OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2008

ERNST & YOUNG

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Independent Auditors' Report

To Shareholders and Board of Directors
OAO TMK

We have audited the accompanying consolidated financial statements of OAO TMK and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 29, 2009

OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2008

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OAO TMK

Consolidated Income Statement

for the year ended December 31, 2008

(All amounts in thousands of US dollars)

	NOTES	2008	2007
Revenue:	1	5,690,002	4,178,644
Sales of goods		*5,603,411*	*4,144,680*
Rendering of services		*86,591*	*33,964*
Cost of sales	2	(4,252,452)	(2,890,616)
Gross profit		1,437,550	1,288,028
Selling and distribution expenses	3	(295,210)	(238,176)
Advertising and promotion expenses	4	(10,122)	(5,286)
General and administrative expenses	5	(316,748)	(218,275)
Research and development expenses	6	(15,164)	(10,139)
Other operating expenses	7	(52,043)	(56,225)
Other operating income	8	7,120	4,968
Impairment of goodwill	19	(3,512)	-
Impairment of property, plant and equipment	18	(59,846)	-
Impairment of financial assets	16	(23,675)	-
Foreign exchange loss, net		(99,817)	20,460
Finance costs	9	(272,175)	(102,397)
Finance income	9	8,720	12,608
Share of profit in associate	8	3,006	971
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	10	-	2,214
Profit before tax		308,084	698,751
Income tax expense	11	(109,612)	(192,442)
Net profit		**198,472**	**506,309**
Attributable to:			
Equity holders of the parent entity		**199,408**	**487,152**
Minority interests		**(936)**	**19,157**
		198,472	**506,309**
Earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)	12	**0.23**	**0.56**

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

OAO TMK

Consolidated Balance Sheet

as at December 31, 2008

(All amounts in thousands of US dollars)

	NOTES	2008		2007	
ASSETS					
Current assets					
Cash and cash equivalents	13, 26	143,393		89,045	
Financial investments		3,885		116	
Trade and other receivables	14	751,691		523,525	
Accounts receivable from related parties	26	9,409		17,632	
Inventories	17	1,175,936		782,373	
Prepayments and input VAT	15	185,068		223,731	
Prepaid income taxes		26,290	**2,295,672**	14,658	**1,651,080**
Non-current assets					
Investments in an associate		2,726		1,481	
Available-for-sale investments	16	6,520		29,417	
Intangible assets	19	665,545		20,715	
Accounts receivable - related parties	26	68		221	
Property, plant and equipment	18	3,323,836		2,712,343	
Goodwill	19	568,424		101,858	
Deferred tax asset	11	138,707		18,404	
Other non-current assets	16	69,609	**4,775,435**	140,763	**3,025,202**
TOTAL ASSETS			**7,071,107**		**4,676,282**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	20	738,533		295,177	
Advances from customers		67,831		89,578	
Accounts payable to related parties	26	4,859		14,924	
Accrued liabilities	21	665,452		147,184	
Provisions	22	11,510		4,674	
Interest-bearing loans and borrowings	23	2,216,459		1,033,322	
Dividends payable		361		129,116	
Income tax payable		39,823	**3,744,828**	4,059	**1,718,034**
Non-current liabilities					
Interest-bearing loans and borrowings	23	994,225		505,977	
Deferred tax liability	11	370,561		279,034	
Provisions	22	18,668		15,973	
Employee benefit liability	24	17,187		21,862	
Other liabilities		15,216	**1,415,857**	28,793	**851,639**
Total liabilities			**5,160,685**		**2,569,673**
Equity	28				
Parent shareholders' equity					
Issued capital		305,407		305,407	
Treasury shares		(37,827)		(10,752)	
Additional paid-in capital		97,915		97,338	
Reserve capital		15,387		15,387	
Retained earnings		1,343,255		1,239,993	
Foreign currency translation reserve		89,274		357,510	
Net unrealised losses			1,813,411	(2,187)	2,002,696
Minority interests			97,011		103,913
Total equity			**1,910,422**		**2,106,609**
TOTAL EQUITY AND LIABILITIES			**7,071,107**		**4,676,282**

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2008

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Net unrealised losses**	**Total**	**Minority interests**	**TOTAL**
At January 1, 2008	**305,407**	**(10,752)**	**97,338**	**15,387**	**1,239,993**	**357,510**	**(2,187)**	**2,002,696**	**103,913**	**2,106,609**
Effect of exchange rate changes	-	-	-	-	-	60,104	-	**60,104**	**(20,496)**	**39,608**
Foreign currency loss on hedged net investment in foreign operation net of tax (Note 28 xi)	-	-	-	-	-	(328,340)	-	**(328,340)**	**-**	**(328,340)**
Net unrealised losses on available-for-sale investments	-	-	-	-	-	-	(9,901)	**(9,901)**	**(782)**	**(10,683)**
Impairment of available for sale investments (Note 16)	-	-	-	-	-	-	12,088	**12,088**	**955**	**13,043**
Total income and expense for the year recognised directly in equity	-	-	-	-	-	(268,236)	2,187	**(266,049)**	**(20,323)**	**(286,372)**
Net profit	-	-	-	-	199,408	-	-	**199,408**	**(936)**	**198,472**
Total income and expense for the year	-	-	-	-	199,408	(268,236)	2,187	**(66,641)**	**(21,259)**	**(87,900)**
Purchase of treasury shares for the Share Options Programme (Note 28 ix)	-	(27,110)	-	-	-	-	-	**(27,110)**	**-**	**(27,110)**
Sale of treasury shares (Note 28 ix)	-	35	-	-	-	-	-	**35**	**-**	**35**
Share-based payments (Note 28 viii)	-	-	5,989	-	-	-	-	**5,989**	**-**	**5,989**
Purchase of warrants (Note 28 x)	-	-	(5,590)	-	-	-	-	**(5,590)**	**-**	**(5,590)**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 28 vi)	-	-	-	-	-	-	-	**-**	**(4,752)**	**(4,752)**
Purchase of minority interests (Note 28 v)	-	-	178	-	(191)	-	-	**(13)**	**(2,534)**	**(2,547)**
Derecognition of liability under expired minority put-options (Note 28 vii)	-	-	-	-	(1,366)	-	-	**(1,366)**	**21,643**	**20,277**
Dividends (Note 28 iii)	-	-	-	-	(94,589)	-	-	**(94,589)**	**-**	**(94,589)**
At December 31, 2008	**305,407**	**(37,827)**	**97,915**	**15,387**	**1,343,255**	**89,274**	**-**	**1,813,411**	**97,011**	**1,910,422**

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

(All amounts in thousands of US dollars)

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

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

OAO TMK
Consolidated Cash Flow Statement
for the year ended December 31, 2008
(All amounts in thousands of US dollars)

	NOTES	Year ended December 31,	
		2008	2007
Operating activities			
Profit before tax		308,084	698,751
Adjustment to reconcile profit before tax to net cash flows			
Non-cash adjustments:			
Depreciation of property, plant and equipment		188,941	137,687
Amortisation of intangible assets		58,831	2,572
Loss on disposal of property, plant and equipment		1,555	7,417
Impairment of goodwill	20	3,512	-
Impairment of fixed assets	18	59,846	-
Impairment of financial assets	16	23,675	-
Foreign exchange gain		99,817	(20,460)
Finance costs		272,175	102,397
Finance income		(8,720)	(12,608)
Share-based payments	28 viii	5,989	6,733
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	10	-	(2,214)
Share of profit in associate	8	(3,006)	(971)
Allowance for net realizable value of inventory		24,669	1,156
Allowance for doubtful debts		6,873	(796)
Movement in other provisions		4,995	(50)
Operating cash flow before working capital changes		**1,047,236**	**919,614**
Working capital adjustments:			
Increase in inventories		(178,665)	(138,435)
Increase in trade and other receivables		(156,557)	(195,968)
Decrease/(increase) in prepayments		6,381	(21,933)
Increase/(decrease) in trade and other payables		401,560	(14,071)
Increase in accrued liabilities		(144,927)	4,573
Decrease in advances from customers		(8,945)	(19,793)
Cash generated from operations		966,083	533,987
Income taxes paid		(226,573)	(212,503)
Net cash flows from operating activities		**739,510**	**321,484**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(839,994)	(661,730)
Proceeds from sale of property, plant and equipment		2,436	5,497
Purchase of available-for-sale investments		-	(30,163)
Acquisition of subsidiaries, net of cash acquired	10	(1,184,839)	(72,410)
Acquisition of minority interest		(5,149)	(2,683)
Issuance of loans		(1,083)	(29,595)
Proceeds from repayment of loans issued		151	209,795
Interest received		2,968	11,672
Dividends received from associate		1,232	996
Net cash flows used in investing activities		**(2,024,278)**	**(568,621)**

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

OAO TMK
Consolidated Cash Flow Statement
for the year ended December 31, 2008 (continued)
(All amounts in thousands of US dollars)

	NOTES	2008	2007
Financing activities			
Purchase of treasury shares		(27,110)	(28,291)
Proceeds from exercise of options		-	15,913
Purchase of warrants	28 x	(5,590)	-
Proceeds from borrowings		4,541,071	974,965
Repayment of borrowings		(2,760,583)	(533,981)
Interest paid		(182,576)	(105,563)
Payment of finance lease liabilities		(227)	(491)
Capital contribution by minority owner to a subsidiary		-	2,224
Dividends paid to equity holders of the parent company		(223,568)	(144,950)
Dividends paid to minority shareholders		(4,533)	(1,421)
Net cash flows from financing activities		**1,336,884**	**178,405**
Net (decrease) in cash and cash equivalents		52,116	(68,732)
Net foreign exchange difference		2,232	13,767
Cash and cash equivalents at January 1		89,045	144,010
Cash and cash equivalents at December 31		**143,393**	**89,045**

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, 2008 were authorised for issue in accordance with a resolution of the General Director on April 29, 2009.

OAO TMK (the "Company"), the parent company of the Group, is registered in the Russian Federation. The list of subsidiaries is disclosed in Note 25.

As at December 31, 2008, the Company's controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

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

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

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in OOO "Predpriyatiye "Truboplast" ("Truboplast") from an entity under common control with the Group for 23,986. The entity under common control with the Group acquired the controlling interest in Truboplast on July 19, 2007. The Group applied the pooling of interest method for accounting for this acquisition and presented its consolidated financial statements as if the transfer of the controlling interest in Truboplast had occurred from the date it was acquired by an entity under common control with the Group.

Deficit in Working Capital

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. As of December 31, 2008, the Group's current liabilities were 3,744,828 and exceeded current assets by 1,449,156.

The amount of working capital deficit mainly relates to a short–term financing used by the Company in connection with the acquisition of the businesses in the United States (Note 10).

The current economic conditions create uncertainty particularly over the level of demand for the Group products, the exchange rate between euro, dollar and Russian rouble and thus the consequence for the financial position of the Group and the availability of bank finance in the foreseeable future.

In the next 12 months, the Group expects to finance its operating and investing activities primarily by cash generated from operations, and refinancing of its current borrowings by new loans or extension of credit terms of existing bank loans.

Corporate Information (continued)

Deficit in Working Capital (continued)

Management has undertaken the following steps to maintain an adequate level of solvency in the next 12 months:

- reduce costs (selling and general and administrative expenses);
- optimize working capital (reduce balances of accounts receivable and inventory, extend grace periods for trade payables);
- negotiate more favorable contract terms with main suppliers (in addition to extended grace period for trade payables, decrease purchase prices, increase of discounts and bonuses);
- reduce investment programs;
- negotiate extension of credit terms and refinancing of existing bank loans by new short-term and long-term loans.

Subsequent to December 31, 2008, the Group has refinanced 1,387,499 of its short-term borrowings and obligations with facilities due not earlier than 2010 (Note 30).

The Group is in negotiations with its bank lenders in respect to the refinancing or extension of the remaining facilities maturing in 2009 and expects to be successful in these efforts, however, no formal commitments have been achieved as of the date of these financial statements.

Management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the consolidated financial statements.

Basis of Preparation of the Financial Statements

Statement of Compliance

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

Basis of Accounting

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

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

Basis of Preparation of the Financial Statements (continued)

Functional and Presentation Currency

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

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

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the balance sheet date. All resulting differences are taken to profit and loss with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Significant Estimates and Assumptions

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

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. This requires an estimation of the value in use of the cash-generating units to which the item is allocated. The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the fair value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the recoverable value and ultimately the amount of any property, plant and equipment impairment. In 2008, the Group recognized impairment losses of 59,846 in respect of property, plant and equipment of SC TMK-ARTROM SA, SC TMK-RESITA SA and OAO Orsky Machine Building Plant (Note 18) (2007: nil).

Significant Estimates and Assumptions (continued)

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". There were not any changes in accounting estimates of remaining useful lives of items of property, plant and equipment in 2008.

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are 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 and intangible assets with indefinite useful lives are 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, 2008 was 568,424 (2007: 101,858). In 2008 the Group recognized impairment losses of 3,512 in respect of goodwill (Note 19) (2007: nil).

Post-Employment Benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary). In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially (Note 24).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts, such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at December 31, 2008 and 2007, allowances for doubtful accounts have been made in the amount of 13,132 and 9,632, respectively (Notes 14, 16, 29).

Significant Estimates and Assumptions (continued)

Allowances (continued)

The Group makes allowances for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods, work in process and raw materials 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. As at December 31, 2008 and 2007, allowances for write-down at net realisable value were 28,587 and 9,450, respectively (Note 17).

Litigation

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

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group’s entities may not coincide with that of management.

As a result, tax authorities may challenge transactions and the Group’s entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. As at December 31, 2008, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained (Note 11).

Deferred Tax Assets

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

Significant Estimates and Assumptions (continued)

Share-Based Payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for grant of equity instruments which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models are disclosed in Note 28 viii.

Significant Judgments

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

Consolidation of a Special Purpose Entity

The Group determined that the substance of the relationship between the Group and TMK Capital S.A., a special purpose entity, indicates that the Group controls TMK Capital S.A. In September 2006 and in July 2008, TMK Capital S.A. issued notes due September 2009 and July 2011 respectively for the sole purpose of funding a loan to the Company (Note 23).

Changes in Accounting Policies

Application of new and amended IFRS and IFRIC

The Group has applied the following new and amended IFRS and IFRIC in the consolidated financial statements for the annual period beginning on January 1, 2008:

- IAS 39 *"Financial Instruments: Recognition and Measurement" (amended)*;
- IFRS 7 *"Financial Instruments: Disclosures" (amended)*;
- IFRIC 11 "*IFRS 2 – Group and Treasure Share Transactions"*;
- IFRIC 12 *"Service Concession Arrangements"*;
- IFRIC 14 "*The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"*;
- IFRIC 16 *"Hedges of a Net Investment in a Foreign Operation" (early adoption)*.

The principal effect of these changes in policies is discussed below.

Amendment to IAS 39 and IFRS 7 "Reclassification of Financial Assets – Effective date and Transition", issued in October, 2008 (effective for financial years beginning on or after July 1, 2008)

Amendments permit an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particularly circumstances. As the Group had no reasons for reclassification of financial assets, the amendments had no impact on the financial position or performance of the Group.

Changes in Accounting Policies (continued)

Application of new and amended IFRS and IFRIC (continued)

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", issued in November, 2006 (effective for financial years beginning on or after January 1, 2008)

This interpretation considers share-based payments transactions in which an entity receives services as consideration for its own equity instruments as equity settled transactions. As such transactions did not take place the interpretation had no impact on the financial position or performance of the Group.

IFRIC 12 "Service Concession Arrangements", issued in November, 2006 (effective for financial years beginning on or after January 1, 2008)

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Group didn't take part in any service concession arrangements therefore the interpretation had no impact on the financial position or performance of the Group.

IFRIC 14 "The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", issued in July, 2007 (effective for financial years beginning on or after January 1, 2008)

This interpretation provides guidance on how companies should determine the limit on the amount of a surplus in an employee benefit plan that they can recognise as an asset. The interpretation also gives guidance on the amounts that companies can recover from the plan, as either refunds or reductions in contribution. The interpretation had no impact on the financial position or performance of the Group.

Early adoption of IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", issued in July, 2008 (effective for financial years beginning on or after October 1, 2008)

The Group has applied early adoption of IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" in the current consolidated financial statements. The interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation. In particular to asses the effectiveness of hedging instrument the change in value of hedging instrument should be calculated in terms of the functional currency of the parent entity that is hedging the risk (for the purposes of consolidated financial statements). The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries.

New accounting pronouncements

The following new or amended (revised) IFRS and IFRIC have been issued but are not yet effective and not applied by the Group. Its possible impact on the Group's consolidated financial statements in the period of application is discussed below.

Changes in Accounting Policies (continued)

New accounting pronouncements (continued)

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

The revision requires, among other things, a statement of comprehensive income that begins with the amount of net profit for the year adjusted with all items of income and expenses directly recognised in equity. The revised standard will come into effect for the annual period beginning on or after January 1, 2009. The Group doesn't imply early adoption of the revised standard.

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

IAS 23 is effective for financial years beginning on or after January 1, 2009. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that take a substantial period of time to get ready for use or sale. The Group is required to capitalise such borrowing costs as part of the costs of the asset. The revised standard will be applied for the periods beginning on or after January 1, 2009. The Group doesn't imply early adoption of the revised standard.

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

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

IAS 32 "Financial instruments: Presentation" (amended), issued in February, 2008

The amendments require some puttable financial instruments and some financial instruments that impose on the equity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. Amendments are affective for annual periods beginning on or after January 1, 2009. The Group doesn't imply early adoption of the amended standard.

IAS 39 "Financial Instruments: Recognition and Measurement" (amended), issued in July, 2008

Amended standard clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. Amendments are effective for annual periods beginning on or after July 1, 2009. The Group doesn't imply early adoption of the amended standard.

Changes in Accounting Policies (continued)

New accounting pronouncements (continued)

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (revised), issued in November, 2008

The standard replaces the previous version of IFRS 1. The new version of IFRS 1 retains the substance of previous version, but within a changed structure. In addition, the new version contains requirements on how to measure a cost of an investment in a subsidiary, jointly controlled entity or associate in separate financial statements by first time IFRS adoption. The standard is effective for entities applying IFRSs for the first time for annual periods beginning on or after January 1, 2009. The Group doesn't imply early adoption of the revised standard.

IFRS 2 "Share-based Payments" (amended), issued in January, 2008

The amendment specifies the accounting treatment of all cancellations of grant of equity instruments to the employees. It also imposes that vesting conditions are only service and performance conditions required in return for the equity instruments issued. The amendment shall be applied for the annual periods beginning on or after January 1, 2009. The Group doesn't imply early adoption of the amended standard.

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

The revision requires, among other things, that the acquisition-related costs to be accounted for separately from the business combination and then recognised as expenses rather than included in goodwill. The revised IFRS 3 also allows the choice of the full goodwill method that means to treat the full value of the goodwill of the business combination including the share attributable to minority interests. In case of step acquisitions, the revision also relates to the recognition in the profit and loss account of the difference between the fair value at the acquisition date of the net assets previously held and their carrying amounts. The revised standard will come into effect for the annual periods beginning on or after July 1, 2009. The Group doesn't imply early adoption of the revised standard.

IFRS 7 "Financial Instruments: Disclosures" (amended), issued in March, 2009

The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The amendments will come into effect for the annual periods beginning on or after January 1, 2009. The Group doesn't imply early adoption of the amended standard. These amendments will have no impact on the financial position or performance of the Group but will result in more detailed disclosures regarding measurement of the fair value of financial instruments.

Changes in Accounting Policies (continued)

New accounting pronouncements (continued)

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

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

Improvements to IFRSs, issued in May, 2008

In May 2008 the International Accounting Standards Board issued “Improvements to International Financial Reporting Standards”. The document sets out amendments to different International Financial Reporting Standards. Part I of this document contains amendments that result in accounting changes for presentation, recognition or management purposes. Part II contains amendments that are terminology or editorial changes only. There are separate transitional provisions for each standard. But in general those amendments shall be applied prospectively for annual periods beginning on January 1, 2009 or later. The Group doesn’t imply early adoption of the amended standard and anticipates that these changes will have no material effect on the consolidated financial statements.

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

This interpretation gives guidance on how companies, which grant loyalty award credits to their customers when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the credits. In particular, IFRIC 13 requires companies to allocate some of the consideration received from the sales transaction to award credits and their recognition at fair value. The interpretation shall be applied for annual periods beginning on or after July 1, 2008. The Group doesn’t imply early adoption of the interpretation.

IFRIC 15 “Agreements for the Construction of Real Estate”, issued in July, 2008

The interpretation standardizes accounting practice for the recognition of revenue among real estate developers for sales of units, such as apartments of houses before construction is complete. The interpretation shall be applied for annual periods beginning on or after January 1, 2009. The Group doesn’t imply early adoption of the interpretation.

IFRIC 17 “Distributions of Non-cash Assets to Owners”, issued in November, 2008

The interpretation standardizes accounting practice in the accounting treatment of distribution of non-cash assets to owners. The interpretation provides guidance on accounting for distributions of non-cash assets to owners. It provides guidance on when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and the consequences of doing so. The interpretation should be applied prospectively. The interpretation shall be applied for annual periods beginning on or after July 1, 2009. The Group doesn’t imply early adoption of the interpretation.

IFRIC 18 “Transfer of Assets to Customer”, issued in January, 2009

The interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfer of cash from customers. The interpretation shall be applied for annual periods beginning on or after July 1, 2009. The Group doesn’t imply early adoption of the interpretation.

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

Significant Accounting Policies

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Significant Accounting Policies

A) Principles of Consolidation

Subsidiaries

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

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

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

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

For the identifiable assets, liabilities and contingent liabilities initially accounted for at provisional values, the carrying amount of identifiable asset, liability or contingent liability that is recognised or adjusted as a result of completing the initial accounting is calculated as if its fair value or adjusted fair value at the acquisition date had been recognised from that date. Goodwill or any gain recognised when the acquired interest in net fair values of the identifiable assets, liabilities and contingent liabilities exceeds the cost of their acquisition is adjusted from the acquisition date by an amount equal to adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognised or adjusted.

Comparative information presented for the periods before the completion of initial accounting for the acquisition is presented as if the initial accounting had been completed from the acquisition date.

Significant Accounting Policies (continued)

A) Principles of Consolidation (continued)

Minority Interest

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

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

Increases in Ownership Interests in Subsidiaries

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

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

Acquisition of Subsidiaries from Entities under Common Control

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

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity. These financial statements, including corresponding figures, are presented as if the Company had acquired the subsidiary on the date it was initially acquired by the Predecessor.

B) Cash and Cash Equivalents

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

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

Significant Accounting Policies (continued)

C) Investments and Other Financial Assets

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

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

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

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

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

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

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

Significant Accounting Policies (continued)

C) Investments and Other Financial Assets (continued)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial assets or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indicators that the debtors or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been occurred, the amount of the loss is measured as a difference between the asset’s carrying amount and the present value of estimated future cash flows. The carrying amount of the assets is reduced directly without the use of an allowance account and the amount of loss is recognised in the income statement.

Hedges of Net Investment if Foreign Operations

The Group hedges its net investment in operations located in Unites States against foreign currency risks using US dollar denominated liabilities. Hedges of a net investment in a foreign operation are accounted for in a following way. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the income statement. The Group uses a bridge loan facility and put option as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries (Note 28 xi).

D) Trade Receivables

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

E) Borrowings

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

Significant Accounting Policies (continued)

E) Borrowings (continued)

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

F) Inventories

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

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

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

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

G) Property, Plant and Equipment

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

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

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

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

Significant Accounting Policies (continued)

G) Property, Plant and Equipment (continued)

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

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

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

The Group has made certain reclassifications in the consolidated balance sheet as of December 31, 2007 to conform with current year presentation.

H) Leases

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

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

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

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

I) 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.

Significant Accounting Policies (continued)

I) Goodwill (continued)

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

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

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

J) Other Intangible Assets

Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates

The amortisation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

Customer relationships	8 - 10 years
Proprietary technology	8 years
Backlog	1.5 year
Other	2 - 18 years

The amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Significant Accounting Policies (continued)

J) Other Intangible Assets (continued)

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash generating unit level.

Research and Development

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

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

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

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

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

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

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

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

Significant Accounting Policies (continued)

L) Provisions

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

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

M) Employee Benefits

Social and Pension Contributions

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

Post-Employment Benefits

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

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

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

Significant Accounting Policies (continued)

N) Value Added Tax

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

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

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

O) Deferred Income Tax

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

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

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

P) Equity

Share Capital

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

Treasury Shares

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

Significant Accounting Policies (continued)

P) Equity (continued)

Dividends

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

Q) Revenue Recognition

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

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

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1) Segment Information

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

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

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

Primary reporting format – business segments

Year ended December 31, 2008	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
REVENUE	1,876,136	3,546,044	267,822	-	**5,690,002**
SEGMENT RESULT	328,081	1,088,691	20,778	-	**1,437,550**
SEGMENT ASSETS	1,511,974	3,412,551	250,978	1,895,604	**7,071,107**
SEGMENT LIABILITIES	277,578	475,923	29,973	4,377,211	**5,160,685**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	182,040	675,385	11,100	113,358	**981,883**
PROPERTY, PLANT AND EQUIPMENT ACQUIRED IN BUSINESS COMBINATIONS	191,744	216,221	36,710	54	**444,729**
DEPRECIATION AND AMORTISATION	25,393	132,316	8,910	81,153	**247,772**
IMPAIRMENT OF PROPERTY, PLANT, EQUIPMENT RECOGNISED IN INCOME STATEMENT (Note 18)	-	57,859	1,987	-	**59,846**
IMPAIRMENT OF GOODWILL RECOGNISED IN INCOME STATEMENT (Note 19):	-	-	3,512	-	**3,512**

Year ended December 31, 2007	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
REVENUE	1,118,540	2,849,399	210,705	-	**4,178,644**
SEGMENT RESULT	187,982	1,093,984	6,062	-	**1,288,028**
SEGMENT ASSETS	647,986	2,705,803	193,739	1,128,754	**4,676,282**
SEGMENT LIABILITIES	41,080	302,718	15,804	2,210,071	**2,569,673**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY	35,008	513,147	2,287	83,191	**633,633**
PROPERTY, PLANT AND EQUIPMENT ACQUIRED IN BUSINESS COMBINATIONS	-	-	41,021	20,302	**61,323**
DEPRECIATION AND AMORTISATION	9,764	106,228	3,320	20,947	**140,259**

1) Segment Information (continued)

Secondary reporting format – geographical segments

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

Year ended December 31, 2008	Russia	Europe	Cent.Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
REVENUE	3,387,720	506,904	183,801	181,384	18,519	1,340,249	71,425	**5,690,002**
SEGMENT ASSETS	4,709,914	441,809	31,863	425	-	1,887,096	-	**7,071,107**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	915,419	24,653	283	24	-	41,504	-	**981,883**
PROPERTY, PLANT AND EQUIPMENT ACQUIRED IN BUSINESS COMBINATIONS	-	-	-	-	-	424,458	20,271	**444,729**

Year ended December 31, 2007	Russia	Europe	Cent.Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
REVENUE	2,993,743	451,212	142,295	296,876	17,034	87,631	189,853	**4,178,644**
SEGMENT ASSETS	4,070,761	579,137	3,914	442	-	22,028	-	**4,676,282**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	569,744	63,758	45	42	-	44	-	**633,633**
PROPERTY, PLANT AND EQUIPMENT ACQUIRED IN BUSINESS COMBINATIONS	61,323	-	-	-	-	-	-	**61,323**

2) Cost of Sales

	2008	**2007**
Raw materials and consumables	2,946,681	2,138,356
Contracted manufacture	176,495	6,892
Energy and utilities	284,429	235,383
Depreciation and amortisation	178,192	129,933
Repairs and maintenance	93,199	53,322
Freight	22,852	8,082
Rent	2,775	733
Insurance	1,104	410
Staff costs including social security	511,234	362,251
Professional fees and services	21,549	14,662
Travel	1,723	1,859
Communications	1,938	604
Taxes	26,607	18,905
Other	3,947	316
Less capitalised costs	(13,360)	(37,638)
TOTAL PRODUCTION COST	4,259,365	2,934,070
CHANGE IN OWN FINISHED GOODS AND WORK IN PROGRESS	(73,354)	(75,533)
COST OF EXTERNALLY PURCHASED GOODS	33,768	31,976
OBSOLETE STOCK AND WRITE-OFFS	32,673	103
COST OF SALES	**4,252,452**	**2,890,616**

3) Selling and Distribution Expenses

	2008	2007
Freight	164,338	138,154
Rent	7,169	5,639
Insurance	1,372	866
Depreciation and amortisation	1,668	1,499
Staff costs including social security	60,043	44,247
Professional fees and services	20,031	19,129
Travel	4,855	3,590
Communications	1,645	1,635
Utilities and maintenance	2,776	945
Taxes	2,557	3,176
Consumables	19,916	18,162
Bad debt expense / (reversal of expense)	7,212	(1,125)
Other	1,628	2,259
TOTAL SELLING AND DISTRIBUTION EXPENSES	**295,210**	**238,176**

4) Advertising and Promotion Expenses

	2008	2007
Media	1,134	2,272
Exhibits and catalogues	3,116	2,259
Outdoor advertising	4,995	-
Other	877	755
TOTAL ADVERTISING AND PROMOTION EXPENSES	**10,122**	**5,286**

5) General and Administrative Expenses

	2008	2007
Staff costs including social security	138,868	131,705
Professional fees and services	54,071	35,240
Depreciation and amortisation	66,790	8,407
Travel	11,833	10,715
Transportation	6,839	4,186
Rent	6,908	5,019
Communications	1,805	1,206
Insurance	1,228	758
Utilities and maintenance	10,271	8,124
Taxes	5,382	3,403
Consumables	8,262	8,066
Other	4,491	1,446
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**316,748**	**218,275**

6) Research and Development Expenses

	2008	2007
Staff costs including social security	9,192	6,707
Professional fees and services	3,421	1,769
Depreciation and amortisation	725	431
Travel	255	150
Transportation	171	187
Communications	63	39
Utilities and maintenance	536	402
Consumables	546	415
Other	255	39
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	**15,164**	**10,139**

7) Other Operating Expenses

	2008	2007
Loss on disposal of property, plant and equipment	1,555	7,417
Social and social infrastructure maintenance expenses	20,991	17,742
Charitable donations	13,325	19,176
Other ,	16,172	11,890
TOTAL OTHER OPERATING EXPENSES	**52,043**	**56,225**

Other operating expenses mainly comprise expenses and additional provisions related to tax issues, tax fines and other fines in the amount of 7,983 (6,824 in 2007).

8) Share of Profit in Associate and Other Operating Income

Share of Profit in Associate

Share of profit in associate represents profit from the investment to North-Europe Pipe Project (3,006 and 971 for the years ended December 31, 2008 and December 31, 2007, respectively) and consists of 20% share of profit of the associate.

Other Operating Income

	2008	2007
Gain from reversal of litigation provision	910	2,093
Income from current liabilities derecognition	168	1,303
Gain from penalties and fines	1,742	734
Other	4,300	838
TOTAL OTHER OPERATING INCOME	**7,120**	**4,968**

9) Finance Costs and Finance Income

Finance Costs	2008	2007
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	29,500	6,271
Interest expense	242,675	92,698
Change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical plant	-	3,428
TOTAL FINANCE COSTS	**272,175**	**102,397**

Finance Income	2008	2007
Interest income - bank accounts and deposits	2,739	12,485
Change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical plant	5,981	-
Other finance income	-	123
TOTAL FINANCE INCOME	**8,720**	**12,608**

Loss / gain on financial assets and liabilities represents change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical Plant. Starting from August 1, 2008 liability for put-call option expired and the Group recognised minority interest (Note 28 vii).

10) Acquisition of Subsidiaries

“Russian Research Institute of the Tube and Pipe Industries”

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

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

	5 March 2007
Property, plant and equipment	8,417
Inventories	10
Accounts and notes receivable, net	137
Cash	29
Total assets	**8,593**
Non-current liabilities	78
Deferred income tax liabilities	1,727
Current liabilities	224
Total liabilities	**2,029**
NET ASSETS	**6,564**
Fair value of net assets attributable to 76.34% ownership interest	5,010
TOTAL CONSIDERATION	3,067
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognized in the income statement	**1,943**

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

In 2007, cash flow on acquisition was as follows:

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

In June-December 2007, the Company purchased additional 21.02% of OAO “RosNITI” shares and the Group ownership in RosNITI achieved 97.36% as at December 31, 2007 (Note 28 v).

10) Acquisition of Subsidiaries (continued)

OOO “Predpriyatiye “Truboplast”

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in OOO “Predpriyatiye “Truboplast” (“Truboplast”) from an entity under common control with the Group for cash consideration of 23,986. The entity under common control with the Group acquired the controlling interest in Truboplast on July 19, 2007. As the pooling of interests method has been applied to this transfer under common control, the cost of this business combination was 17,374 which is the amount paid by the entity under common control with the Group to acquire the controlling ownership interest in Truboplast on July 19, 2007. The amount of 6,834, being the excess of the amount paid by the Group to acquire 100% interest in Truboplast from the entity under common control with the Group over the cost of the business combination, has been treated as a distribution to owners (Note 28 iv).

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

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

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

Goodwill arising from the acquisition of Truboplast relates to synergy from integration of the acquired subsidiary into the Group, as a new division “Neftegazservice” was formed.

In 2007 and 2008, the cash flow on acquisition was as follows:

	2008	2007
Net cash acquired with the subsidiary		36
Cash paid	(10,446)	(14,021)
Net cash outflow	(10,446)	(13,985)

In 2008, the Group paid 10,446 to the entity under common control with the Group for the purchase of 100% ownership interest in Truboplast. As at December 31, 2008, the Group had no liability in respect of this purchase.

10) Acquisition of Subsidiaries (continued)

ZAO "Pipe Repair Department"

On December 20, 2007, the Group purchased 100% ownership interest in ZAO "Pipe Repair Department" for cash consideration of 73,327.

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

	20 December 2007
Property, plant and equipment	32,277
Other non-current assets	94
Inventories	1,216
Accounts and notes receivable, net	2,560
Prepayments	422
Cash	20
Total assets	**36,589**
Non-current liabilities	827
Deferred income tax liabilities	2,895
Current liabilities	3,888
Total liabilities	**7,610**
NET ASSETS	**28,979**
Fair value of net assets attributable to 100% ownership interest	28,979
TOTAL CONSIDERATION	73,327
Goodwill arising on acquisition	**44,348**

Goodwill arising from the acquisition of Pipe Repair Department relates to synergy from integration of the acquired subsidiary into the Group, as a new division "Neftegazservice" was formed.

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

In 2008 and 2007, the cash flow on acquisition was as follows:

	2008	2007
Net cash acquired with the subsidiary	-	20
Cash paid	(16,620)	(55,197)
Net cash outflow	(16,620)	(55,177)

As at December 31, 2008, the Group had a liability of 1,510 in respect of this purchase.

10) Acquisition of Subsidiaries (continued)

OOO "Central Pipe Yard"

On December 27, 2007, the Group purchased 100% ownership interest in OOO "Central Pipe Yard" for cash consideration of 8,693.

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

	27 December 2007
Property, plant and equipment	9,019
Inventories	183
Accounts and notes receivable, net	851
Cash	45
Total assets	**10,098**
Non-current liabilities	
Deferred income tax liabilities	119
Current liabilities	998
Total liabilities	**1,117**
NET ASSETS	**8,981**
Fair value of net assets attributable to 100% ownership interest	8,981
TOTAL CONSIDERATION	**8,693**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognized in the income statement	**288**

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

In 2008 and 2007, the cash flow on acquisition was as follows:

	2008	2007
Net cash acquired with the subsidiary	-	45
Cash paid	(8,438)	(255)
Net cash outflow	(8,438)	(210)

As at December 31, 2008, the Group had no liability in respect of this purchase.

TOO Kaztrubprom

On June 9, 2008, the Group purchased the 100% ownership interest in Kazakhstan–based TOO Kaztrubprom ("Kaztrubprom") for a cash consideration of 8,437. Kaztrubprom specializes in the threading and finishing of tubing and casing pipes.

10) Acquisition of Subsidiaries (continued)

TOO Kaztrubprom (continued)

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

	9 June 2008
Property, plant and equipment	20,271
Other non-current assets	123
Inventories	724
Accounts and notes receivable, net	-
Prepayments	1,197
Cash	9
Total assets	**22,324**
Non-current liabilities	28,197
Deferred income tax liabilities	707
Current liabilities	241
Total liabilities	**29,145**
NET LIABILITIES	**(6,821)**
Fair value of net liabilities attributable to 100% ownership interest	(6,821)
TOTAL CONSIDERATION	8,437
Goodwill arising on acquisition	**15,258**

Goodwill arising from the acquisition of Kaztrubprom relates to synergy from integration of the acquired subsidiary into the Group.

In 2008, the cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	9
Cash paid	(8,437)
Net cash outflow	(8,428)

In 2008, the Group paid 8,437 for the purchase of TOO Kaztrubprom”. As at December 31, 2008, the Group had no liability in respect of this purchase.

Kaztrubprom’s net loss from June 9, 2008 to December 31, 2008 was 6,298.

NS Group Inc. and IPSCO Tubular Inc.

On March 14, 2008, the Group signed a back–to–back purchase agreement with Evraz Group S.A. (“Evraz”) to acquire all of the outstanding shares in IPSCO Tubulars Inc. and 51% of outstanding shares in NS Group Inc., both registered and located in the United States, from Svenskt Stal AB (“SSAB”), a Swedish steel company.

10) Acquisition of Subsidiaries (continued)

NS Group Inc. and IPSCO Tubular Inc. (continued)

As a part of the transaction, on June 11, 2008, the Group entered into a call/put option agreement with Evraz, under which the Group has the right to purchase from Evraz and Evraz has the right to sell to the Group 49% of the outstanding shares in NS Group, Inc. for US$510,625. Thus, in substance the Group acquired 100% ownership interest in NS Group Inc., because the Group gained an access to the economic benefits associated with that interest. The Group's call option became exercisable on June 12, 2008. The put option could be exercised by Evraz on or after October 22, 2009. The liability under the call/put option bore interest of 10% per annum.

IPSCO Tubulars Inc. and NS Group Inc. consist of ten production sites including steel–making and pipe– rolling mills, heat–treatment, threading and joints operations.

On June 12, 2008 the Group acquired control over NS Group Inc. and IPSCO Tubulars Inc. As a result, cost of the acquisition of all of the shares in IPSCO Tubulars Inc. and NS Group Inc. for the Group amounted to 1,645,012, including cash consideration of 1,114,177 (net of adjustment for closing working capital of 133,704), a liability in respect of the put option of 510,625, transactions costs of 20,210.

The financial position and results of operations of IPSCO Tubulars Inc. and NS Group Inc. were included in the Group's consolidated financial statements beginning June 12, 2008. As of the date of issuance of these consolidated financial statements, the Group has finalised the working capital adjustment of the acquired entities and completed its purchase price allocation in accordance with IFRS 3 Business Combinations.

As the Group acquired both entities in a single transaction, combined fair values of identifiable assets, liabilities and contingent liabilities of IPSCO Tubular and NS Group at the date of acquisition were as follows:

	Initial estimation of fair values	**Final estimation of fair values**
Property, plant and equipment	425,998	424,458
Intangible assets	697,600	705,165
Deferred Tax asset	1,557	38,779
Inventories	377,341	376,801
Accounts and notes receivable, net	138,259	139,705
Prepayments	892	892
Total assets	**1,641,647**	**1,685,800**
Non-current liabilities	8,328	19,922
Deferred income tax liabilities	224,919	219,736
Current liabilities	276,846	266,915
Overdraft	7,113	7,183
Total liabilities	**517,206**	**513,756**
NET ASSETS	**1,124,441**	**1,172,044**
Fair value of net assets attributable to 100% ownership interest	1,124,441	1,172,044
TOTAL CONSIDERATION	1,643,939	1,645,012
Goodwill arising on acquisition	**519,498**	**472,968**

10) Acquisition of Subsidiaries (continued)

NS Group Inc. and IPSCO Tubular Inc.(continued)

In 2008, the cash flow on acquisition was as follows:

Overdrafts of the acquired subsidiaries	(7,183)
Cash paid	(1,133,725)
NET CASH OUTFLOW	**(1,140,908)**

As at December 31, 2008, the Group had a liability of 510,625 in respect of the call/put option agreement and 662 in respect of transaction costs.

The net profit of IPSCO Tubular Inc. and NS Group Inc. for the period from June 12, 2008 to December 31, 2008 amounted to 166,601.

Disclosure of Other Information in Respect of Business Combinations

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

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

11) Income Tax

	2008	2007
Current income tax	209,879	200,485
Current income tax benefit on hedges of net investment in foreign operations recognized directly in equity (Note 28 xi)	53,577	-
Adjustments in respect of income tax of previous years	1,001	-
Deferred income tax benefit related to origination and reversal of temporary differences	(154,845)	(8,043)
TOTAL INCOME TAX EXPENSE	**109,612**	**192,442**

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

	2008	2007
Income before taxation	308,084	698,751
Theoretical tax charge at statutory rate in Russia of 24%	73,940	167,700
Adjustment in respect of income tax of previous years	1,001	-
Effect of items which are not deductible or assessable for taxation purposes	30,487	27,249
Effect of different tax rates in countries other than Russia	35,627	(2,182)
Effect of tax rate changes	(31,853)	-
Effect of currency translation	410	207
Effect of excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over the cost of acquisition (Note 10)	-	(532)
TOTAL INCOME TAX EXPENSE	**109,612**	**192,442**

11) Income Tax (continued)

In November 2008, a reduction of income tax rate from 24% to 20% was announced by the Russian government, the new rate being effective from January 1, 2009. Respective deferred tax assets and liabilities were measured using the announced tax rate.

In December 2008, a reduction of income tax rate was announced by the Kazakhstan government from 30% to 20% for 2009, 17.5% for 2010 and 15% for 2011 and subsequent years. The new rate being effective from January 1, 2009. Respective deferred tax assets and liabilities were measured using the announced tax rate.

Deferred income tax assets and liabilities, their movements for the periods ended December 31, 2008 and December 31, 2007 were as follows:

	2008	Change recognised in income statement	Change due to business combination	Foreign currency translation reserve	2007	Change recognised in income statement	Change due to business combination	Foreign currency translation reserve	2006
Deferred income tax liability:									
Valuation and depreciation of property, plant and equipment	(231,232)	53,214	(63,470)	48,466	(269,442)	8,854	(7,273)	(18,025)	(252,998)
Valuation and amortisation of Intangible assets	(104,767)	(11,309)	(118,143)	24,685	-	-	-	-	-
Valuation of accounts receivable	(7,776)	(755)	-	1,522	(8,543)	462	-	(592)	(8,413)
Valuation of inventory	-	905	-	11	(916)	704	63	(86)	(1,597)
Undistributed earnings of subsidiaries	-	-	-	-	-	685	-	(41)	(644)
Other	(2,827)	(2,654)	-	525	(698)	(431)	28	70	(365)
	(346,602)	**39,401**	**(181,613)**	**75,209**	**(279,599)**	**10,274**	**(7,182)**	**(18,674)**	**(264,017)**
Deferred income tax asset:									
Tax losses available for offset	66,707	72,981	-	(10,689)	4,415	(219)	-	305	4,329
Accrued liabilities	7,397	1,776	4,880	(1,608)	2,349	266	-	151	1,932
Impairment of accounts receivable	5,407	1,695	1,185	(1,086)	3,613	(857)	-	269	4,201
Impairment of prepayments and other current assets	1,315	(500)	1,334	(312)	793	448	-	41	304
Valuation of inventory	20,893	31,792	(7,450)	(3,449)	-	-	-	-	-
Provisions	5,734	182	-	(1,128)	6,680	(2,299)	660	474	7,845
Finance lease obligations	1,042	1,232	-	(190)	-	(3)	-	-	3
Trade and other payable	6,253	6,286	-	(1,152)	1,119	433	-	64	622
	114,748	**115,444**	**(51)**	**(19,614)**	**18,969**	**(2,231)**	**660**	**1,304**	**19,236**
Net tax effect of temporary differences	-	154,845			-	8,043			-
Net deferred income tax liability	**(370,561)**	**47,513**	**(220,443)**	**81,403**	**(279,034)**	**5,735**	**(6,522)**	**(18,551)**	**(259,696)**
Net deferred income tax asset	**138,707**	**107,332**	**38,779**	**(25,808)**	**18,404**	**2,308**	**-**	**1,181**	**14,915**

In the context of the Group's current structure, tax losses and current tax assets of the different companies are not offset against current tax liability and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one subsidiary of the Group is not offset against the deferred tax liability of another subsidiary. As at December 31, 2008, the deferred tax asset for 7,775 (2007: 5,413) has not been recorded, as it is not probable that sufficient taxable profit will be available to offset the deductible temporary differences to which the asset relates.

Deferred income tax assets not recognised represents the tax losses of the Group's subsidiaries incurred in transactions with securities. Such tax losses offsets only against future taxable profits generated in transactions with securities over a period of 6 years.

11) Income Tax (continued)

The Group recognised the deferred tax assets for the companies with net loss. The Group believes that this tax loss will be recovered as future taxable profits will exceed recognised tax asset on tax loss.

As at December 31, 2008, the Group has not recognised deferred tax liability in respect of 1,480,501 (2007: 2,062,644) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

12) Earnings per Share

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

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

	For the year ended December 31	
	2008	**2007**
Net profit attributable to the equity holders of the parent entity	199,408	487,152
Weighted average number of ordinary shares outstanding (excluding treasury shares)	870,182,985	872,089,719
Effect of dilution:		
Share options	-	167,062
Weighted average number of ordinary shares outstanding (excluding treasury shares) adjusted for the effect of dilution	870,182,985	872,256,781
Earnings per share attributable to equity holders of the parent entity (in US dollars):		
Earnings per share attributable to equity holders of the parent entity, basic and diluted in US dollars (5.80 RUR for 2008 and 14.29 RUR for 2007):	0.23	0.56

Share options under the TMK share options programme (Note 28 viii) were not included in the calculation of diluted earnings per share because they were antidilutive in 2008.

There have been no transactions involving ordinary shares or potential ordinary shares between December 31, 2008 and the date of completion of these financial statements that would have changed significantly the number of ordinary shares or potential ordinary shares as at December 31, 2008 if those transactions had occurred before that date.

13) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	2008	2007
Russian rouble	60,036	70,876
US dollar	75,727	6,288
Euro	6,286	9,990
Romanian lei	854	1,848
Other currencies	490	43
TOTAL CASH AND CASH EQUIVALENTS	**143,393**	**89,045**

The above cash and cash equivalents consist of the following:

	2008	2007
Cash and cash equivalents	131,502	50,201
Deposits	11,891	38,844
TOTAL CASH AND CASH EQUIVALENTS	**143,393**	**89,045**

A cash deposit in the amount of 854 has been pledged as security for borrowings at December 31, 2008 (December 31, 2007: 1,974).

14) Trade and Other Receivable

	2008	2007
Trade receivables	755,680	522,814
Officers and employees	2,312	2,267
Other accounts receivable	6,819	7,910
GROSS ACCOUNTS RECEIVABLE	764,811	532,991
Allowance for doubtful debts	(13,120)	(9,466)
NET ACCOUNTS RECEIVABLE	**751,691**	**523,525**

Bank borrowings are secured by accounts receivable with the carrying value of 114 (December 31, 2007: 2,115) (Note 23).

15) Prepayments and Input VAT

	2008	2007
Prepayment for services, inventories	36,666	49,479
Prepayment for rent	405	675
Deferred charges	3,129	1,973
Prepayment for VAT, Input VAT	136,851	169,984
Prepayment for property tax	168	197
Prepayment for other tax	920	724
Prepayment for insurance	6,929	699
TOTAL PREPAYMENTS	**185,068**	**223,731**

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

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

Available-for-Sale Investments

The amount of Available-for-sale investments as of December 31, 2008 and 2007 was 191,646 thousand roubles (6,520 at the exchange rate as at December 31, 2008) and 772,093 thousand roubles (29,417 at the exchange rate as at December 31, 2007) respectively. Available-for-sale investments are represented by the quoted ordinary shares of VTB Bank, a Russian state-owned bank. The fair value of these shares is determined by reference to published price quotations in an active market. On June 30, 2008 due to the significant and prolonged decline in fair value of VTB shares, the impairment loss of 13,043 representing cumulative loss previously recognised directly in equity was recorded in the income statement. In the second half of 2008, further decline in fair value of VTB shares amounting to 10,632 was recognised directly in the income statement.

Other Non-Current Assets

	2008	2007
Prepayments for acquisition of PPE	52,179	100,865
Loans to employees	5,112	5,022
Prepaid debt issue costs	7,190	5,533
Restricted cash deposits for fulfillement of guaranties	3,739	1,581
Other	1,401	27,928
GROSS INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	**69,621**	**140,929**
Allowance for doubtful debts	(12)	(166)
NET INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	**69,609**	**140,763**

17) Inventories

	2008	2007
Raw materials	254,043	226,642
Work in process	298,538	237,063
Finished goods and finished goods in transit	486,138	157,786
Goods for resale	6,334	131
Supplies	159,470	170,201
GROSS INVENTORIES	1,204,523	791,823
Allowance for write-down at net realisable value	(28,587)	(9,450)
NET INVENTORIES	**1,175,936**	**782,373**

Included in inventories as at December 31, 2008, are inventories carried at net realisable value in the amount of 84,415 (December 31, 2007: 41,542).

As at December 31, 2008, certain items of inventory with a carrying amount of 64,002 (December 31, 2007: 81,537) were pledged as security for borrowings (Note 23).

The following summarises the changes in the allowance for inventory:

	2008	2007
Balance at the beginning of the year	9,450	8,357
Utilised during the year	(243)	(680)
Additional increase in allowance	24,669	1,156
Currency translation adjustments	(5,289)	617
BALANCE AT THE END OF THE YEAR	**28,587**	**9,450**

18) Property, Plant and Equipment

The movement in property, plant and equipment for the year ended December 31, 2008 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2008	1,148,130	1,439,470	68,416	32,025	33	586,031	**3,274,105**
Additions	2,570	19,873	473	900	-	958,067	**981,883**
Assets put into operation	22,677	670,699	6,438	6,078	1,194	(707,086)	**-**
Disposals	(6,008)	(26,231)	(1,587)	(609)	-	(929)	**(35,364)**
Assets acquired in business combinations (Note 10)	85,922	289,287	60	2,640	1,826	64,994	**444,729**
Currency translation adjustments	(189,126)	(333,360)	(11,509)	(5,571)	(490)	(134,733)	**(674,789)**
BALANCE AT DECEMBER 31, 2008	**1,064,165**	**2,059,738**	**62,291**	**35,463**	**2,563**	**766,344**	**3,990,564**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2008	(114,043)	(413,876)	(19,560)	(14,283)	-	-	**(561,762)**
Depreciation charge	(33,076)	(144,317)	(5,427)	(5,688)	(436)	-	**(188,944)**
Impairment	(19,785)	(33,363)	(3,019)	(280)	-	(3,399)	**(59,846)**
Disposals	352	21,542	675	502	-	-	**23,071**
Currency translation adjustments	26,105	87,079	4,215	2,830	1	523	**120,753**
BALANCE AT DECEMBER 31, 2008	**(140,447)**	**(482,935)**	**(23,116)**	**(16,919)**	**(435)**	**(2,876)**	**(666,728)**
NET BOOK VALUE AT DECEMBER 31, 2008	**923,718**	**1,576,803**	**39,175**	**18,544**	**2,128**	**763,468**	**3,323,836**
NET BOOK VALUE AT JANUARY 1, 2008	**1,034,087**	**1,025,594**	**48,856**	**17,742**	**33**	**586,031**	**2,712,343**

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

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2007	880,347	1,140,296	45,987	22,187	-	321,541	**2,410,358**
Additions	3,871	8,046	340	789	-	620,587	**633,633**
Assets put into operation	165,500	201,894	19,032	7,601	32	(394,059)	**-**
Disposals	(6,899)	(19,736)	(1,075)	(684)	-	(2,122)	**(30,516)**
Assets acquired in business combinations (Note 10)	37,023	17,937	82	121	-	6,160	**61,323**
Currency translation adjustments	68,288	91,033	4,050	2,011	1	33,924	**199,307**
BALANCE AT DECEMBER 31, 2007	**1,148,130**	**1,439,470**	**68,416**	**32,025**	**33**	**586,031**	**3,274,105**
ACCUMULATED DEPRECIATION							
Balance at January 1, 2007	(84,665)	(291,331)	(14,085)	(9,526)	-	-	**(399,607)**
Depreciation charge	(24,753)	(103,881)	(4,766)	(4,287)	-	-	**(137,687)**
Disposals	775	9,013	635	457	-	-	**10,880**
Currency translation adjustments	(5,400)	(27,677)	(1,344)	(927)	-	-	**(35,348)**
BALANCE AT DECEMBER 31, 2007	**(114,043)**	**(413,876)**	**(19,560)**	**(14,283)**	-	-	**(561,762)**
NET BOOK VALUE AT DECEMBER 31, 2007	**1,034,087**	**1,025,594**	**48,856**	**17,742**	**33**	**586,031**	**2,712,343**
NET BOOK VALUE AT JANUARY 1, 2007	**795,682**	**848,965**	**31,902**	**12,661**	**-**	**321,541**	**2,010,751**

Bank borrowings are secured by properties and equipment with the carrying value of 133,624 (December 31, 2007: 180,616), (Note 23).

18) Property, Plant and Equipment (continued)

At December 31, 2008, the Group conducted an impairment test of property, plant and equipment and determined that carrying volume of property, plant and equipment of its Romanian subsidiaries and Orsk Plant exceeds their recoverable amount. The recoverable amount represents the value in use determined based on discounted future cash flow. The group used pre-tax discount rates of 16.94% and 17.47% for determining the value in use for Romanian subsidiaries and Orsk Plant, respectively. The entire amount of impairment loss was recognised in the income statement. No impairment loss was recognised in 2007.

19) Goodwill and Other Intangible Assets

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2008	781	101,858	17,133	-	-	-	9,354	**129,126**
Additions	213	-	1,637	-	-	-	284	**2,134**
Disposals	(8)	-	-	-	-	-	(1,725)	**(1,733)**
Assets acquired business combination (Note 10)	208,700	488,225	-	472,300	14,100	8,500	1,565	**1,193,390**
Currency translation adjustments	(156)	(18,689)	(3,039)	-	-	-	(1,413)	**(23,297)**
BALANCE AT DECEMBER 31, 2008	**209,530**	**571,394**	**15,731**	**472,300**	**14,100**	**8,500**	**8,065**	**1,299,620**
ACCUMULATED AMORTISATION								
Balance at January 1, 2008	(160)	-	(4,322)	-	-	-	(2,071)	**(6,553)**
Amortisation charge	(54)	-	(2,507)	(48,851)	(974)	(4,332)	(2,111)	**(58,829)**
Impairment	-	(3,512)	-	-	-	-	-	**(3,512)**
Disposals	1	-	-	-	-	-	1,095	**1,096**
Currency translation adjustments	33	542	1,089	-	-	-	483	**2,147**
BALANCE AT DECEMBER 31, 2008	**(180)**	**(2,970)**	**(5,740)**	**(48,851)**	**(974)**	**(4,332)**	**(2,604)**	**(65,651)**
NET BOOK VALUE AT DECEMBER 31, 2008	**209,350**	**568,424**	**9,991**	**423,449**	**13,126**	**4,168**	**5,461**	**1,233,969**
NET BOOK VALUE AT JANUARY 1, 2008	**621**	**101,858**	**12,811**	**-**	**-**	**-**	**7,283**	**122,573**

	Patents and trademarks	Goodwill	Software	Other	TOTAL
COST					
Balance at January 1, 2007	403	46,944	14,303	4,794	**66,444**
Additions	351	-	1,710	4,571	**6,632**
Additions - internal development	-	-	-		**-**
Disposals	(15)	-	-	(510)	**(525)**
Assets acquired business combination (Note 10)	-	50,934	-	-	**50,934**
Currency translation adjustments	42	3,980	1,120	499	**5,641**
BALANCE AT DECEMBER 31, 2007	**781**	**101,858**	**17,133**	**9,354**	**129,126**
ACCUMULATED AMORTISATION					
Balance at January 1, 2007	(130)	-	(2,224)	(1,446)	**(3,800)**
Amortisation charge	(35)	-	(1,858)	(679)	**(2,572)**
Disposals	15	-	-	174	**189**
Currency translation adjustments	(10)	-	(240)	(120)	**(370)**
BALANCE AT DECEMBER 31, 2007	**(160)**	**-**	**(4,322)**	**(2,071)**	**(6,553)**
NET BOOK VALUE AT DECEMBER 31, 2007	**621**	**101,858**	**12,811**	**7,283**	**122,573**
NET BOOK VALUE AT JANUARY 1, 2007	**273**	**46,944**	**12,079**	**3,348**	**62,644**

19) Goodwill and Other Intangible Assets (continued)

Customer relationships represent a key intangible asset that has a separate and distinct value. Over time, as the Company has increased its name recognition, it has also cultivated relationships with its customers. Remaining amortisation period for customer relationships is 8-10 years.

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group.

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (2007: nil).

The carrying amount of goodwill and intangible assets with indefinite useful live were allocated among cash generating units as follows at December 31:

	2008	2007
Cash generating units in North America, including:	681,668	-
NS Group, Inc.	506,324	-
IPSCO Tubulars, Inc.	175,344	-
Oilfield service cash generating unit	40,058	51,500
Other cash generating units	55,398	50,358
TOTAL GOODWILL AND INTANGIBLE ASSETS WITH IDENFINITE USEFUL LIVES	**777,124**	**101,858**

Goodwill and intangible assets with indefinite useful lives were tested for impairment at December 31, 2008. As a result of the test, the Group determined that the carrying value of cash generating units in North America approximates their recoverable amounts and the carrying value of Oilfield service cash generating unit exceeds its recoverable amount. Consequently, the Group recognized impairment of Oilfield service cash generating unit's goodwill in the amount of 3,512. Events and circumstances that led to recognition of impairment are disclosed in Note 29.

For the purpose of impairment testing the recoverable amount of goodwill has been determined based on value in use. Value in use has been calculated using cash flow projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash generating unit or group of cash generating units. The key assumptions used by management in calculation of value in use are presented in the table below. For the periods not covered by management plans, cash flow projections have been estimated by extrapolating the respective business plans taking into account business cycles resulting in zero growth rate.

	Period of forecast, years	Pre-tax discount rate, %	Commodity	Average of commodity per ton
Group of cash generating units in North America, including				
NS Group, Inc.	5	14.58	Welded pipes Seamless pipes	1,225 1,787
IPSCO Tubulars, Inc.	5	14.25	Welded pipes	1,193
Oilfield service cash generating unit	5	16.17		
Other cash generating units	5	16.22-18.87		

19) Impairment of Goodwill (continued)

The calculation of Oilfield service cash generating unit's value in use was most sensitive to the following assumptions:

Discount Rates

Discount rates reflect the current market assessment of the risks specific to cash generating unit. The discount rates have been determined using the CAPM concept and analysis of industry peers. Reasonable change in discount rate for Oilfield service cash generating unit could lead to further impairment of goodwill. A 10% increase in the discount rate would result in an additional impairment of 8,753.

Volume of Production and Repair of Oilwell Pipes

The management assumed that the volume of repaired oilwell pipes would decline by 17% during 2009 and would grow in 2010, 2011, 2012 and 2013 by 5%, 7%, 5% and 12%, respectively, to reach a normal asset capacity thereafter. The management also assumed that Oilfield service cash generating unit starts to produce oilwell pipes from semi-finished pipes produced by other cash generating units of the Group. In 2009, oilfield cash generating unit plans to produce 22,310 oilwell pipes, which then will grow in 2010 by 10% and by 12% thereafter. Reasonable changes in quantities of produced and sold and repaired oilwell pipes could lead to the additional impairment. If the quantities of the units of production sold and repaired were 10% lower than those assumed in the impairment test during 2009 and 2010, this would lead to an additional impairment of 26,840.

Cost Control Measures

The recoverable amounts of Oilfield service cash generating unit is based on the business plans approved by management. The reasonable deviation of cost from these plans could lead to an additional impairment. If the actual costs were 10% higher than those assumed in the impairment test during 2009-2013, the goodwill would be fully impaired.

20) Trade and Other Payables

	2008	2007
Trade payables	578,749	192,344
Accounts payable for property, plant and equipment	144,585	98,627
Notes issued to third parties	869	929
Sales rebate payable	5,400	-
Other payables	8,930	3,277
TOTAL ACCOUNTS PAYABLE	**738,533**	**295,177**

21) Accrued Liabilities

	2008	2007
Payroll liabilities	38,512	27,374
Accrued and withheld taxes on payroll	16,412	13,965
Liabilities for VAT	19,298	11,883
Liabilities for property tax	4,791	2,561
Liabilities for other taxes	3,309	3,651
Deferred VAT	99	399
Current portion of employee-benefit liability	1,869	2,284
Accrual for long-service benefit	5,348	5,607
Liabilities under put options of minority shareholders in subsidiaries	552,989	39,481
Liability for bonuses	17,028	8,806
Accrued liability on acquisitions	1,510	26,693
Miscellaneous	4,287	4,480
TOTAL ACCRUED LIABILITIES	**665,452**	**147,184**

22) Provisions

	2008	2007
Current		
Provision for unused annual leaves, current portion	8,813	3,130
Accrual for tax fines	1,270	1,456
Environmental provision	1,427	88
TOTAL CURRENT PROVISIONS	**11,510**	**4,674**
Non-current		
Environmental provision	5,474	-
Provisions for unused annual leave	13,194	15,973
TOTAL NON-CURRENT PROVISIONS	**18,668**	**15,973**

23) Interest-Bearing Loans and Borrowings

Short-term and long-term borrowings were as follows as at December 31, 2008:

	2008	2007
Current:		
Bank loans	1,676,590	671,574
Interest payable	46,651	17,397
Current portion of non-current borrowings	92,463	141,805
Current portion of bearer coupon debt securities	402,078	203,698
Unamortised debt issue costs	(3,145)	(1,454)
	2,214,637	**1,033,020**
Finance lease liability - current	1,822	302
TOTAL SHORT-TERM BORROWINGS	**2,216,459**	**1,033,322**
Non-current:		
Bank loans	287,811	249,217
Bearer coupon debt securities	1,172,259	607,741
Unamortised debt issue costs	(10,273)	(5,882)
Less: current portion of non-current borrowings	(92,463)	(141,805)
Less: current portion of bearer coupon debt securities	(402,078)	(203,698)
	955,256	**505,573**
Finance lease liability - non-current	38,969	404
TOTAL LONG-TERM BORROWINGS	**994,225**	**505,977**

23) 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, profitability and guarantees issued to other parties.

In addition to collaterals disclosed in Notes 13, 14, 17, 18 the Group pledged its rights under sales contracts in Romania totaling to 15,169 as collateral under loan agreements as at December 31, 2008 (December 31, 2007: 220,144). Proceeds from sales pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

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

	Interest rates for period ended	2008	Interest rates for period ended	2007
Russian Rouble	Fixed 7.6% -17.55%	1,206,957	Fixed 6% -12%	929,949
US Dollar	Fixed 8.5%	305,451	Fixed 8.5%	303,380
	Fixed 9.75%-14.7%	733,701	Fixed 20.94%	151
	Variable:	659,234	Variable:	143,778
	Libor (1m) + 1.6% - 2.5%			
	Libor (3m) + 1.7%		Libor (3m) + 1.5% - 1.7%	
	Federal Funds Rate +1.6%		Federal Funds Rate +1.6%	
Euro	Fixed 5.11%-9.4%	5,405	Fixed 5.7%	250
	Variable:	258,734	Variable:	159,905
	Euribor (1m) + 1.6%		Euribor (1m) + 0.23% - 4.95%	
	Euribor (3m) + 2.75%		Euribor (3m) + 2.25 - 2.75%	
	Euribor (6m) + 0.23% - 2.4%		Euribor (6m) + 2.4% - 5%	
			Euribor (12m) + 0.23% - 4.95%	
Romanian Lei	Fixed 16%	411		
			Bubor (1m) + 0.75%	1,180
		3,169,893		**1,538,593**

Bank Loans

In the second half of 2008, the Group entered into short-term loans with Sberbank in the principal amount of 9,765 million roubles. As of December 31, 2008, the principle outstanding balance was 9,765 million roubles (332,364 at the exchange rate at December 31, 2008).

In October – November 2008, the Group entered into short-term loans with VTB in the principal amount of 7,000 million roubles. As of December 31, 2008, the principle outstanding balance was 7,000 million roubles (238,254 at the exchange rate at December 31, 2008).

23) Interest-Bearing Loans and Borrowings (continued)

Syndicated Bridge Loan Facility

On May 30, 2008, TMK entered into the IPSCO Bridge Facility Agreement for 1,200,000 to finance the acquisition of a 51% interest in NS Group Inc. and the 100% interest in IPSCO Tubulars Inc. (Note 10). ABN AMRO Bank N.V., Bank of Tokyo Mitsubishi UFJ, Ltd., Barclays Bank PLC, BNP Paribas (Suisse) S.A., ING Bank N.V., Natixis, Nomura International plc. and Sumitomo Mitsui Finance Dublin Limited are arrangers of the facility. The facility had a term of 12 months with a 3–month extension option thereafter, subject to agreement of all parties. The facility bore interest at a rate ranging between one–month LIBOR plus 1.5% and one–month LIBOR plus 2.85%, with the rate increasing during the lifetime of the facility. As described below, in July 2008 the Group partly refinanced this bridge facility using the proceeds from issuance of 600,000 10% Loan Participation Notes due in 2011. As of December 31, 2008, the principle outstanding balance was 600,000. The facility was fully repaid on January 28, 2009 using the proceeds from the loan provided by Gazprombank (Note 30).

Loan Participation Notes

On September 29, 2006, the Group issued 3,000 8.5% loan participation notes with a nominal value of 100,000 US dollars each, due September 2009. On July 25, 2008 the Group issued 6,000 10% loan participation notes with a nominal value of 100,000 US dollars each, due July 2011. The notes were issued by TMK Capital S.A. ("TMK Capital"), a Luxemburg special purpose vehicle, for the sole purpose of funding a loan to the Company. The notes have been admitted to trading on the London Stock Exchange. The terms of the notes provide for certain restrictions on the Company's ability to incur financial indebtedness, liens, to engage in assets sales, to engage in transactions with affiliates and to engage in mergers and similar transactions. The proceeds of the loan were used for partial repayment of the IPSCO Bridge Facility for the amount of 1.2 billion.

Bearer Coupon Debt Securities

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 Russian roubles (35.95 US dollars at the exchange rate as at the date of issuance) each, with eight coupons periods of 182 days each. The bonds matured on March 24, 2009. The annual interest rate was 7.6%. As at December 31, 2008, an aggregate of 3 billion Russian roubles (102,109 at the exchange rate as at December 31, 2008) remained outstanding under these bonds series. On March 24, 2009, the Group repaid its liability under these bonds using the proceeds from the loan provided by VTB (Note 30).

On February 21, 2006, the Group issued 5,000,000 bonds with a nominal value of 1,000 Russian roubles (35.53 US dollars at the exchange rate as at the date of issuance) each, with ten coupon periods of 182 days each. The maturity date is February 15, 2011. The interest rate for the first, second, third and fourth semi-annual coupons was 7.95% per annum. The interest rate for the fifth, sixth, seventh and eighth semi-annual coupons is 9.6% per annum. The annual interest rate for the ninth and tenth semi-annual coupon periods is to be established and announced by the Company on any date before the last 10 days of the ninth coupon period. As at December 31, 2008, an aggregate of 5.0 billion Russian roubles (170,184 at the exchange rate as at December 31, 2008) remained outstanding under these bonds series.

23) Interest-Bearing Loans and Borrowings (continued)

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. As of December 31, 2008, the Group fully repaid liability under the lease contract.

Unamortised Debt Issue Costs

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

Unutilised Borrowing Facilities

As at December 31, 2008, the Group had unutilised borrowing facilities in the amount of 280,522 (December 31, 2007: 491,854).

Finance Lease Liabilities

Starting from 2001, the Group entered into lease agreements under which it has a bargain option to acquire the leased assets at the end of lease term ranging from 1 to 20 years. The estimated average remaining useful life of leased assets varies from 4 to 20 years.

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

	2008	2007
Machinery and equipment	34,578	330
Transport and motor vehicles	863	883
	35,441	**1,213**

The leased assets are included in property, plant and equipment in the consolidated balance sheet (Note 18).

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows at December 31, 2008:

	Minimum payments	Present value of payments
2009	3,050	1,822
2010-2013	11,028	6,679
after 2013	40,205	32,290
Total minimum lease payments	**54,283**	**40,791**
Less amounts representing finance charges	(13,492)	
Present value of minimum lease payments	**40,791**	**40,791**

23) Interest-Bearing Loans and Borrowings (continued)

Finance Lease Liabilities (continued)

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows at December 31, 2007:

	Minimum payments	Present value of payments
2008	344	302
2009 – 2010	434	404
Total minimum lease payments	**778**	**706**
Less amounts representing finance charges	(72)	
Present value of minimum lease payments	**706**	**706**

In the years ended December 31, 2008 and December 31, 2007, the average interest rates under the finance lease liabilities were 3% and 4%, respectively.

24) Employee Benefit Liability

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

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

	Russia		Romania		Total	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Movement in the benefit liability:						
At January 1	(22,216)	(19,731)	(1,931)	(1,318)	(24,147)	(21,049)
Benefit expense	(365)	(1,204)	53	(615)	(312)	(1,819)
Benefit paid	1,568	1,179	119	92	1,687	1,271
Change in liability due to business combinations	-	(957)	-	-	-	(957)
Currency translation adjustment	3,470	(1,502)	246	(90)	3,716	(1,592)
At December 31	**(17,543)**	**(22,215)**	**(1,513)**	**(1,931)**	**(19,056)**	**(24,146)**
Short-term	**(1,869)**	**(2,284)**	**-**	**-**	**(1,869)**	**(2,284)**
Long-term	**(15,674)**	**(19,931)**	**(1,513)**	**(1,931)**	**(17,187)**	**(21,862)**
Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses):						
Current service cost	1,127	932	250	285	1,377	1,217
Interest cost on benefit obligation	967	1,828	168	99	1,135	1,927
Net actuarial (gain) loss recognised in the period	(1,913)	(1,764)	(471)	231	(2,384)	(1,533)
Past service cost	184	208	-	-	184	208
Net benefit expense / (income)	**365**	**1,204**	**(53)**	**615**	**312**	**1,819**

The Group expects to contribute 1,892 to its defined post-employment benefit programme in 2009

	2008	2007
Present value of defined benefit obligation	21,317	27,467
Unrecognised past service cost	(2,261)	(3,321)
Benefit liability as at December 31	**19,056**	**24,146**

24) Employee Benefit Liability (continued)

The Group had no plan assets and unrecognised actuarial gains or losses in the year ended December 31, 2008.

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

	2008	2007
Defined benefit obligation as at December 31	**21,317**	**27,467**
Experience adjustments on plan liabilities	954	(1,639)

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

	Russia		Romania	
	2008	2007	2008	2007
Discount rate	8.85%	7.75%	current 9.51%, decreasing to 3.53% in the long- term	current 6.7%, decreasing to 3.53% in the long- term
Average long-term rate of compensation increase	6.25%	6.25%	current 6.0%, decreasing to 2.0% in the long-term	current 14.0%, decreasing to 2.0% in the long-term

25) Principal Subsidiaries

Company	Location	Main activity	Actual ownership interest	Effective ownership interest	Actual ownership interest	Effective ownership interest
			December 31, 2008		December 31, 2007	
IPSCO Tubulas Inc.	USA	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	0%	0%
NS Group Inc. *	USA	Manufacturing of seamless steel pipes, welded steel pipes and other products	51.00%	51.00%	0%	0%
OAO “Sinarsky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, sale of electric and heating power and other services	92.95%	92.95%	92.68%	92.68%
OAO “Seversky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services	93.53%	93.53%	93.29%	93.29%
OAO “Volzhsky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	100.00%	100.00%
OAO “Taganrog Metallurgical Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of steel ingots and other products	95.94%	95.94%	95.94%	100.00%
OAO “Orsky Machine Building Plant”	Russia	Manufacturing of drilling locks and other products	75.00%	75.00%	75.00%	75.00%
ZAO “Trade House TMK”	Russia	Sales & Distrubution, pipes	100.00%	99.92%	100.00%	99.92%
OOO “Skladskoy Kompleks TMK”	Russia	Sales & Distrubution,pipes	100.00%	100.00%	100.00%	100.00%
TOO “TMK-Kazakhstan”	Kazakhstan	Sales & Distribution, pipes	100.00%	100.00%	100.00%	100.00%
TOO Kaztrubprom	Kazakhstan	Manufacturing of seamless steel pipes and other products	100.00%	100.00%	0%	0%
OOO “TMK-Trans”	Russia	Logistics	100.00%	100.00%	100.00%	100.00%
OOO “Blagoustroystvo”	Russia	Services	100.00%	99.99%	100.00%	99.99%
OOO “Sinarsky Trubnik”	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO “SinaraTransAvto”	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO “Sinaraproekt”	Russia	Services	100.00%	100.00%	100.00%	100.00%
TMK Global AG	Switzerland	Sales & Distribution, pipes	100.00%	100.00%	100.00%	100.00%
TMK North America Inc.	USA	Sales & Distribution,pipes	100.00%	100.00%	100.00%	100.00%
TMK Italia s.r.l.	Italy	Sales & Distribution,pipes	100.00%	100.00%	100.00%	100.00%
TMK Middle East FZCO	UAE	Sales & Distribution, pipes	100.00%	100.00%	100.00%	100.00%
OOO Pokrovka 40	Russia	Assets holding	100.00%	100.00%	100.00%	100.00%
TMK Europe GmbH	Germany	Sales & Distribution of pipes, raw materials and equipment procurement	100.00%	100.00%	100.00%	100.00%
SC TMK-ARTROM SA	Romania	Manufacturing of seamless steel pipes	80.56%	80.56%	80.56%	80.56%
SC TMK-RESITA SA	Romania	Manufacturing of billets and other pipe-related goods	99.49%	99.49%	99.49%	99.49%
WRJ INWESTYCJE SP Z O.O.	Poland	Investment company	100.00%	100.00%	100.00%	100.00%
TMK Capital S.A. (till 15 January 2007)	Luxembourg	Financing (SPV)	0.00%	0.00%	0.00%	0.00%
Joint-Stock Company “Russian Research Institute of the Tube and Pipe Industries”	Russia	In-house R&D facility	97.36%	97.36%	97.36%	100%
OOO “Predpriyatiye “Truboplast”	Russia	Laying of main piping, telecommunication and electricity	100.00%	100.00%	100.00%	100.00%
ZAO “Pipe Repair Department”	Russia	Services for oil and gas industries	100.00%	100.00%	100.00%	100.00%
OOO “TMK-Premium Services”	Russia	Sales & Distribution, premium pipes	100.00%	100.00%	100.00%	100.00%
OOO “Central Pipe Yard”	Russia	Services for oil and gas industries	100.00%	100.00%	100.00%	100.00%
OOO “ Accounting services center”	Russia	Accounting shared-services	100.00%	100.00%	100.00%	100.00%
Rockarrow Investments Limited	Cyprus	Stock option program servicing	100.00%	100.00%	100.00%	100.00%
ZAO “TMK-CPW” **	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	54.00%	50.51%	51.00%	47.58%
OOO TMK –SMS Metallurgical Service	Russia	Maintenance and repair of equipment	51.00%	47.58%	51.00%	47.58%

** The Group recorded a liability under that put/call option in the consolidated financial statements*
*** The Group recorded a liability under that put option in the consolidated financial statements*

25) Principal Subsidiaries (continued)

Actual ownership interest in subsidiaries differs from the effective ownership interests due to the existence of minority interests in subsidiaries that hold ownership interest in other subsidiaries.

26) 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. In 2007 and 2008 transactions with related parties were on arm length basis.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2008 and 2007 are detailed below.

In the year ended December 31, 2008, transactions with related parties constituted approximately 0.2 % of the total volume of the Group's sales of goods (2007: 0.5 %).

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

	2008	2007
Cash and cash equivalents	6,062	41,335
Accounts receivable – current	9,407	17,630
Prepayments – current	2	2
Accounts receivable - non-current	68	221
Accounts payable - current	(4,859)	(14,924)
Accounts payable - non-current	-	(5)
Interest payable	(131)	-

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

	2008	2007
Sales revenue	13,628	22,293
Purchases of goods and services	8,283	3,750
Interest income from loans and borrowings	841	2,013
Interest expenses from loans and borrowings	155	61
Loss on sale of treasury shares to management	15	-

Sales revenues to related parties relate principally to sales of heat and power energy to Kamenskaya Kommunalnaya Kompaniya.

The Group paid dividends to the Parent company in the amount of 163,861 in 2008.

26) Related Parties Disclosures (continued)

In addition to transactions with related parties disclosed in this note, other transactions with related parties are disclosed in Notes 10 and 28.

Compensation of Key Management Personnel of the Group

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 30 persons as at December 31, 2008 and 33 persons as at December 31, 2007. Total compensation to key management personnel included in general and administrative expenses in the income statement amounted to 22,875 for the year ended December 31, 2008 (2007: 29,636), including 4,452 of share-based payments (2007: 5,005).

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

The Group guaranteed debts of key management personnel outstanding as at December 31, 2008 in the amount of 3,826 with maturity in 2009-2014.

27) Contingencies and Commitments

Operating Environment of the Group

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

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. The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crises has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

The volatile global economic climate is having significant negative effects on the Group's business in Russia and North America.

27) Contingencies and Commitments (continued)

Taxation

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

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

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

In 2007 and 2008, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 827,852 thousand Russian roubles (28,177 at the exchange rate as at December 31, 2008). The Group accepted the claims for the amount of 58,640 thousand Russian roubles (1,996 at the exchange rate as at December 31, 2008), of which 28,424 thousand Russian roubles and 30,216 were accrued as of December 31, 2007 and 2008, respectively. Other claims totaling to 769,212 thousand Russian roubles (26,181 at the exchange rate as at December 31, 2008) have been contested by the Group in the courts.

At the date these financial statements have been authorised for issue, the courts made decisions in favor of the Group for the total amount of 373,573 thousand Russian roubles (12,715 at the exchange rate as at December 31, 2008). The remaining claims for 395,639 thousand Russian roubles (13,466 at the exchange rate as at December 31, 2008) are continued to be contested in the courts. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Therefore, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2008.

Contractual Commitments and Guarantees

As at December 31, 2008, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 4,149,665 thousand Russian roubles (141,239 at the exchange rate as at December 31, 2008), 227,167 thousand euros (320,419 at the exchange rate as at December 31, 2008), 5,991 Romanian lei (2,143 at the exchange rate as at December 31, 2008) and 2,308 thousand US dollars for the total amount of 466,110 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 52,179 with respect to such commitments (2007: 285,852).

27) Contingencies and Commitments (continued)

Contractual Commitments and Guarantees (continued)

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 154,556 (2007: 285,852).

Insurance Policies

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

Legal Claims

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

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at December 31, 2008 in the amount of 6,219 (2007: 4,889).

28) Equity

i) Share Capital

As at December 31, 2008, the authorised number of ordinary shares of the Company was 873,001,000 (2007: 873,001,000) with a nominal value per share of 10 Russian roubles. All these shares are issued and fully paid.

ii) Reserve Capital

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

28) Equity (continued)

iii) Dividends

In July 2007, the Company declared dividends in respect of 2006 in the amount of 3,753,904 thousand Russian roubles (145,624 at the exchange rate at the announcement date) or 4.3 Russian roubles per share (0.17 US dollars per share). In December 2007, the Company declared interim dividends in respect of 2007 in the amount of 3,168,994 thousand Russian roubles (128,140 at the exchange rate at the announcement date) or 3.63 roubles per share (0.15 US dollars per share) from which 3,759 thousand Russian roubles (152 at the exchange rate at the transaction date) related to treasury shares in possession of the Group as at the date of dividends declaration.

	in thousands of Russian roubles		in thousands of US dollars*	
	2008	**2007**	**2008**	**2007**
Declared during the year dividends on ordinary shares:				
Final dividends for 2006,	-	3,753,904	-	145,624
(4.3 RUR per share) or (0.17 US dollars per share)				
Interim dividends for 2007,	-	3,168,994	-	128,140
including dividends related to treasury shares in possession of the Group	-	(3,759)	-	(152)
(3.63 RUR per share) or (0.15 US dollars per share)				
Final dividends for 2007,	899,191	-	38,224	-
including dividends related to treasury shares in possession of the Group	(1,819)	-	(77)	-
(1.03 RUR per share) or (0.044 US dollars per share)				
Interim dividends for 2008,	1,527,752	-	56,660	-
including dividends related to treasury shares in possession of the Group	(5,871)	-	(218)	-
(1.75 RUR per share) or (0.065 US dollars per share)				
	2,419,253	**6,919,139**	**94,589**	**273,612**

*using exchange rate at the announcement date

In June 2008, the Company declared a final dividend in respect of 2007 in the amount of 899,191 thousand Russian roubles (38,224 at the exchange rate at the announcement date) or 1.03 Russian roubles per share (0,044 US dollars per share), from which 1,819 thousand Russian roubles (77 at the exchange rate at the transaction date) related to the treasury shares in possession of the Group as at the date of dividends declaration.

In November 2008, the Company declared an interim dividend in respect of 2008 in the amount of 1,527,752 thousand Russian roubles (56,660 at the exchange rate at the announcement date) or 1.75 Russian roubles per share (0,065 US dollars per share), from which 5,871 thousand Russian roubles (218 at the exchange rate at the transaction date) related to the treasury shares in possession of the Group as at the date of dividends declaration.

In accordance with Russian legislation, dividends may only be declared to the shareholders from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had 480,743 and 1,007,906 of undistributed and unreserved earnings recognised in Russian statutory financial statements as at December 31, 2008 and 2007, respectively. In addition, the Group’s share in the undistributed and unreserved earnings of its subsidiaries was 1,905,095 and 2,403,231 as at December 31, 2008 and 2007, respectively.

28) Equity (continued)

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

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

v) Acquisition of Minority Interests in Subsidiaries

In the year ended December 31, 2008, the Company purchased additional 0.24% of OAO "Seversky Pipe Plant" shares, 0.27% of OAO "Sinarsky Pipe Plant" shares. The total cash consideration for the shares amounted to 2,547. The excess in the amount of 191 of the consideration given for the shares over the carrying values of net assets attributable to interest in OAO "Seversky Pipe Plant" was charged to accumulative profit. The excess in the amount of 178 of the carrying values of net assets attributable to interest in OAO "Sinarsky Pipe Plant over the consideration paid for such minority interest is recorded in additional paid-in capital.

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

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

Dividends declared by subsidiaries of the Group to the minority owners in subsidiaries were recorded as a reduction in minority interests of 4,752 and 117 in the consolidated financial statements for the years ended December 31, 2008 and 2007, respectively.

vii) Minority Put Options

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

28) Equity (continued)

vii) Minority Put Options (continued)

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

In the year ended December 31, 2007, the Company purchased additional 0.2% of OAO "Taganrog Metallurgical Plant" shares for 1,298 and recorded a decrease in the liability under put options by that amount.

On August 1, 2008, after expiration of minority puts, the Group recognised minority interests in OAO "Taganrog Metallurgical Plant" for 21,443 and de-recognised liability for 20,077. The excess of the amount of the recognised minority interests over the carrying value of the liability amounted to 1,366 and was charged to retained earnings.

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

As at August 1, 2008 the Group recognised minority interests in OAO "RosNITI" for 200 and de-recognised a liability to minority shareholders for 200.

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

In 2008 the share capital of the subsidiary was reduced to the actually paid amount of 714,601,000 Russian roubles. The decision was made by the Shareholder's meeting as at September 30, 2008. The ownership of the Group amounted to 54%. Under the shareholders' agreement, the minority shareholder in TMK-CPW owning 46% (2007: 49%) shares in the subsidiary had a put option to sell its shares to the Group under certain circumstances beyond the Group's control. The Group recorded a liability under that put option in the consolidated financial statements.

viii) Share-Based Payments

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

28) Equity (continued)

viii) Share-Based Payments (continued)

The options are exercisable in three phases in June 2007, June 2008 and June 2009, representing 25%, 35% and 40%, respectively, of the total amount of shares subject to the Programme.

The exercise price for options under the first phase was fixed at 217.6 Russian roubles per share (7.41 US dollars per share at the exchange rate as at December 31, 2008). The exercise price for options under the second phase was fixed at 226.68 Russian roubles per share (7.72 US dollars per share at the exchange rate as at December 31, 2008). The exercise price for options under the third phase was fixed at 228.60 Russian roubles per share (7.78 US dollars per share at the exchange rate as at December 31, 2008).

The weighted average fair value of options granted during 2007 was 1.32 US dollars per share. The fair value of the options granted is estimated at the date of grant using the Black Scholes pricing model, taking into account the terms and conditions upon which options were granted. The fair value of options granted during the year ended December 31, 2007 was estimated on the date of grant using the following assumptions:

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

The historical volatility has been used for valuation of the share options granted in 2007. The expected volatility reflected the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

	2008		2007	
	Number of shares	WAEP	Number of shares	WAEP
Outstanding as at January 1	7,202,258	9.40	-	-
Granted during the year	-	-	9,603,011	8.70
Excercised during the year	-	-	(1,873,457)	8.56
Expired during the year	(3,361,054)	8.93	(527,296)	8.72
Outstanding as at December 31	3,841,204	7.78	7,202,258	9.40
Excercisable as at December 31	-	-	-	-

The weighted average share price at the dates of exercise of these options was 10.07 US dollars in 2007.

The weighted average remaining contractual life for the share options outstanding as at December 31, 2008 was 0.75 year.

28) Equity (continued)

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

	2008		2007	
	Number of shares	Cost	Number of shares	Cost
Outstanding as at January 1	1,081,967	10,752	-	-
Purchased during the year	6,089,182	27,110	2,425,631	22,433
Sold during the year	(4,100)	(35)	(1,873,457)	(17,674)
Purchased back from the Programme participants	-	-	529,793	5,993
Outstanding as at December 31, 2008	7,167,049	37,827	1,081,967	10,752

In the year ended 31 December, 2008, the Group purchased 6,089,182 shares of the Company of the total amount of 27,110 (at the exchange rates at the transaction dates), including 3,050 shares purchased from an entity under common control with the Group for 35. The Group purchased back from the Programme participants 43,532 shares of the Company for the amount of 383. There were no sales of shares to the Programme participants in 2008.

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

x) Warrants

On March 5, 2008, the Group purchased 1,200,000 warrants for the total amount of 5,590. Each warrant grants the Group a right to acquire the Company's shares at a strike price of 4.51 US dollars. The warrants become exercisable and expire on October 10, 2009.

xi) Hedge in Net Investment in Foreign Operations

The Group hedged its net investment in operations located in the United States against foreign currency risk as at December 31, 2008 using US dollar denominated liabilities under bridge loan facility of 600,000, loan participation notes of 600,000 issued on July 25, 2008 and put option of 510,625 (Note 10). The aim of the hedging was to eliminate foreign currency risk associated with the repayment of the liabilities resulting from changes in US dollar/Russian rouble spot rates.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the year ended December 31, 2008, the effective portion of net losses from spot rate changes of the above mentioned liabilities of 8,391,090 thousand roubles (328,340 at historical exchange rate), net of income tax benefit of 1,369,226 thousand roubles (approximately 53,577 at historical exchange rate), was recognised directly in equity (foreign currency translation reserve).

29) Financial Risk Management Objectives and Policies

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

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

Market Risk

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

Interest Rate Risk

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

The Group borrows on both a fixed and variable rate basis. EURIBOR and LIBOR served as the basis for the calculation of interest rates on loans with variable rate. As these loans accounted for only 28% of the total loan portfolio at the end of 2008 (19% at the end of 2007), the Group considers such risks as not significant and is not using instruments to hedge such interest-rate risks at present. Nevertheless, the Group monitors interest rates and will use instruments to hedge such risk as necessary.

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

29) Financial Risk Management Objectives and Policies (continued)

Interest Rate Risk(continued)

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Basis points	Effect on profit before tax
As at 31 December 2008		
Increase in LIBOR	55	(3481)
Decrease in LIBOR	(55)	3481
Increase EURIBOR	30	(776)
Decrease EURIBOR	(30)	776
As at 31 December 2007		
Increase in LIBOR	50	(655)
Decrease in LIBOR	(125)	1637
Increase EURIBOR	75	(1206)
Decrease EURIBOR	(150)	2412

Foreign Currency Risk

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

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. In recent years the effect of the Russian rouble appreciation versus the US dollar has been more than offset by increased prices for the Group's tubular goods, both domestically and internationally. However, from the end of 2008 the Russian rouble was devaluated due to major circumstances.

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

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

	2008			2007		
	Resulting exchange differences reflected in:			Resulting exchange differences reflected in:		
	Income statement	Equity	Total	Income statement	Equity	Total
USD/RUR	(182,743)	(1,710,625)	(1,893,368)	(315,391)	-	(315,391)
EUR/RUR	(259,737)	-	(259,737)	(54,521)	-	(54,521)
EUR/USD	24,247	-	24,247	(40,988)	-	(40,988)
USD/RON	(133,809)	-	(133,809)	(106,859)	-	(106,859)
EUR/RON	(66,892)	-	(66,892)	(91,791)	-	(91,791)

29) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax and equity. In estimating reasonably possible changes for 2007 the Group assessed the volatility of foreign exchange rates during the three years preceding the balance sheet dates. In 2008, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during 2008.

	As at December 31, 2008					
	Volatility range		Effect on income statement		Effect on equity	
	Low	High	Low	High	Low	High
USD/RUR	9.02%	-9.02%	(16,483)	16,483	(154,298)	154,298
EUR/RUR	8.67%	-8.67%	(22,519)	22,519	-	-
EUR/USD	14.32%	-14.32%	3,472	(3,472)	-	-
USD/RON	19.50%	-19.50%	(26,093)	26,093	-	-
EUR/RON	11.35%	-11.35%	(7,592)	7,592	-	-

	As at December 31, 2007					
	Volatility range		Effect on income statement		Effect on equity	
	Low	High	Low	High	Low	High
USD/RUR	4.20%	-5.80%	(13,246)	18,293	-	-
EUR/RUR	3.25%	-5.45%	(1,772)	2,971	-	-
EUR/USD	7.35%	-7.35%	(3,013)	3,013	-	-
USD/RON	11.02%	-11.02%	(11,776)	11,776	-	-
EUR/RON	8.00%	-8.00%	(7,343)	7,343	-	-

Liquidity Risk

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

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

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

29) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

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

As at 31 December 2008	Less than 3 months	3 to 12 month	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	535,996	202,537	-	-	-	-	**738,533**
Accounts payable to related parties	1,427	3,432	-	-	-	-	**4,859**
Interest-bearing loans and borrowings:							
Principal	458,603	1,714,350	82,337	820,778	46,549	54,834	**3,177,451**
Interest	101,004	113,997	85,553	73,017	2,818	9,460	**385,849**
Dividends payable	248	113	-	-	-	-	**361**
Liabilities under put options of minority shareholders in subsidiaries	552,989	-	-	-	-	-	**552,989**
Other non-current liabilities	-	-	2,966	67	4	-	**3,037**
Income Tax payable	39,823	-	-	-	-	-	**39,823**
	1,690,090	**2,034,429**	**170,856**	**893,862**	**49,371**	**64,294**	**4,902,902**

As at 31 December 2007	Less than 3 months	3 to 12 month	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	251,774	43,403	-	-	-	-	**295,177**
Accounts payable to related parties	14,924	-	-	-	-	-	**14,924**
Interest-bearing loans and borrowings:							**-**
Principal	477,939	539,138	447,675	39,532	9,303	14,945	**1,528,532**
Interest	39,925	46,039	55,853	24,822	12,239	7,111	**185,989**
Dividends payable	129,116	-	-	-	-	-	**129,116**
Liabilities under put options of minority shareholders in subsidiaries	39,481	-	-	-	-	-	**39,481**
Other non-current liabilities	-	1,535	2,829	2,829	2,829	46,671	**56,693**
Income Tax payable	**4,059**	-	-	-	-	-	**4,059**
	957,218	**630,115**	**506,357**	**67,183**	**24,371**	**68,727**	**2,253,971**

Credit Risk

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

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

29) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

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

As at December 31, 2008, accounts receivable from the three biggest debtors of the Group amounted to 153,092. As at December 31, 2007, accounts receivable from the three biggest debtors of the Group amounted to 249,440. Management determines concentration by reference to receivables from particular customers as percentage of total accounts receivable.

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

	2008	2007
Cash and cash equivalents	143,393	89,045
Financial investments	3,885	116
Trade and other receivables	751,715	523,787
Accounts receivable from related parties	9,475	17,853
Other	8,851	6,603
	917,319	**637,404**

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

	2008		2007	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
Current Trade and other receivables - not past due	575,467	(20)	466,398	-
	-	-	-	-
Current Trade and other receivables - past due	-	-	-	-
less then 30 days	66,300	(82)	31,671	-
between 30 and 90 days	98,010	(2,855)	15,150	-
over 90 days	25,034	(10,163)	19,772	(9,466)
Accounts receivable from related parties - not past due	9,475	-	17,853	-
Non-current Trade and other receivables - not past due	36	(12)	428	(166)
Other - not past due	8,851	-	6,603	-
	783,173	**(13,132)**	**557,875**	**(9,632)**

The movement in allowance for doubtful accounts was as follows:

	2008	2007
Balance at the beginning of the year	9,632	9,738
Utilized during the year	(1,565)	(1,029)
Additional (decrease) increase in allowance	7,212	(1,125)
Currency translation adjustment	(2,147)	2,048
BALANCE AT THE END OF THE YEAR	**13,132**	**9,632**

29) Financial Risk Management Objectives and Policies (continued)

Capital Management

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

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

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

Fair Value of Financial Instruments

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

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

	31 December 2008		31 December 2007	
	Net carrying amount	Fair Value	Net carrying amount	Fair Value
Financial Liabilities				
Fixed rate bank loans	1,039,956	1,012,526	614,388	614,388
Variable rate bank loans	924,445	853,353	306,403	306,403
Bonds due 2009	102,109	102,109	104,043	104,053
Bonds due 2011	170,181	144,229	203,698	203,962
8.5 per cent loan participation notes due 2009	300,000	235,500	300,000	305,616
10 per cent loan participation notes due 2011	600,000	324,000	-	-

The fair value of the bonds and notes was determined based on market quotations. The fair value of fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at prevailing interest rates of 17.5%, 15% and 14% per annum for loans denominated in Russian rouble, US dollar and Euro, respectively, as at December 31, 2008.

30) Events after the Balance Sheet Date

From December 31, 2008 to the date these financial statements have been authorised for issue, the Group has refinanced 1,387,499 of its short-term borrowings and obligations with facilities due not earlier than 2010:

- in January 2009, the Group entered into agreement with Gazprombank for 2.5 year term borrowing facilities of 1,107,542 to refinance the remaining part of the IPSCO Bridge Facility and acquire 49% of NS Group Inc. from Evraz in accordance with a call/put option concluded between TMK and Evraz in June 2008;
- in March 2009, TMK entered into one year loan agreement with VTB for 90,185. Using these proceeds, on March 24, 2009, the bearer coupon debt securities for the amount of 3,000,000 thousand Russian Roubles (102,109 at the exchange rate as of December 31, 2008) were redeemed;
- in January-March 2009 the Group refinanced other short-term loans for the total amount of 177,848.

On January 22, 2009, the Group and Evraz amended the option agreement to reduce the option price from 510,625 to 507,542. In addition, interest clause was removed from the option agreement. On January 30, 2009, TMK exercised its option for a 49% ownership interest in NS Group.

In the beginning of 2009, the Russian Rouble was devalued to major currencies. At the date these financial statements have been authorised for issue, the official exchange rate of the Russian Rouble to US Dollar as set by the Central Bank of Russia comprised 33.5533, which constitutes a 14.2% reduction in the value of the Russian Rouble to the US Dollar since 31 December 2008.