of a major transaction, which value exceeds 50% of the book value of the company's assets; or
- amendment of our charter that restricts the shareholder's rights.

We may spend up to 10% of our net assets calculated in accordance with RAS for a share repurchase requested by the shareholders. If the value of the shares in respect of which shareholders have exercised their rights to request repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro rata basis. The shares repurchased pursuant to a shareholders' request must be resold at market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease our share capital. The shares repurchased pursuant to a shareholders' request in case of our reorganisation must be cancelled on their redemption.

Registration and Transfer of Shares

All of our shares are ordinary shares in registered form. Russian legislation requires that a joint stock company must procure the maintenance of a register of its shareholders. Moreover, the shareholders' register of a joint stock company having more than 50 shareholders must be maintained by a licenced

registrar. Ownership of our registered ordinary shares is evidenced solely by entries made in our shareholder register. Any of our shareholders may obtain an extract from the register certifying the number of shares that such shareholder owns. Our shareholder register is maintained by an independent licenced registrar, OAO Registrar R.O.S.T.

The purchase, sale or other transfer of shares is accomplished through registration of the transfer in the shareholder register, or registration of the transfer with a licenced Russian depositary if shares are held by such depositary in its capacity of a nominee holder.

As a general rule under Russian law, an acquirer of shares is responsible for a registrar or a depositary being notified in a timely manner regarding the share transfer. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to record the transfers of shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the shareholder, in the name of a nominee holder, may be challenged in court.

Reserve Fund

Under Russian law, each joint stock company is required to establish a reserve fund to be used solely for purposes of covering the company's losses, redemption of bonds and repurchase of the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 5% of our share capital, funded through mandatory annual transfers of at least 5% of net profits until the reserve fund has reached the 5% requirement. As of the date of this Prospectus our reserve fund was paid in full.

Disclosure of Information

Russian securities regulations require us to make the following public disclosures and filings on a periodical basis:

- file quarterly reports with the FSFM containing information about us, our shareholders, management bodies, members of the board of directors, branches and representative offices, our shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about our financial and business activity;
- file with the FSFM and publish in the FSFM's periodical print publication, as well as in other public media, any information concerning material facts and changes in our financial and business activity, including our reorganisation, certain changes in the amount of our assets, decisions on share issuances, certain changes in ownership and shareholdings, as well as shareholder resolutions;
- disclose information on various stages of share issuance, registration and placement through publication of certain data, as required by the securities regulations;
- publish our annual report and annual financial statements prepared in accordance with RAS;
- file with the FSFM on a quarterly basis a list of our affiliated persons and disclose the same on our website, contemporaneously; and
- other information, as required by applicable Russian securities legislation.

Disclosure of Ownership

Since 1 July 2006, under the Securities Market Law, a holder of ordinary shares in a Russian open joint stock company has been required to publicly disclose the acquisition of 5% or more of the outstanding ordinary shares of the company, as well as any change in the amount of ordinary shares held by such holder, if as a result of such change the percentage of ordinary shares held by the holder becomes greater or lesser than 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the outstanding ordinary shares of the company.

General Meetings of Shareholders

Competence and Procedure

The General Shareholders' Meeting is our supreme governing body. The General Shareholders' Meeting must be convened at least once a year. The scope of authority of a general shareholders' meeting

is limited to the issues specified by the Joint Stock Companies Law and our charter. Among the issues that the shareholders have the power to decide are:

- amendments to our charter;
- our reorganisation or liquidation, appointment of liquidation commission and approval of preliminary and final liquidation balance sheets;
- determination of the number of members of the board of directors, election and dismissal of members of the board of directors;
- determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- changes in our share capital (other than those specifically delegated to the competence of the board of directors);
- appointment and dismissal of members of the Internal Audit Commission;
- approval of our external auditor;
- adoption of annual reports and financial statements;
- distribution of profits;
- split and consolidation of our shares;
- approval of certain interested party transactions and major transactions;
- repurchase by us of issued shares in cases stipulated by the Joint Stock Companies Law and our charter;
- approval of our participation in financial and industrial groups, associations and other unions of commercial organisations;
- approval of certain internal documents and corporate records; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per ordinary share, except for the election of the board of directors, which is effected through cumulative voting. Decisions are generally passed by a simple majority vote of the voting shareholders present at a shareholders' meeting. However, Russian law and our charter require a three-quarters majority vote of the voting shareholders present at a shareholders' meeting to approve the following:

- amendments to our charter;
- our reorganisation or liquidation, appointment of liquidation commission and approval of preliminary and final liquidation balance sheets;
- determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- any issuance of shares or securities convertible into shares by closed subscription;
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting 25% or more of the number of issued and outstanding ordinary shares;
- reduction of the nominal value of our shares;
- repurchase by the Company of our outstanding shares pursuant to a shareholders' decision, as provided for by our charter; and
- major transaction involving assets in access of 50% of the book value of our assets.

The quorum requirement for our shareholders' meeting is satisfied if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in case of an annual shareholders' meeting, must) be convened and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the board of directors between 1 March and 30 June of each year, and the agenda must include the following issues:

- election of members of the board of directors;
- appointment of members of the Internal Audit Commission;
- approval of the annual reports and financial statements, including the balance sheet and profit and loss statement;
- approval of an external auditor; and
- approval of distribution of profits, including approval of annual dividends, if any.

The shareholders' meeting also approves compensation for the members of the board of directors.

A shareholder or a group of shareholders owning in aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for the board of directors and the Internal Audit Commission. Any agenda proposals or nominations must be provided to the company no later than 30 calendar days after the end of the preceding financial year.

Extraordinary shareholders' meetings may be convened by the board of directors at its own initiative, or at the request of the Internal Audit Commission, the external auditor or a shareholder or a group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general shareholders' meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general shareholders' meeting through attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general shareholders' meeting by absentee ballot envisages collecting shareholders' opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of members of the board of directors;
- appointment of members of the Internal Audit Commission;
- approval of the annual reports and financial statements, including the balance sheet and profit and loss statement;
- approval of an external auditor; and
- approval of distribution of profits, including approval of annual dividends, if any.

Notice and Participation

All shareholders entitled to participate in a General Shareholders' Meeting must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification must specify the agenda of the meeting. However, in case of an extraordinary shareholders' meeting to (i) elect the board of directors or (ii) decide on the reorganisation of the company by way of merger, spin-off or split-off and election of members of the board of directors of the reorganised company, shareholders must be notified at least 70 days prior to the date of the meeting. Only the items set out in the agenda may be voted upon at a General Shareholders' Meeting.

The list of persons entitled to participate in a General Shareholders' Meeting is compiled on the basis of data in our shareholder register as of the date established by the board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a General Shareholders' Meeting, nor more than 50 days before the date of the meeting (or, in case of an extraordinary shareholders' meeting to elect the board of directors, not more than 65 days before the date of the meeting).

Generally, the right to participate in a General Shareholders' Meeting may be exercised by a shareholders as follows:

- by personal attendance;
- by attendance of a duly authorised representative (by proxy);
- by absentee ballot; or
- by delegating the right of absentee ballot to a duly authorised representative.

Board of Directors

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for joint stock companies with more than 1,000 holders of voting shares, and at least a nine-member board of directors for joint stock companies with more then 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to be members of the board of directors. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by company's charter or a decision of a shareholders' meeting.

Our charter provides a ten-member board of directors. Furthermore, pursuant to the charter, members of the management board may not constitute more than one fourth of the board of directors.

According to our charter, our entire board of directors must be elected at each annual general shareholders' meeting through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by a total number of directors to be elected, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

Pursuant to the Joint Stock Companies Law and our charter, the board of directors directs our general management, except for adoption of such decisions that fall within the exclusive competence of the General Shareholders' Meeting. In particular, the board of directors has the powers to decide, among others, the following issues:

- determination of our business priorities, including approval of financial and business plans and budgets;
- convening of annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda of a shareholders' meeting, determination of the record date for shareholders entitled to participate in a shareholders' meeting and other issues in connection with preparation for, and holding of, general meetings of shareholders;
- adoption of decision on placement by way of open subscription of ordinary shares and securities convertible into ordinary shares, constituting less than 25% of previously issued and outstanding ordinary shares;
- adoption of decision on issuance of shares among all shareholders by way of conversion of our assets to share capital;
- placement of our bonds and other securities, as provided in the Joint Stock Companies Law and our charter;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of our bonds and other securities non-convertible into our shares;
- election and dismissal of the General Director and members of the management board;
- approving the amount of remuneration to be paid to the General Director, members of the management board and on fees payable for the services of an external auditor;
- recommendation on the amount of remuneration to be paid to members of the Internal Audit Commission;
- recommendation on the amount of a dividend and the payment procedure thereof;
- the use of our reserve fund and other funds;
- creation of branches and representative offices;
- approval of major and interested party transactions in cases provided for by the Joint Stock Companies Law;
- approval of certain other transactions as provided for by our charter;

• appointment of our shareholder registrar;

• other issues, as provided for by the Joint Stock Companies Law and our charter.

A meeting of our board of directors has a quorum if not less than six out of ten members are present. Generally, a majority vote of the directors present at the meeting is required to adopt a decision. Certain decisions, such as increases of the share capital and approvals of major transactions, require a unanimous vote of all members of the board of directors or a majority vote of the disinterested and independent directors, as provided for by our charter. In a tie vote the chairman of the board of directors has a casting vote.

Executive Bodies

Pursuant to the provisions of the Joint Stock Companies Law and our charter, our day-to-day activities, except for the matters falling within the competence of our general shareholders' meeting or the board of directors, are managed by the following executive bodies:

• the management board; and

• the General Director.

General Director

The General Director is the chairman of the management board. Together with the management board, the General Director is responsible for implementing decisions of our General Shareholders' Meeting and our board of directors. The General Director has the powers to, among other things, act on our behalf without a power of attorney, including representing our interests, entering into transactions, disposing assets, opening bank accounts, approving staffing structure and issuing internal orders and directives.

The General Director is elected by our board of directors for a one-year term and may be re-elected an unlimited number of times. The General Director may not serve as the chairman of the board of directors. Upon a decision taken at our General Shareholders' Meeting, the functions of the General Director may be transferred to a management company.

Our present General Director is Mr. Konstantin A. Semerikov who was appointed on 1 July 2005 and re-appointed as of 1 July 2006. In accordance with our charter, Mr. Semerikov's current appointment will be effective until 1 July 2007.

The General Director serves in his capacity pursuant to written labour agreement executed for a five year period. Under this agreement the General Director is entitled to receive monthly compensation and remuneration for achievement of industrial and financial indicators provided for by our budget. The General Director is also entitled to obtain an option for acquisition of our shares or other securities upon a decision of the board of directors.

The Management Board

The management board is our collective executive body. Its members are appointed by the board of directors for a one-year period. Together with the General Director, the management board is responsible for our day-to-day management and administration. The management board's activities are coordinated by the General Director (chairman of the management board) and are regulated by applicable Russian law and our charter. Except for the matters specifically reserved to the General Shareholders' Meeting, the board of directors or the General Director (chairman of the management board), the management board has the authority to make decisions on all aspects of our activities.

Our charter provides that the management board shall consist of not less than seven and not more than fifteen members. Currently, the management board consists of fourteen members. See "Directors and Management—Management Board."

Revision Commission and External Audits

Revision Commission

Our Revision Commission supervises our financial and operational activities, as well as verifies the accuracy of our financial reporting and accounting under Russian law. Our Revision Commission currently

consists of three members who are nominated and elected by our shareholders for a term of one year. Members of our board of directors or our other executive bodies may not simultaneously serve as members of the Revision Commission.

Members of the Revision Commission, and their respective names, years of birth and positions as of the date hereof, are as follows:

Name	Year of birth	Position
Alexander V. Maximenko	1955	Head of the Internal Control Department
Anna N. Novokshonova	1953	Deputy Chief Accountant
Alexander P. Vorobyev	1957	Deputy Head of the Department of Internal Audit Service

The Revision Commission performs its duties in conformity with applicable Russian legislation and our charter. The Revision Commission is responsible for:

- inspecting our financial documentation and comparing the documents with the primary accounting data;
- analysing compliance of RAS accounting and statistical reports with current regulations;
- inspecting compliance of the financial and economic activities with established standards, rules and other applicable requirements;
- analysing our financial standing, solvency, asset liquidity, the ratio of equity to debt; identifying reserves for improving our economic standing and making recommendations to our executive bodies; and
- verifying compliance with our internal documents.

In 2005, members of the Revision Commission received remuneration of approximately RUB 14,577,319 (approximately U.S.$538,306).

Independent Auditors

Since 2003, the independent auditors of our IFRS consolidated financial statements have been Ernst & Young LLC, Sadovnicheskaya Naberezhnaya 77, building 1, 115035 Moscow, Russian Federation (“Ernst & Young LLC”).

Interested Party Transactions

Under the Joint Stock Companies Law certain transactions defined as “interested party transactions” require approval by disinterested directors or shareholders of the company. Under Russian law, an “interested party” includes (i) a member of the board of directors of the company, (ii) a person performing functions of the sole executive body (including a managing company or a manager who performs functions of the sole executive body of the company under a contract), (iii) a member of the collective executive body of the company or a shareholder, who owns, together with any of its affiliates, at least 20% of the company’s voting shares, (iv) or any person able to issue mandatory instructions to the company, if any of the abovementioned persons, or any of such persons’ spouse, close relatives, adoptive parents or children or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- holds offices in any management body of a company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- in other cases provided for by the company’s charter.

The Joint Stock Companies Law requires that an “interested party transaction” by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors who are not

interested in the transaction. An "independent director" is a person who is not, and within the year preceding the decision was not, the general director, a member of any executive body or an affiliate of the company. Additionally, such person's spouse, parents, children, adoptive parents or children and other close relatives may not occupy positions in the executive bodies of the company. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

An interested party transaction must be approved by a decision of a majority of disinterested shareholders holding voting shares if:

- the value of such transaction, or series of transactions, is 2% or more of the book value of the company's assets as of the last reporting date, determined in accordance with RAS;
- the transaction, or series of transactions, involves a placement by subscription or disposal of ordinary shares or securities convertible into such shares in an amount exceeding 2% of the company's existing ordinary shares or securities convertible into such shares;
- all the members of the board of directors of a company with more than 1,000 shareholders holding voting shares are interested parties, or if none of them is an independent director; or
- the number of disinterested directors of a company with 1,000 or less shareholders holding voting shares is not sufficient to constitute a quorum.

Approval of an interested party transaction by a majority of disinterested shareholders may not be required if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. This exemption is effective only within a period from the date when such party became an interested party with respect to the transaction and until the next annual shareholders' meeting.

Interested party transactions do not need to be approved in the following instances:

- the company has only one shareholder that simultaneously performs the function of the executive body of the company;
- all shareholders of the company are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the company merges with another company or accedes to or is acceeding another company to itself; or
- the company is bound by law to enter into the transactions and settlement thereunder is made based on fixed tariffs established by the respective state authority.

An interested party transaction entered into in breach of the above rules may be invalidated by a court pursuant to an action brought by the company or any of its shareholders within one year from the day when the plaintiff learned or should have learned about circumstances that are the basis for invalidation of the transaction. The interested party is liable to the company for any loss incurred by such company. See "Risk Factors—Some transactions between our Russian subsidiaries and their interested parties, affiliates and other members of the TMK Group require the approval of disinterested directors or disinterested shareholders."

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal of property having the value of 25% or more of the book value of the assets of the company as determined in accordance with RAS, with the exception of transactions conducted in the ordinary course of business or transactions involving a placement of ordinary shares or securities convertible into ordinary shares. Major transactions involving assets ranging from 25% to 50% of the book value of the company's assets, as determined according to its financial statement for the most recent reporting date, require unanimous

approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders' meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the company require a three-quarters' majority vote of a shareholders' meeting.

Any major transaction entered into in breach of the above rules may be invalidated by a court pursuant to an action brought by the company or any of its shareholders within one year from the day when the plaintiff learned or should have learned about circumstances that are the basis for invalidation of the transaction.

Change of Control

Anti-takeover Protection

Pursuant to amendments to the Joint Stock Companies Law effective as of 1 July 2006, a person (alone or together with its affiliates) intending to acquire more than 30% of the shares in an open joint stock company may offer to the company's existing shareholders to sell the remaining shares held by such shareholders ("Voluntary Offer"), whereas a shareholder (alone or together with its affiliates) who already has acquired more than 30% of the shares in an open joint stock company must offer to the company's existing shareholders to sell the remaining shares held by such shareholders ("Obligatory Offer"). Obligatory Offers must be made within 35 days from the date when title to more than 30% of the shares was registered in the purchaser's name. Once a shareholder has made an Obligatory Offer upon acquiring more than 30% of the shares, the shareholder will only be required to repeat such an offer if he/she exceeds 50% and 75% share ownership thresholds.

A shareholder that acquired more than 95% of shares in a company (as a result of an Obligatory Offer or a Voluntary Offer for the purchase of all the company's shares) is required to offer to acquire the remaining shares and is also entitled to demand that such remaining shares be sold to him or her.

Approval of the Russian Antimonopoly Service

Pursuant to Russian antimonopoly legislation, effective from 26 October 2006, transactions involving companies with a combined book value of assets under RAS or their consolidated sales revenue that exceed a certain threshold, or companies registered as having more than a 35% share of a product market, which would result in (i) shareholding of more than 25%, 50% and 75% of the voting shares in a joint stock company; (ii) acquisition of rights to more than one third, 50% or two thirds of the participatory interests in a limited liability company; or (iii) acquisition of more that 20% of the main production or intangible assets, must be approved in advance by the FAS.

Because the rights of beneficial owners holding GDRs representing our Ordinary Shares may not be recognised under Russian law, the Depositary may be required to obtain antimonopoly approval for deposits of our Ordinary Shares that would exceed 25% of the total number of our voting shares. See "Certain Regulatory Matters—Antimonopoly Regulation."

Currency Control

Russian currency control regulation is primarily covered by Federal Law No. 173-FZ "On Currency Regulation and Currency Control," dated 10 December 2003, as amended (the "Currency Law"), most provisions of which entered into force on 18 June 2004.

While containing a number of provisions of direct application (including restrictions on certain currency operations), the Currency Law is mainly a framework law that establishes the scope within which the Government of the Russian Federation and the Central Bank may introduce currency control measures, including (i) the requirement to perform regulated operations through special accounts with authorised Russian banks or special securities accounts (the "special account requirement") and (ii) the requirement to deposit a certain amount of payment (or value of the operation) in a non-interest bearing rouble account opened with an authorised Russian bank, which must in turn place these deposits with the Central Bank (the "mandatory reserve requirement").

The Currency Law introduced concept of "external securities" and "internal securities." In particular, "internal securities" are securities denominated in roubles (such as the Ordinary Shares) or those which entitle their owner to receive currency of the Russian Federation, and "external" securities are generally those securities which do not qualify as "internal securities" (such as the GDRs). Under the Currency Law,

the Central Bank may introduce currency control measures in respect of the following operations between Russian residents and Russian non-residents involving internal and external securities:

- operations connected with the acquisition by Russian non-residents from Russian residents and vice versa of internal securities, including settlements and transfers connected with the transfer of internal securities (and rights attaching thereto); and
- operations between residents and Russian non-residents with external securities, including settlements and transfers in connection with the transfer of external securities (and rights attaching thereto).

Prior to 1 July 2006, operations with internal and external securities performed by Russian residents and Russian non-residents were subject to the following currency restrictions:

- the special account requirement; and
- the mandatory reserve requirement (in the amount of either up to 100% of the amount of the operation for a period not exceeding 60 days or up to 20% for a period not exceeding one year).

Restrictions on operations with internal and external securities, including the "special account" and "mandatory reserve" requirements, were abolished as of 1 July 2006 (originally scheduled for 1 January 2007).

Pursuant to the Currency Law, payments for internal securities (such as Ordinary Shares) between Russian residents and Russian non-residents may only be performed in roubles, unless and to the extent otherwise permitted by the Central Bank. Restrictions with respect to rouble payments for internal securities are to be abolished from 1 January 2007.

Under Russian currency legislation, payment of dividends by the Company in favour of Russian non-residents may be freely effected in roubles and other foreign currencies.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their shares acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to the foreign ownership of our Ordinary Shares.

Certain Russian law considerations for the Offering

Listing

In order to list the Ordinary Shares on the RTS, or to obtain a listing for the Ordinary Shares on another stock exchange in Russia, we must comply with a number of listing requirements, both statutory and those established by listing rules of a particular stock exchange. Such criteria vary depending on the type and tier of the quotation list. Russian stock exchanges have four separate quotation lists: quotation list "A" (tier 1 and tier 2), quotation list "B" and quotation list "V." Tier 1 of the quotation list "A" has the most stringent criteria and the quotation lists "B" and "V" have the least stringent criteria.

In order to be admitted to the quotation list "V", (i) newly issued shares of a Russian issuer must be offered by way of an open subscription through a Russian broker, or (ii) existing shares must be publicly offered through a Russian stock exchange or a Russian broker. The shares may then be admitted to quotation list "V" for up to six months from such an offering. After the expiration of the six-month period these shares must be transferred to the quotation lists "A" or "B," subject to compliance with the respective listing requirements, or to the list of shares admitted to off-list trading. Our shares were admitted to listing on list "V" of the RTS on 6 October 2006.

In order to be admitted to the quotation list "V", a Russian issuer must comply or assume an obligation to comply with certain corporate governance rules, including, *inter alia*, the following:

- the board of directors must include one or more independent directors;

- the board of directors must establish an audit committee of the board of directors headed by an independent director;
- the internal regulative documents must require members of the board of directors, the collective executive body and the individual executive body to disclose information regarding their holdings of the issuer's securities and the purchase and sale of such securities;
- the board of directors must approve a document governing the usage of material non-public information pertaining to the issuer, its securities and transactions with them, which disclosure may materially affect the market value of the issuer's securities;
- the board of directors must approve a document governing the internal controls over financial and economic activities of the issuer, compliance with which is to be overseen by a separate division of the issuer that is to report any violations to the audit committee;
- the charter must provide that shareholders must be notified on the holding of a general shareholders' meeting not later than 30 days before the date of the meeting.

Offering Outside the Russian Federation

Russian law requires that a permit from the FSFM must be received prior to effecting an offering of a Russian issuer's shares outside Russia, including offerings of equity securities by establishing depositary receipt programmes that provide for the issuance of depositary receipts (such as GDRs) representing interests in the Russian issuer's shares. In order to receive such a permit, the issuer of such securities (in the case of a new issuance) or the holder of the securities to be sold (in the case of a sale of existing securities) must undertake that no more than 70% of the total number of shares in the offering will be placed in the form of GDRs. The FSFM approved the circulation of up to 183,330,210 Ordinary Shares of the Company, representing 21% of the Company's issued share capital, in the form of GDRs on 10 October 2006. In connection with receipt of this approval, the Selling Shareholder has undertaken that not more than 70% of the total number of Ordinary Shares offered will be in the form of GDRs. See "Risk Factors—Risks Relating to the Securities and the Trading Market—The number of Ordinary Shares that can be deposited into the GDR facilities is limited."

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts ("GDRs") represented by this certificate are each issued in respect of four ordinary shares of nominal value RUB 10 each (the "Shares") in OAO TMK (the "Company") pursuant to and subject to an agreement dated 11 September 2006, and made between the Company and The Bank of New York in its capacity as depositary (the "Depositary") (such agreement, as amended from time to time, being hereinafter referred to as the "Deposit Agreement") for the "Regulation S Facility" and for the "Rule 144A Facility" such terms as defined in the Deposit Agreement. Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Bank (Eurasia) as Custodian (the "Custodian") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "Deposited Shares") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "Deposited Property"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "Conditions"), references to the "Depositary" are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to ING Bank (Eurasia) or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of Moscow or such other location of the head office of the Custodian in Russia as may be designated by the Custodian with the approval of the Depositary (if outside the city of Moscow) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "Summary of Provisions Relating to the GDRs while in Master Form" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "Register") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Subject to Condition 1.8, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Russia of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (a) in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Restricted Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offering, the original issue date of the GDRs, and the latest issue date with respect to the additional GDRs (if any) issued pursuant to the over-allotment option granted to the Managers pursuant to the Underwriting Agreement) in respect of surrendered Regulation S GDRs, or (b) in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Russia of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement *(which is described in the following paragraph)* by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement *(which is described in the second following paragraph)* by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further

GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and will comply with the restrictions on transfer set forth under "Transfer Restrictions".

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the US Securities Act of 1933, as amended ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Transfer Restrictions."

1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a "**Pre-Release**"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "Pre-Releasee") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

1.8 Notwithstanding any other provisions of the Deposit Agreement or the Conditions, the Depositary may, with (to the extent reasonably practicable) prior notice to the Company and the Holders, cancel a number of the GDRs then outstanding, sell (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) the Deposited Property formerly represented by such GDRs and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto, and thereby reduce the Depositary's holdings of any class of Deposited Property below an amount that the Depositary determines to be necessary or advisable, if (i) the Depositary or its agent receives any notice from any Russian governmental or regulatory authority that the existence or operation of a Facility or the holding by the Depositary (or its Custodian or any of their respective nominees) of the Deposited Property violates any Russian law or regulation, or that the Depositary (or its Custodian or any of their respective nominees) is required to make any filing or obtain any consent, approval or license to operate that Facility or to own or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences which the Depositary in its reasonable discretion considers to be of a routine administrative nature required in the ordinary course of business) or (ii) the Depositary or the Custodian receives advice from Russian counsel that the Depositary (or the Custodian or any of their respective nominees) reasonably could be subject to criminal or civil liabilities as a result of the existence or operation of the Facility or the holding or exercise by the Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property. If the Depositary cancels GDRs and sells Deposited Property under the preceding sentence, the Depositary shall allocate the cancelled GDRs converted under the preceding sentence and the net proceeds of the sale of the number of Deposited Property previously represented thereby, among the Holders pro-rata to their respective holdings of GDRs immediately prior to the cancellation, except that the allocations may be adjusted by the Depositary, in its sole discretion, so that no fraction of a cancelled GDR is allocated to any Holder. Any payment pursuant to this Clause in connection with GDRs represented by a Master GDR shall be made according to the usual practice between the Depositary and the relevant settlement system. Any payment pursuant to this Clause in connection with a GDR in definitive form shall be made to the relevant Holder only after surrender to the Depositary of the GDR certificate by such Holder for cancellation of the relevant number of GDRs.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. If the Company makes a written request to the Depositary to refuse to accept Shares for deposit into a Facility in the circumstances set out in such request in order to facilitate the compliance by the Company with securities laws in the United States, the Depositary shall discuss with the Company the terms on which the Depositary may agree to comply with such request. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in

writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws, regulations or stock exchange requirements.

3. Transfer and Ownership

The GDRs are in registered form, each corresponding to four Shares. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Prior to expiration of the Restricted Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (each a "QIB") in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 22, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11;

PROVIDED THAT:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1 (iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall, after consultation with the Company to the extent reasonably practicable, cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges, or due to the fact that such shares would have to be registered under the U.S. Securities Act in order to be distributed to Holders) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall, after consultation with the Company to the extent reasonably practicable, distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges, or due to the fact that such shares would have to be registered under the U.S. Securities Act in order to be distributed to Holders) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 22, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below, after consultation with the Company to the extent reasonably practicable:-

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in Russian Roubles or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the "Primary GDR Rights Offering"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("Additional GDR Rights") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the "Instruction Date") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("Additional GDR Rights Requests") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "Maximum Additional Subscription") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("Unsubscribed Rights"), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in Russian Roubles or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Russian counsel and US counsel to the Company as in its discretion it deems necessary which opinions shall be in a form and provided by counsel reasonably satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs or to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel to the Company reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall (after consultation with the Company to the extent reasonably practicable) be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 22, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws (provided, however, for the avoidance of doubt, that nothing in this Condition 11.2 shall require the Company to register any Shares or other securities (including rights to subscribe or purchase Shares or securities convertible or exchangeable for Shares) under the U.S. Securities Act). In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

12. Voting Rights

12.1 Subject to Condition 1.8, Holders will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any meeting at which holders of the Deposited Shares are entitled to vote, and the resolutions to be voted on at such meeting and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 22. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such cut-off time as the Depositary may specify.

12.3 Voting instructions may be given only in respect of a number of GDRs which represent a whole number of Deposited Shares. After the cut-off time specified by the Depositary pursuant to Condition 12.2, the Depositary shall exercise or cause to be exercised relevant voting rights in accordance with the valid voting instructions received prior to the cut-off time from GDR Holders, to the extent reasonably practicable and in so far as permitted by applicable law, the constitutive documents of the Company and the terms of the Deposit Agreement. The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received. If no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary not to exercise the voting rights attaching to such Deposited Shares. The votes attaching to Deposited Shares represented by GDRs for which no specific voting instructions have been received by the Depositary from the relevant Holder by the cut-off time specified by the Depositary pursuant to Condition 12.2 shall not be voted.

12.5 If the Depositary is advised in the opinion referred to in Condition 12.6 below that it is not permissible under Russian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Condition 12.3, the Depositary shall not vote or cause to be voted such Deposited Shares.

12.6 Where the Depositary is to vote in respect of each and any resolution in the manner described in Condition 12.3 above the Depositary shall notify the General Director of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition 12. The Depositary shall be entitled to request from the Company, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Russian law and the constitutive documents of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.

12.7 By continuing to hold the GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12 as it may be amended from time to time in order to comply with applicable Russian law.

12.8 The Depositary shall not, and the Depositary shall ensure the Custodian and its nominee do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares other than pursuant to and in accordance with instructions given in accordance with this Condition 12. Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion in the exercise of voting rights attaching to Deposited Shares, or exercise voting rights relating to a number other than a whole number of Deposited Shares, or be required to exercise or procure the exercise of voting rights attaching to Deposited Shares in a manner which is inconsistent with any applicable law..

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any

present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "Charges") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 22.

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs (i) by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement, or (ii) for the inability of a Holder or owner of GDRs, or any other person, to benefit from any distribution, offering, right or other benefit which is made available to holders of Deposited Shares which is not under the terms of this Deposit Agreement or the Conditions made available to Holders. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 20 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees)

with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 21, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a Director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to

receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Russian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of U.S.$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.$0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution; and

(vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.$0.05 or less per GDR;

(vii) a fee of U.S.$0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below; and

(viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as may be agreed separately in writing between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "Agents") for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon

acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 22. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

19. Resignation and Termination of Appointment of the Depositary

19.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 22 and, if the GDRs are at that time admitted to the official list of the Financial Services Authority and admitted to trading on the London Stock Exchange, to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 22 and to the Financial Services Authority and the London Stock Exchange.

19.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall as soon as reasonably practicable deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

20. Termination of Deposit Agreement

20.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 19 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 22.

20.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

20.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

20.4 Notwithstanding the foregoing, after the execution of the Deposit Agreement but prior to the first deposit of Shares into either Facility, the Depositary and the Company may agree to terminate the Deposit Agreement on such terms as they consider appropriate.

21. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 21) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Notwithstanding the foregoing, if any laws, rules or regulations require immediate amendment or supplement to the Deposit Agreement or the Conditions, the Company and the Depositary may amend or supplement the Deposit Agreement and Conditions as required, subject to provision of notice to GDR Holders of such amendments as soon as reasonably practicable. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 21, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

22. Notices

22.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

22.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any facsimile transmission received by it from the other or from any Holder, notwithstanding that such facsimile transmission shall not subsequently be confirmed as aforesaid.

23. Reports and Information on the Company

23.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-

(i) in respect of the financial year ending on 31 December 2005 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Company, prepared in conformity with International Financial Reporting Standards and reported upon by independent public accountants selected by the Company, as soon as practicable after the end of such year;

(ii) if the Company publishes semi-annual financial statements prepared in conformity with International Financial Reporting Standards and reported upon by independent public accountants selected by the Company for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published; and

(iii) if the Company publishes quarterly financial statements prepared in conformity with International Financial Reporting Standards and reported upon by independent public accountants selected by the Company for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published.

23.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

23.3 For so long as any of the GDRs remains outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the U.S. Securities Act of 1933, as amended, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

24. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders

by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

25. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

26. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

27. Governing Law

27.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the Deposit Agreement to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has submitted in respect of the Deed Poll to the jurisdiction of the English courts. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

27.2 The Company has irrevocably appointed Interserve (UK) Limited as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll. If for any reason the Company does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

27.3 The courts of England are to have jurisdiction to settle any disputes (each a "Dispute") which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("Proceedings") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

27.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

27.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to

such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

27.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRs WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Rule 144A GDR will be deposited with The Bank of New York in New York as custodian for DTC and registered in the name of Cede & Co as nominee for DTC on the date the GDRs are issued. The Master Regulation S GDR will be deposited with a common depositary for Euroclear and Clearstream (and registered in the name of the common depositary's nominee) on the date the GDRs are issued.

The Master Regulation S GDR and the Master Rule 144A GDR (collectively the "Master GDRs") contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set out in this document. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 days in the event that:

(i) DTC, in the case of the Master Rule 144A GDR, or Euroclear or Clearstream, in the case of the Master Regulation S GDR, notifies the Company that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or

(ii) Either DTC in the case of Master Rule 144A GDR, or Euroclear or Clearstream in the case of the Master Regulation S GDR, is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 days; or

(iii) in respect of the Master Rule 144A GDR, DTC or any successor ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended; or

(iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream, Luxembourg or DTC. Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register provided always that if the number of GDRs represented by a Master GDR is reduced to zero such Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Terms and Conditions of the GDRs.

Surrender of GDRs

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a GDR to the Depositary shall be satisfied by the production by (in the case of GDRs represented by the Master Regulation S GDR) the common depositary for Euroclear and Clearstream, or (in the case of GDRs represented by the Master Rule 144A GDR) DTC, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of the common nominee for Euroclear and Clearstream, and the Master Rule 144A GDR is registered in the name of Cede & Co on behalf of DTC, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23.

The Master GDRs shall be governed by, and construed in accordance with, English law.

TAXATION

The following summary of the principal United States federal income, United Kingdom and Russian tax consequences of ownership of the Ordinary Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Ordinary Shares and holders of the GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Ordinary Shares or GDRs. Each prospective holder is urged to consults its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the Ordinary Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

United States Federal Income Tax Considerations

The following is a description of the principal U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of Ordinary Shares or GDRs. This description addresses only the U.S. federal income tax considerations of holders that are initial purchasers of the Ordinary Shares or GDRs pursuant to the offering and that will hold the Ordinary Shares or GDRs as capital assets. This description does not address tax considerations applicable to holders of the Ordinary Shares or GDRs that may be subject to special tax rules, such as:

- dealers or traders in securities or currencies;
- tax-exempt entities;
- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- persons that received the Ordinary Shares or GDRs as compensation for the performance of services;
- holders who own, or are deemed to own, at least 10% or more, by voting power or value, of our shares;
- persons that have a functional currency other than the U.S. dollar;
- holders who hold our Ordinary Shares or GDRs as part of a position in a straddle or as part of a hedging, conversion or other risk reduction transaction for U.S. federal income tax purposes; or
- certain former citizens or long-term residents of the United States.

Moreover, this description does not address the U.S. federal estate and gift or alternative minimum tax consequences, nor any state, local, or foreign tax consequences relating to the ownership and disposition of the Ordinary Shares or GDRs.

This description is based

- on the Internal Revenue Code of 1986, as amended, United States Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this Prospectus; and
- in part, on the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

The United States tax laws and the interpretation thereof are subject to change. These changes could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a U.S. Holder is a beneficial owner of the Ordinary Shares or GDRs that, for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;
- a partnership or corporation created or organised in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

- a trust if such trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

A "Non-U.S. Holder" is a beneficial owner of the Ordinary Shares or GDRs that is not a U.S. Holder.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our Ordinary Shares or GDRs, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences.

You should consult your own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of the Ordinary Shares or GDRs.

Internal Revenue Service Circular 230 Disclosure

Pursuant to Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing of the Ordinary Shares or GDRs. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Ownership of GDRs in General

For United States federal income tax purposes, if you are a holder of GDRs, you generally will be treated as the owner of our Ordinary Shares represented by such GDRs.

The United States Treasury Department has expressed concern that depositaries for global depositary receipts, or other intermediaries between the holders of shares of an issuer and the issuer, may be taking actions that are inconsistent with the claiming of United States foreign tax credits by U.S. Holders of such receipts or shares. Accordingly, the analysis regarding the sourcing rules described below, the availability of U.S. tax credits for Russian taxes withheld on underlying dividend payments made to the Depositary and the treatment of dividends as qualified dividends could be materially and adversely affected as a result of these actions.

Distributions

Subject to the discussion below under "—Passive Foreign Investment Company Considerations," the entire amount of any distribution made to you with respect to the Ordinary Shares or GDRs, other than any distributions of our Ordinary Shares or GDRs made to all our shareholders, will constitute dividends to the extent of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. For these purposes, the amount of the distribution will not be reduced by the amount of any Russian tax withheld from the distribution. For taxable years beginning on or before December 31, 2010, non-corporate U.S. Holders may be taxed on dividends from certain foreign corporations at the lower rates applicable to long-term capital gains (*i.e.,* gains with respect to capital assets held for more than one year) if the dividends are "qualified dividends." Dividends received in respect of the Ordinary Shares or GDRs will be qualified dividends if the Company:

- is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules; and
- was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC").

However, U.S. Holder's eligibility for such preferential rate would be subject to certain holding period requirements and the non-existence of certain risk reduction transactions with respect to the Ordinary Shares or GDRs. The U.S.-Russia Tax Treaty has been approved for the purposes of the qualified dividend rules, and the Company expects that it generally will be eligible for the benefits of that treaty. Additionally, the Company believes that it was not a PFIC for U.S. federal income tax purposes in respect of its 2005 taxable year and the Company does not anticipate becoming a PFIC in respect of its 2006 taxable year or in the foreseeable future, although it can make no assurances in this regard. See "—Passive Foreign Investment Company Considerations."

Subject to the discussion below under "—Passive Foreign Investment Company Considerations," if a distribution exceeds the amount of our current and accumulated earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in our Ordinary Shares or GDRs on which it is paid and thereafter as capital gain. We do not maintain calculations of our earnings and profits under U.S. federal income tax principles and, therefore, a U.S. Holder should expect that the entire amount of a distribution generally will be taxed as a dividend to such U.S. Holder.

Dividends paid in Russian roubles will be included in the gross income of a U.S. Holder in an amount equal to the United States dollar value of the Russian roubles calculated by reference to the prevailing spot market exchange rate in effect on the date of receipt, which, in the case of GDRs, is the date they are received by the Depositary. Such a holder will have a tax basis for U.S. federal income tax purposes in the Russian roubles received equal to that dollar value. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Russian tax withheld from dividends generally will be treated, but only up to the 5% or 10% rate, as applicable, provided under the U.S.-Russia Tax Treaty, as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against the U.S. federal income tax liability of U.S. shareholders or, if they have elected to deduct such taxes, may be deducted in computing taxable income. See "—Russian Tax Considerations—Taxation of Non-Resident Holders—Taxation of Dividends" regarding the position that the Company intends to take in respect of its obligation to withhold Russian withholding tax on dividends that it pays to the Depositary. New foreign tax credit regulations have been recently proposed by the U.S. Department of the Treasury and the IRS, and it is uncertain whether, if adopted in final form, they could affect U.S. Holders' ability to credit Russian tax withheld from dividends against their U.S. federal income tax liability. Thus, if the proposed regulations are adopted in their current form, you may not be eligible for a foreign tax credit against your U.S. federal income tax liability for Russian taxes withheld by us with respect to dividends paid by us. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends we pay generally will constitute "passive income," or in the case of certain U.S. Holders, "financial services income." U.S. Holders should note that the "financial services income" category will be eliminated with respect to taxable years beginning after December 31, 2006. For such years, the foreign tax credit limitation categories would be limited to "passive category income" and "general category income."

Subject to the discussion below under "Information Reporting and Backup Withholding," if you are a Non-U.S. Holder of our Ordinary Shares or GDRs, you will not be subject to U.S. federal income or withholding tax on dividends you receive on Ordinary Shares or GDRs, unless the dividends are effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Sale or Exchange of Our Common Shares or GDRs

Subject to the discussion below under "—Passive Foreign Investment Company Considerations," you will recognise capital gain or loss for U.S. federal income tax purposes when you sell or exchange our Ordinary Shares or GDRs. The amount of gain or loss will be equal to the difference between your adjusted tax basis in the Ordinary Shares or GDRs and the amount realised on their disposition. If a Russian tax is withheld on the sale, exchange or other disposition of a share, the amount realised by a U.S. Holder will include the gross amount of the proceeds of that sale, exchange or other disposition before deduction of the Russian tax. If you are a noncorporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if your holding period for our Ordinary Shares or GDRs exceeds one year (*i.e*., a long-term capital gain). Any gain or loss recognised by you generally will be treated as United States source income or loss for United States foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

The initial tax basis of the Ordinary Shares or GDRs to a U.S. Holder is the U.S. dollar value of the *Russian rouble*-denominated purchase price determined on the date of purchase. If our Ordinary Shares or GDRs are treated as traded on an "established securities market," a cash basis U.S. Holder, or, if it elects, an accrual basis U.S. Holder, will determine the dollar value of the cost of such Ordinary Shares or GDRs by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The conversion of U.S. dollars to *Russian roubles* and the immediate use of that currency to purchase the Ordinary Shares or GDRs generally will not result in taxable gain or loss for a U.S. Holder.

With respect to the sale or exchange of the Ordinary Shares or GDRs, the amount realised generally will be the U.S. dollar value of the payment received determined on (1) the date of receipt of payment in

the case of a cash basis U.S. Holder and (2) the date of disposition in the case of an accrual basis U.S. Holder. If our Ordinary Shares or GDRs are treated as traded on an "established securities market," a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realised by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Subject to the discussion below under "—Backup Withholding and Information Reporting," if you are a Non-U.S. Holder of our Ordinary Shares or GDRs, we expect that you will not be subject to U.S. federal income or withholding tax on gain realised on the sale or exchange of such Ordinary Shares or GDRs unless:

- such gain is effectively connected with the conduct by you of a trade or business in the United States; or
- in the case of gain realised by an individual Non-U.S. Holder, you are present in the United States for 183 days or more in the taxable year of the sale or exchange and certain other conditions are met.

Passive Foreign Investment Company Considerations

A Non-U.S. corporation will be classified as a "passive foreign investment company," or a PFIC, for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (1) at least 75% of its gross income is "passive income" or (2) at least 50% of the average value of its gross assets is attributable to assets that produce "passive income" or is held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

We believe that we were not a PFIC for our taxable year ending 31 December 2005. Our status in future years will depend on our assets and activities in those years. We have no reason to believe that our assets or activities will change in a manner that would cause us to be classified as a PFIC for our current taxable year or for any future year, but there can be no assurance that we will not be considered a PFIC for any taxable year.

If we were a PFIC, a U.S. Holder of the Ordinary Shares or GDRs generally would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, the Ordinary Shares or GDRs. Although, a U.S. Holder of the Ordinary Shares or GDRs could make a variety of elections that may alleviate certain of the tax consequences referred to above, it is expected, however, that the conditions necessary for making certain of such elections will not apply in the case of the Ordinary Shares or GDRs. U.S. Holders should consult their own tax advisors regarding the tax consequences that would arise if the company were treated as a PFIC.

Information Reporting and Backup Withholding

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders of shares. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, our Ordinary Shares or GDRs made within the United States or by a U.S. payor or U.S. middleman to a holder of our Ordinary Shares or GDRs, other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons. Backup withholding tax will apply to any payments of dividends on, or the proceeds from the sale or redemption of, Ordinary Shares or GDRs within the United States or by a U.S. payor or U.S. middleman to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28% through 2010.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our shares. You should consult your own tax advisor concerning the tax consequences of your particular situation.

United Kingdom tax considerations

The comments below are of a general nature and are based on current United Kingdom law and published HM Revenue and Customs practice at the date of this Prospectus, as well as the provisions of

the 1994 Income and Capital Gains Tax Convention between the United Kingdom and Russia (which we refer to as the "United Kingdom/Russia double tax treaty"), each of which is subject to change, possibly with retrospective effect. The summary covers the principal tax consequences of holding GDRs or Ordinary Shares for holders who (1) are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the United Kingdom for tax purposes and not resident for tax purposes in any other jurisdiction; and (2) do not have a permanent establishment or fixed base in Russia with which the holding of GDRs or Ordinary Shares is connected (which we refer to as "United Kingdom Holders"). In addition, the summary:

(1) only addresses the principal tax consequences for United Kingdom Holders who hold the GDRs or Ordinary Shares as capital assets and does not address the tax consequences which may be relevant to certain other categories of United Kingdom Holders (such as, for example, dealers);

(2) does not address the United Kingdom tax consequences for holders that are banks, financial institutions, insurance companies, collective investment schemes or tax-exempt organisations;

(3) assumes that the United Kingdom Holder is not a company which either directly or indirectly controls 10% or more of the share capital or the voting power or the profits of the Company;

(4) assumes that a holder of GDRs is, for U.K. tax purposes, beneficially entitled to the underlying Ordinary Shares and to dividends on those Ordinary Shares; and

(5) assumes that the United Kingdom Holder does not hold the GDRs or Ordinary Shares on trust.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular United Kingdom Holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including the consequences under United Kingdom law and HM Revenue & Customs practice, of acquisition, ownership and disposition of GDRs or Ordinary Shares in their own particular circumstances, by consulting their own tax advisers.

Dividends

A dividend paid by the Company may, depending on the circumstances of the person entitled to it, be subject to Russian withholding tax. Relief at source from, or a refund of, such withholding tax may be available under the United Kingdom/Russia double tax treaty. See "—Russian Tax Considerations." Any remaining Russian withholding tax is generally allowed as a credit against the U.K. tax liability of a United Kingdom Holder, but any excess of such Russian withholding tax over the U.K. tax payable on the aggregate amount of the dividend and the Russian withholding tax (as described below) is generally not refundable.

A United Kingdom Holder or a holder which carries on a trade, profession or vocation in the United Kingdom through a branch or agency, or a permanent establishment, in connection with which the GDRs or Ordinary Shares are held will generally be subject to United Kingdom income tax or corporation tax, as the case may be, on the gross amount (before deduction of any applicable withholding tax) of any dividend paid by the Company. As described above, credit for any applicable Russian withholding tax should generally be given against any United Kingdom tax liability in respect of the dividend.

Persons in the United Kingdom paying "foreign dividends" to or receiving "foreign dividends" on behalf of another person may be required to provide certain information to HM Revenue and Customs regarding the identity of the payee or the person entitled to the "foreign dividend" and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the GDRs or Ordinary Shares may constitute "foreign dividends" for this purpose.

Capital Gains

A disposal or deemed disposal of Ordinary Shares or GDRs by a United Kingdom Holder or, in certain circumstances, by a holder who carries on a trade, profession or vocation in the United Kingdom through a branch or agency or a permanent establishment in connection with which the Ordinary Shares or GDRs are held, may give rise to a chargeable gain or allowable loss for the purposes of United Kingdom taxation of chargeable gains. In the case of a United Kingdom Holder which is a company, an indexation allowance can be used to reduce or eliminate a chargeable gain but not to create or increase an allowable loss. In the case of a United Kingdom Holder who is an individual, taper relief (if available) can be used to reduce a chargeable gain. A United Kingdom Holder who is an individual is entitled to an annual exemption from United Kingdom tax on chargeable gains, currently of up to £8,800.

A credit for any tax payable in Russia in respect of a disposal may be available against any liability for United Kingdom tax on chargeable gains. See "Taxation—Russian Tax Considerations."

Stamp Duty

No United Kingdom stamp duty reserve tax will be payable on the issue of the Ordinary Shares or GDRs or on an agreement to transfer Ordinary Shares or GDRs provided that the Ordinary Shares are not registered in a register kept in the United Kingdom by the Company or on its behalf.

No United Kingdom stamp duty will be payable on the issue of the Ordinary Shares or GDRs or on a transfer of the Ordinary Shares or GDRs unless a transfer is executed in the United Kingdom or the transfer relates to some matter or thing to be done in the United Kingdom.

Inheritance tax

United Kingdom inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, Ordinary Shares or GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the United Kingdom. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

Russian Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to non-resident holders of the GDRs and Ordinary Shares and to Russian resident holders of Ordinary Shares and GDRs and to the purchase, ownership and disposition of GDRs and Ordinary Shares by their non-resident holders and of Ordinary Shares and GDRs by their Russian resident holders. The summary is based on the laws of Russia in effect on the date of this Prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. The summary also does not seek to address the availability of double tax treaty relief, and even where available there may be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Ordinary Shares and GDRs, and no representation with respect to the Russian tax consequences to any particular holder is made hereby.

Russian tax law and procedures are not well developed, and local tax inspectors have considerable autonomy in tax law interpretation and often interpret tax rules inconsistently. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets. For example, from 1 January 2006, a number of amendments were introduced to the Profits Tax Chapter of the Tax Code of the Russian Federation with respect to securities and other financial instruments. There is little practical experience with respect to the application of these changes and there are only a few official clarifications. The interpretation and application of tax law provisions will, in practice, rest substantially with local tax inspectors.

For the purposes of this summary, a "Non-Resident Holder" means:

- a physical person, actually present in the Russian Federation for less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) who holds the Ordinary Shares or GDRs, or "Non-Resident Holder—Individual." From 1 January 2007, a "Non-Resident Holder—Individual" will be defined as an individual who holds the Ordinary Shares or GDRs and is present in Russia for an aggregate period of less than 183 days (excluding days of arrival into Russia but including days of departure from Russia) in any period consisting of 12 consecutive months. As of 1 January 2007, presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education, or
- a legal person or organisation, in either case not organised under Russian law, that holds and disposes of the Ordinary Shares or the GDRs otherwise than through a permanent establishment in Russia, or a "Non-Resident Holder—Legal Entity."

For the purposes of this summary, a "Russian Resident Holder" means:

- a physical person, actually present in the Russian Federation for 183 days or more in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia)

who holds the Ordinary Shares or GDRs or Russian Resident Holder-Individual. From 1 January 2007, a Russian Resident Holder— Individual will be defined as an individual who holds the Ordinary Shares or GDRs and is present in Russia for an aggregate period of 183 days or more (excluding days of arrival into Russia but including days of departure from Russia) in any period comprised of 12 consecutive months. As of 1 January 2007, presence in Russia is not considered interrupted if an individual departs for the short periods (less than six months) for medical treatment or education; or

- a legal person organised under Russian law who holds the Ordinary Shares or GDRs; or
- a legal person or organisation, in either case organised under a foreign law, which holds and disposes of Ordinary Shares or GDRs through its permanent establishment in Russia.

The residency rules may be affected by the applicable double tax treaty.

For the purposes of this summary, a "Tax Agent" means a legal person organised under Russian law or a legal person or organisation, in either case organised under a foreign law and paying out income attributable to its permanent establishment or, arguably, any other registered presence in the Russian Federation, which pays out dividend or capital gains income on the Ordinary Shares or GDRs to Non-Resident Holders.

Taxation of Non-Resident Holders

Taxation of Dividends

Dividends paid to a Non-Resident Holder will generally be subject to Russian withholding income tax, which will be withheld by the Company acting as a Tax Agent. The applicable tax rate on dividends will depend on whether the dividend recipient is a legal entity, organisation or an individual. Dividends paid to a Non-Resident Holder-Legal Entity should generally be subject to Russian withholding income tax at a rate of 15%. Dividends paid to a Non-Resident Holder-Individual should be subject to withholding of Russian income tax at a rate of 30%.

Withholding income tax on dividends may be reduced under the terms of a double tax treaty between the Russian Federation and the country of tax residency of the Non-Resident Holder subject to tax treaty clearance requirements being met, as described below in "—Tax Treaty Procedures." Preliminary approval from the Russian tax authorities is not required to confirm treaty relief from Russian withholding income tax for Non-Resident Holders-Legal Entities. Preliminary clearance from the Russian tax authorities is required to confirm advance treaty relief from Russian withholding income tax for Non-Resident Holders-Individuals, but it is currently not possible for those holders to obtain the required preliminary clearance in practice.

The Convention Between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income and Capital, the United States-Russia Tax Treaty, provides for reduced withholding rates on dividends paid to a Non-Resident Holder who qualifies as a U.S. tax resident entitled to benefits under this treaty and who is the beneficial owner of the dividends or a "U.S. Holder". Under this treaty, a 5% rate applies to dividends paid to U.S. Holders that are companies that own 10% or more of the Company's voting shares, and a 10% rate applies to dividends paid to other U.S. Holders. The Convention Between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains, the "United Kingdom-Russia Tax Treaty", provides for a 10% withholding income tax rate on dividends paid to a Non-Resident Holder who qualifies as a U.K. tax resident entitled to benefits under this treaty and who is the beneficial owner of the dividends and is subject to taxation in respect of these dividends in the United Kingdom, or a "U.K. Holder".

Notwithstanding the foregoing, treaty relief may be unavailable to Non-Resident Holders on dividends received on GDRs. In particular, in the absence of any specific provisions in the tax legislation with respect to the concept of beneficial ownership, the taxation of income of beneficial owners or the treatment of GDRs, it is unclear how the tax authorities and courts will ultimately treat the GDR holders in this regard. Thus, in the absence of any official interpretative guidance on the above concepts, the Company will likely withhold tax at higher rates when paying dividends on the Ordinary Shares represented by GDRs; and non-resident holders of GDRs, including U.S. and U.K. Holders, may be unable to benefit from the relevant income tax treaties.

In particular, the Company will generally be obligated to withhold income tax at the standard domestic non-resident rate of 15% irrespective of the provisions of any applicable double tax treaty when paying dividends via the Depositary to any of the Non-Resident Holders, including U.S. and U.K. holders unless the Company receives sufficient information together with a complete documentation of respective GDR Holders from the Depositary prior to each payment of dividend. For more details on the list of such information and documents see the next paragraph below. In 2005 and 2006, the Ministry of Finance consistently expressed the opinion that GDR holders (rather than the Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to the taxation of dividend income from the underlying shares, provided that the tax residence of the GDR holder for tax purposes is duly confirmed (see "—Tax Treaty Procedures" for details) and that the sufficient documentary proof is presented to the Company with respect to the amount of income of any particular GDR holders. In particular, the Ministry of Finance requires that the documents containing the following information should be submitted to the Company by the Depositary:

- Information on the GDR holders (name, address, tax identification number);
- Information on the amount of deposited shares attributed to each GDR holder (statements on depo accounts of particular depositary); and
- Information on the amount of dividends payable to each GDR holder.

However, this position was expressed in private responses to inquiries by tax payers with respect to particular situations and, as such, does not represent a statement of tax law. It is not obligatory for taxpayers or the tax authorities to follow this position, although it represents the most recent view taken by the authorities. Moreover, from practical perspective, it may not be possible for the Depositary to collect confirmations of tax residence from all GDR holders and submit them to the Company and, in addition, the Company may be unaware of the exact amount of income payable to each holder.

Therefore, since the Depositary rather than the Holder of the GDRs will be the legal owner of the dividends, if the information on the beneficial owners of such dividends is not available or incomplete, the Company may be obligated to withhold income tax at a rate of 15% from dividend payments on Ordinary Shares represented by GDRs and consequently intends to take such approach.

In such case Non-Resident Holders-Individuals nevertheless may have a filing obligation in respect of Russian source income, and may be liable for additional tax imposed at the Russian income tax rate applicable to dividends, depending on the approach taken by the tax authorities at the time when respective income is received. However, this tax might be reduced under any applicable double tax treaty subject to the treaty clearance requirements being met (see "—Tax Treaty Procedures" for details). It is advisable for Non-Resident Holders-Individuals to consult their tax advisors in relation to their filing position in Russia at the time when respective income is received.

Although, if there is an applicable double tax treaty, Non-Resident Holders of GDRs may apply for a refund of a portion of the withholding income tax, there is no assurance that such refund will be obtained. See "—Tax Treaty Procedures" for details.

With respect to Non-Resident Holders— Individuals of the Ordinary Shares, including U.S. or U.K. Holders—Individuals of the Ordinary Shares, the Company will be able to act as a Tax Agent and withhold personal income tax at the rate, established for non-resident individuals of 30 percent. Advance treaty relief will not be possible and a refund can only be obtained by submitting a tax return and supporting documentation in accordance with the procedures described in "—Tax Treaty Procedures."

Taxation of Capital Gains

Legal entities and organizations

Under Russian tax legislation gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs that are circulated (i.e. listed and traded) on foreign stock exchanges on such stock exchanges by Non-Resident Holders that are legal entities or organisations, otherwise than through their permanent establishment in Russia, fall outside the scope of Russian taxes. Therefore, so long as the GDRs remain listed and traded on the London Stock Exchange, gains arising from the sale, exchange or other disposition of GDRs on the London Stock Exchange by non-resident legal entities or organisations that have no permanent establishment in Russia to which such sale, exchange or disposition could be connected, should not be subject to Russian withholding income tax and, hence, to taxation in Russia.

The remainder of this sub-section applies only to the Ordinary Shares and to GDRs that are not circulated (i.e., listed and traded) on foreign stock exchanges.

Capital gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs by Non-Resident Holders-Legal Entities should not be subject to tax in Russia if the Company's immovable property located in Russia constitutes 50% or less of its assets. The Company believes that its immovable property located in Russia does not currently, and will not, constitute more than 50% of its assets. However, because the determination of whether 50% or less of the Company's assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that the immovable property located in Russia does not currently, or will not in the future constitute more than 50% of the Company's assets. If more than 50% of the Company's assets were to consist of immovable property located in Russia, a Non-Resident Holder-Legal Entity may be subject to:

- a 24% withholding tax rate on capital gains realised from the sale, being the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the Ordinary Shares or GDRs; or
- 20% withholding tax rate on the gross proceeds from the sale of the Ordinary Shares or GDRs.

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in Russia for Non-Resident Holder-Legal Entities qualifying for the relevant treaty benefits.

Under the United States-Russia Tax Treaty, capital gains from the sale of Ordinary Shares or GDRs by U.S. Holders should be exempt from taxation in Russia, unless more than 50% of the fixed assets of the Company were to consist of immovable property located in Russia.

Since relief from capital gains taxation in Russia provided by the United States-Russia Tax Treaty referred to above, is no more beneficial for a U.S. Holder (legal entity or organisation) than the treatment provided by the current Russian domestic tax legislation, it is unlikely that the need will arise for such Non-Resident Holders-Legal Entities to seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from sale, exchange or other disposition of the Ordinary Shares or GDRs.

Under the United Kingdom-Russia Tax Treaty, capital gains from the sale of shares by U.K. resident Holders should not be subject to tax in Russia, unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs.

There is a risk that the tax agents which are obligated to withhold tax on capital gains may not have sufficient information regarding the Company's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the Non-Resident Holders (legal entities and organisations) selling the Ordinary Shares or GDRs. If there is an applicable double tax treaty, Non-Resident Holders (legal entities and organisations) of the Ordinary Shares or GDRs may apply for a refund of a portion of the withholding tax, there is no assurance that such refund will be obtained. See "—Tax Treaty Procedures."

Where the Ordinary Shares or GDRs are sold by a Non-Resident Holder-Legal Entity to persons other than a Russian company or a foreign legal entity or organisation with a permanent establishment in Russia (or, arguably, with any registered presence in Russia) even if the resulting capital gain is considered taxable Russian source income, there is currently no mechanism under which the respective tax could be withheld and remitted to the Russian tax authorities.

Individuals

According to Russian tax legislation, taxation of capital gains realised on a sale, exchange or other disposition of Ordinary Shares or GDRs of Non-Resident Holders-Individuals will depend on whether this income is considered as received from Russian or non-Russian sources. While Russian tax law gives no clear indication as to how the sale of the Ordinary Shares or GDRs should be treated in this regard, a common practical approach is to consider the place of sale. For example, the sale, exchange or other disposition of Ordinary Shares or GDRs outside of Russia by Non-Resident Holders-Individuals should not be considered Russian source income and, therefore, should not be taxable in Russia. However, as

there is no definition of what should be considered to be a "sale in Russia," the Russian tax authorities have a certain amount of freedom to conclude whether transactions take place inside or outside of Russia. The sale, exchange or other disposition of the Ordinary Shares or GDRs by the Non-Resident Holder-Individual in Russia will be considered Russian source income and will be subject to tax at the rate of 30% of the sales price less the acquisition cost of the Ordinary Shares and other documented expenses, such as depositary expenses and broker fees, among others. However, the acquisition cost and related expenses can only be deducted from the sale price at the source of payment if the sale is made by a Non-Resident Holder-Individual through a licenced Russian broker, asset manager or another person carrying out operations under an agency agreement or another similar agreement, a Tax Agent should withhold the applicable tax. The Tax Agent is required to report to the Russian tax authorities on the income realised by the Non-Resident Holder-Individual and the tax withheld upon the sale, exchange or other disposition of the Ordinary Shares. Where the sale, exchange or other disposition of the Ordinary Shares or GDRs is made in Russia but not through a Tax Agent, generally no tax withholding needs to be made and the Non-Resident Holder-Individual will have an obligation to file a tax return with the Russian tax authorities and to pay Russian income tax as appropriate.

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in Russia for Non-Resident Holder-Individuals qualifying for the relevant treaty benefits.

U.S. or U.K. Non-Resident Holders—Individuals whose income from the sale, exchange or other disposition of the Ordinary Shares or GDRs is taxed at source by withholding at a 30% rate may technically claim a refund of the tax withheld under the relevant treaty provisions. However, in practice these procedures are very time-consuming and more complicated than those for corporate holders, and a successful outcome for individuals is less likely. Under the United States-Russia Tax Treaty, capital gains from the sale of Ordinary Shares or GDRs by U.S. Holders should be exempt from taxation in Russia, unless more than 50 percent of the fixed assets of the Company were to consist of immovable property located in Russia. With respect to a U.S. Holder (individual) the treatment provided by the United States-Russia Tax Treaty may be more beneficial in cases where the immovable property does not make up for 50 percent or more of the Company's fixed assets. Under the United Kingdom-Russia Tax Treaty, capital gains from the sale of shares by U.K. resident Holders should not be subject to tax in Russia, unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs.

With respect to a U.K. Holder (individual), the treatment provided by the United Kingdom-Russia Tax Treaty may therefore be more beneficial than the treatment under domestic Russian tax law in circumstances where gains are derived from the disposition of the Company's Ordinary Shares or GDRs quoted on an approved stock exchange or in cases where the Company's shares are not quoted on any approved stock exchange but do not derive their value or greater part of their value directly or indirectly from immovable property situated in Russia.

In order to apply the treaties, the Non-Resident Holder-Individual must receive clearance from the Russian tax authorities. Advance treaty clearance is not provided for by the current Russian legislation and individuals wishing to make a treaty claim would be required to submit a tax return to the tax authorities as described below in "—Tax Treaty Procedures" to claim the refund of tax.

Tax Treaty Procedures

A Non-Resident Holder—Legal Entity seeking to obtain relief from or reduction of Russian withholding income tax under a tax treaty must provide the Tax Agent with a confirmation of its tax residency for the purposes of the applicable double tax treaty, legalised or apostilled with a notarised Russian translation attached to it. The tax residency confirmation needs to be renewed on an annual basis, and provided to the payer of income before the first payment of income in each calendar year.

In accordance with the Russian Tax Code, a Non-Resident Holder-Individual must present to the tax authorities a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes and a confirmation of the income received and the tax paid in such foreign jurisdictions, as confirmed by the relevant foreign tax authorities. Technically, such requirements mean that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. For example, a US Holder may obtain the appropriate certification by mailing completed Form 8802, Application for United States Residency Certification, together with any additional information required

to: Internal Revenue Service, Philadelphia Service Centre, U.S. Residency Certification Request, P.O. Box 16347, Philadelphia, PA 19114-0447. The procedures for obtaining certification are described in greater detail in Internal Revenue Service Publication 686. Obtaining the required certification from the Internal Revenue Service may take six to eight weeks. If the U.S. Non-Resident Holder is eligible for certification, it will receive a Form 6166, Certification of United States Residency, upon filing a completed Form 8802 with the Internal Revenue Service.

A U.K. Non-Resident Holder may obtain the appropriate certification from his/her local Inspector of Taxes. As obtaining this certification may take some time, a U.K. Non-Resident Holder should apply for such certification in advance.

For individuals, advance relief from or reduction of withholding income taxes will generally be impossible to obtain as it is unlikely that the supporting documentation for the treaty relief will be provided to the Russian tax authorities and approval from the latter obtained before the receipt of dividends or sales proceeds occurs.

If a Non-Resident Holder does not obtain double tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian payer, the Non-Resident Holder may apply for a refund within three years from the end of the year in which the tax was withheld, if the recipient is a legal entity or organisation, or within one year from the end of the tax year in which the tax was withheld, if the recipient is an individual. To process a claim for a refund, the Russian tax authorities require: (1) an apostilled or legalised confirmation of the foreign tax residency of the Non-Resident Holder at the time the income was paid, as required by an applicable tax treaty; (2) an application for a refund of the tax withheld; (3) copies of the relevant contracts or other documents based on which the income was paid, as well as payment documents confirming the payment of the tax that was withheld to the appropriate Russian authorities (Form 1012DT for dividends and interest and 1011DT for other income are intended to combine (1) and (2) for foreign legal entities and organisations; individuals are also required to submit a document issued or approved by the tax authorities in the country in which they are residents for tax purposes, confirming the amount of income received and taxed in that country). The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month following the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, in practice, the procedures for processing such tax refund claims have not been clearly established and there is significant practical uncertainty regarding the availability and timing of such refunds.

The procedures described above may be more complicated with respect to GDRs due to the separation of legal and beneficial ownership of the Russian shares underlying the GDRs. Russian tax legislation does not provide clear guidance regarding availability of double tax treaty relief or reduction for GDRs holders. See "—Taxation of Dividends." In practice, it may be impossible for the Depositary to collect confirmations of residence from all GDR holders and submit them to the Company and, in addition, the Company may be unaware of the exact amount of income payable to each holder. Moreover, the opinion expressed in 2005 and 2006 by the Ministry of Finance referred only to dividends and did not cover capital gains, which may leave room for varying interpretations by the tax authorities. Thus, the Company cannot assure potential investors that relief from or a reduction in tax will be available under any applicable tax treaties in respect of Russian taxes payable or withheld in respect of dividends on Ordinary Shares represented by GDR. See "Risk Factors—Risks Relating to the Securities and the Trading Market."

Taxation of Russian Resident Holders

Russian Resident Holders will be subject to all applicable Russian taxes in respect of gains from disposition of the Ordinary Shares or GDRs and dividends received on the Ordinary Shares or GDRs.

SUBSCRIPTION AND SALE

Under the terms of, and subject to the conditions contained in, an underwriting agreement, dated 31 October 2006 (the "Underwriting Agreement"), among the Company, the Selling Shareholder and each Underwriter, the Underwriters set forth below have severally agreed to procure purchasers for, or failing which, themselves to purchase, at the Offer Price, the number of Ordinary Shares in the form of Ordinary Shares or GDRs indicated below. The Selling Shareholder has agreed to sell to purchasers procured by the Underwriters, or to the Underwriters, at the Offer Price, the number of Ordinary Shares (including a portion in the form of GDRs) indicated below:

Manager	Number of Ordinary Shares being sold by the Selling Shareholder
Credit Suisse Securities (Europe) Limited	61,200,000
Renaissance Securities (Cyprus) Limited	61,200,000
Dresdner Bank AG, London Branch	39,600,000
Citigroup Global Markets Limited	18,000,000
Total	180,000,000

The Underwriting Agreement contains the following further provisions, among others:

- The Selling Shareholder has granted to the Joint Global Coordinators the Over-Allotment Option to acquire additional Ordinary Shares amounting to up to 10% of the total number of Ordinary Shares sold in the Offering in the form of Ordinary Shares and GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-Allotment Option is exercisable during the Stabilisation Period.
- The Underwriters will deduct from the proceeds of the Offering underwriting commissions payable by the Selling Shareholder of 3.0% of the total of the Offer Price multiplied by the number of shares sold in the Offering. Such commissions will amount to a total of approximately U.S.$29.2 million, assuming no exercise of the Over-Allotment Option, or a total of approximately U.S.$32.1 million if the Over-Allotment Option is exercised in full. The Company will also pay certain costs and expenses incurred by the Underwriters in connection with the Offering. The Company has agreed to pay to the Underwriters an incentive fee of 0.75% of the total of the Offer Price multiplied by the total number of shares sold in the Offering (including the Over-Allotment Option, if exercised) within 30 days of the completion of the Offering.
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions, including the accuracy of the representations and warranties given in the Underwriting Agreement and the application for Admission having been approved on or prior to the GDR Closing Date. The Underwriters may terminate the Underwriting Agreement on or prior to the GDR Closing Date, with respect to both the GDRs and the Ordinary Shares, and after the GDR Closing Date but on or prior to the Share Closing Date, with respect to the Ordinary Shares only, in certain specified circumstances, including the occurrence of certain material changes in our business, financial condition, prospects or results of operations and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated on or prior to, the GDR Closing Date with respect to the GDRs and the Ordinary Shares or after the GDR Closing Date but on or prior to the Share Closing Date with respect to the Ordinary Shares, then that part of the Offering will lapse.
- The Company and the Selling Shareholder have given certain representations and warranties to the Underwriters, including in relation to the Company's business, accounting records and legal compliance, in relation to the Ordinary Shares and GDRs and in relation to the contents of this Prospectus. The Selling Shareholder has also given certain warranties to the Underwriters in relation to its capacity, good title to the Ordinary Shares and GDRs and conduct.
- The Company and the Selling Shareholder have agreed to indemnify the Underwriters against certain liabilities in connection with the Offering, or to contribute to payments that the Underwriters may be required to make because of any of those liabilities.

- If an Underwriter defaults, the Underwriting Agreement provides that in certain circumstances, the purchase commitments of the non-defaulting Underwriters may be increased or the underwriting agreement may be terminated with respect to the GDRs and the Ordinary Shares if the default occurs on or prior to the GDR Closing Date, and with respect to the Ordinary Shares, if the default occurs after the GDR Closing Date but on or prior to the Share Closing Date.

The Company, the Selling Shareholder, Bravecorp Limited and Tirelli Holdings Limited have each agreed that they will not, and will procure that their subsidiaries, other affiliates and any person acting on their behalf does not, for a period commencing on the date of the Underwriting Agreement and ending 180 days after the Closing Date:

(i) issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any of the foregoing), directly or indirectly, any Ordinary Shares, GDRs or certain other securities whose value is derivative of the value of the Shares or GDRs; or

(ii) enter into transactions with a similar effect to any of the foregoing without the prior written consent of the Underwriters.

In addition, members of our management board who acquire shares in the Employee Offering have agreed with the Underwriters that, during the period beginning with the date on which they acquire such shares and continuing to, and including the date 180 days after the Share Closing Date, they will not offer, allot, sell, contract to sell, pledge, grant options over or otherwise dispose of any securities (or publicly announce any such allotment, offer, sale or disposal) of OAO TMK that are substantially similar to the Ordinary Shares or GDRs, or enter into any transaction with the same economic effect as any of the foregoing, without the prior written consent of the Joint Global Coordinators.

The Ordinary Shares are listed on the RTS Stock Exchange, and trading in the Ordinary Shares is expected to commence on or about 31 October 2006.

The Underwriters and their affiliates have engaged in and performed, and may from time to time engage in and perform, other investment banking, commercial dealing and advisory services for which they may receive customary fees and commissions. In connection with the Offering, each of the Underwriters and any affiliate acting as an investor for its own account may take up the Ordinary Shares or GDRs and in that capacity may retain, purchase or sell the Shares, in each case in the form of Ordinary Shares or GDRs (or related investments), for its own account and may offer or sell such securities (or other investments) otherwise than in connection with the Offering. The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

OAO TMK has applied to the Financial Services Authority, in its capacity as competent authority under the FSMA, to admit up to 76,387,000 GDRs (of which 30,150,000 will be issued or sold on the Closing Date and up to 4,150,000 will be sold pursuant to the Over-Allotment Option, if exercised) to the Official List and to the London Stock Exchange to admit such GDRs for trading under the symbol TMKS. Application has been made for the Rule 144A GDRs to be designated as eligible for trading in PORTAL. Trading in the GDRs on the London Stock Exchange is expected to commence on 31 October 2006 on a "when and if issued" basis. Closing and settlement for the GDRs expected to take place on 3 November 2006, and admission to the Official List and to trading on the London Stock Exchange is expected to take place on or about the GDR Closing Date. The Ordinary Shares are listed on the RTS Stock Exchange, and trading in the Ordinary Shares is expected to commence on or about the Share Closing Date.

In connection with the issue of the GDRs, Credit Suisse Securities (Europe) Limited (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager), may over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation may begin on the date of adequate public disclosure of the Offer Price of the GDRs and end no later than 30 calendar days thereafter. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

Other than in connection with the Employee Offering, OAO TMK does not believe that any of its major shareholders, members of its administrative, management or supervisory boards subscribed in the Offering. The Company is not aware of whether any person intends to subscribe for more than 5% of the Offering.

The Selling Shareholder has agreed to lend to Credit Suisse Securities (Europe) Limited up to 18,000,000 Shares in the form of GDRs to cover over-allotments.

Selling Restrictions

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each a Relevant Member State), an offer to the public of any Ordinary Shares or GDRs which are the subject of the Offering may not be made in that Relevant Member State other than the offers of GDRs contemplated in the Prospectus in the United Kingdom once the Prospectus has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive as implemented in the United Kingdom, except that an offer to the public in that Relevant Member State of the Shares or GDRs which are the subject of the Offering may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State: (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (c) by the Underwriters to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or (d) in any other circumstances falling with Article 3(2) of the Prospectus Directive, provided in each case that no such offer of Ordinary Shares or GDRs shall result in a requirement for the publication by OAO TMK or Selling Shareholder or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Ordinary Shares or GDRs to be offered so as to enable an investor to decide to purchase any Ordinary Shares or GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

This selling restriction is an addition to any selling restrictions set out below.

United Kingdom

Each Underwriter has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of any Ordinary Shares or GDRs which are the subject of this Offering in circumstances in which section 21 (1) of the FSMA does not apply to the Company or the Selling Shareholder; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Ordinary Shares or GDRs in, from or otherwise involving the United Kingdom.

United States

The Ordinary Shares and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The Underwriting Agreement provides that the Underwriters may through their respective U.S. broker-dealer affiliates arrange for the offer and resale of GDRs and Shares within the United States only to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Ordinary Shares and the GDRs, an offer or sale of Ordinary Shares or GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Russian Federation

Each of the Underwriters has represented and agreed that it has not offered or sold and will not offer or sell any GDRs as part of its initial distribution in the Russian Federation.

The GDRs have not been and will not be registered in the Russian Federation and are not intended for "placement" or "public circulation" in the Russian Federation. The Prospectus does not constitute an advertisement of the GDRs in the Russian Federation.

General

Neither we nor the Underwriters, nor any person acting on our or the Underwriters' behalf, have taken or will take any action in any jurisdiction that would permit a public offering of the Ordinary Shares or GDRs, or the possession or distribution of this Prospectus or any other material relating to the Offering or the Ordinary Shares or GDRs, in any jurisdiction where action for such purpose is required. Accordingly, neither the Ordinary Shares nor the GDRs may not be offered or sold, directly or indirectly, nor may this Prospectus or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Buyer's Representation

Each person in a Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") who receives any communication in respect of, or who acquires any Ordinary Shares or GDRs under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Underwriter and the Company that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any Ordinary Shares or GDRs acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Ordinary Shares or GDRs acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Underwriters has been given to the offer or resale; or (ii) where Ordinary Shares or GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Ordinary Shares or GDRs to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an "offer of Ordinary Shares or GDRs to the public" in relation to any Ordinary Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Ordinary Shares or GDRs to be offered so as to enable an investor to decide to purchase or subscribe for the Ordinary Shares or GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised US as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation—United States Federal Income Tax Considerations."

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of The Bank of New York Depository (Nominees) Limited as common nominee, and held by The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by the The Bank of New York as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of the common

nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxemburg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from us for holders holding through Euroclear and Clearstream are paid by it to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from us for holders holding through DTC are paid by it to DTC.

We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreements.

Settlement and Delivery of Ordinary Shares

Each purchaser of the Ordinary Shares in the Offering is required to pay for any Shares in same-day funds and the Ordinary Shares will be delivered to such purchasers on or before the Share Closing Date. In order to take delivery of the Ordinary Shares, potential purchasers may be required to have a depo account at one or more depositaries designated by us. Upon taking delivery of the Shares, purchasers may choose to hold the Ordinary Shares through a direct account with our share registrar; however, directly-held Shares are ineligible for trading on the RTS. In addition, in order to trade Ordinary Shares on the RTS, investors may be required to further transfer their Ordinary Shares to an account at a different depositary.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of transfer restrictions relating to the GDRs, see "—Transfer Restrictions."

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxemburg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxemburg and DTC, none of Euroclear, Clearstream, Luxemburg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of us, the underwriters, the Depositary, the Custodian or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxemburg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

Transfer Restrictions

The Rule 144A GDRs will bear the following legends unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THE RULE 144A GLOBAL DEPOSITARY RECEIPTS AND THE ORDINARY SHARES OF OAO TMK REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF OAO TMK THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION

PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

The Regulation S GDRs will bear the following legend unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THE REGULATION S GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS CERTIFICATE AND THE ORDINARY SHARES OF OAO TMK REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, PRIOR TO THE EXPIRATION OF A RESTRICTED PERIOD (DEFINED AS THE PERIOD ENDING 40 DAYS AFTER THE LATEST OF THE COMMENCEMENT OF THE GDR OFFERING, THE ORIGINAL ISSUE DATE OF THE GDRs (IF ANY) ISSUED PURSUANT TO THE OVER-ALLOTMENT OPTION GRANTED TO THE MANAGERS PURSUANT TO THE RELEVANT UNDERWRITING AGREEMENT) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (B) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (B) ABOVE, THE TRANSFEROR SHALL PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES FROM THE REGULATION S FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE DEPOSIT AGREEMENT FOR DEPOSIT IN THE RULE 144A FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) THEREUNDER AND THAT RULE 144A GDRs REPRESENTED BY A MASTER RULE 144A GDRs BE ISSUED, IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT, TO OR FOR THE ACCOUNT OF SUCH QIB.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD REFERRED TO ABOVE, THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE SHARES REPRESENTED HEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER OR SALE OF THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE HOLDER HEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286, United States of America. Its principal administrative offices are located at 101 Barclay Street, 22nd floor West, New York, New York 10286, United States of America. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286, United States of America and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us with respect to U.S., English and Russian law by White & Case LLC. Certain legal matters in connection with the Offering will be passed upon for the Underwriters by Cleary Gottlieb Steen & Hamilton LLP.

INDEPENDENT AUDITORS

The consolidated financial statements of OAO TMK as of 31 December, 2005, 2004 and 2003 and for the years then ended, included in the prospectus, have been audited by Ernst & Young LLC, independent auditors, as stated in their report appearing herein (which contains a scope qualification related to the observation of physical inventories at certain acquired entities and an explanatory paragraph describing a business combination accounted for as a pooling of interests as described in the Note entitled "Corporate Information" to the Annual Financial Statements).

With respect to the unaudited interim condensed consolidated financial statements of OAO TMK as of 30 June 2006 and for the six-month periods ended 30 June 2006 and 2005, included in the prospectus, Ernst & Young LLC, reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 20 September 2006, appearing herein (which contains a scope qualification related to the observation of physical inventories at certain acquired entities), states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

GENERAL INFORMATION

1. All consents, approvals, authorisations or other orders required for the Offering under the prevailing laws of the Russian Federation have been given or obtained. The FSFM approved the circulation of up to 183,330,210 Ordinary Shares of the Company, representing 21% of the Company's issued share capital, in the form of GDRs on 10 October 2006. In connection with receipt of this approval, the Selling Shareholder has undertaken that not more than 70% of the total number of Ordinary Shares offered will be in the form of GDRs.

2. The entry into the Underwriting Agreement was approved by our General Shareholders' Meeting on 30 October 2006, and the entry into the Deposit Agreement and the Deed Poll was approved by our board of directors on 11 September 2006. The entry into the Underwriting Agreement was approved by the Board of Directors of the Selling Shareholder on 30 October 2006.

3. It is expected that listing of the GDRs will take place on 3 November 2006 subject only to the issue of the Master GDRs. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 3 November 2006. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third working day after the day of the transaction. Listing of the GDRs on the London Stock Exchange is conditional upon the issuance of the GDRs by the Depositary.

4. Except as set forth under "Capitalisation," there has been no significant change in our financial or trading position since 30 June 2006, and no material adverse change in our financial position or prospects since 30 June 2006, such dates being the dates of our latest interim financial statements.

5. In the event that certificates in definitive form are issued in exchange for the Master GDRs, we will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.

6. Copies in English of the following documents may be inspected at the offices of White & Case LLP, 5 Old Broad Street, London EC2N 1DW, United Kingdom, during usual business hours on any weekday (Saturday, Sunday and public holidays excepted) for 14 days from the date of this Prospectus:

   (a) our charter in effect upon completion of the Offering (English translation);

   (b) the consolidated financial statements as of and for the years ended 31 December 2005, 2004 and 2003, together with the report of Ernst & Young LLC contained therein;

   (c) the interim condensed consolidated financial statements as of 30 June 2006 and 2005 and for the six months then ended, together with the report of Ernst & Young LLC thereon;

   (d) the Deposit Agreement;

   (e) the Deed Poll; and

   (f) a copy of this Prospectus.

7. We prepare our annual consolidated financial statements in accordance with IFRS and our interim condensed consolidated financial statements in accordance with IAS 34. Copies of our annual audited consolidated financial statements and unaudited interim consolidated financial statements required to be provided to holders of GDRs will be available for inspection and may be obtained free of charge at the registered office of the Company.

8. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Offering. The Offering is an institutional Offering only in which payment for the GDRs by investors will be arranged with the Underwriters. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the Closing Date.

9. The following table sets forth certain information with respect to our significant subsidiaries:

TMK entity	Effective interest as at 30 September 2006[1]	Registered office
Production division		
OAO Volzhsky Pipe Plant	100%	Avtodoroga no. 7,6, 404119 Volzhsky, Volgograd Region, Russian Federation
OAO Seversky Pipe Plant	92.01%	Vershinina 7, 623388 Polevskoy, Sverdlovsk Region, Russian Federation
OAO Taganrog Metallurgical Works	95.74%	Zavodskaya street 1, 347928 Taganrog, Russian Federation
OAO Sinarsky Pipe Plant	92.43%	Zavodskoy proyezd 1, 623401 Kamensk-Uralsky, Sverdlovsk Region, Russian Federation
SC TMK-Artrom S.A.	80.56%	Slatina, Drapanesti Street, km 93, Olt County, 230119
SC TMK-Resita S.A.	99.49%	Romania, 1700, Resita, 36 Traian Halescu Street, Caras-Severin, 320050
Sales and marketing division		
ZAO TMK Trade House	100%	Malysheva street 36, 620219 Yekateringburg, Russian Federation
TOO TMK-Kazakhstan	100%	Ugolnaya street 24/2, Astana, Kazakhstan
TMK Global AG	100%	Basteiplatz 7, 8039 Zürich, Switzerland
Sinara Handel GmbH	100%	64-66 Mauritiuswall, 50676 Cologne, Germany
Transport division		
OOO TK TMK-Trans	100%	Alexander Nevsky street 19/25, 125047 Moscow, Russian Federation

(1) Represents our proportionate ownership of the relevant entity through our consolidated subsidiaries as of 30 September 2006.

10. The GDRs are not denominated in any currency and have no nominal or par value. The offer price will be determined based on the results of the book building exercise conducted by the Joint Global Coordinators.

11. The total fees and expenses of the Company in connection with the Offering are expected to be no greater than U.S.$13.0 million.

12. The results of the Offering will be made public by us through a press release and notice to the Regulatory Information Service.

GLOSSARY OF SELECTED TERMS

Term	Definition
API	American Petroleum Institute. API is the U.S. petroleum industry's primary trade association that, among other things, develops consensus standards for the oil and natural gas industry.
ASTM International	A leading global voluntary standard development organisation, formerly known as ASTM, or the American Society for Testing and Materials.
Billet	A round or square steel product that has been hot-worked by forging, rolling or extrusion. A billet is a semi-finished product used for the production of seamless pipes. Billets are delivered in bars of certain diameter and cut into pieces of certain length, according to the length of the desired finished pipe. Thereafter, billets are heated and pierced to form a tube hollow.
Casing pipes	Pipes used as structural retainers for the walls of the drilled hole of deep wells in order to prevent collapse.
Continuous casting	A method of producing billets and other semi-finished steel products in long lengths from steel that is continuously withdrawn from a furnace at a set casting speed. The need for primary and intermediate mills and the storage and use of large numbers of ingot moulds is eliminated in the continuous casting process.
Double submerged arc welding ("DSAW")	A welding technique for longitudinal pipe where the pipe seam is welded by an electric arc welder on the interior and exterior surfaces (hence double), with the welding arc being submerged under flux (hence submerged). The advantage of this process is that the welds penetrate 100% of the pipe wall and produce a very strong bond of the pipe material. DSAW pipe is recommended for larger diameter welded pipes for high pressure oil and gas transmission purposes.
Electric arc furnace ("EAF")	A steel melting furnace in which heat is generated by electricity that arcs from the graphite electrodes to a metal bath. EAFs use scrap as the primary input in the production of steel. Among other advantages over open hearth furnaces, EAFs melt steel significantly faster than open hearth furnaces.
Electric resistance welded ("ERW")	A welding technique using an electric current passed between the two edges of the steel sheet to heat the steel to a point at which the edges are forced together to form a bond without the use of welding filler material.
Heat treatment	A process where solid steel or components manufactured from steel are subject to treatment by heating to obtain required properties, and includes softening, normalising, stress relieving and hardening.
Ingot	A mass of metal that results from casting molten steel into a mould. An ingot is usually rectangular in shape and is subsequently rolled into blooms and billets for rods, bars and sections and slabs for plates, sheet and strip. With the increasing use of the continuous casting process, in which molten steel is directly cast into billets or other semi-finished steel products, ingot casting is now used less frequently.
Line steel pipes	Line steel pipes, usually seamless steel pipes, are used for construction of long distance pipelines for oil and gas, combustible liquids and gases, nuclear station pipelines, heating system pipelines and general purpose pipelines.
Longitudinal welded pipes	Pipes formed from bending metal plates and welding them in such a manner that the weld seam runs along the axis of the pipe.
Mandrel	A metal rod or bar around which material, such as metal, may be shaped.
OCTG	Oil Country Tubular Goods, consisting of drill pipe, surface casing, production casing and production tubing, made in accordance with API specifications.

Open-hearth furnace Steel is produced in the open hearth process by melting scrap and hot metal on the hearth of a combustion reverberating furnace bath. Scrap, flux and ore are charged into the furnace prior to heating. Fuel is burned in the furnace and the heat necessary to melt the raw materials is provided by radiation from the burning fuel. Open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, high levels of pollutants, slow melting process and relatively low productivity.

Rolling The process of shaping metal by passing it between revolving rolls.

Spiral welded pipes Pipe made from coils of steel by bending and welding in such a manner that the weld seam spirals around the circumference of the pipe.

Threaded connections Threaded connections are similar to grooves on a bolt and enable sections of drill pipe and other kinds of pipe to be screwed together.

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OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements (presented in US dollars)

Six-month period ended June 30, 2006

OAO TMK

Unaudited Interim Condensed
Consolidated Financial Statements
(presented in US dollars)

Six-month period ended June 30, 2006

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Report on Review
of Interim Condensed Consolidated Financial Statements

The Shareholders and Board of Directors

OAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of OAO TMK and its subsidiaries (the "Group") as of June 30, 2006, and the interim condensed consolidated statements of income, changes in equity and cash flows for the six-month periods ended June 30, 2006 and 2005 and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

We have previously audited the consolidated financial statements of the Group as of December 31, 2005 and 2004 and for the years then ended. Our auditors' report dated August 30, 2006 on those consolidated financial statements was qualified for not observing certain physical inventories with a carrying value of US$42,985 thousand as of December 31, 2004. Since inventories enter into the determination of the results of operations, we were unable to determine whether adjustments to the results of operations might be necessary for the six-month period ended June 30, 2005.

Qualified Conclusion

Except for the effect on the results of operations for the six-month period ended June 30, 2005 of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter referred to in the preceding paragraph, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of Matter

We draw attention to Notes "Corporate Information" and "Functional and Presentation Currency" to the condensed consolidated financial statements. The functional currency of the Group is Russian rouble. The presentation currency of the accompanying interim condensed consolidated financial statements is the United States dollar. The accompanying interim condensed consolidated financial statements were issued in addition to the interim condensed consolidated financial statements presented in Russian roubles. We have reviewed and reported separately on those interim condensed consolidated financial statements presented in Russian roubles and issued our review report dated September 20, 2006 which was qualified for the same matter as discussed in section "Basis for Qualified Conclusion" of this report.

Ernst & Young LLC

September 20, 2006

Moscow, Russia

OAO TMK

Unaudited Interim Condensed Consolidated Income Statement

(All amounts in thousands of US dollars)

	NOTES	Six-month periods ended June 30, 2006	2005
Net sales	1	1,576,340	1,437,885
—*Goods*		*1,563,995*	*1,419,532*
—*Services*		*12,345*	*18,353*
Cost of sales	2	(1,076,824)	(1,086,089)
Gross profit		499,516	351,796
Selling expenses	3	(85,833)	(69,332)
Advertising and promotion expenses	4	(2,253)	(1,299)
General and administrative expenses	5	(66,813)	(59,356)
Research and development expenses	6	(3,207)	(3,147)
Other operating expenses	7	(11,983)	(10,760)
Other operating income	8	67	1,270
Foreign exchange gain/ (loss), net		4,602	(10,307)
Finance costs	9	(30,560)	(41,802)
Finance income		1,160	1,588
Profit before tax		304,696	158,651
Income tax expense	11	(75,645)	(40,255)
Net profit		**229,051**	**118,396**
Attributable to:			
Equity holders of the parent entity		**218,857**	**114,269**
Minority interests		**10,194**	**4,127**
		229,051	**118,396**
Earnings per share attributable to equity holders of the parent entity—basic and diluted (in US dollars)	12	**0.25**	**0.13**

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

OAO TMK

Unaudited Interim Condensed Consolidated Balance Sheet

(All amounts in thousands of US dollars)

	NOTES	June 30, 2006 (Unaudited)		December 31, 2005 (Audited)	
ASSETS					
Current assets					
Cash and cash equivalents	13	46,448		47,845	
Short-term investments		3,016		1,659	
Accounts receivable		249,764		124,996	
Accounts receivable from related parties	17	8,149		28,407	
Inventories		457,700		458,932	
Prepayments and input VAT		162,892		145,396	
Prepayments to related parties	17	123	**928,092**	18	**807,253**
Non-current assets					
Investments and other long-term receivables		71,791		32,107	
Long-term receivables from related parties	17	5,752		8,486	
Property, plant and equipment, net	14	1,715,272		1,547,681	
Investment property	14	2,892		2,004	
Goodwill	15	45,648		37,180	
Deferred income taxes		8,289		5,432	
Intangible assets	15	14,918	**1,864,562**	12,835	**1,645,725**
TOTAL ASSETS			**2,792,654**		**2,452,978**
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and advances from customers		221,677		196,819	
Accounts payable to related parties	17	869		478	
Accrued liabilities		66,053		108,690	
Finance lease liabilities, current portion		107		1,309	
Loans and borrowings	16	417,725		425,546	
Loans and borrowings from related parties	17	22,238		31,394	
Dividends		18,864	**747,533**	3,012	**767,248**
Non-current liabilities					
Loans and borrowings	16	247,683		164,924	
Finance lease liabilities, net of current portion		158		125	
Deferred income taxes		251,512		242,648	
Post-employment benefit		19,783		18,009	
Other liabilities		8,775	**527,911**	7,343	**433,049**
Total liabilities			**1,275,444**		**1,200,297**
Equity					
Parent shareholders' equity					
Issued capital	19	305,407		305,407	
Accumulated profits		808,606		638,631	
Reserve capital	19	15,387		15,387	
Additional paid-in capital	19	137,198		137,198	
Foreign currency translation reserve		171,518	1,438,116	85,920	1,182,543
Minority interests			79,094		70,138
Total equity			**1,517,210**		**1,252,681**
TOTAL LIABILITIES AND EQUITY			**2,792,654**		**2,452,978**

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

OAO TMK

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

for the six-month period ended June 30, 2005

(All amounts in thousands of US dollars)

	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Foreign currency translation reserve	Parent shareholders' equity	Minority interests	TOTAL
At January 1, 2005	**305,407**	**135,770**	**2,376**	**439,856**	**127,844**	**1,011,253**	**74,103**	**1,085,356**
Effect of exchange rate changes	—	—	—	—	(32,192)	**(32,192)**	(2,121)	**(34,313)**
Total income and expense for the period recognised directly in equity	—	—	—	—	(32,192)	**(32,192)**	(2,121)	**(34,313)**
Net profit	—	—	—	114,269	—	**114,269**	4,127	**118,396**
Total income and expense for the period	—	—	—	114,269	(32,192)	**82,077**	2,006	**84,083**
Dividends (Note 19, i)	—	—	—	(2,592)	—	**(2,592)**	—	**(2,592)**
Other distributions to owners (Note 19, ii)	—	—	—	(123)	—	**(123)**	—	**(123)**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 19, ii)	—	—	—	(7,720)	—	**(7,720)**	—	**(7,720)**
Purchase of minority interests (Note 19, iii)	—	—	—	(1,420)	—	**(1,420)**	(4,724)	**(6,144)**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 19, iv)	—	—	—	—	—	**—**	(1,192)	**(1,192)**
At June 30, 2005	**305,407**	**135,770**	**2,376**	**542,270**	**95,652**	**1,081,475**	**70,193**	**1,151,668**

	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Foreign currency translation reserve	Parent shareholders' equity	Minority interests	TOTAL
At January 1, 2006	**305,407**	**137,198**	**15,387**	**638,631**	**85,920**	**1,182,543**	**70,138**	**1,252,681**
Effect of exchange rate changes	—	—	—	—	85,598	**85,598**	5,083	**90,681**
Total income and expense for the period recognised directly in equity	—	—	—	—	85,598	**85,598**	5,083	**90,681**
Net profit	—	—	—	218,857	—	**218,857**	10,194	**229,051**
Total income and expense for the period	—	—	—	218,857	85,598	**304,455**	15,277	**319,732**
Acquisition of Eurosinara S.r.l (Note 10)	—	—	—	(4,876)	—	**(4,876)**	—	**(4,876)**
Dividends (Note 19, i)	—	—	—	(17,101)	—	**(17,101)**	—	**(17,101)**
Other distributions to owners (Note 19, ii)	—	—	—	(20,000)	—	**(20,000)**	—	**(20,000)**
Purchase of minority interests (Note 19, iii)	—	—	—	(6,905)	—	**(6,905)**	(5,845)	**(12,750)**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 19, iv)	—	—	—	—	—	**—**	(476)	**(476)**
At June 30, 2006	**305,407**	**137,198**	**15,387**	**808,606**	**171,518**	**1,438,116**	**79,094**	**1,517,210**

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

OAO TMK

Unaudited Interim Condensed Consolidated Cash Flow Statement

(All amounts in thousands of US dollars)

	NOTES	Six-month periods ended June 30, 2006	2005
Cash flows from operating activities			
Profit before income tax		304,696	158,651
Adjustments for:			
Depreciation		55,948	49,177
Amortisation		1,152	325
Loss on disposal of property, plant and equipment	7	373	2,242
Gain on sale of investments		—	(67)
Foreign exchange (gain)/ loss		(4,602)	10,307
Interest expense	9	30,560	41,802
Interest income		(1,160)	(1,588)
Capitalization of previously expensed items		(1,696)	—
Inventory adjustments	2	672	5,094
Bad debt expense	3	(159)	780
Operating cash flow before working capital changes		**385,784**	**266,723**
Increase (decrease) in inventories		34,293	(38,911)
Decrease (increase) in accounts receivable		(81,884)	35,007
Decrease (increase) in prepayments		(3,724)	(19,759)
Increase (decrease) in accounts payable		(17,001)	(2)
Increase in accrued liabilities		(44,328)	(3,665)
(Decrease) increase in advances from customers		(1,790)	(90,267)
Cash generated from operations		**271,350**	**149,126**
Income taxes paid		(92,163)	(40,441)
Net cash from operating activities		**179,187**	**108,685**
Cash flows from investing activities			
Purchase of property, plant and equipment		(151,367)	(39,552)
Proceeds from sale of property, plant and equipment		959	713
Proceeds from sale of investments		—	2,262
Proceeds from repayment of loans		—	492
Payments for increases in ownership interests in subsidiaries		(12,750)	(4,393)
Acquisition of Eurosinara, net of cash acquired	10	(651)	—
Loans granted		(93)	(69)
Interest received		619	1,122
Net cash used in investing activities		**(163,283)**	**(39,425)**
Cash flows from financing activities			
Proceeds from borrowings		426,264	731,706
Repayment of borrowings		(397,941)	(748,590)
Payment under finance lease liabilities		(947)	(2,525)
Distribution to owners	19 ii	—	(7,733)
Payments to entities under common control for the transfer of ownership interest in subsidiaries	19 ii	(20,000)	—
Interest paid		(24,976)	(41,991)
Dividends paid	19 i	—	(2,592)
Dividends paid by subsidiaries of the Group		(2,340)	—
Net cash used in financing activities		**(19,940)**	**(71,725)**
Effect of foreign exchange rate changes on cash and cash equivalents		2,639	70
Net decrease in cash and cash equivalents		(1,397)	(2,395)
Cash and cash equivalents at the beginning of the period		47,845	13,483
Cash and cash equivalents at the end of the period		**46,448**	**11,088**

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

- **Corporate Information**

The interim condensed consolidated financial statements of OAO "TMK" and its subsidiaries (the "Group") for the six-month period ended June 30, 2006 presented in United States dollars ("US dollars") were authorized for issue in accordance with a resolution of the General Director on September 20, 2006.

These interim condensed consolidated financial statements presented in US dollars are issued in addition to the consolidated financial statements for the same period presented in Russian roubles, which were authorized for issue on September 20, 2006 (refer to Note "Functional and Presentation Currency" for description of the translation method).

The parent company of the Group OAO "TMK" (the "Company") is registered in the Russian Federation. As of June 30, 2006, the Company's shareholders were TMK Steel Limited and Dalecone Limited, owing 67% and 33%, respectively, in the share capital. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

As the Group was formed in February 2004 through a reorganization of entities under common control, these consolidated financial statements have been prepared using the pooling of interests method and, as such, the financial statements have been presented as if the transfers of the Group interests in its subsidiaries had occurred from the date of the earliest period presented.

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

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

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

As a result of that business combination with an entity under common control with the Group, the Group has re-presented its financial position as of December 31, 2005.

- **Basis of Presentation of Financial Statements**

The interim condensed consolidated financial statements for the six-month period ended June 30, 2006 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. They do not include all the information and disclosures required by IFRS in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2005. Operating results for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

Group companies maintain their accounting records in Russian roubles, Kazakhstani tenge, euros, Romanian lei or Swiss francs and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which the particular subsidiary is resident. These interim condensed consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in compliance with IAS 34. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) use of fair values and (6) business combinations.

The interim condensed consolidated financial statements have been prepared under the historical cost convention except as disclosed in the Group's annual consolidated financial statements as at December 31, 2005.

In the preparation of the interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the complete consolidated financial statements for the year ended 2005, except for the effect of adoption of new International Financial Reporting Standards ("IFRS") and revision of existing IAS, none of which had a significant impact on the interim condensed consolidated financial statements for the six-month period ended June 30, 2006:

- IAS 19 (amended 2005) "Employee benefits";
- IAS 21 (amended) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement"
- IFRIC 4 "Determining whether an Arrangement contains a Lease";
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

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

- IFRS 7 "Financial Instrument: Disclosures";
- IAS 1 (amended) "Presentation of Financial Statements—Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's result of operation and financial positions in the period of initial application. The adoption of IFRS 7 will significantly affect the presentation of disclosures of financial instruments.

- **Functional and Presentation Currency**

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

The presentation currency for the purpose of these consolidated financial statements of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the Group's financial statements. These consolidated financial statements are issued in addition to the consolidated financial statements of the Group presented in Russian roubles.

The Group has applied IAS 21 (revised), The Effects of Changes in Foreign Exchange Rates, to translate the financial position of the Group as of June 30, 2006 and the results for six-month period then ended and corresponding figures into its presentation currency, US dollar, as follows:

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

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

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

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

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1) Segment Information

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

A business segment is the Group's primary segment reporting format for disclosure of its operating activities in its financial statements. The Group discloses its sales revenue, gross profit and depreciation costs based on the main groups of products segregated into segments: seamless pipes, welded pipes, other operations, unallocated. There are no sales or other transactions between the business segments.

A geographical segment is the Group's secondary segment reporting format for disclosure of its operating activities in its financial statements. The Group discloses its sales revenue based on the location of the Group's customers.

Primary reporting format—business segments

SIX-MONTH PERIOD ENDED JUNE 30, 2006	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
NET SALES	393,658	1,064,167	118,515	—	**1,576,340**
GROSS PROFIT	49,363	444,710	5,443	—	**499,516**
DEPRECIATION AND AMORTIZATION	4,926	41,626	1,558	8,990	**57,100**

SIX-MONTH PERIOD ENDED JUNE 30, 2005	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
NET SALES	408,954	908,315	120,616	—	**1,437,885**
GROSS PROFIT	56,039	289,697	6,060	—	**351,796**
DEPRECIATION AND AMORTIZATION	4,855	36,243	1,381	7,023	**49,502**

Secondary reporting format—geographical segments

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

SIX-MONTH PERIOD ENDED JUNE 30, 2006	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
NET SALES	1,051,644	303,642	73,117	95,070	10,512	37,227	5,128	**1,576,340**

SIX-MONTH PERIOD ENDED JUNE 30, 2005	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
NET SALES	984,192	276,698	48,171	56,286	2,115	45,198	25,225	**1,437,885**

2) Cost of Sales

	Six-month periods ended June 30,	
	2006	2005
DIRECT COST		
Raw materials	685,979	726,154
Add-on materials of production	37,461	40,834
Labor cost	42,451	36,364
Contracted services	4,794	3,108
Energy	53,161	44,453
TOTAL DIRECT COST	**823,846**	**850,913**
PRODUCTION OVERHEADS		
Salaries & wages	81,451	73,246
Other compensation	3,438	3,766
Travel	573	371
Freight	1,506	1,521
Communications	287	157
Professional services	2,277	2,764
Rent/occupancy	116	113
Utilities	32,378	27,272
Depreciation	51,942	47,567
Insurance	119	88
Taxes	6,569	6,679
Repairs and maintenance	8,481	6,647
Supplies	39,415	43,261
Specialised tools	7,480	6,207
Other	131	582
Less: capitalized costs	(3,129)	(1,909)
TOTAL PRODUCTION OVERHEAD CHARGES	**233,034**	**218,332**
CHANGES IN INVENTORY	12,508	7,495
COST OF MERCHANDISE	6,813	5,956
INVENTORY ADJUSTMENT		
Book to physical	(49)	(1,701)
Obsolete and slow-moving	672	5,094
TOTAL INVENTORY ADJUSTMENT	**623**	**3,393**
TOTAL COST OF SALES	**1,076,824**	**1,086,089**

3) Selling Expenses

	Six-month periods ended June 30,	
	2006	2005
Salaries & wages	15,296	11,354
Other compensation	435	193
Travel	1,403	1,211
Freight	50,902	41,408
Communications	618	555
Professional services	6,474	4,543
Rent/occupancy	2,255	1,992
Utilities	229	200
Depreciation	616	476
Insurance	305	293
Taxes	88	48
Repairs and maintenance	148	100
Supplies	6,499	5,414
Bad debt expense	(159)	780
Other	724	765
TOTAL SELLING EXPENSES	**85,833**	**69,332**

4) Advertising and Promotion Expenses

	Six-month periods ended June 30,	
	2006	2005
Media	415	375
Displays, exhibits and catalogues	1,730	795
Other	108	129
TOTAL ADVERTISING & PROMOTION EXPENSES	**2,253**	**1,299**

5) General and Administrative Expenses

	Six-month periods ended June 30,	
	2006	2005
Salaries & wages	39,343	33,906
Other compensation	2,689	1,864
Travel	3,114	1,739
Freight	466	260
Communications	504	374
Professional services	8,534	10,844
Rent/occupancy	1,414	1,266
Utilities	1,938	1,772
Depreciation	3,441	2,790
Insurance	160	184
Taxes	1,522	1,315
Repairs and maintenance	492	308
Supplies	2,699	2,324
Other	497	410
TOTAL GENERAL & ADMINISTRATION EXPENSES	**66,813**	**59,356**

6) Research and Development Expenses

	Six-month periods ended June 30,	
	2006	2005
Salaries & wages	2,007	1,586
Other compensation	53	52
Travel	40	32
Freight	49	13
Communications	16	9
Professional services	369	709
Utilities	74	70
Depreciation	392	500
Repairs and maintenance	24	38
Supplies	177	134
Other	6	4
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	**3,207**	**3,147**

7) Other Operating Expenses

	Six-month periods ended June 30,	
	2006	2005
Loss on disposal of property, plant and equipment	373	2,242
Social and social infrastructure maintenance expenses	5,236	6,143
Charitable donations	5,574	2,308
Other	800	67
TOTAL OTHER OPERATING EXPENSES	**11,983**	**10,760**

8) Other Operating Income

	Six-month periods ended June 30,	
	2006	2005
Gain on sale of current assets	66	203
Other	1	1,067
TOTAL OTHER OPERATING INCOME	**67**	**1,270**

9) Finance Costs

	Six-month periods ended June 30,	
	2006	2005
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	2,348	1,085
Interest expense	28,212	40,717
TOTAL FINANCE COST	**30,560**	**41,802**

10) Acquisition of Eurosinara S.r.l

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

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

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

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

10) Acquisition of Eurosinara S.r.l (Continued)

Eurosinara S.r.l.'s net loss for the period from May 16, 2006 to June 30, 2006 amounted to 62.

If the combination had taken place on January 1, 2006, the net revenue and net profit of the Group for the six-month period ended June 30, 2006 would have been 1,575,765 and 229,139, respectively.

Net liabilities of Eurosinara S.r.l. as of May 16, 2006 of 4,876 relating to the 50% interest owned by the Group before the business combination was recorded as a reduction in accumulated profits in the interim condensed consolidated financial statements for the six-month period ended June 30, 2006.

11) Income Tax

	Six-month periods ended June 30,	
	2006	**2005**
Current income tax	81,660	48,252
Deferred income tax benefit related to origination and reversal of temporary differences	(6,015)	(7,997)
TOTAL INCOME TAX EXPENSE	**75,645**	**40,255**

12) Earnings per Share

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

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

	Six-month periods ended June 30,	
	2006	**2005**
Weighted average number of ordinary shares outstanding	873,001,000	873,001,000
Net profit attributable to the equity holders of the parent entity	218,857	114,269
Earnings per share attributable to the equity holders of the parent entity		
Basic and diluted (in US dollars)	**0.25**	**0.13**

13) Cash and Cash Equivalents

	June 30, 2006	December 31, 2005
Russian rouble denominated cash on hand and balances with banks	23,186	31,872
Foreign currency denominated balances with banks (US dollar, euro, Swiss franc, Romanian lei)	23,262	15,973
TOTAL CASH AND CASH EQUIVALENTS	**46,448**	**47,845**

14) Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2006	December 31, 2005
Cost:		
Land	26,294	24,396
Buildings	777,113	727,405
Machinery and equipment	947,468	865,836
Furniture and fixtures	16,889	14,501
Transport and motor vehicles	37,165	33,694
Construction in progress	246,803	147,458
	2,051,732	**1,813,290**
Accumulated depreciation:		
Buildings	(67,800)	(54,229)
Machinery and equipment	(249,330)	(196,216)
Furniture and fixtures	(7,574)	(5,957)
Transport and motor vehicles	(11,756)	(9,207)
	(336,460)	**(265,609)**
	1,715,272	**1,547,681**

In the six-month period ended June 30, 2006, the Group acquired assets with a cost of 116,826 (2005: 38,920), not including property and equipment acquired through a business combination (Note 10).

Assets with a net book value of 3,399 were disposed of by the Group during the six-month period ended June 30, 2006 (2005: 5,690), resulting in a net loss on disposal of 373 (2005: 2,216).

15) Goodwill and Other Intangible Assets

	June 30, 2006	December 31, 2005
Cost:		
Patents and trademarks	366	338
Information system projects (software SAP R\3)	13,324	11,210
Goodwill	45,648	37,180
Other	3,734	2,661
	63,072	**51,389**
Accumulated amortization:		
Patents and trademarks	(109)	(88)
Information system projects (software SAP R\3)	(1,202)	(381)
Other	(1,195)	(905)
	(2,506)	**(1,374)**
	60,566	**50,015**

16) Interest-Bearing Loans and Borrowings

Breakdown of borrowings by currency:

	Interest rates	June 30, 2006	December 31, 2005
Russian rouble	6%-10.3%	531,436	327,549
	Euribor 3 months + 2.75%		
	Euribor 6 months + 2.4%		
	Euribor 6 months + 3.5%		
	Euribor 6 months + 5%		
Euro	5%-9.03%	93,029	42,056
Romanian lei	Bubor 1 month + 4%	—	9,586
	5.6%-21%		
	Libor + 3.75%		
US dollar	Libor 4.22% + margin 3%	40,943	211,279
		665,408	**590,470**

Loans for 110,689 as of June 30, 2006 (December 31, 2005: 77,203), inclusive of short-term borrowings, were guaranteed by collateral of property, plant and equipment with the carrying amount of 164,974 (December 31, 2005: 229,326) and inventories with the carrying amount of 43,884 (December 31, 2005: 26,457).

Some of the loan agreements provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and guarantees issued to other parties. A loan for the total amount of 18,750 is secured by proceeds from export sales of TMK Global Ltd., the Group's subsidiary.

Bearer Coupon Debt Securities

On October 21, 2003, the Group issued 2,000,000 bonds with a nominal value of 1,000 roubles (U.S.$35.95 at exchange rate as of the date of issuance) each. The bonds mature on October 21, 2006. Interest rate for the first, second and third semi-annual coupons is 14% per annum. Interest rate for the fourth, fifth and sixth semi-annual coupons will be established and announced by the Company within 14 days before the third coupon due date. Early redemption of bonds was made available within 14 days of the third coupon period, from the 534th to the 547th days from the date of issuance. None of the bondholders used their right to recall their bonds.

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 roubles (U.S.$35.98 at exchange rate as of the date of issuance) each. The bonds mature on March 24, 2009. Interest rate for the first and second semi-annual coupons is 11.09% per annum. Interest rate for the third and fourth semi-annual coupons is 10.09% per annum. Interest rate for the fifth, sixth, seventh and eighth semi-annual coupons will be established and announced by the Company within 5 days before the fourth coupon due date. Early redemption of bonds is available within 5 days of the fourth coupon period, from the 724th to the 728th days from the date of issuance.

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

16) Interest-Bearing Loans and Borrowings (Continued)

Unutilised Borrowing Facilities

As of June 30, 2006, the Group had unutilised borrowing facilities in the amount of 110,404.

17) Related Parties Disclosures

The following table provides outstanding balances with related parties:

	June 30, 2006	December 31, 2005
Accounts receivable—current		
—Entities under common control with the Group	8,149	28,284
—Entities under control of the minority shareholders of the Company	—	123
	8,149	**28,407**
Accounts receivable—non-current		
—Entities under common control with the Group	5,752	8,486
	5,752	**8,486**
Prepayments—current		
—Entities under common control with the Group	30	1
—Entities under control of the minority shareholders of the Company	93	17
	123	**18**
Accounts payable—current		
—Entities under common control with the Group	869	478
	869	**478**
Borrowings from related parties		
—Entities under control of the minority shareholders of the Company	22,238	31,394
	22,238	**31,394**

The following table provides the total amount of transactions with related parties:

	Six-month periods ended June 30,	
	2006	2005
Sales revenue		
—Entities under common control with the Group	21,591	48,574
	21,591	**48,574**
Purchases of goods and services		
—Entities under common control with the Group	21,833	18,081
—Entities under control of the minority shareholders of the Company	32	1,179
	21,865	**19,260**
Interest expenses from loans and borrowings		
—Entities under common control with the Group	—	228
—Entities under control of the minority shareholders of the Company	672	564
	672	**792**
Interest income from loans and borrowings		
—Entities under common control with the Group	449	1,013
	449	**1,013**

17) Related Parties Disclosures (Continued)

Compensation of Key Management Personnel of the Group

Key management personnel comprise members of Board of Directors and certain executives of the Group, totalling 31 and 20 persons as at June 30, 2006 and 2005, respectively.

The total amount of compensation to key management personnel, which is included in the income statement as part of the general and administrative expenses, was 4,527 and 4,878 in the six-month periods ended June 30, 2006 and 2005, respectively.

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

18) Contingencies, Commitments and Operating Risks

Operating Environment of the Group

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

Taxation

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

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

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

Contractual Commitments and Guarantees

As of June 30, 2006, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,057,539 thousand roubles (39,054 thousand US dollars), 74,455 thousand euros (93,419 thousand US dollars), 74,257 thousand US dollars and 19,768 thousand Romanian lei (7,175 US dollars) for the total amount 213,905 (all amounts of contractual commitments are expressed net of VAT). The Group paid advances of 58,172 on these contractual commitments.

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.

18) Contingencies, Commitments and Operating Risks (Continued)

Legal Claim

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

Guarantees of Debts of Others

The Group had the following guarantees outstanding at June 30, 2006:

Guarantee to	Date of guarantee	Beneficiary	Amount of guarantee	Maturity
Russian bank	October 14, 2004	Company employees	119	October 12, 2009
International bank . . .	June 08, 2006	Third parties	1,098	November 30, 2006
International bank . . .	February 16, 2005	Third parties	725	January 31, 2007
International bank . . .	December 09, 2005	Third parties	374	August 31, 2007
International bank . . .	August 20, 2004	Third parties	207	December 31, 2006
International bank . . .	January 21, 2004	Company employees	200	January 20, 2007
International bank . . .	July 12, 2004	Company employees	110	January 11, 2008
International bank . . .	June 09, 2006	Third parties	72	October 30, 2006
International bank . . .	December 30, 2005	Third parties	50	July 30, 2006
International bank . . .	June 28, 2006	Third parties	35	July 31, 2007
International bank . . .	October 26, 2004	Company employees	20	October 23, 2006
International bank . . .	March 29, 2005	Third parties	17	July 31, 2006
International bank . . .	March 29, 2005	Third parties	17	July 31, 2006
International bank . . .	March 09, 2006	Third parties	11	October 20, 2006
International bank . . .	June 09, 2006	Third parties	10	October 30, 2006

19) Equity

i) Dividends

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

In June 30, 2006, the Company declared dividends in respect of 2005 in the amount of 17,101 or 0.542 roubles per share.

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

In December 2004, the Group signed an agreement with an entity under common control with the Group on the purchase of 100% ownership interest in Sinara Trading AG, an entity registered in Switzerland, for the consideration of 8,787 thousand Swiss francs (7,753 at the exchange rate as of December 31, 2004). The title transferred to the Group and control over Sinara Trading was obtained by the Group on May 25, 2005. The amount of 7,717 was paid by the Group prior to December 31, 2004. The Group additionally paid the amount of 123 in 2005. These payments were recorded as a reduction in accumulated profits in the accompanying interim condensed consolidated financial statements.

Sinara Trading paid dividends in the amount of 7,720 for 2004 in May 2005 to its former owner, before the transfer of Sinara Trading shares to TMK.

In June 2005, the Group signed an agreement with an entity under common control with the Group for the purchase of 100% ownership interest in Sinara Handel GmbH, an entity registered in Germany, for the consideration of 40,000 thousand US dollars. The title to the 100% ownership interest in Sinara

19) Equity (Continued)

Handel GmbH was transferred to the Group on March 1, 2006. The amount of 20,000 was paid by the Group prior to December 31, 2005 and amount of 20,000 was paid by the Group on March 3, 2006.

iii) Acquisition of Minority Interests in Subsidiaries

In the six-month period ended June 30, 2005, the Company purchased 0.49% of OAO "Tagmet" shares, 0.07% of OAO "STZ" shares and 1.19% of OAO "SinTZ" shares. The total amount paid for the shares was 6,144.

In the six-month period ended June 30, 2006, the Company purchased 0.42% of OAO "Tagmet" shares, 0.21% of OAO "STZ" shares and 1.17% of OAO "SinTZ" shares. The total amount paid for the shares was 12,750.

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

Dividends declared by subsidiaries of the Group to the minority owners in subsidiaries were recorded as a reduction in minority interests of 476 and 1,192 in the accompanying interim condensed consolidated financial statements for the six-month periods ended June 30, 2006 and 2005, respectively.

20) Financial Risks

Credit Risk

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

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

Foreign Exchange Risk

The Group exports production to European countries and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets and liabilities give rise to foreign exchange exposure.

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

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. Interest rates on long-term borrowings are fixed, except for 55,934 of variable-rate debt. Interest rates are disclosed in Note 16.

20) Financial Risks (Continued)

Fair Value of Financial Instruments

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

The fair value of the bonds issued by the Group in October 2003 with a nominal amount of 2,000,000 is equal to 74,331 as of June 30, 2006. The fair value of the bonds issued by the Group in March 2005 with a nominal amount of 3,000,000 roubles (110,787) is equal to 3,041,400 roubles (112,316) as of June 30, 2006. The fair value of the bonds issued by the Group in February 2006 with a nominal amount of 5,000,000 roubles (184,646) is equal to 4,975,000 roubles (183,722) as of June 30, 2006. The fair value of the bonds was determined based on market quotations.

21) Events after the Balance Sheet Date

In July and August 2006, the Company purchased additional 0.14% of "SinTZ" shares for 21,060 thousand Russian roubles or 778 thousand US dollars at the exchange rate at June 30, 2006. The Company's interest in the subsidiary increased to 92.43%.

In July and August 2006, the Company purchased additional 0.20% of "STZ" shares for 35,332 thousand Russian roubles or 1,305 thousand US dollars at the exchange rate at June 30, 2006. The Company's interest in the subsidiary increased to 92.01%.

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

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

OAO TMK

Consolidated Financial Statements
(presented in US dollars)

Years ended December 31, 2005, 2004 and 2003

OAO TMK

Consolidated Financial Statements
(presented in US dollars)
for the years ended December 31, 2005, 2004 and 2003

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Independent Auditors' Report

The Shareholders and Board of Directors

OAO TMK

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

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

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

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

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

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

Ernst & Young LLC

August 30, 2006

Moscow, Russia

OAO TMK

Consolidated Income Statement

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

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Balance Sheet

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

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Statement of Changes in Equity

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

(All amounts in thousands of US dollars)

	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Foreign currency translation reserve	Parent shareholders' equity	Minority interests	TOTAL
At January 1, 2003	**—**	**363,250**	**—**	**362,004**	**—**	**725,254**	**144,627**	**869,881**
Effect of exchange rate changes	—	—	—	—	61,422	**61,422**	12,651	**74,073**
Total income and expense for the year recognised directly in equity	—	—	—	—	61,422	**61,422**	12,651	**74,073**
Net profit	—	—	—	(24,182)	—	**(24,182)**	(2,876)	**(27,058)**
Total income and expense for the year	—	—	—	(24,182)	61,422	**37,240**	9,775	**47,015**
Free of charge funding (Note 32, v)	—	2,287	—	—	—	**2,287**	—	**2,287**
Contribution from owners (Note 32, iv)	—	2,880	—	—	—	**2,880**	—	**2,880**
At December 31, 2003	**—**	**368,417**	**—**	**337,822**	**61,422**	**767,661**	**154,402**	**922,063**
Effect of exchange rate changes					66,422	**66,422**	8,097	**74,519**
Total income and expense for the year recognised directly in equity	—	—	—	—	66,422	**66,422**	8,097	**74,519**
Net profit	—	—	—	112,737	—	**112,737**	2,502	**115,239**
Total income and expense for the year	—	—	—	112,737	66,422	**179,159**	10,599	**189,758**
Appropriation of profit to reserve capital (Note 32, ii)	—	—	2,376	(2,376)	—	**—**	—	**—**
Issue of share capital (Note 32 i)	305,407	—	—	—	—	**305,407**	—	**305,407**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 32, vii)	—	—	—	—	—	**—**	(2,343)	**(2,343)**
Purchase of minority interests (Note 32, vi)	—	102,197	—	—	—	**102,197**	(102,197)	**—**
Increase in additional paid-in capital and minority interest from the acquisition of Tagmet (Note 11)	—	264,760	—	—	—	**264,760**	13,118	**277,878**
Increase in minority interest from the acquisition of CS CSR SA (Note 11)	—	—	—	—	—	**—**	524	**524**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 32, iv)	—	—	—	(817)	—	**(817)**	—	**(817)**
Other distributions to owners (Note 32, iv)	—	(599,604)	—	(7,510)	—	**(607,114)**	—	**(607,114)**
At December 31, 2004	**305,407**	**135,770**	**2,376**	**439,856**	**127,844**	**1,011,253**	**74,103**	**1,085,356**
Effect of exchange rate changes	—	—	—	—	(41,924)	**(41,924)**	(2,754)	**(44,678)**
Total income and expense for the year recognised directly in equity	—	—	—	—	(41,924)	**(41,924)**	(2,754)	**(44,678)**
Net profit	—	—	—	244,273	—	**244,273**	9,895	**254,168**
Total income and expence for the year	—	—	—	244,273	(41,924)	**202,349**	7,141	**209,490**
Appropriation of profit to reserve capital (Note 32, ii)	—	—	13,011	(13,011)	—	**—**	—	**—**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 32, vii)	—	—	—	—	—	**—**	(1,192)	**(1,192)**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 32, iv)	—	—	—	(9,423)	—	**(9,423)**	—	**(9,423)**
Purchase of minority interests (Note 32, vi)	—	1,428	—	—	—	**1,428**	(9,915)	**(8,487)**
Dividends (Note 32, iii)	—	—	—	(2,592)	—	**(2,592)**	—	**(2,592)**
Other distributions to owners (Note 32, iv)	—	—	—	(20,472)	—	**(20,472)**	—	**(20,472)**
At December 31, 2005	**305,407**	**137,198**	**15,387**	**638,631**	**85,920**	**1,182,543**	**70,138**	**1,252,681**

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

OAO TMK

Consolidated Cash Flow Statement

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

(All amounts in thousands of US dollars)

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

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

Corporate Information

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

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

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

As of December 31, 2005, the Company's shareholders were TMK Steel Limited and Dalecone Limited, owing 67% and 33%, respectively, in the share capital. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

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

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

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

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

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

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

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

Significant Accounting Policies

- **Basis of Presentation of Financial Statements**

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

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

The consolidated financial statements have been prepared under the historical cost convention, other than in respect of property, plant and equipment at the date of transition to IFRS as described below.

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

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

Accounting for the Effect of Inflation

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

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

• **Functional and Presentation Currency**

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

The presentation currency for the purpose of these consolidated financial statements of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the Group's financial statements. These consolidated financial statements are issued in addition to the consolidated financial statements of the Group presented in Russian roubles.

The Group has applied IAS 21 (revised), The Effects of Changes in Foreign Exchange Rates, to translate the financial position of the Group as of December 31, 2005 and the results for the year then ended and corresponding figures into its presentation currency, US dollar, as follows:

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

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

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

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

• **Estimation Uncertainty**

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

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating units (each individual subsidiary) to which the item is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In 2005, no impairment losses were recognized or reversed.

Useful Lives of Items of Property, Plant and Equipment

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

Accounting Estimates and Errors". In 2005, the change in estimate of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately 4,892.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2005 was 37,180. More details are provided in Notes 11, 21.

Post-Employment Benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2005, 2004 and 2003, allowances for doubtful accounts have been made in the amount of 8,535, 8,652 and 2,213, respectively (Notes 16, 18).The Group makes allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2005, 2004 and 2003, allowance for obsolete and slow-moving items was 5,897, 3,776 and 2,849, respectively (Note 19). In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Deferred Income Tax Assets

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

- **Changes in Accounting Policies**

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

- IFRS 2 "Share-Based Payment";
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
- IAS 1 (revised) "Presentation of Financial Statements";
- IAS 2 (revised) "Inventories";

- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
- IAS 10 (revised) "Events after the Balance Sheet Date";
- IAS 16 (revised) "Property, Plant and Equipment";
- IAS 17 (revised) "Leases";
- IAS 24 (revised) "Related Party Disclosures";
- IAS 27 (revised) "Consolidated and Separate Financial Statements";
- IAS 28 (revised) "Investments in Associates";
- IAS 31 (revised) "Interests in Joint Ventures";
- IAS 32 (revised) "Financial Instruments: Presentation and Disclosure";
- IAS 33 (revised) "Earnings per Share";
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement";
- IAS 40 (revised) "Investment property'.

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

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

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

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

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A) Principles of Consolidation

Subsidiaries

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

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

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

Acquisition of Subsidiaries

The Group uses the purchase method to account for the acquisition of subsidiaries. According to the purchase method, assets, liabilities and contingent liabilities of the acquisition are measured at their fair value at the acquisition date, irrespective of the extent of any minority interest.

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

Minority Interest

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

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

Increases in Ownership Interests in Subsidiaries

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

Purchase of Subsidiaries from Entities under Common Control

Subsidiaries purchased from entities under common control are accounted for using the pooling of interests method.

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

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

B) Cash and Cash Equivalents

Cash is comprised of cash in hand and cash held on demand with banks.

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

C) Investments

The Group's investments are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition. All purchases and sales of investments are recognised on the settlement date which is the date that the investment is delivered to or by the Group.

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in profit and loss.

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

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

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

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

D) Trade Receivables

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

E) Borrowings

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

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

F) Inventories

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

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

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

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

G) Property, Plant and Equipment

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

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

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

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

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

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

H) Investment Property

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

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

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

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

I) Leases

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

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

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

J) Goodwill

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

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

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

K) Other Intangible Assets

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

Research and Development

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

Other Intangible Assets

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

L) Impairment of Assets (Other than Goodwill)

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

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

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

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

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

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

M) Provisions

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

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

N) Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 33%), based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Post-Employment Benefits

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

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

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

O) Value Added Tax

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

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

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

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

P) Deferred Income Tax

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

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

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

Q) Equity

Share Capital

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

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

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. The information is disclosed in the financial statements

when dividends are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

R) Revenue Recognition

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

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

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

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1) Segment Information

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

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

The Group's primary segment reporting format is the dominant source for disclosure of its operating activities in its financial statements. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Group discloses its sales revenue, gross profit, assets, liabilities and depreciation costs based on the main groups of products segregated into segments: seamless pipes, welded pipes, other operations, unallocated.

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

Primary reporting format—business segments

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

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

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

1) Segment Information (Continued)

Secondary reporting format—geographical segments

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

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

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

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

2) Cost of Sales

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

3) Selling Expenses

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

4) Advertising and Promotion Expenses

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

5) General and Administrative Expenses

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

6) Research and Development Expenses

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

7) Other Operating Expenses

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

8) Other Operating Income

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

9) Finance Costs

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

10) Finance Income

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

11) Acquisitions of Subsidiaries

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

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

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

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

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

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

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

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

11) Acquisitions of Subsidiaries (Continued)

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

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

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

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

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

12) Income Tax

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

12) Income Tax (Continued)

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

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

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

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

12) Income Tax (Continued)

The amounts shown in the balance sheet include the following:

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

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company. As at December 31, 2005, deferred tax asset in the amount of 4,616 (2004: 4,788) has not been recorded as it is not probable that sufficient taxable profit will be available to offset the deductible temporary differences to which the asset relates to.

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

As of December 31, 2005, the Group has not recognised deferred tax liability in respect of 370,443 (2004: 106,298; 2003: 40,472) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

13) Earnings (Losses) per Share

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

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

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

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

14) Cash and Cash Equivalents

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

15) Short-term Investments

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

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

16) Accounts Receivable

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

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

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

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

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

17) Prepayments and Input VAT

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

17) Prepayments and Input VAT (Continued)

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

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

18) Investments and Other Long-term Receivables

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

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

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

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

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

19) Inventories

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

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

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

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

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

20) Property, Plant and Equipment

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

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

20) Property, Plant and Equipment (Continued)

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

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

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

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

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

20) Property, Plant and Equipment (Continued)

Investment property was as follows:

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

The fair value of investment property approximates its carrying amount.

21) Goodwill and Other Intangible Assets

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

21) Goodwill and Other Intangible Assets (Continued)

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

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

22) Investment in an Associate

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

22) Investment in an Associate (Continued)

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

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

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

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

23) Accounts Payable and Advances from Customers

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

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

24) Accrued Liabilities

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

24) Accrued Liabilities (Continued)

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

25) Finance Lease Liabilities

In 2001-2002, the Group entered into lease agreements under which they have an option to acquire the leased assets at the end of lease term ranging from 2 to 7 years. The estimated average remaining useful life of leased assets varies from 6 to 30 years.

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

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

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

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

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

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

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

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

26) Interest-Bearing Loans and Borrowings

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

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

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

Long-term debt is repayable as follows:

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

Breakdown of borrowings by currency:

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

26) Interest-Bearing Loans and Borrowings (Continued)

Some of the loan agreements provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and guarantees issued to other parties. Three loans for the total amount of 70,161 are secured by proceeds from export sales of VTZ, Tagmet and Sinara-Trading, the Group's subsidiaries.

Bank Loans

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

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

Bearer Coupon Debt Securities

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

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

Liability to Raiffeisen Leasing

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

Unutilised Borrowing Facilities

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

27) Post-Employment Benefits

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

27) Post-Employment Benefits (Continued)

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

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

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

	Russia			Romania		
	2005	2004	2003	2005	2004	2003
Movement in the benefit liability:						
At January 1	(11,088)	(9,475)	(7,887)	(561)	(144)	(112)
Benefit expense	(7,295)	(802)	(1,073)	(134)	(119)	(37)
Benefit paid	471	368	7	48	18	—
Change in liability due to business combination	—	(558)	—	—	(249)	—
Currency translation adjuastment	516	(621)	(522)	34	(67)	(6)
At December 31	**(17,396)**	**(11,088)**	**(9,475)**	**(613)**	**(561)**	**(143)**
Net benefit expense (recognized in cost of sales):						
Current service cost	1,090	662	539	73	39	9
Interest cost on benefit obligation	843	871	694	70	53	20
Net actuarial loss (gain) recognized in the period	5,362	(731)	(160)	(10)	27	8
Net benefit expense	7,295	802	1,073	133	119	37
The principal actuarial assumptions used in determining pension obligations for the Group's plan are shown below:						
Discount rate	7.8%	8.50%	8.50%	*	**	***
Average long-term rate of compensation increase	6.3%	6.50%	6.50%	*	**	***

* 2005:

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

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

** 2004:

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

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

*** 2003:

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

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

27) Post-Employment Benefits (Continued)

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

28) Other Non-current Liabilities

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

29) Principal Subsidiaries

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

30) Related Parties Disclosures

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

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

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at December 31, 2005, 2004 and 2003 are detailed below.

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

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

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

	2005	2004	2003
Cash			
—Entities under common control with the Group	12,489	227	227
—Entities under control of the minority shareholders of the Company	5	28	658
	12,494	**255**	**885**
Accounts receivable—current			
—Entities under common control with the Group	28,284	36,749	10,453
—Entities under control of the minority shareholders of the Company	123	101	7,394
	28,407	**36,850**	**17,847**
Accounts receivable—non-current			
—Entities under common control with the Group	8,486	6,898	—
	8,486	**6,898**	**—**
Borrowings to related parties—current			
—Entities under common control with the Group	—	870	2,317
	—	**870**	**2,317**
Borrowings to related parties—non-current			
—Entities under control of the minority shareholders of the Company	—	—	11,844
	—	**—**	**11,844**
Prepayments—current			
—Entities under common control with the Group	—	54	—
—Entities under control of the minority shareholders of the Company	18	—	—
	18	**54**	**—**

30) Related Parties Disclosures (Continued)

	2005	2004	2003
Accounts payable—current			
—Entities under common control with the Group	478	7,222	57,308
—Entities under control of the minority shareholders of the Company	—	—	31,989
	478	**7,222**	**89,297**
Borrowings from related parties			
—Entities under common control with the Group	—	7,504	31,656
—Entities under control of the minority shareholders of the Company	31,394	6,070	14,635
	31,394	**13,574**	**46,291**

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

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

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

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

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

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

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

30) Related Parties Disclosures (Continued)

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

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

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

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

Compensation of Key Management Personnel of the Group

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

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

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

31) Contingencies, Commitments and Operating Risks

Operating Environment of the Group

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

Taxation

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

31) Contingencies, Commitments and Operating Risks (Continued)

penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

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

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

Contractual Commitments and Guarantees

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

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

Insurance Policies

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

Legal Claim

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

Guarantees of Debts of Others

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

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

32) Equity

i) Share Capital

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

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

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

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

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

ii) Reserve Capital

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

iii) Dividends

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

In accordance with Russian legislation, dividends may only be declared to the shareholders from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had 327,139, 46,461 and 154 of undistributed and unreserved earnings as of December 31, 2005, December 31, 2004 and December 31, 2003, respectively. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 381,749, 117,861 and 42,217 as of December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

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

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

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

In December 2004, the Group signed an agreement with an entity under common control with the Group on the purchase of 100% ownership interest in Sinara Trading AG, an entity registered in

32) Equity (Continued)

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

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

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

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

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

v) Free of Charge Financing

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

vi) Acquisition of Minority Interests in Subsidiaries

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

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

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

Dividends declared by subsidiaries of the Group to the minority owners in subsidiaries were recorded as a reduction in minority interests of 1,192 and 2,343 in the accompanying consolidated financial statements for the years ended December 31, 2005 and 2004, respectively.

33) Financial Risks

Credit Risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to

33) Financial Risks (Continued)

customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

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

Foreign Exchange Risk

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

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

Interest Rate Risk

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

Fair Value of Financial Instruments

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

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

34) Events after the Balance Sheet Date

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

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

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

34) Events after the Balance Sheet Date (Continued)

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

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

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

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

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

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

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

COMPANY

OAO TMK
19/25 Alexander Nevsky Street, bldg.1
125047 Moscow
Russian Federation

SELLING SHAREHOLDER

TMK Steel Limited
3, Chrysanthou Mylona Street
CY 3030, Limassol, Cyprus

JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ
United Kingdom

Dresdner Bank AG, London Branch
30 Gresham Street
London EC2P 2XY
United Kingdom

Renaissance Securities (Cyprus) Limited
Capital Center, 9th Floor
2-4 Archbishop Makarios III Avenue
Nicosia 1505
Cyprus

CO-LEAD MANAGER

Citigroup Global Markets Limited
Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

LEGAL ADVISERS TO THE ISSUER

As to U.S. and English law

White & Case
5 Old Broad Street
London EC2N 1DW
United Kingdom

As to Russian law

White & Case LLC
4 Romanov Pereulok
125009 Moscow
Russian Federation

LEGAL ADVISERS TO THE UNDERWRITERS

As to U.S. and English law

Cleary Gottlieb Steen & Hamilton LLP
City Place House
55 Basinghall Street
London EC2V 5EH
United Kingdom

As to Russian law

Cleary Gottlieb Steen & Hamilton LLP
(CGS&H Limited Liability Company)
Paveletskaya Square 2/3
Moscow 115054
Russian Federation

INDEPENDENT AUDITORS

Ernst & Young LLC
Sadovnicheskaya Naberezhnaya 77/1
Moscow 115035
Russian Federation

DEPOSITARY

The Bank of New York
101 Barclay Street
22nd floor West
New York, NY 10286
United States of America

TAX ADVISER TO THE COMPANY AND THE SELLING SHAREHOLDER

Ernst & Young (CIS) B.V.
Sadovnicheskaya Naberezhnaya 77/1
Moscow 115035
Russian Federation

Merrill Corporation Ltd, London
06LON2260