IMPORTANT NOTICE

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR MAY NOT BE FORWARDED TO ANY U.S. ADDRESS OTHER THAN AS PERMITTED BY REGULATION S UNDER THE SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities being offered, prospective investors must not be in the United States (within the meaning of Regulation S under the Securities Act). This Prospectus is being sent to you at your request, and by accessing this Prospectus you shall be deemed to have represented to us that you are not in the United States and that you consent to delivery of such Prospectus by electronic transmission. You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the lead manager or any affiliate of the lead manager is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the lead manager or such affiliate on behalf of the Issuer (as defined in the Prospectus) in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities being offered, in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in this Prospectus. This Prospectus may only be provided to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

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

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

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

U.S.$300,000,000 8.50% LOAN PARTICIPATION NOTES DUE 2009

issued by, but with limited recourse to,

TMK Capital S.A.

for the sole purpose of financing a loan to

OAO TMK

such loan initially unconditionally and irrevocably guaranteed by

OAO Volzhsky Pipe Plant and ZAO TMK Trade House

and to be additionally unconditionally and irrevocably guaranteed by

OAO Seversky Pipe Plant, OAO Sinarsky Pipe Plant and OAO Taganrog Metallurgical Works

Issue Price: 100%

TMK Capital S.A., a company incorporated as a *société anonyme* under the laws of the Grand Duchy of Luxembourg (the "Issuer"), is issuing an aggregate principal amount of 8.50% U.S.$300,000,000 Loan Participation Notes due 2009 (the "Notes") for the sole purpose of financing a loan (the "Loan") to OAO TMK, an open joint stock company organised under the laws of the Russian Federation (the "Borrower"), pursuant to a loan agreement dated 26 September 2006 (the "Loan Agreement") between the Issuer and the Borrower. The loan shall be initially unconditionally and irrevocably guaranteed (the "Initial Loan Guarantees") by the Borrower's subsidiaries OAO Volzhsky Pipe Plant and ZAO TMK Trade House (the "Initial Loan Guarantors"), and the Borrower has agreed in the Loan Agreement to procure that each of the Borrower's subsidiaries OAO Seversky Pipe Plant, OAO Sinarsky Pipe Plant and OAO Taganrog Metallurgical Works (the "Additional Loan Guarantors" and, together with the Initial Loan Guarantors, the "Loan Guarantors") shall also provide an unconditional and irrevocable guarantee of the Loan (the "Additional Loan Guarantees") within 90 days of 28 September 2006 (the "Issue Date"). In addition, in certain circumstances set out in the Loan Agreement, the Borrower may be obligated to procure certain further guarantees. **Failure of the Borrower to procure any such guarantees shall entitle the holders of the Notes (the "Noteholders") to request that the Issuer repurchase the Notes, as set out in the Terms and Conditions.**

Pursuant to the trust deed (the "Trust Deed") relating to the Notes between the Issuer and Deutsche Trustee Company Limited, as trustee (the "Trustee"), the Issuer will provide certain security for all payment obligations in respect of the Notes for the benefit of the Noteholders, including a first fixed charge in favour of the Trustee of all amounts paid and payable to it under the Loan Agreement and the Loan Guarantees and an assignment to the Trustee of the Issuer's rights and interests under the Loan Agreement and the Loan Guarantees, in each case other than in respect of certain reserved rights (as more fully described in "Description of the Transaction and the Security"). Interest on the Notes will be payable semi-annually in arrear on the interest payment date falling on 29 March and 29 September in each year, commencing on 29 March 2007, and the Notes will bear interest from, and including, 28 September 2006 at a rate of 8.50% per annum.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest, premium and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest, premium and additional amounts (if any) are due, for an amount equivalent to the principal, interest, premium, increased amounts of principal, interest, premium and any other payment due under the Loan Agreement and additional amounts (if any) actually received by or for the account of the Issuer from the Borrower or the Loan Guarantors pursuant to the Loan Agreement or the Loan Guarantees. The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Borrower and the Loan Guarantors in respect of the obligations of the Borrower and the Loan Guarantors under the Loan Agreement and the Loan Guarantees, respectively**.

Except as set forth herein, payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of any relevant jurisdiction.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 19.

The Notes, the Loan and the Loan Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes are being offered outside the United States in reliance on Regulation S under the Securities Act ("Regulation S") and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

This Prospectus has been approved by the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "Prospectus Directive") and relevant implementing measures in the United Kingdom (the "U.K. Listing Authority") as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Application has been made to admit the Notes to listing on the Official List of the U.K. Listing Authority and to trading on the Gilt-Edged and Fixed Interest Market (the "Regulated Market") of the London Stock Exchange plc (the "London Stock Exchange"). The Regulated Market is a regulated market for the purpose of Directive 93/22/EEC (the "Investment Services Directive").

It is expected that the Notes will be rated B2 by Moody's Investor Services ("Moody's") and B+ by Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("Standard and Poor's"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Notes will be offered and sold in minimum denominations of U.S.$100,000. The Notes will be represented by a global registered certificate (the "Global Note Certificate") registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear system ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") on or about 28 September 2006. Definitive registered certificates ("Definitive Certificates") evidencing holdings of Notes will only be available in certain limited circumstances. See "Summary of Provisions of the Notes While in Global Form."

Lead Managers

Citigroup **Credit Suisse** **Dresdner Kleinwort**

Senior Co-Lead Manager

Renaissance Capital

The date of this Prospectus is 26 September 2006

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus (the "Prospectus") is issued in compliance with the Prospectus Directive compliant listing rules of the Financial Services and Markets Act 2000 ("FSMA") for the purpose of giving information with respect to the Issuer, OAO TMK together with its consolidated subsidiaries ("TMK" or the "TMK Group"), the Loan Guarantors, the Loan Guarantees and the Notes and which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, OAO TMK, the Loan Guarantors and the TMK Group. Each of the Issuer, OAO TMK and each of the Loan Guarantors accepts responsibility for the information contained in this document. To the best of the knowledge and belief of each of the Issuer, OAO TMK and each of the Loan Guarantors, each of which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

OAO TMK and each of the Loan Guarantors confirms that (i) this Prospectus contains all information with respect to TMK, each of the Loan Guarantors and their respective subsidiaries, the Loan, the Loan Guarantees and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to TMK, each of the Loan Guarantors and their respective subsidiaries are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to TMK, each of the Loan Guarantors and their respective subsidiaries are honestly held, have been reached after considering all relevant circumstances, and are based on reasonable assumptions; (iv) there are no other facts in relation to TMK, each of the Loan Guarantors and their respective subsidiaries, the Loan, the Loan Guarantees or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by TMK and each of the Loan Guarantors to ascertain such facts and to verify the accuracy of all such information and statements.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, TMK, the Loan Guarantors or the Managers (as defined in "Subscription and Sale") to subscribe for or purchase any Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, TMK, the Loan Guarantors and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Prospectus, see "Subscription and Sale."

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

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

None of the Issuer, TMK, the Loan Guarantors, the Managers or any of its or their respective representatives or affiliates makes any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to

purchase any Notes must be obtained. The Issuer, TMK, the Loan Guarantors, the Trustee and the Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which the Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions, and investors should consult their legal advisers regarding such matters.

In connection with the issue of the Notes, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and Dresdner Bank AG London Branch (the "Stabilising Managers") (or any person acting on behalf of any of them) may over-allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105% of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if commenced, may be discontinued at any time and must be brought to an end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF OR THE TRUSTEE AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT, AND NOTHING CONTAINED IN THIS DOCUMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION BY THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF OR THE TRUSTEE ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT. EACH PERSON RECEIVING THIS PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF TMK AND THE LOAN GUARANTORS AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

NOTICE TO UNITED KINGDOM RESIDENTS

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

NOTICE TO RUSSIAN FEDERATION RESIDENTS

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

ENFORCEABILITY OF JUDGMENTS IN THE RUSSIAN FEDERATION

OAO TMK, the Initial Loan Guarantors and the Additional Loan Guarantors are incorporated under the laws of the Russian Federation and substantially all of the assets of OAO TMK, the Initial Loan Guarantors and the Additional Loan Guarantors are located outside the United Kingdom. In addition, a substantial majority of the directors and executive officers of OAO TMK, the Initial Loan Guarantors and the Additional Loan Guarantors are residents of countries other than the United Kingdom. As a result, it may not be possible for Noteholders to:

- effect service of process within the United Kingdom upon any of the directors or executive officers of OAO TMK, the Initial Loan Guarantors and the Additional Loan Guarantors; or
- enforce, in the English courts, judgments obtained outside English courts against OAO TMK, the Initial Loan Guarantors, the Additional Loan Guarantors or any of their respective directors and executive officers in any action.

In addition, it may be difficult for the holders of Notes to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only (i) if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments. No such federal law has been passed and no such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments.

The Loan Agreement and the Loan Guarantees will be governed by English law and will provide the option for disputes, controversies and causes of action brought by any party thereto to be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "Rules"). The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules and the application of English law to the Loan Agreement and the Loan Guarantees may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies and credit organisations in particular.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Our audited consolidated financial statements in respect of the financial years ended 31 December 2005 and 2004 (the "Annual Financial Statements") included in this Prospectus have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board.

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

In March 2006, we acquired a 100% interest in Sinara Handel (as defined below), a German limited liability company, for U.S.$40.0 million from Sinara Group S.A., which is under the control of Dr. Pumpyanskiy, who is also our controlling beneficial shareholder. Sinara Handel holds an 80.56% interest in TMK-Artrom (as defined below), a leading manufacturer of seamless industrial pipes in Romania, and a 99.49% interest in TMK-Resita (as defined below), a metallurgical plant in Romania. This business combination is also to be accounted for using the pooling of interests method. Acquisitions by Sinara Handel of third-party businesses prior to its acquisition by us, including in particular its acquisition of TMK-Resita, are accounted for as of the date of the relevant acquisition by Sinara Handel. When we publish our unaudited interim condensed consolidated financial information as of 30 June 2006 and 2005 and for the six months then ended, our financial statements for all periods preceding the transfer of interests in Sinara Handel to us, including our financial statements as of 31 December 2005 and 2004 and for the years then ended, will be restated as if the transfer to us of Sinara Handel had occurred as of 1 January 2003. We expect that we will publish this financial information, including restating our financial statements for all historical periods to reflect the acquisition of Sinara Handel, in October 2006.

Because we have yet to publish financial information covering periods for the time at which we effected our reorganisation with Sinara Handel, the financial information contained herein, including the Annual Financial Statements and the historical financial information included under "Overview—Summary Consolidated Financial Information," "Selected Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," does not include the results of Sinara Handel for such periods. We have, however, prepared and included herein unaudited pro forma condensed consolidated financial data as of 31 December 2005 and for the year then ended as if our combination with Sinara Handel had occurred with effect from 1 January 2005. See "Unaudited Pro Forma Condensed Consolidated Financial Data." Where in this Prospectus we wish to refer to this pro forma financial information, we use the terms "pro forma," "on a pro forma basis" or similar expressions.

Except under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and as otherwise indicated, the operating data of Sinara Handel and its subsidiaries are included in our sales volumes, production, capacity utilisation and other data relating to our business and operations for all periods presented in this Prospectus.

Presentation of Certain Terminology

In this Prospectus, all references to:

- "**OAO TMK**" and the "**Company**" are to OAO TMK on an unconsolidated basis, unless the context otherwise requires;
- "**TMK**," "**TMK Group**," "**we**," "**us**" and "**our**" are to OAO TMK and its consolidated subsidiaries, taken as a whole, unless the context otherwise requires;
- "**Seversky**" are to OAO Seversky Pipe Plant;
- "**Sinara Handel**" are to Sinara Handel GmbH;
- "**Sinarsky**" are to OAO Sinarsky Pipe Plant;

- "**Tagmet**" are to OAO Taganrog Metallurgical Works;
- "**TMK-Artrom**" are to SC TMK-Artrom S.A.;
- "**TMK Global**" are to TMK Global AG;
- "**TMK-Kazakhstan**" are to TOO TMK-Kazakhstan;
- "**TMK-Resita**" are to SC TMK-Resita S.A.;
- "**TMK Trade House**" are to ZAO TMK Trade House;
- "**TMK-Trans**" are to OOO TK TMK-Trans; and
- "**Volzhsky**" are to OAO Volzhsky Pipe Plant.

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

Volume Measurement

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

Currencies

In this Prospectus, all references to:

- "**EUR**," "**euro**" and "**€**" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community;
- "**ROL**" is to the currency of the Republic of Romania;
- "**RUB**" and "**Russian rouble**" are to the currency of the Russian Federation; and
- "**U.S. dollar**" and "**U.S.$**" are to the currency of the United States of America.

Certain Jurisdictions

In this Prospectus, all references to:

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

Other Data

Market data used in this Prospectus, including without limitation under the captions "Overview," "Business" and "Certain Regulatory Matters," have been extracted from official and industry sources and other sources we believe to be reliable but have not been independently verified. Throughout this Prospectus, we have also set forth certain statistics, including statistics in respect of product sales volumes and market shares, from industry sources and other sources we believe to be reliable but that have not been independently verified. OAO TMK and the Loan Guarantors accept responsibility for accurately reproducing such information, data and statistics. Such information, data and statistics may be approximations or estimates or use rounded numbers.

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

Rounding

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

Exchange Rate Information

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

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

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

Solely for the convenience of the reader, and except as otherwise stated, this Prospectus contains translations of some rouble amounts into U.S. dollars at the rate of RUB 27.08 to U.S.$1.00, which was the rate published by the CBR on 30 June 2006. On 26 September 2006, the rate published by the CBR was RUB 26.67 to U.S.$1.00.

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

OVERVIEW

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Prospectus, including the more detailed information regarding our business and the financial statements and related notes included elsewhere in this Prospectus. Prospective purchasers of the Notes should also carefully consider the information set forth under the heading "Risk Factors." Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Cautionary Note Regarding Forward-Looking Statements."

Information in this Prospectus is presented on the basis of certain conventions that are set forth under "Presentation of Financial and Other Information" and definitions of certain terms related to our business and industry are set forth under "Glossary of Selected Terms."

Our Business

We are Russia's largest manufacturer and supplier of steel pipes and among the world's largest steel pipe producers, with an approximately 3% worldwide market share for steel pipes by sales volume in 2005, according to our estimates. We also estimate that we had an approximately 34% market share for steel pipes in Russia by sales volume in 2005. In 2005, we sold 2.92 million tons of steel pipes including 1.88 million tons of seamless pipes, of which 818,000 tons comprised seamless oil country tubular goods ("OCTG"). Pipes for the oil and gas industry accounted for approximately 59% of our total sales volume in 2005. We are also Russia's largest exporter of pipes, with sales outside of Russia accounting for approximately 27% of our total sales volume in 2005.

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

We launched our strategic investment programme in 2004 which is principally focused on increasing the efficiency of our production processes and increasing our seamless pipe production. We expect to make total capital expenditures of approximately U.S.$1.2 billion from the beginning of 2006 through the end of 2010 under the programme. We spent U.S.$96.6 million in connection with the programme in 2004 and 2005 and U.S.$79.1 million in the first six months of 2006. We plan that upon the completion of our strategic investment programme in 2010, we will have increased our seamless pipe production capacity by 1.2 million tons per annum to 3.2 million tons per annum and our steel-making capacity by 1.0 million tons to 3.4 million tons per annum.

We deliver our products to customers in more than 60 countries. Our principal customers include major Russian oil and gas companies, such as OAO Gazprom, OAO LUKoil, OAO Surgutneftegaz, OAO TNK-BP and OAO Rosneft, major multinational oil and gas companies, such as the Shell Group, and national oil companies, such as Oil and Natural Gas Corporation Limited ("ONGC") of India and Statoil ASA of Norway. In addition, we have participated as a supplier of pipes in many major national and international projects, such as the Caspian Pipeline Consortium oil pipeline, which connects oil fields in Western Kazakhstan to a major Russian Black Sea port, the Baltic Pipeline System oil pipeline, which connects oil fields in Western Siberia to a Russian port on the Gulf of Finland, and the Yamal–Europe gas pipeline, which connects gas fields in Western Siberia to Western Europe. We are currently participating as a supplier in the expansion of the Central Asia-Centre gas pipeline project, which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to Russia.

We operate primarily through our six production subsidiaries, four of which—Volzhsky, Seversky, Tagmet and Sinarsky pipe plants—are in Russia, and two of which—TMK-Artrom and TMK-Resita—are in Romania. In 2005, we had total consolidated net sales on a pro forma basis of U.S.$2,938.2 million and profit before tax on a pro forma basis of U.S.$350.0 million. As of 31 December 2005, we had total assets on a pro forma basis of U.S.$2,453.0 million. See "—Summary Consolidated Financial Information—Unaudited Pro Forma Condensed Consolidated Financial Data."

Investment Highlights

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

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

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

Strong Export Platform. We were the leading exporter of pipes from Russia in 2005, with an estimated 50% share of all steel pipe exports from Russia, an estimated 71% share of total seamless pipe exports, an estimated 69% share of OCTG exports and an estimated 89% share of total line pipe exports from Russia. Two of our plants, Volzhsky and Tagmet, are strategically located in the southwestern part of Russia near Black Sea shipping routes and the Volga River and transit routes to the Caspian region, which gives them a strong export orientation. Our two Romanian plants, TMK-Artrom and TMK-Resita, provide us with a potentially strong base from which to access European markets, particularly following Romania's expected entry into the European Union. In 2005, we entered into a three-year distribution agreement with Lone Star Steel Company, a manufacturer of welded OCTG and specialty tubular products in the United States, pursuant to which we appointed Lone Star as the exclusive distributor of our products in the United States and Canada to strengthen our position on the North American market.

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

Vertically-Integrated Producer. Most of our plants have internal steel-making capabilities and supply their own billets for use in their seamless pipe-making operations. As a result, we are able to achieve cost savings by reducing our need to purchase semi-finished steel products from third-party manufacturers. Having internal steel-making capabilities also enables us to have a greater degree of quality control over the steel used in our pipe-making operations. We also expect to increase the amount of billets we supply to our Sinarsky plant, which lacks internal steel-making capabilities, from our other plants thus reducing Sinarsky's dependence on billets purchased from third-party suppliers.

Strong Financial Performance. As an integrated low-cost producer of seamless and welded pipes that has already invested substantially in consolidating our existing plants and in modernising our operations, we have benefited from the recent improved market environment in the pipe market, recording gross profit in 2005 on a pro forma basis of U.S.$746.4 million and profit before tax on a pro forma basis of U.S.$350.0 million. We also have a strong financial position reflected by our pro forma net debt to equity ratio of 0.46 to 1.00 as of 31 December 2005. We believe that our strong operating profit and financial position will help us to maintain and grow our business.

Strategy

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

We intend to continue to focus principally on higher growth seamless pipe products, especially on OCTG. In our welded pipes segment, we will continue to focus on large-diameter welded pipes for the oil and gas industry. Our strategic emphasis will be on expanding and developing our seamless pipe business through, among other things, significant capital investment, while we will seek to achieve controlled growth and protect our existing market share in our welded business with only limited capital investment.

Seamless Business

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

- ***Increasing the capacity and efficiency of our seamless pipe production through our strategic investment programme.*** We are in the process of implementing a U.S.$1,270 million strategic investment programme to expand our capacity at each stage of the integrated seamless pipe production process, including steel-making, pipe-rolling, pipe finishing and quality control to meet the growing demand of our domestic and export customers. Our strategic investment programme provides for the installation of electric arc furnaces to replace existing open hearth furnaces and continuous casting machines to replace ingot casting technology at Tagmet and Seversky. We expect that these initiatives will significantly enhance the efficiency of our steel-making operations, increase our steel-making capacity by 1.0 million tons to 3.4 million tons by 2010 and significantly reduce our seamless pipe raw materials costs. In our pipe rolling operations, we are replacing our pilger mills with modern continuous mills and upgrading existing rolling mills, which we expect will increase our seamless pipe capacity by 1.2 million tons to 3.2 million tons by 2010, while reducing our seamless pipe costs and enhancing our product mix. In our pipe finishing operations, we aim to double our production of value-added threaded and heat-treated pipe production through the installation of additional heat treatment and finishing lines. Our investment programme is targeted specifically at enhancing the capacity and product range of our OCTG and line pipes. See "Business—Strategic Capital Expenditure Programme." We believe that by increasing the range of our seamless pipe product offerings, we will be able more effectively to attract clients in more demanding global markets, including North America and the Persian Gulf region.

- ***Enhancing our product mix of pipes for the oil and gas industry to match global leaders.*** One of our strategic priorities is enhancing the range of technologically sophisticated high margin seamless pipe products we offer to the oil and gas industry. We plan to introduce new high performance pipes that are specifically intended for use in difficult high pressure drilling environments, such as deepwater offshore wells and arctic drilling, including alloyed steel OCTG and line pipes with stronger tolerances, high anticorrosion characteristics and greater resistance to cold. As an integral part of expanding our OCTG business, we intend to develop our threading capabilities and downstream services, such as threading repair and maintenance and sale of pipe accessories. By adding to our product range premium connections that can better withstand the extreme conditions encountered in high pressure, high temperature, deep and offshore oil and gas wells and horizontal drilling, we believe that we will be able to offer a more attractive product mix to global oil and gas companies and command higher prices for such premium products. In August 2006, we entered into an agreement with the Hydril Company, a U.S. company engaged in the engineering, manufacturing and marketing of premium connections used for oil and gas drilling and production, pursuant to which we plan to establish a joint venture for the manufacture of casing and tubing pipes with Hydril's premium connections. By working as a joint venture partner with one of the leading global providers of premium connections, we believe that we will be able to enhance our premium threading and downstream services more rapidly and be able to enhance our mix of higher margin premium products. We are also considering the acquisition of a manufacturer of tool joints, which are critical components for drill pipes, and drilling accessories to enhance our premium drill pipe business. By enhancing our product mix and the value-added features of our oil and gas product portfolio we will seek to achieve higher prices for our products and strengthen our profit margins.
- ***Strengthening our position as a leading supplier of OCTG and line pipe in Russia and other CIS countries and enhancing our position in the global market.*** In the Russian and CIS markets, we intend to strengthen our leading position in the seamless OCTG and line pipes segments by expanding our relationship with existing customers and by developing our downstream services and technological components business to complement our product offering. In major international markets, we plan to expand by developing a global network of commercial and distribution centres that will offer supply management, threading and downstream services in important oil and gas producing regions worldwide. We will also seek to obtain the necessary qualifications from major global oil and gas companies as a means of increasing global market acceptance. We believe that these initiatives will help us to develop an international brand. In addition, we may consider from time to time the acquisition of additional OCTG and line pipe manufacturing facilities in strategic locations outside Russia and will also seek to enter into commercial alliances and partnerships as an efficient means of strengthening our global presence.
- ***Strengthening alliances with suppliers of raw materials.*** Our steel-making operations for the production of seamless pipes require significant quantities of raw materials, and in particular steel scrap. We seek to enter into long-term alliances with a small number of large suppliers of such raw materials to better control the availability and quality of our scrap and other raw materials needs as well as to reduce our raw materials costs. We are also considering the acquisition of a major steel scrap collector in Russia to ensure the availability of high quality steel scrap.
- ***Focusing on select high margin segments within the industrial seamless pipe sector.*** To improve the utilisation of our existing production capacity, we intend to continue to focus on select high-margin segments within the industrial seamless pipe segment, such as boiler pipes for the power generation industry. We also intend to expand our capabilities throughout the value chain, concentrating on pipe accessories and components, particularly for automotive applications. Geographically, we plan to use TMK-Artrom, which is established as a supplier of industrial seamless pipes for major automotive and machine building industry customers, as a platform to expand our presence in the European industrial seamless pipe market. We believe that our planned capital investment in our seamless pipe-making mills will enhance our ability to produce higher-margin industrial seamless pipes to European specifications and to penetrate markets to which we currently have limited access.

Welded Business

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

We seek to expand our large-diameter welded pipe business by capitalising on the recent completion of our investment programme at our Volzhsky plant to increase production of large-diameter welded pipes and solidify our position as the only producer of spiral welded large-diameter pipes in Russia. We are closely monitoring developments in ongoing and proposed large-scale oil and gas transportation projects and are currently considering a potential partnership through a joint venture subsidiary with an international pipe producer to expand into the production of longitudinal welded large-diameter pipes, which we believe Gazprom and Transneft prefer for certain high pressure oil and gas applications. We further aim to pursue additional long-term supply and cooperation arrangements with key customers, such as Gazprom and Transneft. We are also considering a potential partnership with a supplier of metal coil and plate to better control the availability and quality of the feedstock for our large-diameter welded pipe production. In particular, we may seek to establish long-term supply arrangements with plate suppliers in connection with the production of our 1,420 mm diameter line pipe and are already working closely with Russian steel mills, including OAO Magnitogorsk Metallurgical Kombinat ("MMK"), OJSC Severstal and OJSC Novolipetsk Steel, to ensure sufficient supplies and grades of coiled steel for the manufacture of spiral welded large-diameter pipes for use in high pressure gas transmission pipelines. We are also seeking to become actively involved with sponsors at all stages of such pipeline projects, from the initial planning stage to the development and implementation stages, to enhance our opportunities to supply such projects with pipes.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set forth below shows our historical consolidated financial information and other operating information as of and for the years ended 31 December 2005 and 2004. This information has been extracted without material adjustment from, and should be read in conjunction with, the Annual Financial Statements included elsewhere in this Prospectus. The summary consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

In March 2006, we completed the acquisition of a 100% interest in Sinara Handel, which was under common control with us. As this business combination involved entities under common control, it will be accounted for using the pooling of interests method. Because we have yet to publish financial information covering periods for the time at which we effected our acquisition of Sinara Handel, the financial information set forth below does not include the results of Sinara Handel for such periods. As a result, the historical consolidated financial information discussed in this section, which does not reflect the business combination with Sinara Handel, differs from the consolidated financial information we will publish in the future. See "Unaudited Pro Forma Condensed Consolidated Financial Data" for pro forma condensed consolidated financial data as of 31 December 2005 and for the year then ended as if our combination with Sinara Handel had occurred with effect from 1 January 2005.

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

Historical Consolidated Financial Information

	Year ended 31 December	
	2005	2004
	(thousands of U.S. dollars, except per share data)	
CONSOLIDATED INCOME STATEMENT DATA		
Net sales	2,799,056	1,922,198
Cost of sales	(2,074,824)	(1,544,789)
Gross profit	**724,232**	**377,409**
Selling expenses	(127,253)	(127,148)
Advertising and promotion expenses	(2,969)	(1,634)
General and administrative expenses	(115,015)	(81,934)
Research and development expenses	(5,477)	(3,448)
Other operating expenses	(24,126)	(24,419)
Other operating income	639	569
Foreign exchange (loss)/gain	(11,582)	1,137
Finance costs	(75,204)	(97,423)
Finance income	1,952	3,226
Profit before tax	**365,197**	**46,335**
Income tax expense	(96,611)	(18,289)
Net profit	**268,586**	**28,046**
Attributable to:		
Equity holders of the parent entity	**259,068**	**26,004**
Minority interests	**9,518**	**2,042**
	268,586	**28,046**
Earnings per share attributable to equity holders of the parent entity	**0.30**	**0.22**
Seamless pipes segment		
Net sales	1,701,374	1,284,708
Cost of sales	1,123,524	979,396
Gross profit	577,850	305,312
Welded pipes segment		
Net sales	911,937	487,960
Cost of sales	784,018	427,782
Gross profit	127,919	60,178
Other operations		
Net sales	185,745	149,530
Cost of sales	167,282	137,611
Gross profit	18,463	11,919

	At 31 December	
	2005	2004
	(thousands of U.S. dollars)	
CONSOLIDATED BALANCE SHEET DATA		
Cash and cash equivalents	39,843	7,080
Total assets	2,255,655	2,278,804
Total loans and borrowings (long-term and short-term)	597,853	747,297
Total equity	1,147,630	936,968

	Year ended 31 December	
	2005	2004
	(thousands of U.S. dollars)	
CONSOLIDATED CASH FLOW DATA		
Net cash from operating activities	439,438	116,004
Net cash used in investing activities	(158,233)	(60,523)
Net cash used in financing activities	(247,609)	(56,118)

	As at or for the year ended 31 December	
	2005	2004
	(thousands of U.S. dollars, except percentages)	
Non-IFRS Measures		
Adjusted EBITDA[(1)]	561,403	240,931
Adjusted EBITDA margin[(2)]	20.1%	12.5%
Gross profit margin[(2)]	25.9%	19.6%
Net profit margin[(2)]	9.6%	1.5%
Net Debt[(3)]	559,255	745,042

(1) Adjusted EBITDA represents profit before tax plus depreciation and amortisation and as adjusted to exclude the following items: finance costs and finance income, loss (gains) on disposals of property, plant and equipment, charitable donations, loss (gains) on sales of current assets included in other operating expenses, foreign exchange (loss)/gain and other non-recurring operating income and expenses. We present Adjusted EBITDA because we consider Adjusted EBITDA to be an important supplemental measure of our operating performance and believe Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

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

Adjusted EBITDA has limitations as an analytical tool, and potential investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS. Some of these limitations include:

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

We compensate for these limitations by relying primarily on our IFRS operating results and using Adjusted EBITDA only supplementally. See our consolidated statements of income and consolidated statements of cash flows included elsewhere in this Prospectus.

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

	Year ended 31 December	
	2005	2004
	(thousands of U.S. dollars)	
Profit before tax	365,197	46,335
Amortisation	460	18
Depreciation	98,546	91,714
Finance costs	75,204	97,423
Finance income	(1,952)	(3,226)
Loss on disposal of property, plant and equipment	5,547	840
Charitable donations	7,389	3,452
Loss/(gain) on sale of current assets included in other operating expenses	14	(552)
Foreign exchange (loss)	11,582	(1,137)
Other non-recurring operating income and expenses	(584)	6,064
Adjusted EBITDA	561,403	240,931

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

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

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

Net Debt has been calculated as follows:

	At 31 December	
	2005	2004
	(thousands of U.S. dollars)	
Net Debt calculation		
Add:		
Short-term loans and borrowings and current portion of long-term loans and borrowings	434,663	630,210
Finance lease liabilities, current portion	1,222	3,787
Long-term loans and borrowings, net of current portion	163,190	117,087
Finance lease liabilities, net of current portion	23	1,038
Less:		
Cash and cash equivalents	39,843	7,080
Net Debt	559,255	745,042

Unaudited Pro Forma Condensed Consolidated Financial Data

The unaudited pro forma condensed consolidated financial data as of 31 December 2005 and for the year then ended set forth below include the historical consolidated financial statements of our group and Sinara Handel prepared in accordance with IFRS. On 1 March 2006, we obtained a 100% ownership interest in Sinara Handel in a transaction with an entity under common control with us. Sinara Handel holds controlling interests in TMK-Artrom and TMK-Resita, acts as a distributor of our pipe products in certain countries outside of Russia and also supplies us with certain types of raw materials and equipment. The unaudited pro forma condensed consolidated financial data set forth below give effect to the transfer of the interest in Sinara Handel to us, using the pooling of interests method of accounting, as if the transaction took place on 1 January 2005 and had been commonly managed from the beginning of the period presented.

The historical consolidated financial data of TMK have been extracted from our Annual Financial Statements prepared in accordance with IFRS included elsewhere in this Prospectus. The historical consolidated financial information of Sinara Handel has been extracted from the separate accounting records of Sinara Handel and its subsidiaries used in the preparation of our restated consolidated financial statements in accordance with IFRS which we will reissue in connection with the publication of our next financial information following the transfer of a 100% ownership interest in Sinara Handel to us.

Unaudited Pro Forma Condensed Consolidated Balance Sheet Data as of 31 December 2005

	Historical consolidated				
	TMK	Sinara Handel	Pro forma adjustments (eliminations)	Note	Unaudited consolidated pro forma
			(thousands of U.S. dollars)		
ASSETS					
Current assets					
Cash and cash equivalents	39,843	8,002	—		47,845
Short-term investments	422	1,237	—		1,659
Accounts receivable	185,715	32,427	(64,739)	*3, 5*	153,403
Inventories	416,862	41,425	645	*1, 2*	458,932
Prepayments	140,204	7,892	(2,682)	*3*	145,414
	783,046	**90,983**	**(66,776)**		**807,253**
Non-current assets					
Investments and other long-term receivables	59,962	2,227	(21,596)	*3*	40,593
Property, plant and equipment, net	1,358,930	196,079	(5,324)	*2*	1,549,685
Goodwill and other intangible assets	49,696	319	—		50,015
Deferred income taxes	4,021	1,411	—		5,432
	1,472,609	**200,036**	**(26,920)**		**1,645,725**
TOTAL ASSETS	**2,255,655**	**291,019**	**(93,696)**		**2,452,978**
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and advances from customers	153,903	71,496	(28,102)	*3*	197,297
Accrued liabilities	95,720	12,970	—		108,690
Finance lease liabilities, current portion	1,222	87	—		1,309
Loans and borrowings	434,663	62,826	(40,549)	*5*	456,940
Dividends	1,254	1,758	—		3,012
	686,762	**149,137**	**(68,651)**		**767,248**
Non-current liabilities					
Loans and borrowings	163,190	1,734	—		164,924
Finance lease liabilities, net of current portion	23	102	—		125
Deferred income taxes	233,611	10,531	(1,494)	*4*	242,648
Post-employment benefit	17,396	613	—		18,009
Other liabilities	7,044	299	—		7,343
	421,264	**13,279**	**(1,494)**		**433,049**
Total liabilities	**1,108,026**	**162,416**	**(70,145)**		**1,200,297**
Equity					
Parent shareholders' equity					
Issued capital	305,407	3,972	(3,972)	*6*	305,407
Accumulated profits	562,207	96,003	(19,579)	*7*	638,631
Reserve capital	15,387	—	—		15,387
Additional paid-in capital	136,590	608	—		137,198
Currency translation adjustment	67,005	18,915	—		85,920
	1,086,596	119,498	(23,551)		1,182,543
Minority interest	61,033	9,105	—		70,138
Total equity	**1,147,629**	**128,603**	**(23,551)**		**1,252,681**
TOTAL EQUITY AND LIABILITIES	**2,255,655**	**291,019**	**(93,696)**		**2,452,978**

Unaudited Pro forma Condensed Consolidated Statement of Operations Data for the Year ended 31 December 2005

	Historical consolidated				
	TMK	Sinara Handel	Pro forma adjustments (eliminations)	Note	Unaudited consolidated pro forma
			(thousands of U.S. dollars)		
Net Sales	2,799,056	259,108	(119,971)	*1, 2*	2,938,193
Cost of sales	(2,074,824)	(236,929)	119,985	*1, 2*	(2,191,768)
Gross profit	**724,232**	**22,179**	**14**		**746,425**
Selling expenses	(127,253)	(20,527)	—		(147,780)
Advertising and promotion expenses	(2,969)	(115)	—		(3,084)
General and administrative expenses	(115,015)	(8,173)	—		(123,188)
Research and development expenses	(5,477)	(70)	—		(5,547)
Other operating expenses	(24,126)	(1,962)	—		(26,088)
Other operating income	639	(355)	—		284
Foreign exchange (loss)/gain	(11,582)	(3,045)	—		(14,627)
Finance costs	(75,204)	(3,189)	209	*5*	(78,184)
Finance income	1,952	94	(209)	*5*	1,837
Profit before tax	**365,197**	**(15,163)**	**14**		**350,048**
Income tax expense	(96,611)	765	(34)	*4*	(95,880)
Net profit	**268,586**	**(14,398)**	**(20)**		**254,168**
Attributable to:					
Equity holders of the parent entity	**259,068**	**(14,775)**	**(20)**		**244,273**
Minority interests	**9,518**	**377**	—		**9,895**
	268,586	**(14,398)**	**(20)**		**254,168**

Notes to the Unaudited Pro Forma Condensed Consolidated Financial Data

The pro forma adjustments consist of the following adjustments to eliminate intra-group balances, transactions, income and expense between TMK and Sinara Handel:

1. Elimination of sales/purchase transactions and intra-group profit/loss in respect of finished goods sold by TMK to Sinara Handel for further resale.
2. Elimination of sales/purchase transactions and intra-group profit/loss in respect of equipment, spare parts and raw materials purchased by Sinara Handel for further resale to TMK.
3. Elimination of accounts receivable, accounts payable and prepayments in respect of transactions described in Notes 1 and 2.
4. Income tax effect of the eliminations described in Notes 1 and 2.
5. Elimination of loans granted by TMK to Sinara Handel and related interest income/expense.
6. Elimination of issued capital of Sinara Handel assuming its acquisition by TMK.
7. Elimination of accumulated profits as a result of eliminations described in Notes 1, 2, 4, 6.

	As at or for the year ended 31 December 2005
	(thousands of U.S. dollars except percentages)
Non-IFRS Measures	
Adjusted Pro Forma EBITDA[(1)(2)]	561,353
Adjusted Pro Forma EBITDA Margin[(2)(3)]	19.1%
Pro Forma Net Debt[(4)(5)]	575,453

(1) See note 1 under "—Historical Consolidated Financial Information" for an explanation of our calculation of Adjusted EBITDA and certain limitations associated with the use of Adjusted EBITDA.

(2) Reconciliation of Adjusted Pro Forma EBITDA to pro forma profit before tax is as follows:

	Historical consolidated			
	TMK	Sinara Handel	Pro forma adjustments (eliminations)	Unaudited consolidated pro forma
		(thousands of U.S. dollars)		
Profit before tax	365,197	(15,163)	14	350,048
Amortisation	460	347	—	809
Depreciation	98,546	6,296	—	104,842
Finance costs	75,204	3,189	(209)	78,184
Finance income	(1,952)	(94)	209	(1,837)
Loss on disposal of property, plant and equipment	5,547	(1,024)	—	4,523
Charitable donations	7,389	99	—	7,488
Loss/(gain) on sale of current assets included in other operating expenses	14	(172)	—	(158)
Foreign exchange (loss)	11,582	3,045	—	14,627
Other non-recurring operating income and expenses	(584)	3,411	—	2,827
Adjusted EBITDA	**561,403**	**(66)**	**14**	**561,353**

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

(4) See Note 3 under ''—Historical Consolidated Financial Information'' for an explanation of our calculation of Net Debt and certain limitations associated with the use of Net Debt.

(5) Reconciliation of Pro Forma Net Debt to Net Debt is as follows:

	TMK	Sinara Handel	Pro forma adjustments (eliminations)	Unaudited consolidated pro forma
Add:				
Short-term loans and borrowings and current portion of long-term loans and borrowings	434,663	62,826	(40,549)	456,940
Finance lease liabilities, current portion	1,222	87	—	1,309
Long-term loans and borrowings, net of current portion	163,190	1,734	—	164,924
Finance lease liabilities, net of current portion	23	102	—	125
Less:				
Cash and cash equivalents	39,843	8,002	—	47,845
Net Debt	559,255	56,747	(40,549)	575,453

TERMS OF THE OFFERING

The Notes

Issuer	TMK Capital S.A.
Lead Managers	Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and Dresdner Bank AG London Branch
Issue Amount	U.S.$300,000,000 8.50% Loan Participation Notes due 2009
Issue Price	100% of the principal amount of the Notes
Issue Date	28 September 2006
Maturity Date	29 September 2009
Trustee	Deutsche Trustee Company Limited
Principal Paying Agent	Deutsche Bank AG, London Branch
Registrar	Deutsche Bank Luxembourg S.A.
Interest	The Notes will accrue interest from and including 28 September 2006 at a rate of 8.50% per annum payable semi-annually in arrear on 29 March and 29 September in each year, commencing on 29 March 2007.
Form and Denomination	The Notes will be issued in registered form, in denominations of U.S.$100,000. The Notes will be represented by a Global Note Certificate which will be exchangeable for individual certificates in definitive form in the limited circumstances described under "Summary of Provisions of the Notes While in Global Form."
Initial Delivery of Notes	On or before the Issue Date, the Global Note Certificate will be deposited with Deutsche Bank AG, London Branch as common depositary for Euroclear and Clearstream, Luxembourg.
Status of the Notes	The Notes are direct, unconditional and unsecured obligations of the Issuer which rank *pari passu*, without any preference among themselves, with all other outstanding present and future unsecured and unsubordinated obligations of the Issuer.
Redemptions at the Option of the Noteholders	Upon a failure of the Borrower to procure Additional Loan Guarantees or Further Loan Guarantees (each as defined in the Loan Agreement), the Issuer will make an offer to purchase all of the Notes duly tendered at a price per Note equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon plus any additional amounts or other amounts that may be due thereon, if any, up to but excluding the date of repurchase. In the event the Issuer makes such an offer, each Noteholder may tender all or any of the Notes held by it.

	In this case, the Borrower is required to prepay the Loan in an amount sufficient to provide the funds to enable the Issuer to repurchase the Notes.
Mandatory Redemption by the Issuer . . .	The Notes shall be redeemed by the Issuer, in whole but not in part, at any time, upon giving notice to the Trustee, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of redemption, in the event that (i) it becomes unlawful for the Issuer to fund the Loan or allow the Loan to remain outstanding under the Loan Agreement or allow the Notes to remain outstanding and, in such case, the Issuer requires the Loan to be repaid in full, (ii) if the Borrower elects to repay the Loan in the event it is required to pay Additional Amounts (as defined in the Loan Agreement) or increased amounts of principal, interest or any other payment due thereunder on account of Russian or Luxembourg withholding taxes or (iii) if the Borrower elects to repay the Loan in the event it is required to pay additional amounts on account of certain costs incurred by the Issuer pursuant to the Loan Agreement.
Relevant Events	Upon the occurrence of a Relevant Event (as defined in "Terms and Conditions of the Notes"), the Trustee may, subject as provided in the Trust Deed and subject to being indemnified and/or secured to its satisfaction, enforce the security created in its favour pursuant to the Trust Deed.
Ratings	It is expected that the Notes will be rated B2 by Moody's and B+ by Standard and Poor's. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment for you. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Borrower could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Listing	Application has been made to the U.K. Listing Authority for the Notes to be admitted to the Official List of the U.K. Listing Authority and to trading on the Regulated Market of the London Stock Exchange.
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including, without limitation, the United Kingdom and the Russian Federation) only in compliance with applicable laws and regulations. See "Subscription and Sale."

Governing Law and Arbitration	The Notes, the Trust Deed and the Agency Agreement (as defined below) are governed by English law and contain provisions for arbitration in London, England. The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.
Use of Proceeds	The gross proceeds to the Issuer from the Offering of the Notes are expected to be U.S.$300 million, which the Issuer intends to use for the sole purpose of financing the Loan to the Borrower.
Security Codes	The Common Code reference number is 026951321 and the International Security Identification Number ("ISIN") is XS0269513213.
Clearing	Euroclear and Clearstream, Luxembourg.
Yield	The annual yield of the Notes when issued is 8.50%.
Risk Factors	An investment in the Notes involves a high degree of risk. See "Risk Factors."
The Loan	
Borrower	OAO TMK
Initial Loan Guarantors	OAO Volzhsky Pipe Plant and ZAO TMK Trade House
Additional Loan Guarantors	OAO Seversky Pipe Plant, OAO Sinarsky Pipe Plant and OAO Taganrog Metallurgical Works The Borrower has agreed in the Loan Agreement to procure that each of the Additional Loan Guarantors shall provide an unconditional and irrevocable guarantee of the Loan not later than 90 days after 28 September 2006 (the "Issue Date"). Failure of the Borrower to procure the guarantee of its obligations under the Loan by the Additional Loan Guarantors by such date or failure to procure any Further Loan Guarantees (as defined in the Loan Agreement) (if required) shall be deemed an "Additional Loan Guarantee Event" under the Notes and, in such case, the Borrower shall prepay the Loan in an amount sufficient to provide the funds to enable the Issuer to repurchase the Notes. See "Description of the Transaction and the Security." See also "Risk Factors—Risks Relating to the Notes and the Trading Market—Our Russian subsidiaries may not approve the issue of guarantees securing the Borrower's obligations under the Loan."
Loan Guarantees	The Loan will be initially unconditionally, irrevocably, jointly and severally guaranteed by the Initial Loan Guarantors, and is intended to be further unconditionally and irrevocably guaranteed by the Additional Loan Guarantors. The Loan Guarantees will rank equal in right of payment with other outstanding and unsecured indebtedness of the Loan Guarantors. In certain circumstances set out in the Loan Agreement, the Borrower may be obligated to procure certain further guarantees.

Certain Covenants	The Loan Agreement and the Loan Guarantees will, among other things, restrict, with certain exceptions, the ability of the Borrower, each Loan Guarantor and their respective subsidiaries to: (i) create or incur liens; (ii) incur indebtedness; (iii) sell assets; (iv) engage in transactions with affiliates and related persons; (v) undertake certain mergers and similar transactions; and (vi) change the core or related business conducted by any of them.
Events of Default	Upon the occurrence of an Event of Default (as defined in the Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Issuer to declare all amounts payable under the Loan and subject to being indemnified and/or secured to its satisfaction by the Borrower to be due and payable, and require the Issuer to enforce its rights against the Borrower and the Loan Guarantors under the Loan Agreement and the Loan Guarantees.
Prepayment	The Loan may be prepaid by the Borrower, in the event that (i) it becomes unlawful for the Issuer to fund the Loan or allow the Loan to remain outstanding under the Loan Agreement or allow the Notes to remain outstanding and, in such case, the Issuer requires the Loan to be repaid in full, (ii) if the Borrower elects to repay the Loan in the event it is required to pay Additional Amounts (as defined in the Loan Agreement) or increased amounts of interest, principal or any other payment due under the Loan on account of Russian or Luxembourg withholding taxes, (iii) if the Borrower elects to repay the Loan in the event it is required to pay additional amounts on account of certain costs incurred by the Issuer pursuant to the Loan Agreement or (iv) if and to the extent the Noteholder Put (as described in Clause 7.3 (*Noteholder Put*) of the Loan Agreement) is exercised.
Use of proceeds	The Borrower intends to use the net proceeds of the Loan, together with other funds available to it, to make a loan (the "TMK Steel Loan") to its controlling shareholder, TMK Steel Limited ("TMK Steel") to finance the acquisition by TMK Steel of all of the shares in the Borrower that are currently held by Dalecone Limited ("Dalecone"). See "Use of Proceeds."

DESCRIPTION OF THE TRANSACTION AND THE SECURITY

The following summary description should be read in conjunction with, and is qualified in its entirety by "Terms and Conditions of the Notes," "Summary of Provisions of the Notes While in Global Form" and the forms of the Loan Agreement and the Loan Guarantee set out herein.

The transaction will be structured as a loan to the Borrower as borrower from the Issuer as lender.

The Issuer will issue the Notes for the sole purpose of funding the Loan to the Borrower. The Initial Loan Guarantors will initially provide an unconditional and irrevocable guarantee in respect of the obligations of the Borrower under the Loan. In addition, the Loan Agreement provides that the Borrower must procure the Additional Loan Guarantors each to provide a further unconditional and irrevocable guarantee in respect of the obligations of the Borrower under the Loan by 27 December 2006, and any failure to do so will be deemed an Additional Loan Guarantee Event (as defined in the Terms and Conditions of the Notes). Upon an Additional Loan Guarantee Event, the Issuer will make an offer to purchase all of the Notes duly tendered at a price per Note of 101% of the principal amount thereof, plus accrued but unpaid interest and plus any additional amounts or other amounts that may be due thereon, up to but excluding the date of repurchase. Each Noteholder may tender all or any of the Notes held by it. Concurrently, the Borrower will prepay the Loan to the extent and in the amount that the Lender is required to repurchase the Notes. See "Risk Factors—Risks Relating to the Notes and the Trading Market—Our Russian subsidiaries may not approve the issuance of guarantees securing the Borrower's obligations under the Loan." In certain circumstances set out in the Loan Agreement, the Loan Guarantees in respect of any or all Loan Guarantors may be terminated or additional Loan Guarantors may be added to the Loan Guarantees.

The Notes will have the benefit of, be subject to, and be constituted by the Trust Deed. The Issuer will not have any obligations to the Noteholders, other than the obligation to account to the Noteholders in respect of the payments of principal, interest and any increased amounts of principal interest or any other payment due under the Loan (as defined in the Loan Agreement) and any Additional Amounts (as defined in the Loan Agreement) under the Loan and the Loan Guarantees if, and only to the extent, received from the Borrower or any Loan Guarantor, less any amounts in respect of Reserved Rights (as defined in Terms and Conditions of the Notes). Accordingly, the obligations of the Borrower pursuant to the Loan Agreement and the Loan Guarantors pursuant to the Loan Guarantees are of a nature which will produce funds to service the payments due and payable under the Notes.

As provided in the Trust Deed, the Issuer will:

- charge by way of fixed first security to the Trustee all of its rights, title, interests and benefits in and to principal, interest and other amounts now and in the future paid and payable to it under the Loan Agreement and the Loan Guarantees and its right to receive amounts paid and payable to it under any claim, award or judgment relating to the Loan Agreement and the Loan Guarantees (in each case other than its right to amounts in respect of certain Reserved Rights);
- charge by way of fixed first security to the Trustee its rights, title, interest and benefit to sums held on deposit from time to time, in an account in London in the name of the Issuer with the Principal Paying Agent (as defined in the Trust Deed), account number IBAN-GB39DEUT 4050 8128 013400, together with the debt represented thereby (other than interest from time to time earned thereon and the Reserved Rights); and
- assign absolutely to the Trustee all of its rights, title, interest and benefit to and under the Loan Agreement (save for those rights charged or excluded above) to the Trustee upon the closing of the offering of the Notes.

The Borrower or a Loan Guarantor, as applicable, will be obliged to make payments under the Loan or the Loan Guarantees, as the case may be, to the Issuer's account in accordance with the terms of the Loan Agreement and the Loan Guarantees, respectively. The Issuer will agree in the Trust Deed not to agree to any amendments to, or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement or the Loan Guarantees unless the Trustee has given its prior written consent or unless authorised to do so by an Extraordinary Resolution (as defined in the Trust Deed) or Written Resolution (as defined in the Trust Deed) of the Noteholders (except in relation to Reserved Rights). The Issuer will further agree to act at all times in accordance with the instructions of the Trustee from time to time with respect to the Loan Agreement and the Loan Guarantees (subject to being indemnified and/or secured to its satisfaction), other than as provided in the Trust Deed and except in relation to Reserved Rights. Any amendments, modifications, waivers or authorisations made with the

Trustee's consent shall be binding on the Noteholders. The Issuer will also agree in the Agency Agreement to require that all payments made by the Borrower under the Loan Agreement or the Loan Guarantors under the Loan Guarantees, as the case may be, be directed to the Issuer's account. Formal notice of the security interests created by the Trust Deed will be given to the Borrower and each of the Loan Guarantors, who will each be required to acknowledge the same.

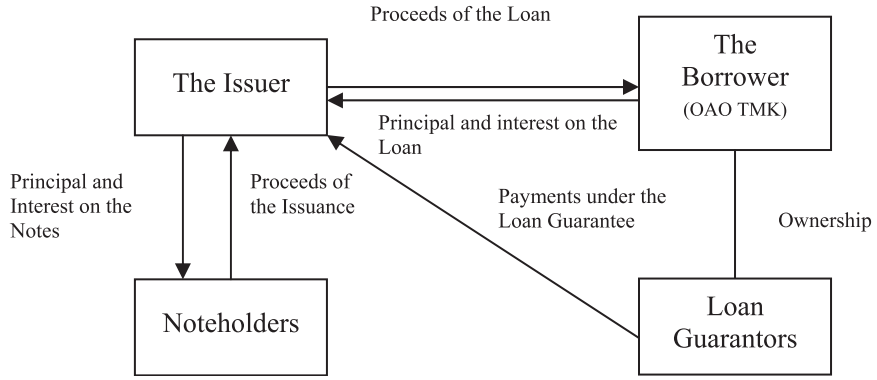
In the event that the Trustee enforces the security interests granted to it, the Trustee will apply the proceeds of enforcement in accordance with the provisions of the Trust Deed. The Trustee is not obliged to enforce the security interests granted to it unless it has been indemnified and/or secured to its satisfaction and instructed to do so by the Noteholders.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of Luxembourg taxes, except as required by law. See "Terms and Conditions of the Notes—8. Taxation." In the event that any deduction or withholding is required by law, the Issuer will be required, except in certain limited circumstances, to pay increased amounts of principal, interest or any other payment due thereon or Additional Amounts to the extent that it receives corresponding amounts from the Borrower or a Loan Guarantor under the Loan Agreement or Loan Guarantees, as the case may be. In addition, payments under the Loan Agreement and the Loan Guarantees shall, except in certain limited circumstances, be made without deduction or withholding for or on account of Russian or Luxembourg taxes, except as required by law. In the event that any deduction or withholding is required by law with respect to payments under the Notes or the Loan Agreement, the Borrower and the Loan Guarantors will be obliged, except in certain limited circumstances, to increase the amounts payable under the Loan Agreement and the Loan Guarantees, respectively, by an amount equivalent to the required tax payment. See "Risk Factors—Risks Relating to the Notes and the Trading Market—Payments we make under the Loan or the Loan Guarantees may be subject to Russian withholding tax" and "Risk Factors—Risks Relating to the Notes and the Trading Market—Tax might be withheld on dispositions of the Notes in Russia, reducing their value."

In certain circumstances, the Loan may be prepaid at its principal amount, together with accrued interest, at the Borrower's option, upon the Borrower being required to increase the amount payable or to pay increased amounts of principal, interest or any other payment due thereon on account of Russian or Luxembourg taxes under the Loan Agreement or required to pay additional amounts on account of certain costs incurred by the Issuer. The Issuer may, in its own discretion, require the Loan to be prepaid if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. In the event the Loan is repaid due to any of these circumstances, the Issuer will redeem the Notes in whole, but not in part, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of redemption.

The Borrower and the Loan Guarantors have agreed and the Noteholders will be deemed to have acknowledged, accepted and agreed that the Issuer is entitled to deduct the Issuer's fees and expenses from any initial and/or future amounts, as the case may be, to be received by the Borrower under the Loan Agreement or the Loan Guarantees.

The following is a diagram setting forth the transaction structure:



RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this document prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on our business, financial condition, results of operations or prospects which, in turn, could have a material adverse effect on the ability of the Borrower and the Loan Guarantors to service payment obligations under the Loan Agreement and the Loan Guarantees and, as a result, the debt service on the Notes. In addition, the value of the Notes could decline if any of these risks materialise, and the Noteholders may lose some or all of their investment.

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

Risks Relating to Our Business and the Pipe Industry

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

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

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

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

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

We require substantial quantities of raw materials to produce steel pipes. Our principal raw material requirements include scrap metal, pig iron, ferroalloys and refractories for use in our in-house steel-making operations, steel billets, for producing seamless pipes, and steel coils and plates, for producing welded pipes. In 2005, the costs of raw materials accounted for approximately 69% of our costs of production. The availability and price of a significant portion of the raw materials we require are subject to market conditions and governmental regulations, such as duties on scrap exports from Russia and duties on steel products imported into Russia, which affect supply and demand for such raw materials

and can affect their availability and purchase costs. See "—We benefit from limitations on the export of scrap metal from Russia that may be eliminated in the future." In recent years, the cost of raw materials, including scrap metal and semi-finished steel products (primarily billets), used in our business has increased due to the increased demand for steel products in general.

We purchase significant amounts of steel coil and plate from a limited number of third-party suppliers for use in our welded pipe production. As with semi-finished steel products, the costs of steel coil, which we use to manufacture spiral welded pipes, and steel plate, which we use to manufacture longitudinally welded steel pipe, have risen approximately 70% in the last two years. Moreover, limited quantities of steel plate are produced in Russia, as a result of which we expect the cost of such plate to increase in the future as overall market demand increases.

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

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

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

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

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

Gazprom, the world's largest gas producer, is our largest customer, accounting, together with its subsidiaries, for approximately 30.3% of our consolidated sales volumes for the year ended 31 December 2005, including more than 85% of our consolidated sales volumes of large diameter welded pipes in 2005. Gazprom is currently the principal customer for our 1,420 mm diameter welded pipes used for construction of gas trunk pipelines. Until recently, our Volzhsky plant was the only manufacturer in

Russia of 1,420 mm welded pipes. However, in April 2005, the UMC group, the third largest pipe producer in Russia, started production of 1,420 mm diameter welded pipe. In addition, OAO Severstal, Russia's third largest steelmaker, recently completed construction of a new pipe production facility that will specialise in large-diameter welded pipes. We also face ongoing competition in the supply of large-diameter welded pipe in Russia from OAO Khartyzsk Pipe Plant in Ukraine. We also understand that there has been internal and external criticism regarding the costs of Gazprom's purchases of pipe products. In addition, UMC and Severstal supply or will supply Gazprom with longitudinal welded large-diameter pipe, which has a single straight weld, whereas we supply Gazprom with spiral large-diameter welded pipe. We believe that Gazprom may favour longitudinal welded pipe over spiral welded pipe for certain high pressure applications, including underwater and in severe arctic climates. As a result of these or other factors, Gazprom may review its pipe products procurement procedures and, as a result, may reduce its purchases of pipes from us. Increased competition in the large-diameter welded pipe sector or a change in our relationship with Gazprom could negatively affect our competitive position in 1,420 mm diameter pipes, resulting in decreased revenues from sales of these products and adversely affecting our business, financial condition and results of operations.

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

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

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

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

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

Russia is also currently conducting negotiations to join the World Trade Organisation ("WTO"), and according to published press reports may complete this process as early as 2007. If Russia accedes to the WTO, Russia may be required to reduce or remove tariffs and duties on pipe products, resulting in increased competition in the Russian pipe market from foreign producers. A reduction in the levels of tariffs, duties and quotas or the removal of other limitations on imports of pipe products into Russia could materially adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

As part of our growth strategy, we review acquisition prospects, as well as proposals for business combinations and strategic alliances or partnerships that may complement our existing business. For example, we are considering the acquisition of a Russian manufacturer of tool joints in order to enhance our drill pipes business and entering into joint ventures with foreign partners to enhance our capacity to produce premium connection pipes and to expand into producing large-diameter longitudinal welded pipes. However, in making such acquisitions or entering into such partnerships, due to competition in the identification of acquisitions or strategic partners or other factors, we may make an acquisition or enter into a partnership on unfavourable terms. Moreover, if we are not able successfully to integrate and manage any acquired company or strategic alliance or partnership, the acquisition or strategic alliance may fail to achieve the desired benefits. We may be unable to manage our relationship with our partners, and management's attention may be diverted away from other ongoing business concerns.

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

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

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

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

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

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

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

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

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

In addition, preparations for Romania's admission into the European Union may result in increased environmental liabilities, labour costs and other expenditures for our Romanian operations as Romania adopts more stringent environmental and labour laws required for admission to the European Union. Entrance into the European Union, which is expected to occur on 1 January 2007, requires the restructuring of Romania's major metallurgical entities, including our Romanian subsidiary TMK-Resita. As part of this process, we were required to conclude a viability plan with European Union consultants

and incorporate such plan into our business plans. In addition, in connection with our acquisition of TMK-Resita we agreed to make certain minimum investments and expenditures through 2009. While we currently expect to fulfil all remaining requirements by the end of 2006, there can be no assurance that we will be able to do so. The costs of complying with these requirements may be substantial and could materially adversely affect our Romanian operations.

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

We plan on using the proceeds of the loan as well as additional debt financing to fund a loan to our shareholder TMK Steel. See "Use of Proceeds—TMK Steel Loan." Following the completion of these transactions, we will be relatively highly leveraged, with an estimated ratio of total short- and long-term borrowings to total estimated shareholders' equity as of 30 June 2006 of slightly higher than one-to-one. We are and will be subject to certain financial and other restrictive covenants under the terms of our indebtedness that limit our ability to, among other things:

- borrow money;
- create liens;
- give guarantees;
- make acquisitions;
- sell or otherwise dispose of assets; and
- engage in mergers, acquisitions or consolidations.

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

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

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

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

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

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

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

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

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

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

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

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

We normally warrant the OCTG and line pipe products we sell or distribute in accordance with customer specifications, but as we pursue our business strategy of providing customers with supply chain services, we may be required to warrant that the goods we sell and services we provide are fit for their intended purpose. Actual or claimed defects in our products may give rise to claims against us for losses and expose us to claims for damages. The insurance we maintain may not be adequate or available to protect us in the event of a claim, or its coverage may be cancelled or otherwise terminated.

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

The mix of our revenues and costs is such that appreciation in real terms of the Russian rouble against the U.S. dollar tends to result in an increase in our costs relative to our revenues, while depreciation of the Russian rouble against the U.S. dollar in real terms tends to result in a decrease in our costs relative to our revenues.

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

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

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

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

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

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

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

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

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

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

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

Sustained periods of high inflation could adversely affect our business.

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

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

In 2005, our Russian operations purchased approximately 2,076 million kilowatt-hours (kWh) of electricity, representing approximately 100% of our requirements in Russia, from local subsidiaries of

RAO Unified Energy Systems of Russia ("RAO UES"), the government-controlled national holding company for the Russian power sector, as well as from local electricity providers. Domestic electricity prices are regulated by the Russian government. The Russian government is currently in the early stages of implementing a restructuring plan for the power sector aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market-based system by 2008. Our average cost of electricity in Russia was 3.2 U.S. cents per kWh in 2005 and 2.8 U.S. cents per kWh in 2004. Further price increases for electricity may also occur in the future as the industry is restructured and controlled to a greater extent by the private sector. If we are required to pay higher prices for electricity in the future, our costs will rise and our results of operations and prospects could be materially adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

The interests of our controlling beneficial owner could conflict with those of the holders of our Notes.

As of the date of this Prospectus, 67.0% of our outstanding shares are owned by TMK Steel, which is beneficially owned by Dr. Pumpyanskiy, the Chairman of our Board of Directors. In addition, we understand that TMK Steel plans to use a loan from us, together with other funds available to it, to acquire a 100% interest in OAO TMK. See "Use of Proceeds." As a result of Dr. Pumpyanskiy's interests in our shares, he has the ability to exert significant influence over certain actions requiring shareholder approval, including increasing or decreasing our authorised share capital (in cases other than decisions on share capital increases that are adopted by our Board of Directors), the election of directors, declaration of dividends, the appointment of management and other policy decisions. The interests of Dr. Pumpyanskiy could also at times conflict with the interests of holders of the Notes. Any such conflict of interest could adversely affect our business, financial condition and results of operations, and therefore the value of an investment in the Notes could be adversely affected.

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

We own less than 100% of the shares in most of our Russian subsidiaries, including Seversky, Sinarsky and Tagmet. These subsidiaries have in the past carried out, and continue to carry out, numerous transactions with other companies within our consolidated group and our affiliates that may be considered "interested party transactions" under Russian law, requiring prior approval by a majority vote of the "disinterested directors," "independent disinterested directors" or "disinterested shareholders." In particular, our production subsidiaries rely to a large extent on the supply of raw materials from related parties, including TMK Trade House, and sales to TMK Trade House and TMK Global.

The concept of "interested parties" is defined with reference to the concepts of "affiliated persons" and "group of persons," which are subject to many different interpretations under Russian law. Moreover, the

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

In addition, the TMK Steel Loan (as defined under "Use of Proceeds") will constitute an interested party transaction, as Dalecone, our other shareholder, is not a party to the loan agreement. While the TMK Steel Loan is expected to be approved by Dalecone as the disinterested shareholder at a shareholders' meeting to be held on 28 September 2006, there can be no assurance that such approval will actually be received. If Dalecone does not approve the TMK Steel Loan, we will be unable to make this loan and it may not be possible for TMK Steel to acquire the shares in OAO TMK currently held by Dalecone.

Emerging markets are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt our business.

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

Risks Relating to the Russian Federation

Political and Social Risks

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

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

In February 2004, just prior to his election to a second term as president, President Putin dismissed his entire cabinet, including the prime minister. He subsequently appointed Mikhail Fradkov as Prime Minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various agencies of the government of the Russian Federation and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. In addition, a new law was adopted pursuant to which the executives of sub-federal political units (e.g., governors) are nominated by the President of Russia and confirmed by the legislature of the sub-federal political unit. Moreover, pursuant to legislation that was adopted on 18 May 2005 and that will take effect on 7 December 2006, single-member-district elections for the State Duma will be eliminated and all votes will instead be cast on a party-list basis. Elections for the State Duma are scheduled for late 2007, and the next presidential election is scheduled for 2008.

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

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

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

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

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

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

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflicts, such as the conflict in Chechnya and acts of terrorism in other parts of Russia. The intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, or could cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect our results of operations and prospects, and thus the value of the Notes.

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

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

claims that we or our management or our beneficial owners have been involved in corruption or illegal activities or biased articles and negative publicity could adversely affect our ability to conduct our business in Russia and the value of the Notes.

Economic Risks

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

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

Economic instability in Russia could adversely affect our business.

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

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

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

Since the 1998 crisis, the Russian economy has experienced positive trends, such as increase in gross domestic product, a relatively stable ruble, a reduced rate of inflation and positive capital and current account balances resulting in part from rising prices in world markets for the crude oil, gas and metals that Russia exports. In addition, the Russian government has achieved budget surpluses in recent years and has accumulated a sizeable "stabilisation fund," and the Central Bank of Russia has considerable hard currency reserves. No assurance can be given, however, that this positive situation will continue. For

example, according to the Ministry for Economic Development and Trade, economic growth in Russia slowed from 7.2% in 2004 to 6.4% in 2005. A decline in the prices of crude oil, gas or metals could have an adverse effect on Russia's economy.

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

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

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

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

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

To enhance the prospects of infrastructure improvement, the Russian government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisations may result in increased charges and tariffs and may not result in the anticipated capital investment that is needed to repair, maintain and improve these systems. Significant increases in charges and tariffs, or further deterioration of Russia's infrastructure may limit economic growth, disrupt the transportation of goods and supplies and interrupt our business operations, our customers and suppliers, any or all of which could have a material adverse effect on our business and the value of the Notes.

Legal and Legislative Risks

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

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

- inconsistencies among (i) federal laws; (ii) decrees, orders and regulations issued by the president, the government and federal ministries; and (iii) regional and local laws, rules and regulations;

- a lack of judicial and administrative guidance on interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation;
- a lack of judicial independence from political, social and commercial forces;
- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

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

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

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

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

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

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

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

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

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

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

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

In addition, since 2003, the Ministry for Taxes and Collections (now succeeded by the Federal Tax Service) has begun to attack certain Russian companies' use of tax-optimisation schemes, and press reports have speculated that these enforcement actions have been selective. For example, the Russian Federal Tax Service determined that Yukos owed in excess of U.S.$28 billion in back taxes and related penalties, and, as noted above, in December 2004 Yukos' major production subsidiary, Yuganskneftegaz, was auctioned in partial settlement of these obligations and acquired by Rosneft. In addition, the press has reported significant claims for back taxes and related penalties against other oil companies, including TNK-BP, telecommunications companies, including OAO Vimpelcom, and other major companies. In March 2005, President Putin announced that the government was considering plans to reform the system of tax collection and administration. Although we believe that we are currently in compliance with all of our tax obligations with respect to our operations in the Russian Federation, there can be no assurance that the Federal Tax Service will not become more aggressive in respect of future tax audits, which may have an adverse effect on our results of operations and prospects.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our Russian subsidiaries.

The Russian Civil Code and the Russian Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company or participants in a Russian limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an "effective parent") is capable of determining decisions made by another (an "effective subsidiary"). Accordingly, in our position as an effective parent, it could be liable in some cases for the debts of its effective subsidiaries in Russia. The total liabilities of our consolidated Russian subsidiaries as of 31 December 2005 were U.S.$733.0 million, excluding intercompany indebtedness.

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

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

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

- the amendment of a company's charter in a manner that limits shareholder rights.

Our obligation to purchase shares in these circumstances, which is limited to 10% of our net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

We pay taxes to the federal, regional and local treasuries in Russia. Generally, tax payable by Russian companies are substantial and numerous. These taxes include, among others, income tax, value-added tax ("VAT"), excise taxes, unified social tax and property tax.

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

The Russian tax system mechanism relies heavily on the judgment of local tax officials for enforcement and fails to address clearly and fairly many significant tax issues, and local tax officials have recently made a number of material tax claims against major Russian companies.

Tax declarations, together with related documentation such as customs declarations, are subject to regular review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, tax declarations remain open and subject to inspection by tax and/or customs authorities for a period of three years following the tax year. The fact that a year has been reviewed by tax authorities does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

Therefore, because previous tax audits do not preclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on 14 July 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax inspection. Because the terms "obstructed" and "hindered" are not defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed" or "hindered" an inspection and ultimately to seek penalties beyond the three-year term. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Moreover, financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity within the TMK Group. In addition, payments of dividends between

two Russian companies are subject to a withholding tax of 9% at the time they are paid out of profits. This tax is measured by multiplying the tax rate (9%) by the difference between (i) the dividends to be distributed by the Russian company to its shareholders (other than to non-resident companies and individuals) and (ii) dividends collected by such Russian company (if any) in the current and preceding tax periods (where the latter amounts were not previously accounted for calculation of taxable amount of dividends).

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. There can be no assurance that current taxes will not be increased or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. For a further discussion of the risks and uncertainties associated with the enforcement and application of the tax regime in Russia, see "—Legal and Legislative Risks—Selective, arbitrary or unlawful government action may have an adverse effect on our business and the value of the Notes." In addition to our substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could adversely affect our business and results of operations and the value of the Notes.

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

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

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

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

Risks Relating to the Notes and the Trading Market

Our obligations to make payments under the Loan Agreement are effectively subordinated to all the liabilities of our subsidiaries other than those of the Loan Guarantors.

We are a holding company with no direct operations other than certain functions for our group. Our ability to make payments to the Issuer under the Loan Agreement depends upon the receipt of dividends, distributions, intercompany loan repayments and other payments from our subsidiaries, or our issuance of debt or equity securities. Our subsidiaries are separate and distinct legal entities. With the exception

of the Loan Guarantors, from time to time, pursuant to the terms of the Loan Guarantee, and any other subsidiaries which may become Loan Guarantors pursuant to the terms of the Loan Guarantee, our subsidiaries have no obligation in respect of any amounts due under the Loan Agreement. In the event of a bankruptcy, liquidation or reorganisation of a subsidiary, holders of that subsidiary's indebtedness and trade and other creditors of that subsidiary will have a claim to the assets of that subsidiary that is prior to your interest in those assets (except that the Loan Guarantee shall rank *pari passu* with the other senior unsecured obligations of the Loan Guarantors, from time to time, and to the extent that we are recognised as a creditor through intercompany claims or loans). Therefore, in most circumstances, obligations under the Loan Agreement will effectively rank junior to all liabilities of our subsidiaries other than those of the Loan Guarantors, including, but not limited to, trade payables.

In addition, our subsidiaries may be subject to legal, contractual or other restrictions, including regulatory capital requirements, that would prevent them from paying dividends or otherwise distributing cash to us. There can be no assurance that any of our subsidiaries will be able to make distributions to us to enable us to make payments under the Loan Agreement. As of 30 June 2006, our subsidiaries (including Sinara Handel and its subsidiaries) other than the Loan Guarantors had outstanding indebtedness that effectively ranks senior to our obligations under the Loan Agreement, and, where applicable, the Loan Guarantees, of U.S.$86.1 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness" for a discussion of these borrowings.

Our Russian subsidiaries may not approve the issuance of guarantees securing the Borrower's obligations under the Loan.

We have agreed in the Loan Agreement to procure, not more than 90 days after the Issue Date of the Notes, that Severstal, Severstal Sinara and Tagmet, as the Additional Loan Guarantors, will issue the Additional Loan Guarantees in favour of the Issuer, pursuant to which they will jointly and severally guarantee the payment of all the amounts due by the Borrower under the Loan Agreement. In addition, under certain circumstances we may also be required to procure that further subsidiaries guarantee our obligations under the Loan. As the issuances of any such guarantees constitute interested party transactions for our Russian subsidiaries under the Russian Joint Stock Companies Law, the provision of such guarantees requires the approval of the majority of the "disinterested shareholders" of any such subsidiaries. We do not have control over disinterested shareholders in any of our subsidiaries, and there can be no assurance that the disinterested shareholders will approve the issuance of any such guarantees.

If any Additional Loan Guarantor or Further Loan Guarantor (as defined in the Loan Agreement) fails to provide the required guarantee in a timely manner, the Issuer will make an offer to purchase the Notes and the Borrower will prepay the Loan to the extent and in the amount that the Issuer is required to repurchase the Notes. See "Description of the Transaction and the Security." There can be no assurance that, if required to prepay the Loan in whole or in part, the Borrower or the other Loan Guarantors will have, or be able to obtain, the funds required to make such payments and that the Issuer will be able to repurchase any Notes.

Our obligations to make payments under the Loan Agreement are subordinated to our secured obligations and the obligations of any Loan Guarantor to make payments under the Loan Guarantee are subordinated to secured obligations of the Loan Guarantors.

Some of our indebtedness, as well as some of the indebtedness of the Loan Guarantors, is secured by property, plant and equipment and/or inventory. Upon the occurrence of an event of default under any of any Loan Guarantor's secured loans, or if we default on the Loan and this default triggers an event of default under any of our or any Loan Guarantor's secured loans or other debt, or in the event of our or any Loan Guarantor's bankruptcy, liquidation or reorganisation, the relevant entity's secured creditors will have a claim that will have priority over your interest in the assets that serve as the security for such creditor's indebtedness. Therefore, our obligations under the Loan Agreement and the obligations of any Loan Guarantor under the Loan Guarantees, respectively, will rank junior to our and each Loan Guarantor's respective secured obligations.

As of 30 June 2006, approximately U.S.$128.0 million of our total consolidated debt (including debt of Sinara Handel and its subsidiaries) was secured, and the Loan Guarantors had outstanding secured indebtedness of U.S.$90.8 million.

Covenants in our debt agreements, including the Loan Agreement, restrict our ability to borrow and invest, which could impair our ability to expand or finance our future operations.

Certain of our short-term and long-term debt agreements, including the Loan Agreement and other financing arrangements that we are entering into in order to fund the TMK Steel Loan (see "Management Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan."), contain covenants that impose operating and financial restrictions on us and our subsidiaries. These restrictions significantly limit, and in some cases prohibit, among other things, our and certain of our subsidiaries' (including the Loan Guarantors') ability to incur additional debt, provide guarantees, create liens on assets or enter into business combinations. Failure to comply with these restrictions would constitute a default under our debt agreements, including the Loan Agreement, and the Loan and any of our other senior debt containing cross default provisions could become immediately due and payable. In addition, some of our debt agreements contain provisions that permit our lenders to require us to repay our debt to them in the event of a deterioration in our financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness" for a discussion of these limitations. See also "Risks Relating to our Business and the Pipe Industry—Following the completion of certain debt financing transactions into which we plan to enter in order to fund a loan to our controlling shareholder, we will be relatively highly leveraged and we will be required to meet certain financial and other restrictive covenants under the terms of our indebtedness."

The ability of investors to receive payment on the Notes is limited to payments received by the Issuer under the Loan Agreement and/or the Loan Guarantees.

The Issuer is only obliged to make payments under the Notes to Noteholders in an amount equivalent to sums of principal, interest, increased amounts of principal, interest and any other payment due under the Loan Agreement (as defined in the Loan Agreement) and any Additional Amounts (as defined in the Loan Agreement) actually received by or for the account of the Issuer under the Loan Agreement and/or the Loan Guarantees, less any amount in respect of Reserved Rights. Consequently, if we fail to meet fully our obligations under the Loan Agreement and/or any Loan Guarantor fails to meet fully its obligations under the Loan Guarantees, investors will receive less than the scheduled amount of principal, interest, increased amounts of principal, interest and any other payment due under the Loan Agreement (if any) and/or Additional Amounts (if any) on the relevant due date.

The lack of a public market for the Notes could reduce the value of an investment in the Notes.

There may not be an existing market for the Notes at the time they are issued. The Notes are expected to be listed and admitted to trading on the Regulated Market. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

Payments we make under the Loan or the Loan Guarantees may be subject to Russian withholding tax.

Payments of interest on borrowed funds by a Russian entity to a non-resident legal person are generally subject to Russian withholding tax at the rate of 20%, absent reduction or elimination pursuant to the terms of an applicable double tax treaty. Payments by the Loan Guarantors under the Loan Guarantees that cover interest on the Loan may also be characterised as Russian source income subject to withholding income tax at the rate of 20%. Based on professional advice we have received, we believe that payments of interest on the Loan by the Borrower or the Loan Guarantors should not be subject to withholding tax under the terms of the double tax treaty between Russia and Luxembourg, subject to timely receipt by the Borrower or the relevant Loan Guarantor, as the case may be, of the treaty residence confirmation for the Issuer. However, there is no assurance that such relief will be obtained.

In addition, if interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed by the Borrower, any benefit of the double tax treaty between Russia and Luxembourg will cease and payments of interest could be subject to Russian withholding income tax at a rate of 20%. If payments under the Loan Guarantee become due to the Trustee pursuant to the Trust Deed, any payments (whether of interest or, less likely, of principal) made by a Loan Guarantor under the Loan Guarantees may be subject to Russian withholding tax at a rate of 20%. In such circumstances, holders of Notes may seek reduction of withholding tax under double tax treaties entered into between their jurisdiction of residence and

Russia to the extent that such treaties exist and are applicable. However, the applicability of any such double tax treaty may be uncertain, particularly to the extent that Russian tax authorities may rely on the fact that the holders of the Notes are not parties to the Loan Agreement under which the interest is paid.

If payments under the Loan are subject to any withholding of Russian tax as a result of which the Issuer would reduce payments under the Notes by the amount of such withholding, we are obliged to increase payments as may be necessary so that the net payments received by holders of the Notes will not be less than the amounts they would have received in the absence of such withholding. It should be noted, however, that gross-up provisions may not be enforceable under Russian law where such provisions are viewed by the Russian tax authorities as constituting payments of taxes on behalf of third parties. If we are obliged to increase payments, we may, subject to certain conditions, prepay the Loan in full. In such a case, all outstanding Notes would be redeemable at par with accrued interest. See "Terms and Conditions of the Notes."

Tax might be withheld on dispositions of the Notes in Russia, reducing their value.

If a non-resident holder that is a legal person sells any Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment representing accrued interest may be subject to a 20% Russian withholding tax. Where proceeds from a disposition of Notes are received, if any, from a source within Russia by an individual non-resident holder, a similar withholding tax would be charged at a rate of 30% on gain from the disposition less any available cost deduction. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes.

Interest paid under the Loan Agreement and the Loan Guarantees may be subject to Russian thin capitalisation rules.

Russian thin capitalisation rules may limit the deductibility of interest payable on a loan if (i) the debt is provided or guaranteed or otherwise secured by a non-Russian legal entity that directly or indirectly owns more than 20% of the borrower, (ii) the debt is provided by a Russian "affiliate" (as defined in Russian Federal Law No. 948-1 dated March 22, 1991, "On Competition and Limitation of Monopolistic Activities in the Commodity markets") of a non-Russian legal entity that directly or indirectly owns more than 20% of the borrower or (iii) a Russian "affiliate" of a non-Russian legal entity guarantees or otherwise secures debt, including debt to an unaffiliated third party. Any debt set forth in (i) to (iii) above that is related to the non-Russian legal entity that directly or indirectly owns more than 20% of the borrower is defined as "controlled debt" of the borrower in respect of the particular non-Russian legal entity. Controlled debt of a particular non-Russian legal entity that exceeds 300% of the borrower's equity as of the last date of each tax reporting period (either monthly or quarterly, at the election of the taxpayer) results in the application of the Russian thin capitalisation rules. Any interest paid by the Borrower corresponding to debt in excess of this limitation, on a pro rata basis corresponding to the share of investment by the particular non-Russian legal entity into the charter capital of the borrower, will not be deductible by the borrower and will be reclassified as a dividend for the purposes of Russian corporate income tax. Moreover, any such amounts classified as dividends are, absent applicable tax treaty relief, subject to Russian withholding tax at a rate of 15%.

As any Loan Guarantors incorporated in Russia (including the Initial Loan Guarantors and the Additional Loan Guarantors) are indirect subsidiaries, and thus affiliated entities, of OAO TMK's non-Russian shareholders (see "Shareholding Structure"), these Russian thin capitalisation rules may be applicable to interest payable under the Loan by the Borrower and any Loan Guarantor.

While the Russia-Luxembourg double tax treaty ordinarily provides for a reduced rate of withholding tax on dividend payments, these reduced rates may not be applicable to interest that is reclassified to dividends under the Russian thin capitalisation rules because the Issuer, as an unaffiliated entity, is not a direct shareholder of the Borrower. Relevant Luxembourg and Russian tax authorities have not yet issued interpretative guidance or other rulings with respect to such a situation, as a result of which any portion of interest on the Loan that is reclassified as a dividend in accordance with the Russian thin capitalisation rules may be subject to Russian withholding tax at a rate of 15%.

USE OF PROCEEDS

We expect to use the proceeds of the Loan to us, together with the proceeds of other debt financing described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan," to make a loan described below to our principal shareholder TMK Steel in the aggregate principal amount of up to U.S.$780 million (the "TMK Steel Loan"). We understand that TMK Steel will use the proceeds of the TMK Steel Loan together with other funds to acquire all of the shares in OAO TMK that are currently held by Dalecone. We further understand that following the acquisition by TMK Steel of these shares from Dalecone, it plans to sell a portion of its holdings in the fourth quarter of 2006 in a public offering, and to use a portion of the proceeds from such sale to repay the entire principal amount of the TMK Steel Loan. We expect to use the amounts received from TMK Steel to repay indebtedness assumed in connection with the funding of the TMK Steel Loan, and to use the balance to fund our strategic investment programme and for general corporate purposes.

Our total commissions and expenses relating to the Offering are expected to be approximately U.S.$4.3 million.

TMK Steel Loan

The TMK Steel Loan is expected to be in the aggregate principal amount of up to U.S.$780 million and to have a term of not more than five years. The TMK Steel Loan will bear interest at a minimum rate of 0.05% per annum, but we expect to conclude an agreement with TMK Steel that in the event that TMK Steel sells a portion of its holdings in OAO TMK in a public offering prior to the end of 2006, the interest rate under the TMK Steel Loan shall be increased to correspond to our average borrowing costs under the Loan and the debt financing described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan." The TMK Steel Loan will be unsecured. A general shareholders meeting of OAO TMK to approve the TMK Steel Loan as an "interested party" transaction under Russian law has been convened by the Board of Directors of OAO TMK and is scheduled to occur on 28 September 2006.

CAPITALISATION

The following table sets forth our consolidated (a) our historical cash and cash equivalents, short and long-term borrowings, finance lease liabilities and total capitalisation at 30 June 2006 on a pro forma basis, and (b) our cash and cash equivalents, short and long-term borrowings, finance lease liabilities and total capitalisation as adjusted to give effect to the application of the proceeds of the Loan. The historical information has been derived from our unaudited condensed consolidated balance sheet data prepared in accordance with IFRS as at 30 June 2006 and set forth in this Prospectus under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Trend Information." For further information regarding our financial condition, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Annual Financial Statements located elsewhere in this document.

	At 30 June 2006	
	Historical[1]	**As adjusted[2]**
	(thousands of U.S. dollars)	
Cash and cash equivalents	46,448	346,448
Short-term borrowings (including current portion of long-term borrowings)	439,963	439,963
Finance lease liabilities, current portion	107	107
Total short-term obligations	440,070	440,070
Long-term borrowings (excluding current portion)	247,683	547,683
Finance lease liabilities, net of current portion	158	158
Total long-term obligations	247,841	547,841
Equity:		
Parent shareholders' equity:		
Issued capital: 873,001,000 shares authorised, issued and outstanding with a par value of 10 roubles at 30 June 2006	305,407	305,407
Additional paid-in capital	137,198	137,198
Accumulated profits	808,606	808,606
Reserve capital	15,387	15,387
Foreign currency translation reserve	171,518	171,518
Total parent shareholders' equity	1,438,116	1,438,116
Minority interests	79,094	79,094
Total equity	1,517,210	1,517,210
Total capitalisation[3]	1,765,051	2,065,051

(1) Unaudited

(2) Adjusted to give effect to the receipt of the Loan, but not for any other changes subsequent to 30 June 2006. The proceeds to us from the Offering of U.S.$300.0 million, before deduction for commissions and expenses, have been added to cash pending their use as described under "Use of Proceeds."

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

Since 30 June 2006, we have made additional borrowings and repaid existing borrowings as set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness." In addition, we plan to make additional borrowings in order to finance the TMK Steel Loan. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan."

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows our historical consolidated financial information and other operating information as of and for the years ended 31 December 2005 and 2004. This information has been extracted without material adjustment from, and should be read in conjunction with, the Annual Financial Statements included elsewhere in this Prospectus. The selected consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

In March 2006, we completed the acquisiton of a 100% interest in Sinara Handel, which was under common control with us. As this business combination involved entities under common control, it will be accounted for using the pooling of interests method. Because we have yet to publish financial information covering periods for the time at which we effected our acquisition of Sinara Handel, the financial information set forth below does not include the results of Sinara Handel for such periods. As a result, the historical consolidated financial information discussed in this section, which does not reflect the business combination with Sinara Handel, differs from consolidated financial information we will publish in the future. See "Unaudited Pro Forma Condensed Consolidated Financial Data" for pro forma condensed consolidated financial data as of 31 December 2005 and for the year then ended as if our combination with Sinara Handel had occurred with effect from 1 January 2005.

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

	Year ended 31 December	
	2005	2004
	(thousands of U.S. dollars, except per share data)	
CONSOLIDATED INCOME STATEMENT DATA		
Net sales	**2,799,056**	**1,922,198**
Cost of sales	(2,074,824)	(1,544,789)
Gross profit	**724,232**	**377,409**
Selling expenses	(127,253)	(127,148)
Advertising and promotion expenses	(2,969)	(1,634)
General and administrative expenses	(115,015)	(81,934)
Research and development expenses	(5,477)	(3,448)
Other operating expenses	(24,126)	(24,419)
Other operating income	639	569
Foreign exchange (loss)/gain	(11,582)	1,137
Finance costs	(75,204)	(97,423)
Finance income	1,952	3,226
Profit before tax	**365,197**	**46,335**
Income tax expense	(96,611)	(18,289)
Net profit	**268,586**	**28,046**
Attributable to:		
Equity holders of the parent entity	**259,068**	**26,004**
Minority interest	**9,518**	**2,042**
	268,586	**28,046**
Earnings per share attributable to equity holders of the parent entity	**0.30**	**0.22**
Seamless pipes segment		
Net sales	1,701,374	1,284,708
Cost of sales	1,123,524	979,396
Gross profit	577,850	305,312
Welded pipes segment		
Net sales	911,937	487,960
Cost of sales	784,018	427,782
Gross profit	127,919	60,178
Other operations		
Net sales	185,745	149,529
Cost of sales	167,282	137,611
Gross profit	18,463	11,918

	At 31 December	
	2005	2004
	(thousands of U.S. dollars)	
CONSOLIDATED BALANCE SHEET DATA		
Cash and cash equivalents	39,843	7,080
Total assets	2,255,655	2,278,804
Total loans and borrowings (long-term and short-term)	597,853	747,297
Total equity	1,147,630	936,968

	Year ended 31 December	
	2005	2004
	(thousands of U.S. dollars)	
CONSOLIDATED CASH FLOW DATA		
Net cash from operating activities	439,438	116,004
Net cash used in investing activities	(158,233)	(60,523)
Net cash used in financing activities	(247,609)	(56,118)

	As at or for year ended 31 December	
	2005	2004
	(thousands of U.S. dollars, except percentages)	
Non-IFRS Measures		
Adjusted EBITDA[(1)]	561,403	240,931
Adjusted EBITDA margin[(2)]	20.1%	12.5%
Gross profit margin[(2)]	25.9%	19.6%
Net profit margin[(2)]	9.6%	1.5%
Net Debt[(3)]	559,255	745,042

(1) Adjusted EBITDA represents profit before tax plus depreciation and amortisation and as adjusted to exclude the following items: finance costs and finance income, loss (gains) on disposals of property, plant and equipment, charitable donations, loss (gains) on sales of current assets included in other operating expenses, foreign exchange (loss)/gain and other non-recurring operating income and expenses. We present Adjusted EBITDA because we consider Adjusted EBITDA to be an important supplemental measure of our operating performance and believe Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

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

Adjusted EBITDA has limitations as an analytical tool, and potential investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS. Some of these limitations include:

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

We compensate for these limitations by relying primarily on our IFRS operating results and using Adjusted EBITDA only supplementally. See our consolidated statements of income and consolidated statements of cash flows included elsewhere in this Prospectus.

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

	Year ended 31 December	
	2005	2004
	(thousands of U.S. dollars)	
Profit before tax	365,197	46,335
Amortisation	460	18
Depreciation	98,546	91,714
Finance costs	75,204	97,423
Finance income	(1,952)	(3,226)
Loss on disposal of property, plant and equipment	5,547	840
Charitable donations	7,389	3,452
Loss/(gain) on sale of current assets included in other operating expenses	14	(552)
Foreign exchange (loss)	11,582	(1,137)
Other non-recurring operating income and expenses	(584)	6,064
Adjusted EBITDA	561,403	240,931

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

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

Net Debt is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Although net debt is a non-IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. We believe Net Debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt,

from our available cash. Net Debt allows us to show investors the trend in our net financial condition over the periods presented. However, the use of Net Debt effectively assumes that gross debt can be reduced by our cash. In fact, it is unlikely that we would use all of our cash to reduce our gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and its ratio to equity, or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business and financial targets. Our management monitors the net debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess our liquidity and financial structure relative to such companies. Our management also monitors the trends in our Net Debt and leverage in order to optimise the use of internally generated funds versus funds from third parties.

Net Debt has been calculated as follows:

	At 31 December	
	2005	**2004**
	(thousands of U.S. dollars)	
Net Debt calculation		
Add:		
Short-term loans and borrowings and current portion of long-term loans and borrowings	434,663	630,210
Finance lease liabilities, current portion	1,222	3,787
Long-term loans and borrowings, net of current portion	163,190	117,087
Finance lease liabilities, net of current portion	23	1,038
Less:		
Cash and cash equivalents	39,843	7,080
Net Debt	559,255	745,042

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA

The selected unaudited pro forma condensed consolidated financial data as of 31 December 2005 and for the year then ended set forth below includes the historical consolidated financial statements of our group and Sinara Handel prepared in accordance with IFRS. On 1 March 2006, we obtained a 100% ownership interest in Sinara Handel in a transaction with an entity under common control with us. Sinara Handel holds controlling interests in TMK-Artrom and TMK-Resita, acts as a distributor of our pipe products in certain countries outside of Russia and also supplies us with certain types of raw materials and equipment. The unaudited pro forma condensed consolidated financial data set forth below give effect to the transfer of the interest in Sinara Handel to us, using the pooling of interests method of accounting, as if the transaction took place on 1 January 2005 and as if these entities had been commonly managed from the beginning of the period presented.

The historical consolidated financial data of TMK have been extracted from our Annual Financial Statements prepared in accordance with IFRS included elsewhere in this Prospectus. The historical consolidated financial information of Sinara Handel has been extracted from the separate accounting records of Sinara Handel and its subsidiaries used in the preparation of our restated consolidated financial statements in accordance with IFRS which we will reissue in connection with the publication of our next financial information following the transfer of a 100% ownership interest in Sinara Handel to us.

Unaudited Pro Forma Condensed Consolidated Balance Sheet Data as of 31 December 2005

	Historical consolidated				
	TMK	Sinara Handel	Pro forma adjustments (eliminations)	Note	Unaudited consolidated pro forma
	(thousands of U.S. dollars)				
ASSETS					
Current assets					
Cash and cash equivalents	39,843	8,002	—		47,845
Short-term investments	422	1,237	—		1,659
Accounts receivable	185,715	32,427	(64,739)	*3, 5*	153,403
Inventories	416,862	41,425	645	*1, 2*	458,932
Prepayments	140,204	7,892	(2,682)	*3*	145,414
	783,046	**90,983**	**(66,776)**		**807,253**
Non-current assets					
Investments and other long-term receivables	59,962	2,227	(21,596)	*3*	40,593
Property, plant and equipment, net	1,358,930	196,079	(5,324)	*2*	1,549,685
Goodwill and other intangible assets	49,696	319	—		50,015
Deferred income taxes	4,021	1,411	—		5,432
	1,472,609	**200,036**	**(26,920)**		**1,645,725**
TOTAL ASSETS	**2,255,655**	**291,019**	**(93,696)**		**2,452,978**
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and advances from customers	153,903	71,496	(28,102)	*3*	197,297
Accrued liabilities	95,720	12,970	—		108,690
Finance lease liabilities, current portion	1,222	87	—		1,309
Loans and borrowings	434,663	62,826	(40,549)	*5*	456,940
Dividends	1,254	1,758	—		3,012
	686,762	**149,137**	**(68,651)**		**767,248**
Non-current liabilities					
Loans and borrowings	163,190	1,734	—		164,924
Finance lease liabilities, net of current portion	23	102	—		125
Deferred income taxes	233,611	10,531	(1,494)	*4*	242,648
Post-employment benefit	17,396	613	—		18,009
Other liabilities	7,044	299	—		7,343
	421,264	**13,279**	**(1,494)**		**433,049**
Total liabilities	**1,108,026**	**162,416**	**(70,145)**		**1,200,297**
Equity					
Parent shareholders' equity					
Issued capital	305,407	3,972	(3,972)	*6*	305,407
Accumulated profits	562,207	96,003	(19,579)	*7*	638,631
Reserve capital	15,387	—	—		15,387
Additional paid-in capital	136,590	608	—		137,198
Currency translation adjustment	67,005	18,915	—		85,920
	1,086,596	119,498	(23,551)		1,182,543
Minority interest	61,033	9,105	—		70,138
Total equity	**1,147,629**	**128,603**	**(23,551)**		**1,252,681**
TOTAL EQUITY AND LIABILITIES	**2,255,655**	**291,019**	**(93,696)**		**2,452,978**

Unaudited Pro forma Condensed Consolidated Statement of Operations Data for the Year ended 31 December 2005

	Historical consolidated				
	TMK	Sinara Handel	Pro forma adjustments (eliminations)	Note	Unaudited consolidated pro forma
			(thousands of U.S. dollars)		
Net Sales	2,799,056	259,108	(119,971)	*1, 2*	2,938,193
Cost of sales	(2,074,824)	(236,929)	119,985	*1, 2*	(2,191,768)
Gross profit	**724,232**	**22,179**	**14**		**746,425**
Selling expenses	(127,253)	(20,527)	—		(147,780)
Advertising and promotion expenses	(2,969)	(115)	—		(3,084)
General and administrative expenses	(115,015)	(8,173)	—		(123,188)
Research and development expenses	(5,477)	(70)	—		(5,547)
Other operating expenses	(24,126)	(1,962)	—		(26,088)
Other operating income	639	(355)	—		284
Foreign exchange (loss)/gain	(11,582)	(3,045)	—		(14,627
Finance costs	(75,204)	(3,189)	209	*5*	(78,184)
Finance income	1,952	94	(209)	*5*	1,837
Profit before tax	**365,197**	**(15,163)**	**14**		**350,048**
Income tax expense	(96,611)	765	(34)	*4*	(95,880)
Net profit	**268,586**	**(14,398)**	**(20)**		**254,168**
Attributable to:					
Equity holders of the parent entity	**259,068**	**(14,775)**	**(20)**		**244,273**
Minority interests	**9,518**	**377**	**—**		**9,895**
	268,586	**(14,398)**	**(20)**		**254,168**

Notes to the Unaudited Pro Forma Condensed Consolidated Financial Data

The pro forma adjustments consist of the following adjustments to eliminate intra-group balances, transactions, income and expense between TMK and Sinara Handel:

1. Elimination of sales/purchase transactions and intra-group profit/loss in respect of finished goods sold by TMK to Sinara Handel for further resale.
2. Elimination of sales/purchase transactions and intra-group profit/loss in respect of equipment, spare parts and raw materials purchased by Sinara Handel for further resale to TMK.
3. Elimination of accounts receivable, accounts payable and prepayments in respect of transactions described in Notes 1 and 2.
4. Income tax effect of the eliminations described in Notes 1 and 2.
5. Elimination of loans granted by TMK to Sinara Handel and related interest income/expense.
6. Elimination of issued capital of Sinara Handel assuming its acquisition by TMK.
7. Elimination of accumulated profits as a result of eliminations described in Notes 1, 2, 4, 6.

	As at or for the year ended 31 December 2005
	(thousands of U.S. dollars except percentages)
Non-IFRS Measures	
Adjusted Pro Forma EBITDA[(1)(2)]	561,353
Adjusted Pro Forma EBITDA Margin[(2)(3)]	19.1%
Pro Forma Net Debt[(4)(5)]	575,453

(1) See note 1 under ''Selected Consolidated Financial Information'' for an explanation of our calculation of Adjusted EBITDA and certain limitations associated with the use of adjusted EBITDA.

(2) Reconciliation of Adjusted Pro Forma EBITDA to pro forma profit before tax is as follows:

	Historical consolidated			
	TMK	**Sinara Handel**	**Pro forma adjustments (eliminations)**	**Unaudited consolidated pro forma**
		(thousands of U.S. dollars)		
Profit before tax	365,197	(15,163)	14	350,048
Amortisation	460	347		809
Depreciation	98,546	6,296		104,842
Finance costs	75,204	3,189	(209)	78,184
Finance income	(1,952)	(94)	209	(1,837)
Loss on disposal of property, plant and equipment	5,547	(1,024)		4,523
Charitable donations	7,389	99		7,488
Loss/(gain) on sale of current assets included in other operating expenses	14	(172)		(158)
Foreign exchange (loss)	11,582	3,045		14,627
Other non-recurring operating income and expenses	(584)	3,411		2,827
Adjusted EBITDA	**561,403**	**(66)**	**14**	**561,353**

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

(4) See note 3 under ''Selected Consolidated Financial Information'' for an explanation of our calculation of Net Debt and certain limitations associated with the use of Net Debt.

(5) Reconciliation of Pro Forma Net Debt to Net Debt is as follows:

	TMK	**Sinara Handel**	**Pro forma adjustments (eliminations)**	**Unaudited consolidated pro forma**
Add:				
Short-term loans and borrowings and current portion of long-term loans and borrowings	434,663	62,826	(40,549)	456,940
Finance lease liabilities, current portion	1,222	87	—	1,309
Long-term loans and borrowings, net of current portion	163,190	1,734	—	164,924
Finance lease liabilities, net of current portion	23	102	—	125
Less:				
Cash and cash equivalents	39,843	8,002	—	47,845
Net Debt	559,255	56,747	(40,549)	575,453

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

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

In March 2006, we completed the acquisition of a 100% interest in Sinara Handel for U.S.$40.0 million from Sinara Group S.A., which is under common control with us. Sinara Handel holds an 80.56% interest in the Romanian pipe plant, TMK-Artrom, and a 99.49% interest in the Romanian metallurgical plant, TMK-Resita. Because this business combination involved entities under common control, it will be accounted for using the pooling of interests method. Accordingly, when we publish our interim consolidated financial statements as of 30 June 2006 and 2005 and for the six months then ended, our financial statements as of 31 December 2005 and 2004 and for the years then ended included in this Prospectus will be restated as if the transfer of Sinara Handel to us had occurred as of 1 January 2003. As a result, the historical consolidated financial information discussed in this section, which does not reflect the business combination with Sinara Handel, differs from the consolidated financial information we will publish in the future. See "Presentation of Financial and Other Information" and "—Formation and Development of TMK."

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

Overview

We are Russia's largest manufacturer and supplier of steel pipes and are among the world's largest steel pipe producers, with an approximately 3% worldwide market share for steel pipes by sales volume in 2005, according to our estimates. We also estimate that we had an approximately 34% market share for steel pipes in Russia by sales volume in 2005. In 2005, we sold 2.92 million tons of steel pipes including 1.88 million tons of seamless pipes, of which 818,000 tons comprised OCTG. Pipes for the oil and gas industry accounted for approximately 59% of our total sales volume in 2005. We are also Russia's largest exporter of pipes, with sales outside of Russia accounting for approximately 27% of our total sales volume in 2005.

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

We launched our strategic investment programme in 2004. This programme is primarily focused on increasing the efficiency of our production processes and increasing our seamless pipe production. We expect to make total capital expenditures of approximately U.S.$1.2 billion from the start of 2006 through the end of 2010 under the programme. We spent U.S.$96.6 million in connection with the programme in 2004 and 2005 and U.S.$79.1 million in the first six months of 2006. We plan that upon the completion of our strategic investment programme in 2010, we will have increased our seamless pipe production capacity by 1.2 million tons per annum to 3.2 million tons per annum and our steel-making capacity by 1.0 million tons to 3.4 million tons per annum.

We deliver our products to customers in more than 60 countries. Our principal customers include major Russian oil and gas companies, such as Gazprom, LUKoil, Surgutneftegaz, TNK-BP and Rosneft, major multinational oil and gas companies, such as the Shell Group, and national oil companies, such as ONGC

and Statoil. In addition, we have participated as a supplier of pipes in many major national and international projects, such as the Caspian Pipeline Consortium oil pipeline, the Baltic Pipeline System oil pipeline, the Yamal-Europe gas pipeline, and are currently participating as a supplier in the expansion of the Central Asia-Centre gas pipeline project.

We operate primarily through our six production subsidiaries, four of which—Volzhsky, Seversky, Tagmet and Sinarsky—are in Russia, and two of which—TMK-Artrom and TMK-Resita—are in Romania. In 2005, we had total consolidated net sales of U.S.$2,779.1 million and profit before tax of U.S.$365.2 million. As of 31 December 2005, we had total assets of U.S.$2,255.7 million. On a pro forma basis, in 2005, we had total consolidated net sales of U.S.$2,938.2 million and profit before tax of U.S.$350.0 million. On a pro forma basis, as of 31 December 2005 we had total assets of U.S.$2,453.0 million. See "Unaudited Pro Forma Condensed Consolidated Financial Data."

Formation and Development of TMK

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

Additional entities have subsequently been added to the group through acquisitions from our controlling shareholder. In May 2005, we acquired a 100% ownership interest in Sinara Trading (currently named TMK Global), our distributor of pipe products to certain countries outside Russia, for U.S.$7.8 million from Sinara Group, S.A., which was controlled by Dr. Pumpyanskiy. Because this transaction involved entities under common control and was also viewed as a reorganisation of entities under common control, this business combination was also accounted for using the pooling of interests method and our financial statements have been presented as if the transfer to us of the interests in Sinara Trading had occurred with effect from 1 January 2003.

In March 2006, we acquired a 100% interest in Sinara Handel for U.S.$40.0 million from Sinara Group S.A., which is controlled by Dr. Pumpyanskiy. Sinara Handel holds an 80.56% interest in a Romanian pipe plant, TMK-Artrom, and a 99.49% interest in a Romanian metallurgical plant, TMK-Resita. This business combination is to be accounted for using the pooling of interests method. This business combination is not reflected in our Annual Financial Statements included in this Prospectus or in this discussion and analysis of our financial condition and results of operations but will be reflected in our restated consolidated financial statements as of 31 December 2005 and 2004 and for the years then ended when we publish our interim consolidated financial statements as of 30 June 2006 and 2005 and for the six months then ended. See "Presentation of Financial and Other Information—Presentation of Financial Information."

Acquisitions

As discussed above, we received controlling interests in each of Volzhsky, Sinarsky, Seversky, TMK Trade House, TMK Global and Sinara Handel from entities ultimately controlled by Dr. Pumpyanskiy and these acquisitions have been or, in the case of Sinara Handel, will be, accounted for under the pooling of interests method. Our acquisition of Tagmet, on the other hand, was accounted for under the purchase method of accounting.

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

Certain Factors Affecting Our Results of Operations

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

The Global and Domestic Oil and Gas Industry

Sales to oil and gas companies worldwide represent a high percentage of our total sales and demand for seamless and welded steel pipes from the global oil and gas industry is a significant factor affecting the general level of volumes and prices for our products. Downward pressures on oil and gas prices in the international markets usually result in lower oil and gas drilling activity and consequently lower demand for our steel pipe products from our oil and gas customers and, in some circumstances, upward pressures can result in higher demand from these customers.

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

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

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

Russian Macroeconomic Trends

Most of our operations are based in Russia, and we generate a significant proportion of our sales in Russia, with 74.2% and 72.9%, respectively, of total net sales being made in Russia in 2004 and in 2005. As a result, Russian macroeconomic trends, including the overall growth in the economy and in the markets in which we operate, significantly influence our results of operations, particularly sales of industrial seamless and welded pipes. The table below summarises certain key macroeconomic indicators relating to the Russian economy in 2003, 2004 and 2005.

	Year ended 31 December		
	2005	2004	2003
GDP growth	6.4%	7.1%	7.3%
Consumer price index	10.9%	11.7%	12.0%
Unemployment rate	7.6%	8.2%	8.6%

Source: Central Bank of Russia

In recent years, Russia has been able to overcome the consequences of the 1998 financial crisis. GDP growth rates in Russia since 2002 have remained relatively high compared to those in North America and Europe. The Russian economy since 2002 has benefited from exports of oil and oil products, natural gas, other natural resources and commodity products and high oil, gas and commodity prices on international markets. Domestic economic growth has also resulted in the growth in Russia's federal budget surplus, which has been a significant factor behind federal government spending and increasing support for the

development of Russia's infrastructure. These factors have resulted in both increased domestic consumption of pipes in 2005 by 7.6% as compared to 2004, and in increases in the cost of our raw materials and other costs of production, such as labour and energy.

Raw Material Costs

We require substantial amounts of raw materials in the pipe and steel production process. We purchase large volumes of scrap metal, pig iron and ferroalloys for use in our in-house steel-making operations, steel billets, for use in our seamless pipe operations, and steel plates and coils, for use in our welded pipe operations. See "Business—Raw Materials." Prices for most of the raw materials that we use increased during 2004 and 2005, reflecting increased Russian and global demand for these products. See "Risk Factors—Risks Relating to Our Business and the Pipe Industry—Increases in the cost of raw materials may have a material adverse effect on our financial condition and results of operations."

Currency Exchange Fluctuations

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

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

	Year ended 31 December	
	2005	2004
Nominal exchange rate (roubles per U.S. dollar)[1]	28.15	28.82
Real rouble appreciation against U.S. dollar[2]	12.3%	15.1%
Nominal exchange rate (roubles per euro)[1]	35.62	35.81
Real rouble appreciation against euro[2]	10.3%	5.6%

Source: Central Bank of Russia

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

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

Seasonality

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

Business Segments

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

Business segment

Our primary segment reporting format is business segments. A business segment comprises a distinguishable component of TMK that is engaged in providing an individual product or service or a

group of related products or services and that is subject to risks and returns that are different from those of other business segments. We present our net sales, cost of sales, gross profit, assets, liabilities and depreciation costs based on the main groups of products segregated into seamless pipes, welded pipes and other operations, which comprise principally our sale of steel billets to third parties.

Geographical segment

Our secondary segment reporting format for disclosure of our operating activities in the financial statements is geographical segments. A geographical segment is a distinguishable component of TMK that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those components operating in other economic environments. In our financial statements, we disclose our net sales based on the location of the purchasing entity, and not on the location of the end-user. We present segment assets, long-term investments and depreciation expenses based on the location of our assets. For the periods discussed herein, the substantial majority of our production assets were located in Russia.

Results of Operations

The following table sets forth our consolidated financial results of operations for the periods indicated.

	For the year ended 31 December			
	2005		2004	
	Amount	As % of net sales	Amount	As % of net sales
	(millions of U.S. dollars, except percentages)			
Net sales	2,799.1	100%	1,922.2	100%
Cost of sales	(2,074.8)	74%	(1,544.8)	80%
Gross profit	**724.3**	**26%**	**377.4**	**20%**
Selling expenses	(127.3)	5%	(127.1)	7%
Advertising and promotion expenses	(3.0)	0%	(1.6)	0%
General and administrative expenses	(115.0)	4%	(81.9)	4%
Research and development expenses	(5.5)	0%	(3.4)	0%
Other operating expenses	(24.1)	1%	(24.4)	1%
Other operating income	0.6	0%	0.6	0%
Foreign exchange (loss)/gain, net	(11.6)	0%	1.1	0%
Finance costs	(75.2)	3%	(97.4)	5%
Finance income	2.0	0%	3.2	0%
Profit before tax	**365.2**	**13%**	**46.3**	**2%**
Income tax expense	(96.6)	3%	(18.3)	1%
Net profit	**268.6**	**10%**	**28.0**	**1%**
Attributable to:				
Equity holders of the parent entity	259.1		26.0	
Minority interests	9.5		2.0	
	268.6		28.0	

Net Sales

Net sales represent our total sales to customers net of value-added tax and product returns. Our consolidated net sales increased by 46% in 2005 to U.S.$2,799.1 million from U.S.$1,922.2 million in 2004 due to a combination of higher average selling prices and higher sales volumes for both seamless and welded pipe products.

Sales volumes

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

	For the year ended 31 December		
	2005[1]	2004[1][2]	Change, %
	(thousands of tons, except percentages)		
Russia	1,176	1,116	5%
Outside Russia	619	615	1%
Seamless pipes	**1,795**	**1,731**	**4%**
Russia	952	607	57%
Outside Russia	96	109	(12)%
Welded pipes	**1,048**	**716**	**46%**
Total pipes	**2,843**	**2,447**	**16%**
of which			
Russia	2,128	1,723	24%
Outside Russia	715	724	(1)%

(1) The sales volumes set out in the table do not reflect the results of Sinara Handel for the periods shown. See "Presentation of Financial and Other Information."

(2) Tagmet sales volumes are included in our sales for all of 2004 as Tagmet made all of its sales to our subsidiary, TMK Trade House, which then resold these products to customers, prior to Tagmet's acquisition by us in February 2004. These purchases are included under cost of merchandise.

Our seamless pipe sales growth was primarily driven by continuing strong demand from oil and gas companies as a result of increased drilling activity in the oil and gas sector which were largely attributable to higher oil prices.

The significant increase in welded pipes sales was predominantly attributable to increased sales to Gazprom of large diameter welded pipes. At the end of 2003 we commenced production of 1,420 mm diameter welded pipes at our Volzhsky plant. During 2005, we concluded new contracts with Gazprom to supply these types of pipe, which Gazprom had previously purchased from non-Russian producers. The decrease in sales of welded pipes to non-Russian customers resulted from the reallocation of production capacity to meet the significant demand from Gazprom for welded pipes.

Net sales by business segment

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

	For the year ended 31 December				
	2005		2004		
	Amount	As % of net sales	Amount	As % of net sales	Change, %
	(millions of U.S. dollars, except percentages)				
Seamless pipes	1,701.4	60.8%	1,284.7	66.8%	32%
Welded pipes	911.9	32.6%	488.0	25.4%	87%
Other operations	185.8	6.6%	149.5	7.8%	24%
Total net sales	**2,799.1**	**100.0%**	**1,922.2**	**100.0%**	**46%**

Seamless Pipes. The increase in our seamless pipes sales was primarily attributable to increases in prices for seamless pipes. Average selling prices for seamless pipes increased by 28% to U.S.$948 per ton in 2005 from U.S.$742 per ton in 2004. The volume of seamless pipes sold increased by 4% in 2005. As mentioned above this was attributable to increased drilling activity of oil companies, largely attributable to the high oil price levels globally.

Welded Pipes. As discussed above, the increase in our welded pipes sales in 2005 resulted primarily from orders from Gazprom for 1,420 mm diameter welded pipes, the production of which we commenced at the end of 2003. On average, welded pipes prices increased by 28% in 2005 to U.S.$870 per ton in 2005 from U.S.$682 per ton in 2004 principally reflecting our passing on of increased manufacturing costs attributable to higher raw material costs. In addition, the increase in sales price was partly attributable to the changes in product mix, and in particular increased sales volumes of 1,420 mm diameter welded pipes.

The following table provides an analysis of our sales growth attributable to changes in prices and volumes of pipes from 2004 to 2005.

	Welded pipes	Seamless pipes	Total	Welded pipes	Seamless pipes	Total
	(millions of U.S. dollars, except percentages)					
Changes in price	197.6	369.2	566.8	47%	89%	67%
Changes in volumes	226.3	47.5	273.8	53%	11%	33%
Total change	**423.9**	**416.7**	**840.6**	**100%**	**100%**	**100%**

Other Operations. Other operations principally include sales of steel (predominantly billets) and various supplementary services to third parties, such as energy distribution. Net sales from other operations grew by 24% in 2005 as compared to 2004 primarily due to the increase in steel prices as well as increases in sales volumes.

Net sales by geographical segment

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

	For the year ended 31 December (1)			
	2005		2004	
	Amount	As % of net sales	Amount	As % of net sales
	(millions of U.S. dollars, except percentages)			
Russia	2,041.5	73%	1,426.4	74%
Europe	393.5	14%	291.3	15%
Middle East & Gulf Region	124.2	4%	57.6	3%
Americas	113.0	4%	73.3	4%
Central Asia & Caspian Region	77.1	3%	65.0	3%
Asia & Far East	46.6	2%	5.9	1%
Africa	3.2	0%	2.7	0%
Total sales	**2,799.1**	**100%**	**1,922.2**	**100%**

(1) Non-Russian sales revenues are categorised by customer location, which does not always correspond to the destination of product delivery or final use. See ''Business—Sales and Marketing'' for a presentation of the geographical distribution of our sales based on the delivery destination.

The significant increase in sales to Europe in 2005 is attributable to a combination of the increase in our sales to Ukraine and Belarus and increased sales prices. Increases in sales to other jurisdictions, including to the Middle East & Gulf Region and Asia & Far East, was generally due to our overall increase in marketing efforts in those jurisdictions.

Cost of Sales

Gross profit

Our gross profit increased by 92% from U.S.$377.4 million in 2004 to U.S.$724.2 million in 2005 as a result of volume growth, sales price increases in excess of raw material input price increases, improved product mix and improved operating efficiency.

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

	For the year ended 31 December	
	2005	2004
Seamless pipes	34.0%	23.8%
Welded pipes	14.0%	12.3%
Other operations	9.9%	8.0%
Overall gross margin	**25.9%**	**19.6%**

The gross margin for welded pipes did not change significantly in 2005 as compared to 2004 as sales price increases were generally in line with increases in raw material prices for welded pipes.

The improved margin for seamless pipes was a result of:

- an increasing proportion of sales of higher value-added products which generally generate higher margins;
- benefits generated from our own integrated steel operations as during 2005 the growth in market prices for scrap, which is the most significant raw material input for our steel production, was less than the growth in market prices for semi-finished steel products, such as billets, and finished steel products, including our seamless pipes; and
- improved production efficiency at our pipe-rolling mills.

The increase in our gross margins generated by other operations was also a result of increased steel prices relative to scrap, as scrap is the major raw material of other operations and steel sales are the major component of sales of other operations.

The table below sets out our cost of sales for 2005 and 2004.

	For the year ended 31 December				
	2005		2004		Change, %
	Amount	As % of cost of production	Amount	As % of cost of production	
	(millions of U.S. dollars, except percentages)				
Direct costs					
Raw materials	1,427.3	69%	1,006.0	66%	42%
Energy	74.1	4%	57.9	4%	28%
Add-on materials of production	65.6	3%	54.6	4%	20%
Labour cost	72.4	4%	54.2	4%	34%
Service of production	4.1	0%	2.0	0%	105%
Total direct costs	1,643.5	80%	1,174.7	78%	40%
Production overheads					
Salaries & wages	140.6	7%	112.3	7%	25%
Depreciation	93.3	4%	84.8	6%	10%
Supplies	72.7	4%	68.8	5%	6%
Utilities	44.4	2%	37.3	2%	19%
Other	52.1	3%	35.4	2%	47%
Total production overheads	403.1	20%	338.6	22%	19%
Total cost of production	**2,046.6**	**100%**	**1,513.3**	**100%**	**35%**
Changes in inventory	(9.0)		(82.6)		
Cost of merchandise	35.6		113.9		
Inventory adjustment	1.6		0.2		
Total cost of sales	**2,074.8**		**1,544.8**		**34%**

Raw materials and labour costs are the major components of cost of production representing 69% and 11%, respectively, of our total costs of production in 2005.

Raw materials

Raw materials costs include principally our purchases of steel plates and coil, steel billets, scrap metal, pig iron, ferroalloys and certain other raw materials used in our production processes. The increase in raw materials costs in 2005 as compared to 2004 was attributable to the increase in volumes of materials consumed resulting from sales volume growth as well as increased prices for raw materials used in the manufacture of welded pipes. In particular, prices for steel coils and plates increased significantly in 2005 as compared to 2004, while prices for scrap remained stable and prices for pig iron declined.

Labour cost and salaries and wages

Labour costs and salaries and wages together constitute the second largest component of cost of sales. Labour costs include costs of our personnel directly engaged in our pipe and steel production. Salaries and wages expense included in production overheads represents labour costs attributable to personnel engaged in auxiliary workshop activities. Labour costs and salary and wages include salaries and wages of

production personnel and social and pension contributions attributable to these salaries. We make these contributions to Russian Federation governmental funds at the statutory unified social tax rates in force (a rate ranging in 2005 from 26% to 2% of gross payroll per employee applied on a regressive basis).

The increase in labour costs and salaries and wages from 2004 to 2005 was driven by increased production volumes, as the salaries of our employees are linked to performance indicators. Labour costs and salary and wages costs also increased to compensate for inflation. The increase was partly offset by the reduction of the maximum unified social tax rate in 2005 from 35.6% to 26%.

Changes in inventory and cost of merchandise

Change of inventory represents decreases (increases) in the balances of our finished goods and work-in-progress and cost of merchandise represents the cost of inventories we purchase from our suppliers and sell to our customers that do not undergo further processing by us. Cost of merchandise of U.S.$113.9 million in 2004 relates primarily to our transactions with Tagmet prior to our acquisition of Tagmet. Prior to our acquisition of Tagmet in February 2004, Tagmet sold all of its core products and obtained most of its raw materials from our subsidiary TMK Trade House. The cost of finished products sold by Tagmet to us and the cost to us of raw materials purchased by Tagmet from us in January and February 2004 is included in the cost of merchandise in our financial statements. The increase in changes in inventory in 2004 was caused by the general increase in the level of our production and sales as compared to the previous period.

Cost of merchandise of U.S.$35.6 million in 2005 relates primarily to the purchase and subsequent resale of pipe and steel products from TMK-Resita and TMK-Artrom by Sinara Trading, our consolidated subsidiary, as well as to the resale by our Russian subsidiaries of raw materials initially purchased for their own consumption.

Selling Expenses

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

	For the year ended 31 December			
	2005		2004	
	Amount	As % of total selling expenses	Amount	As % of total selling expenses
	(millions of U.S. dollars, except percentages)			
Freight	77.5	61%	53.3	42%
Salaries & wages	20.3	16%	16.0	13%
Supplies	11.4	9%	8.4	7%
Professional services	8.7	7%	38.2	30%
Other	9.4	7%	11.2	8%
Total selling expenses	**127.3**	**100%**	**127.1**	**100%**

Selling expenses mainly consist of freight costs and salaries and wages attributable to our sales activities.

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

Salaries and wages: The increase in salaries and wages in 2005 as compared to 2004 was due to the increased salaries in our selling units and higher bonus payments linked to increases in our sales volumes.

Professional services: Professional services relate principally to commissions relating to customs and transportation processing as well as marketing fees related to our export activities. In 2004, professional services also included commissions and marketing fees of U.S.$29.7 million paid to related parties. We did not incur any of these related party fees in 2005 and do not expect to incur such costs in the future.

General and Administrative Expenses

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

	For the year ended 31 December			
	2005		2004	
	Amount	As % of total general and administrative expenses	Amount	As % of total general and administrative expenses
	(millions of U.S. dollars, except percentages)			
Salaries & wages	63.1	55%	47.0	57%
Professional services	21.0	18%	9.3	11%
Other	30.9	27%	25.6	32%
Total general and administrative expenses	**115.0**	**100%**	**81.9**	**100%**

General and administrative expenses consist principally of wages and salaries of our administrative personnel and professional services costs, which include costs of our legal and accounting advisers. The increase in salaries and wages is attributable to salary increases in line with inflation and to the increase in administrative staff headcount. The increase in professional services is attributable to advisers retained in connection with planned financing activities.

Other Operating Expenses

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

	For the year ended 31 December	
	2005	2004
	(millions of U.S. dollars)	
Social and social infrastructure maintenance expenses	11.1	14.0
Loss on disposal of property, plant and equipment	5.5	0.8
Charitable donations	7.4	3.5
Other	0.1	6.1
Total other operating expenses	**24.1**	**24.4**

Social and social infrastructure maintenance expenses represent costs related to the maintenance of sport, medicine, culture and other social infrastructure facilities used by our employees and expenses related to social events. The line item "other" relates principally to an accrual made in connection with a potential tax claim in 2004 that was reversed after a court dismissed the claim in 2005.

Foreign exchange (loss)/gain

We recorded foreign exchange losses of U.S.$11.6 million in 2005 as compared to gains of U.S.$1.1 million in 2004. Foreign exchange rate differences relate primarily to the revaluation of U.S. dollar denominated loans as at the end of the reporting periods in roubles (our functional currency). As at 31 December 2004, the Russian rouble appreciated against the U.S. dollar as compared to 31 December 2003, resulting in the foreign exchange gain. The gain was partly offset by losses incurred on the conversion of U.S. dollar loan proceeds into roubles. In 2005 we incurred foreign exchange losses as a result of Russian rouble depreciation (on a nominal basis) against the U.S. dollar as at 31 December 2005 as compared to 31 December 2004.

Finance costs

We recorded finance costs of U.S.$75.2 million in 2005 as compared to U.S.$97.4 million in 2004. Finance costs principally reflect our interest expense, which decreased in 2005 as compared to 2004 primarily due to early repayment from the fourth quarter of 2004 to the third quarter of 2005 of a loan from Dresdner Bank due 2014 in the principal amount of U.S.$600.0 million.

Income tax expense

Income tax expense increased from U.S.$18.3 million in 2004 to U.S.$96.6 million in 2005 as a result of our increase in profit before tax. Our effective tax rate, which is defined as income tax expense as a

percentage of profit before tax, decreased from 39% in 2004 to 26% in 2005 as a result of the decreasing share of non-deductible expenses, such as certain consulting fees and social maintenance expenses, in our pre-tax profits and due to increased sales through our Swiss subsidiary, which is subject to lower income tax rate than our Russian subsidiaries.

Net profit

For the reasons set forth above, our net profit increased by 859% to U.S.$268.6 million in 2005 from U.S.$28.0 million in 2004.

Trend Information

Our trading environment in the first half of 2006 generally remained positive. Our revenues increased in the first half of 2006 as compared to the first half of 2005 as a result of higher overall sales volumes, an improved product mix, increased sales of higher margin products, and higher prices.

Our strong performance primarily reflects the continued favorable environment for oil and gas companies, as oil and gas prices continued to rise for most of the period. Our sales of OCTG, our highest margin category of pipe, were particularly strong during the first half of 2006, driven both by volume and price increases. Sales volumes of large diameter welded pipes decreased, as orders from Gazprom fell as compared to the first half of 2005, though sales volumes of industrial welded pipes increased. Sales volumes of seamless line pipes and seamless industrial pipes declined slightly as we redeployed production capacity to higher-margin OCTG. Our costs of raw materials decreased in the first half of 2006 as compared to the first half of 2005, reflecting lower prices of certain of our raw materials, including steel plate and coil. As a consequence of these factors, we realized higher gross profit in the first half of 2006 as compared to the first half of 2005.

The following tables summarize certain key data about our financial condition and results of operations as of 30 June 2006 and 2005 and for the six months then ended. This information has been extracted from our condensed consolidated financial information as at 30 June 2006 and 2005 and for the six months then ended, prepared in accordance with IFRS and which we expect to publish in October 2006. This data gives full effect to the reorganisation with Sinara Handel and its consolidation for prior periods as if the transfer of Sinara Handel to us had occurred on 1 January 2003, and is thus not directly comparable to the other financial information presented under this "Management's Discussion of Financial Condition and Results of Operations." This information may also not be indicative of our results of operations for the full year. See "Unaudited Pro Forma Condensed Consolidated Financial Data" for other financial data that give effect to the transfer of Sinara Handel to us.

	Six months ended 30 June	
	2006[1]	2005[1]
	(thousands of U.S. dollars)	
CONSOLIDATED INCOME STATEMENT DATA		
Net sales	1,576,340	1,437,885
Gross profit	499,516	351,796
Profit before tax	304,696	158,651
Net profit	229,051	118,396

	At 30 June 2006[1]	At 31 December 2005[1]
	(thousands of U.S. dollars)	
CONSOLIDATED BALANCE SHEET DATA		
Cash and cash equivalents	46,448	47,845
Total assets	2,792,654	2,452,978
Total loans and borrowings (long-term and short-term)	687,646	621,864
Total equity	1,517,210	1,252,681

	Six months ended 30 June	
	2006	2005
	(thousands of U.S. dollars, except percentages)	
Non-IFRS Measures		
Adjusted EBITDA[(2)]	398,510	268,164
Adjusted EBITDA margin[(3)]	25.4%	18.6%
Gross profit margin[(3)]	31.7%	24.5%
Net profit margin[(3)]	14.5%	8.2%

	At 30 June 2006	At 31 December 2005
	(thousands of U.S. dollars)	
Net Debt[(4)]	641,463	575,453

(1) Unaudited.

(2) See note 1 under ''Selected Consolidated Financial Information'' for an explanation of our calculation of Adjusted EBITDA and certain limitations associated with the use of Adjusted EBITDA.

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

	Six months ended 30 June	
	2006	2005
	(thousands of U.S. dollars)	
Profit before tax	304,696	158,651
Depreciation and amortisation	57,100	49,502
Finance costs	30,560	41,802
Finance income	(1,160)	(1,588)
Loss on disposal of property, plant and equipment	373	2,242
Charitable donations	5,574	2,308
Loss/(gain) on sale of current assets included in other operating expenses	(66)	(203)
Foreign exchange (loss)	(4,602)	10,307
Other non-recurring operating income and expenses	6,035	5,143
Adjusted EBITDA	398,510	268,164

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

(4) See note 3 under ''Selected Consolidated Financial Information'' for an explanation of our calculation of Net Debt and certain limitations associated with the use of Net Debt. We also expect to make additional borrowings in order to finance the TMK Steel Loan, as set forth under ''—Liquidity and Capital Resources — Indebtedness — Additional debt financing in connection with the TMK Steel Loan.''

Net Debt has been calculated as follows:

	At 30 June 2006	At 31 December 2005
	(thousands of U.S. dollars)	
Net Debt calculation		
Add:		
Short-term loans and borrowings and current portion of long-term loans and borrowings	439,963	456,940
Finance lease liabilities, current portion	107	1,309
Long-term loans and borrowings, net of current portion	247,683	164,924
Finance lease liabilities, net of current portion	158	125
Less:		
Cash and cash equivalents	46,448	47,845
Net Debt	**641,463**	**575,453**

Liquidity and Capital Resources

Capital Requirements

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

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

OAO TMK is a holding company with limited direct operations. OAO TMK's ability to repay its debts depends primarily upon the receipt of dividends, distributions and other payments from our subsidiaries and from additional borrowings.

Capital Expenditures

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

In 2005, we made total capital expenditures of U.S.$116.4 million, as compared to U.S.$62.0 million in 2004. The principal portion of our capital expenditures in 2005 and 2004 related to the installation of new continuous casting machines at Tagmet and Seversky, upgrades of our electric furnace and continuous casting machine at Volzhsky and improvements on the heat treatment and finishing capacity of our pipe plants. From 2006 to 2010, we expect to make additional capital expenditures of approximately U.S.$1.2 billion (net of VAT) in connection with our strategic investment plan.

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

Cash flows

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

	Year ended 31 December	
	2005	2004
	(millions of U.S. dollars)	
Profit before tax	365.2	46.3
Non-cash and other adjustments	193.1	190.3
Changes in operating assets and liabilities	(13.8)	(98.2)
Income taxes paid	(104.9)	(22.4)
Net cash from operating activities	**439.4**	**116.0**
Net cash used in investing activities	**(158.2)**	**(60.5)**
Net cash used in financing activities	**(247.6)**	**(56.1)**
Effect of exchange rate changes on cash and cash equivalents	**(0.8)**	**0.4**
Net increase/(decrease) in cash and cash equivalents	**32.8**	**(0.2)**

We intend to finance our capital investment programme with a mix of cash flows from operations and financing activities. We seek long-term financing (with tenures of five to ten years), both domestically and internationally from banks and in the capital markets, as well as short-term working capital loans that may be secured by pledges over plant and equipment.

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

Net cash from operating activities was U.S.$116.0 million and U.S.$439.4 million in the years ended 31 December 2004 and 2005, respectively. The increase in net cash from operating activities during these periods was primarily due to the increased profitability of our business.

Investing activities. Net cash used in investing was U.S.$60.5 million and U.S.$158.2 million in the years ended 31 December 2004 and 2005, respectively. Substantially all the cash used in investing activities related to purchases of property, plant and equipment, purchases of shares in subsidiaries and purchase of an interest in a joint venture and, in 2005, loans granted to Sinara Handel.

Financing activities. Net cash used in financing activities during the year ended 31 December 2005 of U.S.$247.6 million was due principally to net repayments of borrowings of U.S.$134.7 million and interest paid of U.S.$76.8 million. Net cash used in financing activities during the year ended 31 December 2004 of U.S.$56.1 million was primarily due to repayments of borrowings of U.S.$1,681.7 million, distributions paid to owners of U.S.$607.1 million and interest paid of U.S.$93.7 million, offset by proceeds from borrowings of U.S.$2,030.1 million and proceeds from issuance of share capital of U.S.$305.4 million. Distributions paid to owners in 2004 were in connection with the transfer of Sinarsky, Seversky, Volzhsky

and TMK Trade House to OAO TMK and the acquisition of Tagmet and was financed principally by borrowings from international banks.

Dividends. In May 2005, we paid interim dividends in a total amount of U.S.$2.6 million.

Indebtedness

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

	dollar-denominated	rouble-denominated	euro-denominated	Total
		(thousands of U.S. dollars)		
Total debt, of which	**39,861**	**545,464**	**92,519**	**677,845**
Fixed-rate debt	—	545,464	20,703	566,167
Variable-rate debt	39,861	—	71,817	111,678

As of 30 June 2006, U.S.$94.4 million of our total debt was secured.

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

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

		Expected maturity as of 30 June 2006						
		Through 31 December				After 31 December		Annual
	Currency	2006	2007	2008	2009	2009	Total	interest rate
		(thousands of U.S. dollars, except percentages)						(%)
Variable-rate debt								
Natexis	U.S.$	9,511	—	—	—	—	9,511	6.93%
Moscow Narodny Bank	U.S.$	7,500	11,250	—	—	—	18,750	7.33%
ZAO Raiffeisenbank Austria	U.S.$	—	—	11,600	—	—	11,600	9.08%
Total U.S.-dollar denominated		***17,011***	***11,250***	***11,600***	—	—	***39,861***	
Banca Commerciala Romana[1]	EUR	—	22,978	—	—	14,199	37,177	5.65%-6.00%
Gazprombank	EUR	2,101	6,690	5,488	4,824	15,537	34,640	6.75%-8.25%
Total euro-denominated		***2,101***	***29,668***	***5,488***	***4,824***	***29,736***	***71,817***	
Fixed-rate debt								
Amsterdam Trade Bank	EUR	20,703	—	—	—	—	20,703	6.50%
Total euro-denominated		***20,703***	—	—	—	—	***20,703***	
IMB	RUB	60,564	11,079	—	—	—	71,643	7.85%-7.95%
MDM-Bank	RUB	22,157	—	—	—	—	22,157	10.25%
Sberbank	RUB	65,016	—	—	—	—	65,016	6.80%-8.00%
Bonds	RUB	73,858	—	—	—	—	73,858	10.30%
Gazprombank	RUB	17,357	—	—	—	—	17,357	6.50%
Bonds[2]	RUB	—	110,787	184,646	—	—	295,433	Various
Total rouble-denominated		***238,952***	***121,866***	***184,646***	—	—	***545,464***	
Total debt		***278,767***	***162,784***	***201,734***	***4,824***	***29,736***	***677,845***	

(1) Reflects loans to TMK-Artrom and TMK-Resita, which are not included in the Annual Financial Statements or the discussion under ''Results of Operations.'' See ''Presentation of Financial and Other Information—Presentation of Financial Information.''

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

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

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

Credit facility agreements with Moscow Narodny Bank Limited ("MNB"). On 25 August 2005, Sinara Trading AG (currently named TMK Global AG) entered into a U.S.$25.0 million facility agreement with

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

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

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

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

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

Loans from Natexis (Paris). On 27 February 2006, TMK Global and TMK North America, Inc. entered into a U.S.$30.0 million uncommitted revolving secured transactional financing facility agreement with Natexis. The loan bears interest at the United States Federal Funds rate plus 1.6% per annum. As of 30 June 2006, U.S.$9.5 million was outstanding under the loan.

Loans from Savings Bank of the Russian Federation ("Sberbank"). On 10 April 2006, Tagmet entered into a non-revolving credit line agreement with Sberbank in the total principal amount of RUB 360 million at an annual interest rate of 8% due 6 October 2006. As of 30 June 2006, RUB 360 million was outstanding under the loan.

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

Loans from Joint Stock Commercial Bank Moskovsky Delovoy Mir (OAO) ("MDM").

On 28 July 2005, TMK Trade House entered into a loan agreement with MDM in the total principal amount of RUB 300 million. The loan bore interest at 10.25% per annum and matured on 28 July 2006, and amounts due under the facility agreement were guaranteed by OAO TMK. As of 30 June 2006, RUB 300 million was outstanding under the loan.

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

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

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

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

Bond Issuances

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

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

Series 02 RUB 3 billion bond issue. On 29 March 2005, we issued documentary non-convertible bonds in the aggregate principal amount of RUB 3 billion which mature on 24 March 2009. The bonds have eight semi-annual interest coupons. The annual interest rate for the first two coupons was set at 11.09% and the annual rate for the third and fourth coupons at 10.09%. The fifth, sixth, seventh and eight coupon rates will be determined by us within five days before the fourth coupon date, which is 27 March 2007. Under the terms of the bonds, investors are entitled to redeem the bonds within five days of the fourth coupon period, from 724 to 728 days from the date of issuance. Sinarsky, Seversky, Tagmet and Volzhsky have each guaranteed a portion of the bonds. As of 30 June 2006, all of the series 02 bonds remained outstanding.

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

Credit facilities entered into after 30 June 2006

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

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

Additional debt financing in connection with the TMK Steel Loan

In connection with the funding of the TMK Steel Loan by us, in addition to the Loan we expect to make the following additional borrowings.

Dresdner Facility. On or about 29 September 2006, we expect to enter into a facility agreement with Dresdner Bank that will provide for a bridge loan facility in the principal amount of up to U.S.$190.0 million, with a term of 364 days from the date of signing. Advances under the facilities will bear interest at LIBOR plus 1.75% per annum. Any proceeds we receive in connection with a public offering of shares in OAO TMK will be applied to prepay amounts received under this facility. The facilities are to be initially guaranteed by Volzhsky and TMK Trade House, and we are required to procure that Seversky, Sinarsky and Tagmet shall accede as additional guarantors to the facility no later than 60 days from the date of the execution of the facility agreement. In addition, in the event that a public offering of our ordinary shares does not take place prior to 30 November 2006, OAO TMK will be required to provide collateral to the lender in the form of a pledge over 25% plus one share of the share capital of each of Seversky and Tagmet. The terms of the facility will require us to maintain a ratio of consolidated indebtedness to tangible net worth of not more than 1.5 to 1; a ratio of consolidated indebtedness to 12-month consolidated EBITDA of not more than 3.5 to 1; and a tangible net worth of at least U.S.$900 million. The facility will also restrict our ability to pay dividends that would exceed 50% of our consolidated net income in any financial year.

Medium Term Finance Facility. We expect to enter into a medium term finance facility on or about 28 September 2006 in the principal amount of U.S.$140.0 million. The facility will be available for disbursement for a period of one month from the date of the execution of the facility agreement. The term of the facility is 24 months, to be repaid in 16 equal monthly instalments starting nine months from the date of the first disbursement of the facility. Advances under the facility will bear interest at a rate of one-month LIBOR plus 1.75% per annum. The terms of the facility will require us to maintain a ratio of financial indebtedness to tangible net worth of not more than 1.5 to 1; a ratio of financial indebtedness to EBITDA of not more than 3.5 to 1; and an IFRS tangible net worth of at least U.S.$900.0 million.

Bank Natexis Facility. On 25 September 2006, we entered into a syndicated facility agreement with Bank Natexis, as arranger, in an aggregate principal amount of up to U.S.$155.0 million with OAO TMK and TMK Trade House as borrowers. We may draw amounts in U.S. dollars or euro under the facility at our option, provided that the aggregate amount drawn under the facility may not exceed U.S.$155.0 million. The facility has a term of 30 months from the date of the first drawdown, with amounts drawn under the facility to be repaid in 21 equal instalments commencing ten months from the first drawdown. The maturity date of the facility may be extended in certain circumstances at the election of OAO TMK and TMK Trade House. Advances under the facility will bear interest at a rate of one-month LIBOR (or one-month EURIBOR in the case of euro borrowings under the facility) plus 2.20% per annum, though the borrowers may also request the arranger to provide for a fixed interest rate option under the terms of the facility agreement. In connection with these agreements, TMK Trade House have assigned the rights to receive payment under pipe off-take contracts with certain of our principal Russian oil and gas customers as security for amounts drawn under the facility. The terms of the facility require us to maintain a ratio of financial indebtedness to consolidated net worth of not more than 1.25 to 1; and a ratio of consolidated financial indebtedness to consolidated EBITDA of not more than 3.5 to 1.

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

Disclosures about Market Risk

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

Foreign Currency Exchange Rate Risk

While we generate most of our net sales in Russian roubles, we also generate significant net sales in other currencies, primarily U.S. dollars, from our export operations. As we export a significant portion of our production, we are exposed to foreign currency risk in connection with these sales. Our exports in 2005 were 27% of our total sales volume compared to 26% in 2004.

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

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

	As of 31 December 2005	
	RUB	Other currencies
	(millions of U.S. dollars)	
Cash and cash equivalents	31.9	8.0
Accounts receivable	72.4	21.3
Accounts payable and other liabilities	127.4	25.5

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

Commodity Price Risk

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

Credit Risk

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

Interest Rate Risk

We are exposed to variations in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate notes. As of 31 December 2005, approximately U.S.$192.9 million,

or 32.4%, of our total interest-bearing loans and borrowings was variable interest rate debt, while U.S.$402.5 million or 67.6% of our total interest-bearing loans and borrowings was fixed interest rate debt. We may in the future incur significant debt obligations and become more exposed to interest rate fluctuations, in particular in order to fund acquisitions or our capital expenditure requirements.

Critical Accounting Policies

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

Accounting for Business Combinations

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

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

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

Purchases of subsidiaries from entities under common control are accounted for using the pooling of interests method. The assets and liabilities of the subsidiary transferred under common control are recorded at the historical cost of the predecessor. The differences between the total book value of net assets, including the predecessor's goodwill, and the consideration paid is accounted for as an adjustment to equity.

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

Impairment of Property, Plant and Equipment

Impairment loss with respect to property, plant and equipment assets is recognised for the difference between the estimated recoverable amount and the carrying value of such assets. The carrying amounts of such assets are reduced to their estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period.

We assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, we estimate the recoverable amount of the asset. This requires an estimation of the value

in use of the cash-generating units to which the item is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The development of the value in use amount requires us to estimate the life of the asset, its expected cash flows over that life, estimated future salvage values, and the appropriate discount rate, which is generally based on our weighted average cost of capital, itself subject to additional estimates and assumptions. Changes in one or all of these assumptions can lead to us either recognising or avoiding impairment charges. We did not recognise any impairment losses with respect to property, plant and equipment in 2004 and 2005.

Useful Lives of Items of Property, Plant and Equipment

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

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

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

(b) the expected physical wear and tear;

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

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

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

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

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

We assess the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, any changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." In 2005, the change in estimate of useful lives of property, plant and equipment resulted in additional depreciation expense of approximately U.S.$4.9 million.

Impairment of Goodwill

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

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

We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changes in the estimates of the future cash flows, the weighted average cost of capital (including the assumptions related to the estimated long-term risk free rate, our optimal capitalisation structure and our company specific beta, or volatility) can result in a goodwill impairment charge being either avoided or recorded. The carrying amount of goodwill on our consolidated balance sheet as at 31 December 2005 was U.S.$37.2 million, which relates principally to our acquisition of Tagmet.

Post-Employment Benefits

In addition to defined contributions to Russian Federation state pension, social insurance, medical insurance and unemployment funds at statutory rates in force, our subsidiaries provide pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period and is determined based on the amount of the benefits stipulated in the collective bargaining agreements.

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

We use the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (including mortality, both during and after employment, rates of employee turnover, disability and early retirement) as well as financial assumptions (including discount rate, future inflation rates and future salaries). Changes in one or all of these assumptions can result in higher or lower expense. Finally, the accrual basis costs recognised in our financial statements for post-employment benefits are not necessarily similar to the cash flow requirements of those obligations. In the years ended 31 December 2005 and 2004, we recognised net benefit expense of U.S.$7.3 million and U.S.$0.8 million, respectively.

Allowances

We make allowances for doubtful accounts receivable. Our management uses significant judgment in estimating doubtful accounts. In estimating doubtful accounts, we consider such factors as current overall economic conditions, industry-specific economic conditions and historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in our consolidated financial statements. As of 31 December 2005 and 2004 we had recorded allowances for doubtful accounts of U.S$6.1 million and U.S.$6.8 million, respectively.

We make allowances for obsolete and slow-moving raw materials and spare parts. As of 31 December 2005 and 2004, we recorded an allowance for obsolete and slow-moving items of U.S.$5.1 million and U.S.$3.6 million, respectively. In addition, certain of our finished goods are carried at net realisable value. We estimate allowances for obsolete and slow-moving inventories based on inventory levels on hand, future purchase commitments, and current and forecasted product demand. Our allowance level, and as a result our overall profitability, is therefore subject to our ability to reasonably forecast future consumption levels versus quantities on hand and existing purchase commitments. Forecasting and resource planning are subject to extensive assumptions that we must make regarding, among other variables, expected market changes, overall supply and demand, pricing incentives and raw material availability. We make estimates of net realisable value of finished goods based on the most reliable evidence available at the time the estimates are made. In making these estimates, we take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Deferred Income Taxes

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

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

BUSINESS

Overview

We are Russia's largest manufacturer and supplier of steel pipes and among the world's largest steel pipe producers, with an approximately 3% worldwide market share for steel pipes by sales volume in 2005, according to our estimates. We also estimate that we had an approximately 34% market share for steel pipes in Russia by sales volume in 2005. In 2005, we sold 2.92 million tons of steel pipes including 1.88 million tons of seamless pipes, of which 818,000 tons comprised OCTG. Pipes for the oil and gas industry accounted for approximately 59% of our total sales volume in 2005. We are also Russia's largest exporter of pipes, with sales outside of Russia accounting for approximately 27% of our total sales volume in 2005.

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

We launched our strategic investment programme in 2004 which is principally focused on increasing the efficiency of our production processes and increasing our seamless pipe production. We expect to make total capital expenditures of approximately U.S.$1.2 billion from the beginning of 2006 through the end of 2010 under the programme. We spent U.S.$96.6 million in connection with the programme in 2004 and 2005 and U.S.$79.1 million in the first six months of 2006. We plan that upon the completion of our strategic investment programme in 2010, we will have increased our seamless pipe production capacity by 1.2 million tons per annum to 3.2 million tons per annum and our steel-making capacity by 1.0 million tons to 3.4 million tons per annum.

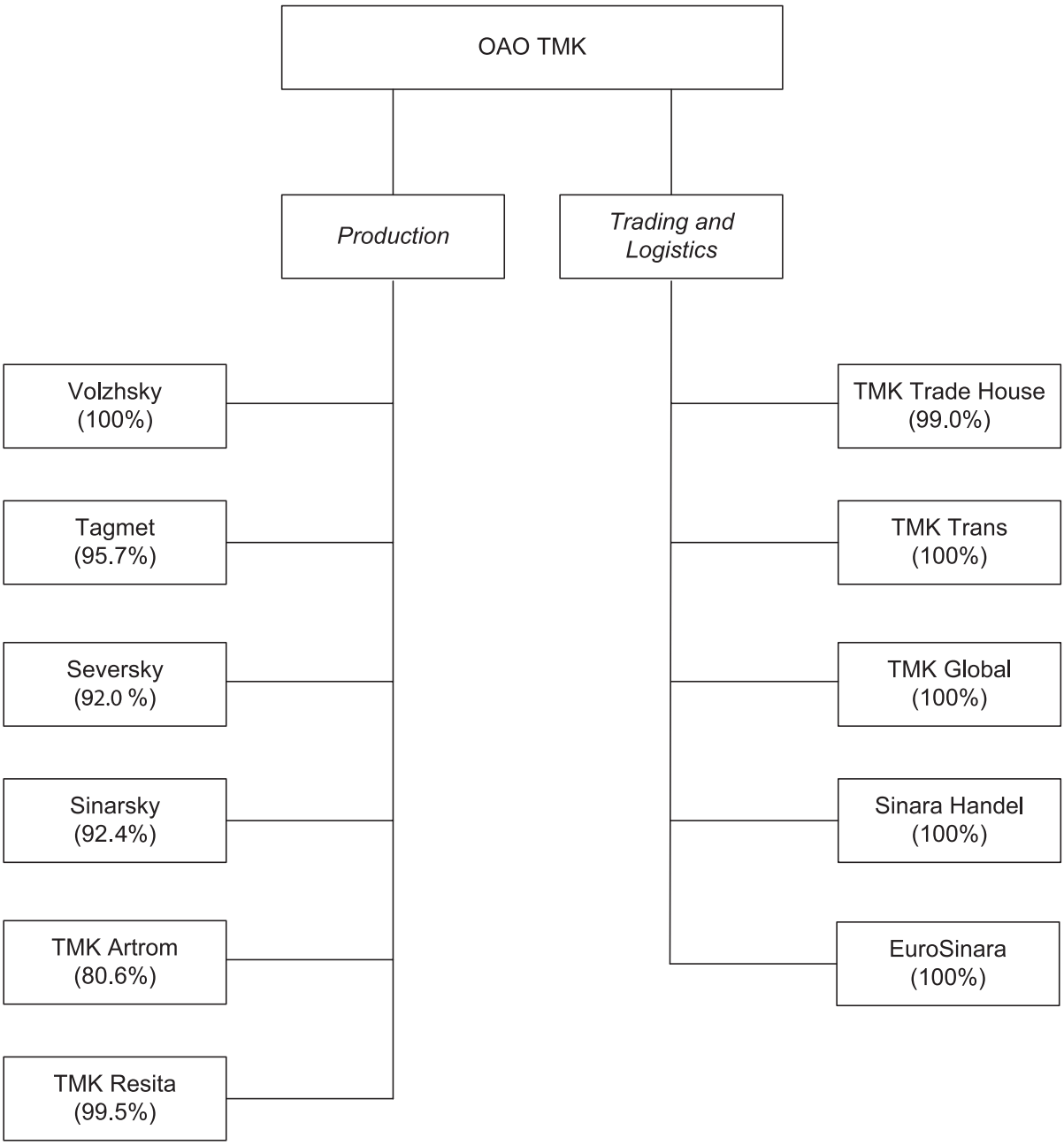
We deliver our products to customers in more than 60 countries. Our principal customers include major Russian oil and gas companies, such as Gazprom, LUKoil, Surgutneftegaz, TNK-BP and Rosneft, major multinational oil and gas companies, such as the Shell Group, and national oil companies, such as ONGC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

We operate primarily through our six production subsidiaries, four of which—Volzhsky, Seversky, Tagmet and Sinarsky—are in Russia, and two of which—TMK-Artrom and TMK-Resita—are in Romania. In 2005, we had total consolidated net sales on a pro forma basis of U.S.$2,938.2 million and profit before tax on a pro forma basis of U.S.$350.0 million. As of 31 December 2005, we had total assets on a pro forma basis of U.S.$2,453.0 million See "Unaudited Pro Forma Condensed Consolidated Financial Data."

Corporate Organisation

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

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



Manufacturing Operations

We conduct all of our manufacturing operations at our six steel and pipe plants:

- *Volzhsky,* which is located in the Volgograd Region near the Volga River.
- *Seversky,* which is located in the Sverdlovsk Region near the Ural Mountains.
- *Tagmet,* which is located in the Rostov Region near the Azov Sea.
- *Sinarsky,* which is located in the Sverdlovsk region.
- *TMK-Artrom,* which is located in Slatina, in southern Romania.
- *TMK-Resita,* which is located in Resita, in southwestern Romania.

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

	Seamless Pipe Production Capacity	Seamless Pipe Capacity Utilisation	Welded Pipe Production Capacity	Welded Pipe Capacity Utilisation	Steel Production Capacity	Steel Capacity Utilisation
			(tons, except percentages)			
Volzhsky	636,000	79%	562,000	94%	800,000	100%
Seversky	320,000	100%	517,000	51%	800,000	83%
Sinarsky	620,000	95%	—	—	—	—
Tagmet	367,000	98%	705,000	37%	510,000	95%
TMK Artrom	100,000	82%	—	—	—	—
TMK Resita	—	—	—	—	250,000	92%

Trading Services

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

Transportation and Logistics

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

Investment Highlights

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

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

Leader in a Consolidated Industry with High Barriers to Entry. Our strategic focus is on seamless pipes for the oil and gas, energy, automotive and other industries. We estimate that we had approximately 52% of the seamless pipe market in Russia by sales volume and approximately 7% of the global seamless pipe market by sales volume in 2005. The global seamless pipe industry is characterised by a high degree of concentration, with a small number of large international producers, high barriers to entry and high margins relative to other pipe products. The capital intensive nature of the production, the high

technological sophistication of the production process and products and the need for certifications by industry bodies and approvals from major international oil and gas companies all serve as barriers to entry. In Russia, we are significantly larger than the other principal supplier of seamless pipes to the Russian market and benefit from strong relationships with many of the principal oil and gas production and distribution companies in Russia, including Gazprom, TNK-BP, LUKoil, Rosneft and Surgutneftegaz.

Strong Export Platform. We were the leading exporter of pipes from Russia in 2005, with an estimated 50% share of all steel pipe exports from Russia, an estimated 71% share of total seamless pipe exports, an estimated 69% share of OCTG exports and an estimated 89% share of total line pipe exports from Russia. Two of our plants, Volzhsky and Tagmet, are strategically located in the southwestern part of Russia near Black Sea shipping routes and the Volga River and transit routes to the Caspian region, which gives them a strong export orientation. Our two Romanian plants, TMK-Artrom and TMK-Resita, provide us with a potentially strong base from which to access European markets, particularly following Romania's expected entry into the European Union. In 2005, we entered into a three-year distribution agreement with Lone Star Steel Company, a manufacturer of welded OCTG and specialty tubular products in the United States, pursuant to which we appointed Lone Star as the exclusive distributor of our products in the United States and Canada to strengthen our position on the North American market.

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

Vertically-Integrated Producer. Most of our plants have internal steel-making capabilities and supply their own billets for use in their seamless pipe-making operations. As a result, we are able to achieve cost savings by reducing our need to purchase semi-finished steel products from third-party manufacturers. Having internal steel-making capabilities also enables us to have a greater degree of quality control over the steel used in our pipe-making operations. We also expect to increase the amount of billets we supply to our Sinarsky plant, which lacks internal steel-making capabilities, from our other plants thus reducing Sinarsky's dependence on billets purchased from third-party suppliers.

Strong Financial Performance. As an integrated low-cost producer of seamless and welded pipes that has already invested substantially in consolidating our existing plants and in modernising our operations, we have benefited from the recent improved market environment in the pipe market, recording gross profit in 2005 on a pro forma basis of U.S.$746.4 million and profit before tax on a pro forma basis of U.S.$350.0 million. We also have a strong financial position, reflected by our pro forma net debt to equity ratio of 0.46 to 1.00 as of 31 December 2005. We believe that our strong operating profit and financial position will help us to maintain and grow our business.

Strategy

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

We intend to continue to focus principally on higher growth seamless pipe products, especially on OCTG. In our welded pipes segment, we will continue to focus on large-diameter welded pipes for the oil and gas industry. Our strategic emphasis will be on expanding and developing our seamless pipe business through,

among other things, significant capital investment, while we will seek to achieve controlled growth and protect our existing market share in our welded business with only limited capital investment.

Seamless Business

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

- ***Increasing the capacity and efficiency of our seamless pipe production through our strategic investment programme.*** We are in the process of implementing a U.S.$1,270 million strategic investment programme to expand our capacity at each stage of the integrated seamless pipe production process, including steel-making, pipe-rolling, pipe finishing and quality control to meet the growing demand of our domestic and export customers. Our strategic investment programme provides for the installation of electric arc furnaces to replace existing open hearth furnaces and continuous casting machines to replace ingot casting technology at Tagmet and Seversky. We expect that these initiatives will significantly enhance the efficiency of our steel-making operations, increase our steel-making capacity by 1.0 million tons to 3.4 million tons by 2010 and significantly reduce our seamless pipe raw materials costs. In our pipe-rolling operations, we are replacing our pilger mills with modern continuous mills and upgrading our existing rolling mills, which we expect will increase our seamless pipe capacity by 1.2 million tons to 3.2 million tons by 2010, while reducing our seamless pipe costs and enhancing our product mix. In our pipe finishing operations, we aim to double our production of value-added threaded and heat-treated pipe production through the installation of additional heat treatment and finishing lines. Our investment programme is targeted specifically at enhancing the capacity and product range of our OCTG and line pipes. See "—Strategic Capital Expenditure Programme." We believe that by increasing the range of our seamless pipe product offerings, we will be able more effectively to attract clients in more demanding global markets, including North America and the Persian Gulf region.
- ***Enhancing our product mix of pipes for the oil and gas industry to match global leaders.*** One of our strategic priorities is enhancing the range of technologically sophisticated high margin seamless pipe products we offer to the oil and gas industry. We plan to introduce new high performance pipes that are specifically intended for use in difficult high pressure drilling environments, such as deepwater offshore wells and arctic drilling, including alloyed steel OCTG and line pipes with stronger tolerances, high anticorrosion characteristics and greater resistance to cold. As an integral part of expanding our OCTG business, we intend to develop our threading capabilities and downstream services, such as threading repair and maintenance and sale of pipe accessories. By adding to our product range premium connections that can better withstand the extreme conditions encountered in high pressure, high temperature, deep and offshore oil and gas wells and horizontal drilling, we believe that we will be able to offer a more attractive product mix to global oil and gas companies and command higher prices for such premium products. In August 2006, we entered into an agreement with Hydril, a U.S. company engaged in the engineering, manufacturing and marketing of premium connections used for oil and gas drilling and production, pursuant to which we plan to establish a joint venture for the manufacture of casing and tubing pipes with Hydril's premium connections. By working as a joint venture partner with one of the leading global providers of premium connections, we believe that we will be able to enhance our premium threading and downstream services more rapidly and to enable us to enhance our mix of higher margin premium products. We are also considering the acquisition of a manufacturer of tool joints, which are critical components for drill pipes and drilling accessories to enhance our premium drill pipe business. By enhancing our product mix and the value-added features of our oil and gas product portfolio will seek to achieve higher prices for our products and strengthen our profit margins.

- ***Strengthening our position as a leading supplier of OCTG and line pipe in Russia and other CIS countries and enhancing our position in the global market.*** In the Russian and CIS markets, we intend to strengthen our leading position in the seamless OCTG and line pipes segments by expanding our relationship with existing customers and by developing our downstream services and technological components business to complement our product offering. In major international markets, we plan to expand by developing a global network of commercial and distribution centres that will offer supply management, threading and downstream services in important oil and gas producing regions worldwide. We will also seek to obtain the necessary qualifications from major global oil and gas companies as a means of increasing global market acceptance. We believe that these initiatives will help us to develop an international brand. In addition, we may consider from time to time the acquisition of additional OCTG and line pipe manufacturing facilities in strategic locations outside Russia and will also seek to enter into commercial alliances and partnerships as an efficient means of strengthening our global presence.
- ***Strengthening alliances with suppliers of raw materials.*** Our steel-making operations for the production of seamless pipes require significant quantities of raw materials, and in particular steel scrap. We seek to enter into long-term alliances with a small number of large suppliers of such raw materials to better control the availability and quality of our scrap and other raw materials needs as well as to reduce our raw materials costs. We are also considering the acquisition of a major steel scrap collector in Russia to ensure the availability of high quality steel scrap.
- ***Focusing on select high margin segments within the industrial seamless pipe sector.*** To improve the utilisation of our existing production capacity, we intend to continue to focus on select high-margin segments within the industrial seamless pipe segment, such as boiler pipes for the power generation industry. We also intend to expand our capabilities throughout the value chain, concentrating on pipe accessories and components, particularly for automotive applications. Geographically, we plan to use TMK-Artrom, which is established as a supplier of industrial seamless pipes for major automotive and machine building industry customers, as a platform to expand our presence in the European industrial seamless pipe market. We believe that our planned capital investment in our seamless pipe-making mills will enhance our ability to produce higher-margin industrial seamless pipes to European specifications and to penetrate markets to which we currently have limited access.

Welded Business

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

We seek to expand our large-diameter welded pipe business by capitalising on the recent completion of our investment programme at our Volzhsky plant to increase production of large-diameter welded pipes and solidify our position as the only producer of spiral welded large-diameter pipes in Russia. We are closely monitoring developments in ongoing and proposed large-scale oil and gas transportation projects and are currently considering a potential partnership through a joint venture subsidiary with an international pipe producer to expand into the production of longitudinal welded large-diameter pipes, which we believe Gazprom and Transneft prefer for certain high pressure oil and gas applications. We further aim to pursue additional long-term supply and cooperation arrangements with key customers, such as Gazprom and Transneft. We are also considering a potential partnership with a supplier of metal coil and plate to better control the availability and quality of the feedstock for our large-diameter welded pipe production. In particular, we may seek to establish long-term supply arrangements with plate suppliers in connection with the production of our 1,420 mm diameter line pipe and are already working closely with Russian steel mills, including MMK, Severstal and Novolipetsk Steel, to ensure sufficient supplies and grades of coiled steel for the manufacture of spiral welded large-diameter pipes for use in high pressure gas transmission pipelines. We are also seeking to become actively involved with sponsors at all stages of such pipeline projects, from the initial planning stage to the development and implementation stages to enhance our opportunities to supply such projects with pipes.

Corporate History

The Company was incorporated as a closed joint stock company on 17 April 2001 and registered as an open joint stock company on 16 June 2005. In 2002, the MDM Industrial Group, which indirectly controlled TMK at the time, finalised the sale of a controlling interest in TMK together with controlling

interests in Seversky, Volzhsky and TMK Trade House to the General Director of ZAO TMK at that time, Dr. Dmitry Pumpyanskiy. In February 2004, Dr. Pumpyanskiy entered into an agreement with Dalecone, a Cypriot company affiliated with the MDM Industrial Group, according to which Dalecone contributed a 94.59% interest in Tagmet, a pipe plant then owned by affiliates of the MDM Industrial Group, to ZAO TMK in exchange for the transfer to it from Dr. Pumpyanskiy of a 33% interest in TMK Steel, a holding company which at that time held a 100% interest in ZAO TMK. As a result, TMK began consolidating Tagmet in its financial statements with effect from 26 February 2004. In June 2005, the shareholders of TMK Steel restructured their investments in OAO TMK, pursuant to which Dalecone received a 33% direct interest in OAO TMK in exchange for its 33% interest in TMK Steel, which was transferred to Dr. Pumpyanskiy. Our current shareholders are TMK Steel, which holds 67% of our shares, and Dalecone, which holds 33% of our shares. See "Shareholding Structure."

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

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

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

Products

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

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

The table below shows the sales volumes of our principal pipe products for the years ended 31 December 2005, 2004 and 2003.

	Year ended 31 December		
	2005	2004	2003
Products		*(thousands of tons)*	
Seamless pipes			
OCTG	818	728	641
Line Pipes	409	440	409
Industrial	650	632	587
Total seamless pipes	**1,877**	**1,800**	**1,637**
Welded pipes			
Large-diameter	504	309	353
Industrial	544	407	408
Total welded pipes	**1,048**	**716**	**761**

Seamless pipes

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

Our principal seamless pipe products consist of:

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

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

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

Welded pipes

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

Our principal welded pipe products consist of:

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

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

Steel Billets

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

We produce internally the majority of the steel we use in producing billets for our seamless pipe production. We produced in aggregate 1.69 million tons, 2.07 million tons and 2.19 million tons of steel billets in 2003, 2004 and 2005, respectively. Although historically most billets at our pipe plants have been produced through ingot casting, we are currently investing in more modern continuous billet casting processes that are expected to considerably increase production volumes, enhance the quality of the products and reduce costs. For this purpose, we have installed continuous billet casting machines at our Volzhsky plant and have commenced the installation of continuous billet casting machines at our Seversky and Tagmet plants. See "—Strategic Capital Expenditure Programme."

Production Processes

Steel-Making

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

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

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

Steel Casting

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

Ingot casting is increasingly being replaced by continuous casting, in which molten steel is cast directly into semi-finished products, such as the billets that we use for our pipe-rolling operations. Continuous casting equipment produces a strand of moulded metal that is continuously withdrawn from the furnace at a set casting speed. The metal strand cools and solidifies and is then cut into billets and discharged for intermediate storage or hot charged for finished rolling. Casting the steel directly into semi-finished products, such as billets, eliminates several steps involved in ingot casting, and results in less waste and requires less energy than ingot casting.

Seamless Pipes

Seamless pipe production involves the piercing, elongation and reduction of steel billets to obtain the required length and diameter for the finished pipe. The billet is cut to the required length and heated to

temperatures of up to 1300° C. The heated billet is then rolled under high pressure. This rotational pressure causes the billet to stretch and a hole to form in its center. A bullet shaped piercer point is pushed through the middle of the billet as it is being rolled in the piercing mill to create a uniform hollow in the billet. The size of the piercing point and the position of the rolls determine the hollow billet's outside diameter and the wall thickness.

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

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

Welded Pipes

The process of manufacturing welded pipes involves the bending of steel coil or plate and then welding the seam at the edges. After being unwound from the coil in which it is delivered, the steel is passed through a series of rollers which cause the edges of the coil to curl together to form a cylinder. These edges are then welded and sealed using welding electrodes, following which the pipe is cut to the desired length and sorted for further processing.

We make both longitudinal and spiral welded pipe. Longitudinal welded pipes are made from steel plate with only one weld seam joining the two edges of the rolled plate. Spiral welded pipes are manufactured through the helical rolling of steel coils.

Pipe Finishing

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

A portion of our seamless industrial pipes, including pipes produced at our Sinarsky and TMK-Artrom facilities, also undergo subsequent cold finishing. Cold rolling and cold drawing involves rolling a pipe at

room temperature or drawing a pipe through a die at room temperature. These cold working processes reduce the outside diameter and wall thickness of the pipe and improve the surface finish and mechanical properties of the pipe. These processes are often used in the production of pipes for use in machine-building and power generation applications, automobile production and other industrial applications.

Production Facilities

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

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

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

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

	Year ended 31 December		
	2005	2004	2003
Products		*(thousands of tons)*	
Seamless pipes			
Effective capacity (annual)[1]	2,043	1,992	1,515
Actual production	1,877	1,800	1,357
Welded pipes			
Effective capacity (annual)[1]	1,784	1,672	950
Actual production	1,048	716	588
Steel billets			
Effective capacity (annual)[1]	2,360	2,280	1,400
Actual production	2,193	2,061	1,219

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

The table below shows the installed production capacity of each of our production facilities by principal products, as well as the aggregate actual production volumes of such products, for the periods indicated. The figures for effective annual capacity are based on our estimates of effective annual production capacity under present conditions.

		Year ended 31 December		
		2005	2004	2003
Plant	Products	*(thousands of tons)*		
Volzhsky	***Seamless pipes***			
	Effective capacity (annual)[1]	636	585	485
	Actual production	499	474	415
	Welded pipes			
	Effective capacity (annual)[1]	562	450	450
	Actual production	504	309	339
	Steel billets			
	Effective capacity (annual)[1]	800	720	600
	Actual production	800	720	594
Seversky	***Seamless pipes***			
	Effective capacity (annual)[1]	320	320	310
	Actual production	340	316	310
	Welded pipes			
	Effective capacity (annual)[1]	517	517	500
	Actual production	263	195	235
	Steel billets			
	Effective capacity (annual)[1]	800	800	800
	Actual production	663	660	625
Tagmet[2]	***Seamless pipes***			
	Effective capacity (annual)[1]	367	367	—
	Actual production	362	360	—
	Welded pipes			
	Effective capacity (annual)[1]	705	705	—
	Actual production	281	212	—
	Steel billets			
	Effective capacity (annual)[1]	510	510	—
	Actual production	501	487	—
Sinarsky	***Seamless pipes***			
	Effective capacity (annual)[1]	620	620	620
	Actual production	594	580	571
TMK-Artrom	***Seamless pipes***			
	Effective capacity (annual)[1]	100	100	100
	Actual production	82	70	61
TMK-Resita[3]	***Steel billets***			
	Effective capacity (annual)[1]	250	250	—
	Actual production	229	214	—

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

(2) We began consolidating the results of operations of Tagmet with effect from 26 February 2004.

(3) We began consolidating the results of operations of TMK-Resita on a pro forma basis in July 2004.

Volzhsky Pipe Plant

Volzhsky Pipe Plant started its operations in 1970 and underwent significant upgrades in the late 1980s and 1990s. It is located in the Volgograd Region, on the Volga River, near the city of Volzhsky. We own the

facility and have a right of permanent use with respect to the land, comprising an area of approximately 4.76 million square metres, on which the facility is situated. We also lease approximately 1.3 million square metres of land near the facility.

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

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

Volzhsky's principal production facilities consist of:

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

Seversky Pipe Plant

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

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

Seversky's principal production facilities consist of:

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

Taganrog Metallurgical Works

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

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

Tagmet's principal production facilities consist of:

- a steel shop, including three open hearth furnaces, a ladle furnace and ingot casting equipment;
- two pilger pipe mills, including three finishing lines, and upsetting, threading and cutting equipment, as well as tool joint welding equipment, primarily used for the production of seamless drill, casing, tubing and line pipes as well as industrial seamless pipes; and

- four electric welding pipe mills, including a hot galvinisation line, which are used to produce a variety of longitudinal welded pipes.

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

Sinarsky Pipe Plant

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

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

Sinarsky's principal production facilities consist of:

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

TMK-Artrom

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

The plant produces seamless pipes for various applications, including for the mechanical engineering and automotive industries, as well as seamless line pipes for the oil and gas industry. TMK-Artrom's pipe products are exported to over 30 countries.

TMK-Artrom's principal production facilities consist of:

- two Assel pipe-rolling mills, a heat treatment complex and a bevelling machine used in the production of hot rolled tubes; and
- four cold rolling mills, a continuous furnace and a bevelling machine used in the production of cold rolled tubes.

TMK-Resita

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

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

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

Strategic Capital Expenditure Programme

Our strategic capital expenditure programme for 2004-2010 is a key component of our strategy. Under our strategic investment programme, which we commenced in 2004, we plan to make expenditures of approximately U.S.$1.2 billion (excluding VAT) between 2006 and 2010. We are currently in the early stages of the programme, having made aggregate expenditures under the programme of U.S.$96.6 million in 2004 and 2005 and a further U.S.$79.1 million in the six months ended 30 June 2006. Our total capital expenditure budget under the programme for 2006 is U.S.$290.0 million. We also plan to make capital maintenance expenditures of approximately U.S.$60.0 million to U.S.$70.0 million per year outside of the strategic investment programme.

Our strategic investment programme is focused principally on:

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

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

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

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

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

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

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

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

Volzhsky

Volzhsky is our most modern facility in Russia. It was substantially modernised in 1990 and, as a result, it is already equipped with modern EAFs, continuous casting machines and a continuous rolling mill. We plan to make total capital expenditures at Volzhsky under our strategic investment programme of U.S.$185.8 million from 2004 to 2010. Our principal capital expenditure projects at Volzhsky include:

- *New finishing line and a heat treatment line for casing and line pipes.* We plan to make capital expenditures of U.S.$118.0 million for this project in 2006 and 2007, which is expected to increase Volzhsky's production of high grade threaded and heat-treated line and casing pipes by over 150,000 tons and 200,000 tons per annum, respectively.
- *Upgrade of continuous rolling mill.* We plan to make capital expenditures of U.S.$37.0 million for this project in 2006 and 2007, which is expected to increase Volzhsky's output of seamless pipes by over 350,000 tons per annum.

- *Upgrade of EAF and continuous caster.* We plan to make capital expenditures of U.S.$13.5 million for this project in 2006 and 2007, which is expected to improve the quality of Volzhsky's steel processing operations and increase steel billet output by approximately 180,000 tons per annum.
- *New testing, quality controls and environmental systems, including new pressure, ultrasonic testing and preservative paint lines and an EAF gas cleaning system.* We plan to make capital expenditures of approximately U.S.$11.3 million for these projects in 2006, which are expected to improve Volzhsky's testing and painting capacities and reduce emissions.

Seversky

Seversky is our oldest plant and currently conducts its steel-making operations using open hearth furnaces and ingot casting machines, each of which will be replaced as part of our strategic investment programme. We plan to make total capital expenditures at Seversky of U.S.$392.0 million from 2004 to 2010. Our principal capital expenditure projects at Seversky include:

- *New EAF to replace existing open hearth furnaces.* We plan to make capital expenditures of U.S.$120.0 million for this project in 2006 and 2007, which is expected to increase Seversky's steel output by 150,000 tons per annum, improve the quality of the steel it produces, significantly increase efficiency of its steel-making operations and reduce emissions.
- *New continuous casting machine to replace ingot casting facilities.* We plan to make capital expenditures of U.S.$88.0 million for this project in 2006, which is expected to improve Seversky's output of steel billets by 140,000 tons per annum, improve the quality of its steel and reduce costs.
- *New continuous rolling mill to replace existing pilger mill.* We plan to make capital expenditures of U.S.$145.0 million for this project between 2008 and 2010, which includes installation of a new piercing mill that is expected to be put into operation at the end of 2006 and to improve the productivity of Seversky's seamless pipe operations and the quality of its pipes and increase its seamless pipe output by over 220,000 tons per annum.
- *New testing and environmental systems, including new ultrasonic testing lines and an EAF gas cleaning system.* We plan to make capital expenditures of approximately U.S.$11.1 million for these projects in 2006, which is expected to improve Seversky's testing capacities and reduce emissions.

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

Tagmet

Tagmet currently conducts its steel-making operations using open hearth furnaces and ingot casting processes, both of which we plan to replace as part of our strategic investment programme. We plan to make total capital expenditures at Tagmet of U.S.$437.0 million from 2004 to 2010. Our principal projects at Tagmet include:

- *New EAF to replace existing open hearth furnaces.* We plan to make capital expenditures of U.S.$120.0 million for this project in 2008 and 2009, which is expected to increase Tagmet's steel output by 400,000 tons per annum, improve the quality of the steel it produces, significantly increase the efficiency of its steel-making operations and reduce emissions.
- *New continuous casting machine to replace ingot casting facilities.* We plan to make capital expenditures of U.S.$58.0 million for this project in 2006, which is expected to increase Tagmet's output of steel billets by 60,000 tons per annum, improve the quality of its steel and reduce costs.
- *New continuous rolling mill to replace existing pilger mill.* We plan to make capital expenditures of U.S.$156.0 million for this project between 2006 and 2008, which is expected to improve the productivity of Tagmet's seamless pipe operations and the quality of its pipes and increase its seamless pipe output by 330,000 tons per annum.
- *New testing, control and environmental systems, including new ultrasonic and magnetic particle testing systems, a replacement press and an EAF gas cleaning system.* We plan to make capital expenditures of approximately U.S.$22.1 million for these projects between 2006 to 2007, which is expected to allow Tagmet to test newly developed premium threads, replace obsolete testing equipment and reduce emissions.

- *New heat treatment and finishing capacity for our seamless operations, including a heat treatment plant, new threading lines for premium threads, a new press for upset ends and the modernisation of painting lines.* We plan to make capital expenditures of approximately U.S.$75.5 million for these projects in 2006 and 2007, which is expected to increase Tagmet's ability to produce premium value-added pipes.

Sinarsky

Our capital expenditure programme for Sinarsky focuses on increasing the output and quality of its seamless production as well as enhancing its heat treatment and finishing capacity. We plan to make total capital expenditures at Sinarsky of U.S.$210.0 million from 2004 to 2010. Our principal projects at Sinarsky include:

- *New continuous rolling mill.* We plan to make capital expenditures of U.S.$140.0 million for this project in 2009 and 2010, which is expected to increase Sinarsky's steel pipe output by 105,000 tons per annum and improve the quality of its pipes.
- *New reducing mill.* We plan to make capital expenditures of U.S.$5.0 million for this project in 2006, which is expected to improve Sinarsky's ability to use continuous cast billets acquired from our other plants rather than rolled billets from third-party suppliers and thus reduce costs.
- *New heat treatment and finishing capacity, including a heat treatment line, two upsetting presses and new pipe preservative painting facilities.* We plan to make capital expenditures of approximately U.S.$52.8 million for these projects in 2006 and 2009, which is expected to increase the plant's ability to produce premium value-added pipes.
- *New testing and environmental systems, including new non-destructive testing ("NDT") equipment and hydraulic pressure testing equipment and new water treatment facilities.* We plan to make capital expenditures of approximately U.S.$12.1 million for these projects between 2006 and 2010, which is expected to improve the plant's testing capabilities and improve its sewage treatment capacity.

TMK-Artrom

The principal projects for TMK-Artrom under our capital expenditure programme include the installation of a new pipe-rolling line and completion of an Assel line. We plan to make capital expenditures of U.S.$34.0 million for these projects in 2006 and 2007, which is expected to increase TMK-Artrom's production capacity by approximately 200,000 tons.

TMK-Resita

Principal projects for TMK-Resita under our capital expenditure programme include installation of a new continuous casting machine to replace its ingot casting facilities, a general facilities upgrade, installation of a vacuum degassing facility and an upgrade of its environmental protection facilities. We plan to make capital expenditures of U.S.$27.9 million for these projects between 2006 and 2010, which is expected to increase TMK-Resita's steel output by 500,000 tons per annum, decrease its raw materials requirements, improve the quality of its steel billets and reduce emissions.

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

Raw Materials

Our raw material requirements consist principally of the following:

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

In 2005, our raw material costs amounted to U.S.$1,427.3 million, which represented 69.7% of our total cost of production.

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

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

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

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

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

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

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

Supply Agreements. Most of our raw material supply agreements represent framework agreements for a period of one calendar year, which may be extended for the following calendar year. Terms of delivery of products under our supply agreements are generally determined based on individual orders. While we generally enter into short-term one year supply agreements with our principal suppliers of raw materials,

as a means of better securing the availability of key raw materials, in June 2005, we entered into a three-year agreement with MMK for the supply of strip rolled stock to be used by our Volzhsky plant in the production of large-diameter pipes for the oil and gas industry, including 1,420 mm diameter pipes. Annual purchase volume of strips is estimated to be approximately 400,000 tons, which accounts for more than 50% of our needs for steel strips. According to the agreement, prices for the supplied products are to be adjusted quarterly.

Energy

Our steel-making and pipe-rolling operations require significant amount of electrical power and heat energy. In 2005, energy costs related to our direct costs of production amounted to approximately 3.6% of our total costs of production. During 2005, our Russian plants consumed 2,076 million kWh of power energy as compared to 1,998 million KWh in 2004.

We purchase electricity from regional generation subsidiaries of RAO UES. The average cost of electricity purchased from subsidiaries of RAO UES in 2005 was RUB 870 per kWh. In addition, Sinarsky has it own electricity generating capabilities and produced 104 million kWh of electricity in 2005, which comprised approximately 25% of its total electricity consumption. Prices for electricity in the Russian market have continued to increase and we expect further increases as a result of the significant capital expenditure requirements of the Russian electricity industry and the restructuring of that industry. See "Risk Factors—Risks Relating to Our Business and the Pipe Industry—Increasing tariffs and restructuring in the Russian energy sector could adversely affect our business." We expect that with the planned installation of EAFs which consume electricity instead of natural gas at our Tagmet and Seversky plants our electricity costs will increase as a percentage of our total energy costs.

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

Sales and Marketing

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

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

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

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

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

	Year ended 31 December					
	2005		2004		2003	
	thousand of tons	% of total pipe volume	thousand of tons	% of total pipe volume	thousand of tons	% of total pipe volume
Region						
Russia	2,128	72.8%	1,733	68.8%	1,820	75.9%
Europe	232	7.9%	207	8.2%	149	6.2%
Central Asia and Caspian Region	226	7.7%	253	10.1%	162	6.8%
Middle East and Gulf Region	50	1.7%	27	1.1%	38	1.6%
Africa	165	5.7%	163	6.5%	119	5.0%
Americas	32	1.1%	60	2.4%	61	2.5%
Asia and Far East	48	1.6%	27	1.1%	13	0.5%
Others	44	1.5%	46	1.8%	36	1.5%
Total	**2,925**	**100%**	**2,515**	**100%**	**2,398**	**100%**

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" for a discussion of our sales based on the legal location of the customer.

Our customers include leading Russian and international oil and gas companies, including Gazprom, TNK-BP, LUKoil, Surgutneftegaz, Rosneft, Tatneft, Slavneft, the Shell Group, Total S.A., Wintershall AG, Occidental Petroleum Corporation, Anadarko Petroleum Corporation, ONGC, Statoil, Repsol YPF S.A., Eni S.p.A. and Conoco-Phillips Inc. In 2005, our five largest customers by net sales were Gazprom (including its subsidiaries), Surgutneftegaz, TNK-BP, LUKoil and Rosneft, which together accounted for approximately 53% of our total net sales.

Marketing

We seek to tailor our sales and marketing strategies to our customers and the markets we serve. Our subsidiary, TMK Trade House, headquartered in Moscow, coordinates all of our Russian and CIS sales and is principally responsible for establishing, expanding and maintaining contacts with customers, conducting market development studies, marketing and promotion. TMK Trade House has six branch offices in Russia as well as representative offices in Azerbaijan and the Republic of China. In Kazakhstan, our sales operations are carried out by our wholly owned subsidiary, TMK-Kazakhstan. We also have a network of over 60 official distributors throughout Russia and the CIS, which principally market and sell our industrial welded pipes.

Our sales operations outside of Russia, CIS and Europe are coordinated principally by our subsidiary TMK Global, which is headquartered in Switzerland. Under agency agreements with TMK Trade House, our Russian plants deliver their products to TMK Trade House which in turn delivers the products to TMK Global for further distribution. TMK Global sells our products onward to our German subsidiary Sinara Handel for sales of our products in Europe, apart from Italy, and our Italian subsidiary Eurosinara s.r.l. for sales of our products in Italy and directly to third parties. We have also established a subsidiary in Houston, United States of America, TMK North America, Inc., to coordinate our marketing activities in North America.

We seek to develop close, long-term relationships with our customers, including end customers who purchase our products through international wholesale traders, by seeking to provide them with a consistent quality of products, competitive pricing and timely delivery of orders. We also seek to respond to our end-customers' individual requirements, ranging from specific packing or delivery requirements to the development of new products, including products manufactured using our own premium threaded connections. We periodically conduct customer satisfaction surveys and also arrange meetings with customers to discuss our products and services and their specific requirements. We attend major steel and pipe industry conventions to maintain and enhance our profile, and our press service issues regular press releases in various publications to publicise significant developments in our business operations.

As part of our downstream and marketing strategy, we plan to increase our distribution capabilities, including the opening of representative offices in Singapore and establishing warehouses for storage of our pipe products in Houston, where we already have offices, as well as Singapore. In addition, as an

integral part of expanding our OCTG business, we intend to develop our threading capabilities and downstream services such as threading repair and maintenance. In August 2006, we entered into an agreement with the Hydril Company, a U.S. company engaged in the engineering, manufacturing and marketing of premium connections used for oil and gas drilling and production, pursuant to which we plan to establish a joint venture to manufacture casing and tubing pipes with Hydril premium connections. Under the terms of the agreement, we would, among other things, lease the production site and supply the necessary production personnel for the joint venture and Hydril would, among other things, provide technological know-how and assistance for the manufacture of pipes with Hydril premium connections. Our Volzhsky plant would supply plain end pipes to the joint venture and the output of the joint venture would be sold to both Hydril and ourselves in equal proportions. We also expect to enhance our international profile through our ongoing certification programmes with target customers.

In addition, we derive a small portion of our net sales from leasing drill pipes, which can be reused, to our oil and gas customers.

Sales

We sell our products primarily pursuant to sales contracts with our customers, including our international wholesale trading partners, typically based on standard industry terms and conditions. We set prices for our customers on a quarterly basis in order to allow adjustments in line with our price lists, which we revise each calendar quarter. We may in some circumstances, such as in the case of large volume orders, offer discounted prices. Generally, we require our Russian customers to pay us in advance of the delivery of our products, while we permit our export customers, including wholesale traders, to pay us within 60 days of delivery.

We have entered into framework supply agreements with many of our principal Russian customers, including Gazprom, Surgutneftegaz, LUKoil and Slavneft. Under such agreements, each delivery of pipe products is made pursuant to individual purchase orders submitted by our customers. We have also entered into long-term supply agreements with some of our principal customers, including TNK-BP. These long-term supply and cooperation agreements include:

- In May 2005, we entered into a supply agreement with TNK-BP pursuant to which we agreed to supply TNK-BP with OCTG and other kinds of oil and gas pipes through 31 December 2007. The agreement provides that TNK-BP shall provide us forecasts of their pipe requirements on a quarterly basis, and prices of pipes delivered under the contract are revised on a quarterly basis. As of 31 August 2006, we had delivered approximately 843,000 tons of pipes to TNK-BP under the contract.
- In June 2006, we entered into a three-year strategic cooperation agreement with Salym Petroleum Development N.V., an affiliate of the Shell Group, for the supply of pipe products. Pipes supplied under the agreement are to be made pursuant to purchase orders, the terms and conditions of which are to be agreed on a quarterly basis. The agreement provides, among other things, for tentative delivery quantities of between 41,000 and 49,000 tons of OCTG per annum.
- In September 2004, we entered into a three-year exclusive marketing agreement with Lone Star, pursuant to which we appointed Lone Star as the exclusive distributor of our OCTG and drill pipes in the United States and Canada. Under the terms of the agreement, we and Lone Star agreed to target sales volumes of OCTG and drill pipes of 60,000 tons in 2006 and 80,000 tons in 2007. We have also agreed that prior to commencing negotiations on a possible binding agreement with a third party providing it the exclusive right to sell any other steel tubular products in the United States and Canada, we will first negotiate it in good faith with Lone Star.

We also participate as a supplier of both seamless and welded line pipes for major oil and gas pipelines in Russia and the CIS. We have previously participated in such large pipeline projects as the Caspian Pipeline Consortium oil pipeline, which connects the Tengiz oil field in western Kazakhstan to the Novorossiysk marine terminal in Russia; the Baltic Pipeline System oil pipeline, which connects oil fields in Western Siberia to the Russian port of Primorsk in the Gulf of Finland; and the Yamal-Europe gas pipeline, which connects Western Siberian gas fields to Poland and Western Europe. We are currently participating as a supplier for the Central Asia-Centre pipeline. In addition, we are currently involved in ongoing supply tenders or plan to bid for a number of large pipeline projects, including the North European Gas Pipeline and the Eastern Siberian Pacific Ocean Pipeline.

We are currently supplying pipes for the reconstruction of the Central-Asia Centre gas pipeline system, which transports gas from Turkmenistan through Uzbekistan and Kazakhstan to Russia. We entered into

a contract in May 2006 with purchasing agents of ZAO KazTransGas, the sponsor of the project, to supply 64,000 tons of pipes for the pipeline and we have delivered approximately 40,000 tons of pipes to date under the contract. The Northern European Gas Pipeline, which is sponsored by Gazprom, Eon and BASF, is expected to extend from Russia to Germany via the Baltic Sea. Construction on the onshore portion of the project started in early 2006 and the pipeline is expected to be completed in 2010. The Eastern Siberian Pacific Ocean Pipeline, which is sponsored by Transneft, is expected to extend from Western Siberia to the Russian Pacific Coast. Construction of the pipeline is expected to commence in 2008.

Russian Sales

Our customers in Russia principally include the major oil and gas companies and machinery and power-generation enterprises located through Russia and the CIS. Gazprom is our most significant customer in Russia, accounting, together with its subsidiaries, for 30.3% of our total net sales in 2005.

The following table sets forth, as a percentage of our total sales volumes in Russia, our consolidated sales volumes in Russia by seamless and welded pipes for the periods indicated.

	Year ended 31 December		
	2005	2004	2003
Seamless	54.9%	65.1%	63.7%
Welded	45.1%	34.9%	36.3%
Total	**100.0%**	**100.0%**	**100.0%**

Our Russian production facilities are located in large industrial areas and have long-standing relationships dating back from the Soviet era with local end-user customers. In particular, our Sinarsky and Seversky plants, which are located in the Ural region near key oil and gas fields, are oriented to domestic market sales. Volzhsky and Tagmet, which are located close to the Black Sea ports, are more oriented to export markets.

We also operate warehouses in Moscow and the surrounding regions, where we sell primarily welded pipe products to wholesalers on a walk-in basis. We realise higher margins on these sales compared to our other sales, and we intend to open such warehouses in other Russian regions in the future. Through these sales, we also identify potential new end-user customers of our products and market our production capabilities and products directly to them. We have also recently opened a pilot service center in Nizhnevartovsk, located near major oil and gas fields in Western Siberia. The center supplies OCTG and other oil and gas products to customers on a retail basis. We are considering expanding the kinds of services provided by our warehouses and pilot service center to include the supply of spare parts, OCTG repair and threading operations. We are also considering opening additional storehouses in other important oil and gas producing regions in Russia. We sell most of our OCTG products domestically principally to large Russian oil and gas producers pursuant to tenders or directly under contracts with such customers.

In 2005, our five largest domestic customers of seamless pipes by net sales were Surgutneftegas, TNK-BP, LUKoil, Gazprom and Rosneft, which together accounted for approximately 58% of our total volume of seamless pipe sales. In 2005, our two largest domestic customers of welded pipes by net sales were Gazprom and Transneft, which together accounted for approximately 48% of our total volume of welded pipe sales in Russia. Gazprom currently buys the entire output of 1,420 mm pipes produced at Volzhsky, amounting to approximately 440,000 tons of pipes in 2005. In 2005, we sold approximately 93% of our large-diameter welded pipes domestically.

Sales Outside Russia

Our sales outside of Russia consist primarily of OCTG and line pipe for the oil and gas industry and industrial seamless pipes. In 2005, OCTG and line pipe amounted to 49% of our total sales volumes outside of Russia, as compared to 41% in 2004. We expect, however, that, with our increased focus on our Romanian operations and TMK-Artrom's strength as a supplier in the automotive industry, in the future, our sales outside of Russia of industrial seamless pipes will increase as a percentage of our total non-Russian sales.

The following table sets forth, as a percentage of our total non-Russian sales volumes, our consolidated non-Russian sales volumes by seamless and welded pipes for the periods indicated.

	Year ended 31 December		
	2005	2004	2003
Seamless	86.7%	83.3%	84.5%
Welded	13.3%	16.7%	15.5%
Total	**100.0%**	**100.0%**	**100.0%**

Our sales of seamless pipes to customers in the European Union are limited by anti-dumping duties which apply to the import of a broad range of seamless pipes manufactured by us. See "—Legal Proceedings—European Union Anti-dumping Proceedings" and "Risk Factors—Risks Relating to our Business and the Pipe Industry—Anti-dumping proceedings and other import restrictions may limit sales of our products in certain important geographical markets, including Europe." We do not currently believe, however, that such anti-dumping duties have a significant impact on our non-Russian sales. While a significant percentage of our pipes are purchased through European agents and representatives, few of the end customers for our OCTG and line pipe take delivery of and use our pipes in the European Union. In addition, TMK-Artrom has received permission from the European Union to export up to 24,000 tons of certain kinds of seamless pipes that are subject to the European Council Regulation (EC) No. 954/2006 (the "Anti-dumping Regulation") to the European Union free from anti-dumping duties. Furthermore, when Romania accedes to the European Union, the Anti-dumping Regulation will no longer apply to pipes produced by TMK-Artrom.

In 2005, we exported 32,000 tons of pipes to North America. We plan to increase our exports to North America as part of our strategic alliance with Lone Star. In 2005, our five largest export customers of seamless pipes by net sales by value were: ONGC, the largest oil company in India; Sonatrach, the Algerian state oil company; Syrian Petroleum Company; Shell; and Occidental Petroleum, which together accounted for 34% of our total seamless pipe export sales. In 2005, our two largest export customers for welded pipes by net sales were Uztransgas, based in Uzbekistan, and Belarus Neft, which together accounted for approximately 17% of our total welded pipe export sales.

Transportation

Transportation costs affect the prices we charge customers for our products. We believe that our proximity to our Russian customers, many of which are located near our Sinarsky and Seversky plants, and the proximity of our export-oriented plants, Volzhsky and Tagmet, to ports on the Black Sea, has helped us to reduce the costs of transporting our products. We have also centralised our transportation and logistics operations in our subsidiary, TMK-Trans, to allow each of our operating facilities to benefit from its industry knowledge and logistical expertise.

Substantially all of our finished products produced at our Russian operations are transported by railway within Russia directly to customers or to ports for export. Our main provider of rail transportation services is Russian Railways. Tariffs for rail shipments are set by Russian Railways and are regulated by Russian Railways and the Federal Tariffs Service. We also plan to purchase over 230 long-wheelbase cars, of which there is a shortage in Russia, to transport our large-diameter welded pipes and the steel plates and coils used in their manufacture.

From Volzhsky and Tagmet, we have rail access to ports on the Azov Sea and the Black Sea from where in 2005, 81% of our non-Russian sales were transported by sea. Our principal shipment routes include routes from the Black Sea ports and the Taganrog port to North America, the Middle East, Africa and the Far East and, during the navigable season, shipment via the Volga River to European destinations, including the Netherlands and Romania. The remaining portion of our exported products are transported by rail, mainly to customers in Europe and other CIS countries. For export sales, we generally deliver our products on the following terms: for pipes delivered by rail, FCA (free carrier) or CPT (carriage paid to); for pipes delivered by sea, FOB (free on board) (ports of Volzhsky, Taganrog, Astrakhan or other ports we ship from) or CIF (cost, insurance and freight)/CFR (cost and freight) (to different ports of destination).

For our Russian sales, title to the products generally transfers upon loading of products into railway wagons at our plants. We deliver substantially all of our domestic products by rail, and we arrange transportation of these products for additional fees. We have convenient rail access to the major oil and gas regions located in the Western Siberia region.

Research and Development

We engage in research and development of new products to meet the increasingly stringent requirements of our customers. Our research and development activities are carried out by the Directorate of the Chief Technologist, often in cooperation with Russian federal authorities such as the Ministry of Industry and Science and Gosstandart, customers, such as Gazprom, and suppliers, such as Severstal and MMK. We also cooperate with leading Russian industrial institutions in the gas industry (VNIIGAS), ferrous metals industry (CNII Chermet), oil and gas transportation industry (VNIIST), pipe industry (ROSNITI) and energy equipment industry (CNIITMASH). Product development and research projects we currently conduct include:

- development of spiral welded pipes using strong steel grades, such as API steel grades X 70 and higher, which can withstand high levels of pressure;
- smelting and heat treatment of high-strength threaded cold-resistant and hydrogen sulphide-resistant pipes;
- development of drilling and pump compressor pipes with different types of coating and line pipe and pump compressor pipes made of microalloyed steels; and
- development of corrosion testing techniques.

In addition to research and development aimed at new or improved products, we continuously study opportunities to improve the efficiency of our manufacturing processes and, in particular, our steel production processes. See "—Strategic Capital Expenditure Programme" for a description of our current strategic investment initiatives.

We are also working with the Russian Fund for the Development of the Pipe Industry and other Russian pipe producers to develop new technical rules and national standards for pipes. We are also contemplating the acquisition of a leading research and development institution for the pipe industry in Russia to enhance our research and development activities.

When appropriate, we seek to register rights to intellectual property that may result from our research and development efforts. As of 30 June 2006, we had obtained 66 patents for inventions and 18 patents for design.

We spent RUB 154.9 million (approximately U.S.$5.7 million) for research and development in 2005, compared to RUB 99.3 million (approximately U.S.$3.7 million) in 2004.

Competition

Global pipe markets are highly competitive. The primary competitive factors consist of quality, price and value-added features, such as premium threading.

Global Market

The global market for seamless steel pipe products is highly competitive. The production of seamless steel pipe products following the stringent requirements of major oil and gas companies requires the development of specialised skills and significant investments in manufacturing facilities. In comparison, seamless pipe products for standard applications can be produced in most seamless pipe mills worldwide and sometimes compete with welded pipe products for such applications. Welded pipe, however, is not generally considered a satisfactory substitute for seamless steel pipe in high-pressure or high-stress applications, which constitute a significant segment of our target market.

Our principal competitors in the international seamless steel pipe markets are:

- *Tenaris S.A.* is generally regarded as the world's largest supplier of seamless pipes, with a focus on seamless pipes to the oil and gas, energy and other industries. Tenaris has manufacturing facilities in Argentina, Venezuela, Mexico, Canada, Italy, Romania and Japan. We estimate that Tenaris had approximately 4.0% of the worldwide market for steel pipes by sales volume in 2005.
- *Vallourec & Mannesman Tubes,* a Franco-German venture, has mills in Brazil, France, Germany and the United States. V&M Tubes has a strong presence in the European market for seamless pipes for industrial use and a significant market share in the international market with customers primarily in Europe, the United States, Brazil and the Middle East. V&M Tubes is an important competitor in the international OCTG market, particularly for high-value premium joint products. We estimate that V&M Tubes had approximately 3.2% of the worldwide market for steel pipes by sales volume in 2005.

- *Sumitomo Metal Industries Limited,* based in Japan, has established a strong position in the markets in the Far East and the Middle East. It is internationally recognised for the high quality of its products and for its supply of high-alloy grade pipe products. We estimate that Sumitomo had approximately 2.0% of the worldwide market for steel pipes by sales volume in 2005.
- In addition, Chinese producers, including BaoSteel and TPCO, and Ukrainian producers, including Interpipe, are becoming more significant competitors. While producers from these regions have historically competed primarily in the "commodity" sector of the market where price is more important than quality and service, these producers have been increasing their product quality and capacity and are becoming stronger competitors on the international market. Each of BaoSteel and TPCO is state-owned and has state financial support, and Interpipe also benefits from state support. Interpipe and certain other Ukrainian producers have established strong positions in the CIS markets. We estimate that BaoSteel, TPCO and Interpipe had approximately 1.8%, 1.4% and 1.3% of the worldwide steel pipes market by sales volume in 2005.

Russia

We estimate that we were the largest producer of seamless and welded pipes in the Russian market in 2005, with an estimated 34% of the market based on sales volume. As a result of restrictions on imports of steel pipes to Russia, which are subject to import duties of 5% to 20%, and import quotas on Ukrainian manufacturers, we face relatively limited competition in most market segments in Russia from imports. See "Risk Factors—Risks Relating to Our Business and the Pipe Industry—We benefit from limitations on the import of steel pipe products into Russia, the removal of which could adversely affect our financial condition and results of operations." We estimate that imports represented approximately 15% of the total sales of steel pipes in Russia by volume in 2005, most of which were supplied by Ukrainian producers in the "commodity" sector of the market.

OCTG. We currently estimate that we have an approximate 71% share in the Russian market for OCTG based on sales volumes. The only other significant producer of OCTG in Russia is the ChTPZ Group, which controls OAO Chelyabinsk Tube Rolling Plant and OAO Pervouralsky Novotrubny Works. UMC, which controls, among others, Vyksa Steel Works and Almetyevsky Pipe Plant, also produces certain grades of welded line pipes that compete with our seamless OCTG products for certain applications.

Seamless Line Pipe. We currently estimate that we have an approximate 67% share in the Russian market for seamless line pipe based on sales volumes. The ChTPZ Group is our only significant competitor in the Russian market, with a market share of approximately one-quarter of the market.

Seamless Industrial Pipe. We currently estimate that we have an approximate 24% share in the Russian market for seamless industrial pipe based on sales volumes. The ChTPZ Group is the largest producer in Russia in this segment with an estimated market share that exceeds 50%.

Large-Diameter Welded Pipe. We currently estimate that we have an approximate 29% share in the Russian market for large-diameter welded pipe based on sales volumes. The ChTPZ Group and UMC are our principal competitors in this segment. Competition in this sector is increasing following the launch by UMC in 2005 of 1,420 mm diameter pipe production using steel sheets supplied by Severstal, and the commissioning in July 2006 of a new facility for the production of such pipes by Severstal. In addition, UMC and Severstal supply or will supply Gazprom with longitudinal welded large-diameter pipe, which has a single straight weld, whereas we supply Gazprom with spiral large-diameter welded pipe. We believe that Gazprom may favour longitudinal welded pipe over spiral welded pipe for certain high pressure applications, including underwater applications and for use in severe arctic climates. We also compete with Khartsyzsk Pipe, which has historically been a significant supplier of double-seam welded pipes to Gazprom.

Industrial Welded Pipe. We currently estimate that we have an approximate 23% share in the Russian market for industrial welded pipe based on sales volumes. There are a large number of Russian producers in this market, of which we are among the largest, together with the ChTPZ Group and UMC. We are also subject to some competition in this market segment from importers, primarily from Ukraine.

Our principal competitors on the Russian market are:

ChTPZ Group. The ChTPZ Group, which includes OAO Chelyabinsk Tube Rolling Plant and OAO Pervouralsky Novotrubny Works, is located in the Urals region. ChTPZ has also been actively modernising its large-diameter welded pipe production. ChTPZ produces longitudinal double-welded pipes, which Transneft has indicated that it prefers over spiral-welded pipes. ChTPZ is also reportedly

contemplating an investment to enhance its own steel-making facilities which would enable it to have greater control over production quality and speed of delivery, adding to its competitive strength in the industrial seamless pipe segment.

United Metallurgical Company. UMC, which includes Vyksa Steel Works and Almetyevsky Pipe Plant, is headquartered in the Nizhny Novgorod region of Russia and produces primarily welded pipes. UMC has also announced plans to install a new plant for coils production at the Vyksa Steel Works plant for industrial welded pipe, which it expects to complete by the end of 2008. This plant will produce hot-rolled strip of up to X65 and X70 API grades. Welded pipes meeting API specifications would compete with our seamless pipes for the oil and gas industry.

Severstal. Severstal, a major Russian steel producer, is a new entrant in the pipe market. Severstal constructed a new factory for the production of large-diameter welded pipe for long-distance pipelines, which was commissioned in July 2006. Severstal has announced that it plans to manufacture all steel coils and steel plate required for the production of such pipes. We view Severstal as an emerging competitor threat to us in the large-diameter pipe market, particularly in light of its self-sufficiency in wide steel plate.

Product Quality Standards

All of our products are manufactured in accordance with a variety of internationally recognised and accepted standards set forth by the following standardisation organisations:

- American Petroleum Institute (API standards);
- ASTM International (ASTM standards);
- American Society of Nondestructive Testing (ASNT standards);
- German Standardisation Institute (Deutsches Institut für Normung, DIN standards);
- Technical Inspection Association (Technischer Überwachungs-Verein, TÜV standards);
- National standards introduced by Gosstandart and the Russian Federal Agency on Technical Regulating and Metrology (GOST standards); and
- International Standardisation Organisation (ISO certifications).

To help ensure compliance with industry standards and performance specifications, as well as the international competitiveness of our products, each of our plants has implemented an extensive quality management system. Currently, we maintain for all of our manufacturing operations the Quality System Certification ISO 9001:2000 granted by Germanischer Lloyd Certification (with respect to TMK-Resita and TMK-Artrom), TUV NORD Cert Germany (with respect to Volzhsky), Bureau Veritas Quality International (with respect to Sinarsky and Tagmet) and the American Petroleum Institute Spec Q1 licence granted by the American Petroleum Institute.

The ISO 9001 quality management system assures that the product complies with applicable regulations and customers' quality requirements from the acquisition of raw materials to the delivery of the final product. ISO 9001 is designed to ensure the reliability of both the product and the process associated with the manufacturing operation.

API Spec Q1 licences are designed to cover all of the requirements of ISO 9001:2000 as well as additional quality control requirements that are considered valuable to the oil and gas industry. API Spec Q1 licencees are entitled to apply the API mark to the products they offer, thereby identifying themselves as the producers of safe high-quality equipment for petroleum and natural gas industry.

Environmental Matters

We are subject to a wide range of local, regional and national laws, regulations, permits and decrees in Russia and Romania concerning, among other matters, human health, discharges to the air and water and the handling and disposal of solid and hazardous wastes. Compliance with these environmental regulations is a significant factor in our business.

We have not been fined for any material environmental violation in the last five years, and we are not aware of any current material legal or administrative proceedings pending against us with respect to environmental matters which could have an adverse material impact on our financial condition or results of operations.

Employees

The table below sets out the average number of our employees for the years ended 31 December 2005, 2004 and 2003 (excluding Sinara Handel and its subsidiaries TMK-Artrom and TMK-Resita).

	Average number of employees[1]		
	Year ended 31 December		
TMK entity	2005	2004	2003
OAO TMK	396	332	215
Volzhsky	11,070	11,186	10,940
Seversky	9,938	10,314	10,351
Tagmet	11,949	11,995	12,431
Sinarsky	11,826	12,264	12,521
TMK Trade House	398	421	382
TMK Global	70	40	—
TMK-Kazakhstan	12	8	—
TK TMK-Trans	12	10	—
Total[2]	**45,671**	**46,570**	**46,840**

(1) Average is calculated as the arithmetic mean of the number of employees as of 1 January and 31 December for each period. For companies consolidated into our consolidated financial statements for only a portion of an annual period, the average for the company is stated on the same basis but included in the average total number of our employees based on the number of months for which such company was consolidated into our consolidated financial statements for the relevant annual period.

(2) Calculated as the sum of the averages presented as in note 1 above, except that companies not consolidated into our consolidated financial statements for the entire annual period are weighted based on the number of months for which such company was consolidated into our consolidated financial statements in the relevant period. As a result of this weighting, the totals presented here may not be the arithmetic sum of the preceding items.

We are currently seeking to optimise our personnel structure, primarily through a controlled reduction in the number of our employees, outsourcing non-production activities, such as cafeteria and repair services, and reducing administrative staff. While our productivity (as measured by tons of production per employee) is below western European standards, our production facilities are the principal employers in their respective towns and regions and reductions in the workforce are generally constrained by relevant Russian labour legislation as well as other political and social considerations. For these reasons, we manage reductions in the number of personnel we employ gradually and in a controlled manner. Approximately 80% of our employees were members of the Mining and Metallurgical Trade Union of Russia at the end of 2005. Each of our production facilities enters into biannual or annual collective bargaining arrangements with this trade union. Our collective bargaining agreements establish certain benefits and privileges for employees, including working conditions which are more favorable than those provided for under Russian labour law. The current agreements provide for an increase in employee wages which are indexed to the Russian consumer price index for the particular region and contain certain restrictions on layoffs, including restrictions on the use of part-time employees, the termination of temporary employees and substitutes, providing job search assistance to terminated employees and requiring us to provide notice to the trade union prior to making any major lay-offs.

We believe that our relations with our employees and the unions are good. We believe that this is due in part to our commitment to the social infrastructure of our host cities, our good history of timely salary payments and our strong commitment to the social welfare of our employees. There have been no strikes or other cases of industrial action at our production facilities since we acquired each of these facilities. We believe that average salaries at all of our production facilities are above average for the respective regions. In 2005, the average monthly wages at each of our four principal manufacturing facilities in Russia were between RUB 9,900 (approximately U.S.$365.58) and RUB 11,500 (approximately U.S.$424.67).

Our Russian subsidiaries make defined contributions on behalf of their employees to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the applicable rates (approximately 33%) based on gross salary payments. These contributions are expensed as incurred and we have no legal or constructive obligation to make any further payment in respect of such statutory social and pension contributions. Furthermore, our subsidiaries provide additional pension and other post-employment benefits to their employees in accordance with collective bargaining agreements. Defined benefits consist of lump-sum amounts payable at the retirement date, typically ranging in amounts from one to four months' salary, and certain regular post-retirement payments. These benefits generally depend on years of service, level of compensation and amount of pension payment under the

collective bargaining agreement. Our payments relating to the additional pension and other post-employment benefits totalled, on a pro forma basis, approximately RUB 14.7 million (approximately U.S.$540,000) for the year ended 31 December 2005.

In addition, we and each of our Russian plants are parties to one-year agreements with each of the regional authorities in the regions where our Russian plants operate, which cover certain aspects of activities in the respective regions. In particular, we have undertaken in the agreements to contribute to the social infrastructure of the localities where each of our plants operate, including providing assistance to schools and medical facilities.

Insurance

The insurance industry has not yet been well developed in Russia, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. We have obtained coverage of up to an aggregate of U.S.$96.3 million in July 2006. For 2005 and the first six months of 2006, we have incurred, on a pro forma basis, expenses related to insurance premiums, of approximately U.S.$1.2 million and U.S.$0.6 million, respectively.

At present we insure, among other things:

- our real property and production facilities against fires and certain other natural disasters;
- our equipment against damage;
- accidents and theft related to goods in transit;
- our production operations against damages to third parties, including environmental liabilities; and
- transported goods against theft or damage.

We maintain obligatory insurance policies required by Russian law and provide employees with medical insurance as part of our compensation arrangements with our employees.

Currently, we do not have business interruption insurance and insurance for our directors' and officers' liability, although we are planning to acquire such insurance programmes.

Legal Proceedings

From time to time, we have been and continue to be involved in legal and arbitration proceedings both as plaintiff and defendant. There are no legal or arbitration proceedings (including any that are pending or threatened of which we are aware) which since 1 January 2004 have had or may have a significant effect on our financial position, profitability or results of operations, except as specifically described below.

European Union Anti-dumping Proceedings

In 1997, the European Union introduced trade protection measures against tube and pipe producers in Russia and certain other jurisdictions through Council Regulation (EC) No. 2320, which imposed, among other things, anti-dumping duties on non-alloyed plain end line pipe and plain end general purpose pipe of Russian origin. Under the Council Regulation, *ad valorem* duties of 26.8% were imposed on pipes of the relevant type imported into the European Union and produced in Russia. Some Russian producers, including Tagmet, subsequently negotiated an agreement, pursuant to which they could export certain volumes of pipes into the European Union duty-free. In July 2004, the Commission published an amending regulation No. 1322/2004 that suspended the application of anti-dumping measures and all open review procedures with respect to Russian producers indefinitely.

On 27 June 2006, the European Council issued the Anti-dumping Regulation, which imposed anti-dumping duties on certain types of seamless pipes imported into the European Union and produced in Russia, Romania, Ukraine and Croatia, including certain types of our seamless pipes. The anti-dumping duties imposed by the Anti-dumping Regulation cover iron and steel seamless pipes and tubes with external diameters not exceeding 406.4 mm with a carbon equivalent value not exceeding 0.86. This regulation covers most of our production of seamless pipes, including most of our OCTG, line pipe and industrial seamless pipe production. The Anti-dumping Regulation imposes an anti-dumping duty of 35.8% (expressed as a percentage of the CIF European Union border price) on the relevant seamless pipes produced by our Russian pipe plants and an anti-dumping duty of 17.8% on the relevant seamless

pipes produced by TMK-Artrom. Under the terms of the European Union anti-dumping rules, definitive anti-dumping measures are to expire five years from the date such duties are imposed unless it is determined in a review that the expiry of such duties would likely lead to a continuation or recurrence of the dumping and consequent injury to European Union producers.

We do not agree with the conclusions of the Anti-dumping Regulation and we have brought actions against the European Council and the European Commission in Luxembourg courts challenging the imposition of these anti-dumping duties. However, we cannot be certain whether any legal challenge we bring will be successful or whether these duties will be reduced or eliminated in the future, or that new duties will not be imposed.

TMK-Artrom has received permission from the European Union to export up to 24,000 tons of certain kinds of seamless pipes that are subject to Anti-dumping Regulation to the European Union free from anti-dumping duties. In addition, in the event that Romania accedes to the European Union, the Anti-dumping Regulation will no longer apply to pipes produced by TMK-Artrom.

In June 2000, Indian authorities imposed definitive anti-dumping duties on Russian and Romanian pipe products. The duty, which covers certain kinds of line and boiler pipe and casing and tubing, is currently U.S.$757.0 per ton on the landed value for certain grades of casing and tubing produced by Volzhsky and U.S.$1,001 for other covered pipe products from Russia and Romania.

In 2004, Mexican authorities introduced 42% and 111.37% *ad valorem* duties on Romanian and Russian seamless carbon tube and pipe products. We do not export material quantities of pipes to Mexico.

Other Proceedings

In June 2006, the non-governmental organisation Unit of Veterans of Labour of the city of Volzhsky filed an action, on behalf of former shareholders of AOOT Volzhsky Pipe Plant, against OAO Volzhsky Pipe Plant demanding compensation for the value of shares held by former shareholders of AOOT Volzhsky Pipe Plant in connection with the liquidation of AOOT Volzhsky Pipe Plant in February 2000. Our subsidiary, OAO Volzhsky Pipe Plant, was incorporated in May 2001 and is not the legal successor to AOOT Volzhsky Pipe Plant. According to their claim, the former shareholders of AOOT Volzhsky Pipe Plant seek to recover damages in the amount of RUB 808.5 million (approximately U.S.$29.5 million). The claim was dismissed by the court of first instance in September 2006 and, to our knowledge, no appeal has been filed. We believe that we have strong defences to this claim and, should the claimants file an appeal, intend to contest it vigorously.

The Russian Federal Tax Service brought a claim against Volzhsky in the amount of RUB 59.6 million (approximately U.S.$2.2 million) in connection with an alleged underpayment of VAT and profits tax together with fines and penalties accrued. In June 2006, a lower court ruled in favour of Volzhsky. The Federal Tax Service has filed an appeal with the cassation court, and the hearing is expected to take place in September or October 2006. We believe that we have strong defences to this claim, and intend to contest it vigorously.

RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties for the years ended 31 December 2005 and 2004. For further details of these transactions, see Note 28 to the Annual Financial Statements.

In the ordinary course of our business, we have engaged, and continue to engage, in transactions with parties that are under common control with us or that are otherwise related parties to TMK. Transactions with entities under common control with us constitute transactions with parties that have the same beneficial owners as TMK or parties that have directors who are also members of our Board of Directors. See "Shareholding Structure" and "Directors and Management."

We seek to conduct all transactions with entities that are under common control or otherwise constitute related parties on market terms and in accordance with applicable law. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms. See "Risk Factors—Risks Relating to our Business and the Pipe Industry—Some transactions between our Russian subsidiaries and their interested parties, affiliates and other members of TMK Group require the approval of disinterested directors or disinterested shareholders" and "Risk Factors—Risks Relating to the Russian Federation—Legal and Legislative Risks—Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may affect our results of operations" for a discussion of applicable Russian requirements.

The information provided herein is based on our Annual Financial Statements included elsewhere in this Prospectus and, thus, does not reflect the consolidation of Sinara Handel into our financial statements. As a result, transactions between TMK and Sinara Handel, which was previously under the control of our controlling shareholder, Dr. Pumpyanskiy, are reflected in our Annual Financial Statements and herein as related party transactions. Sinara Handel has historically acted and continues to act as a distributor of our pipe products in certain jurisdictions outside of Russia, and also supplies us with certain types of raw materials and equipment. When we publish our unaudited interim condensed consolidated financial information as of 30 June 2006 and 2005 and for the six months then ended, our financial statements for all periods preceding the transfer of interests in Sinara Handel to us, including our financial statements as of 31 December 2005 and 2004 and for the years then ended, will be restated as if the transfer to us of Sinara Handel had occurred as of 1 January 2003, and transactions with Sinara Handel will not be reflected in such restated financial statements as related party transactions. See "Presentation of Financial and Other Information." We also acquired an additional 50% interest in Eurosinara in May 2006, as a result of which it ceased to be a related party with us.

Transactions with related parties as of and for the years ended 31 December 2005 and 2004 are set out below.

	Year ended 31 December	
	2005	2004
	(in thousands of U.S. dollars)	
Sales revenue		
– Entities under common control with the Group	147,599	194,299
– Entities under control of the minority shareholders of the Company	—	22,355
	147,599	**216,654**
Purchases of goods and services	**—**	**—**
– Entities under common control with the Group	57,302	69,554
– Entities under control of the minority shareholders of the Company	1,318	39,526
	58,620	**109,080**
Purchases of equipment and intangible assets	**—**	**—**
– Entities under common control with the Group	29,680	36,088
	29,680	**36,088**
Interest expenses from loans and borrowings	**—**	**—**
– Entities under common control with the Group	525	983
– Entities under control of the minority shareholders of the Company	1,472	3,741
	1,997	**4,724**
Interest (income) from loans and borrowings	**—**	**—**
– Entities under common control with the Group	(1,135)	(2,155)
– Entities under control of the minority shareholders of the Company	—	(327)
	(1,135)	**(2,482)**

Sales revenues from related parties relate principally to sales of our pipe products to related parties, including Sinara Handel and Eurosinara, which act as our intermediaries for sales to customers in certain countries outside of Russia. Purchases of goods and services from related parties relate to purchases by us of raw materials from related parties including Sinara Handel, and purchases of pipe accessories such as tool joints from related parties such as OAO Orskiy Mashinostroitelny Zavod, a company controlled by the Sinara Group. Substantially all of our purchases of equipment from related parties relate to purchases from Sinara Handel.

On 26 February 2004, our controlling shareholder, Dr. Pumpyanskiy, exchanged a 33% interest in TMK Steel, a holding company which at the time held a 100% interest in OAO TMK, for a 94.59% interest in Tagmet, which was at the time held by an affiliate of the MDM Industrial Group. Under the terms of the transaction, the 94.59% interest in Tagmet was transferred to OAO TMK and Dalecone acquired a 33% indirect interest in our shares. Prior to 26 February 2004, we procured and sold raw materials to Tagmet and purchased pipe products from Tagmet for subsequent resale to our customers. In 2004, we included our purchases of pipe products from Tagmet prior to 26 February 2004 in purchases of goods and services from entities under control of our minority shareholders and sales of raw materials to Tagmet prior to 26 February 2004 in sales revenue to entities under control of our minority shareholders.

The following table sets forth our outstanding balances with related parties as of 31 December 2005 and 2004.

	Year ended 31 December	
	2005	2004
	(in thousands of U.S. dollars)	
Cash		
– Entities under common control with the Group	12,489	227
– Entities under control of the minority shareholders of the Company	5	28
	12,494	**255**
Accounts receivable—current		—
– Entities under common control with the Group	51,546	56,320
– Entities under control of the minority shareholders of the Company	124	101
	51,670	**56,421**
Accounts receivable—non-current		—
– Entities under common control with the Group	30,082	7,849
	30,082	**7,849**
Loans to related parties		—
– Entities under common control with the Group	40,340	456
	40,340	**456**
Prepayments—current		—
– Entities under common control with the Group	2,646	27,166
– Entities under control of the minority shareholders of the Company	18	—
	2,664	**27,166**
Accounts payable—current		—
– Entities under common control with the Group	1,040	14,543
	1,040	**14,543**
Borrowings from related parties		—
– Entities under common control with the Group	—	4,014
– Entities under control of the minority shareholders of the Company	31,394	6,070
	31,394	**10,084**

Loans to Related Parties

As of 31 December 2005, we had loans in the aggregate outstanding principal amount of U.S.$40.3 million to Sinara Handel, TMK-Artrom and TMK-Resita.

Borrowings from Related Parties

We have from time to time received loans from parties under common control with us and under the control of our minority shareholders.

- In July 2005, TMK Trade House entered into a loan agreement with Joint Stock Commercial Bank "Moscow Business World" (joint stock company) ("MDM"), an affiliate of our minority shareholder, in the aggregate principal amount of RUB 300 million (U.S.$11.1 million). The loan, which bore interest at 10.25% per annum, was repaid in full in July 2006.
- In July 2005, Seversky entered into entered into a loan agreement with MDM in the aggregate principal amount of RUB 300 million (U.S.$11.1 million). The loan, which bore interest at 10.25% per annum, was repaid in full in July 2006.
- In August 2005, Sinarsky entered into entered into a loan agreement with MDM in the aggregate principal amount of RUB 300 million (U.S.$11.1 million). The loan, which bore interest at 9.5% per annum, was repaid in full in February 2006.

Accounts Receivable from Related Parties

Accounts receivables from related parties relate principally to related parties, including Sinara Handel and Eurosinara in which we held a 50% interest, which act as our intermediaries for sales to customers in certain countries outside of Russia. As of 31 December 2005, our long-term accounts receivables from related parties also included a U.S.$20 million initial payment that we made to Sinara Group S.A. in connection with our acquisition of Sinara Handel in March 2006. We completed the acquisition of a 100% interest in Sinara Handel in March 2006, and we acquired the remaining 50% interest in Eurosinara in May 2006.

TMK Steel Loan

As described under "Use of Proceeds," we expect to use the proceeds of the Loan, together with the proceeds of other debt financing, to make a loan to our principal shareholder, TMK Steel. The TMK Steel Loan is expected to be in the aggregate principal amount of up to U.S.$780 million and for a term of up to five years. The TMK Steel Loan will bear interest at a minimum rate of 0.05% per annum, but we expect to conclude an agreement with TMK Steel that in the event that TMK Steel sells a portion of its holdings in OAO TMK in a public offering prior to the end of 2006, the interest rate under the TMK Steel Loan shall be increased to correspond to our average borrowing costs under the Loan and the debt financing described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Additional debt financing in connection with the TMK Steel Loan." The TMK Steel Loan will be unsecured. A general shareholders meeting of OAO TMK to approve the TMK Steel Loan as an "interested party" transaction under Russian law has been convened by the Board of Directors of OAO TMK and is scheduled to occur on 28 September 2006.

SHAREHOLDING STRUCTURE

The following table sets forth information regarding the holders of our shares as of the date hereof:

Owner	Number	Percent
TMK Steel Limited[(1)]	584,910,670	67.0%
Dalecone Limited[(2)]	288,090,330	33.0%
Total	**873,001,000**	**100.0%**

(1) TMK Steel, which is incorporated in Cyprus, is the record owner of shares beneficially owned by Dr. Pumpyanskiy, Chairman of Board of Directors of OAO TMK. TMK Steel has agreed to pledge up to 30% of the outstanding shares in OAO TMK to lenders in connection with borrowings it expects to receive from affiliates of Credit Suisse (Europe) Limited and Renaissance Securities (Cyprus), Limited, which are acting as Managers in the offering of the Notes. TMK Steel plans to use these funds to finance in part the acquisition of the shares in OAO TMK held by Dalecone. See ''Use of Proceeds.''

(2) Dalecone is incorporated in Cyprus.

Both TMK Steel and Dalecone hold their shares in TMK through a nominee holder, ING Bank (Eurasia) ZAO.

Based on our shareholder register, we believe that we are not directly or indirectly owned or controlled by any other person, corporation or government, and that there are no arrangements the operation of which may result in a change of control.

TMK Steel and Dalecone are parties to a shareholders' agreement governing certain aspects of their respective shareholdings in TMK. Under the terms of the agreement, the consent of both shareholders is required for the approval of certain corporate actions including, among other things, amendments to our charter, increases in our share capital, disposals of our shares or shares in our principal subsidiaries by us and certain major transactions relating to our subsidiaries. The agreement provides for a ten-person board of directors, five of whom shall be nominated by TMK Steel, two of whom shall be nominated by Dalecone and three of whom shall be independent non-executive directors nominated by mutual agreement between the shareholders. TMK Steel is entitled to nominate our General Director, our Chief Financial Officer and our Chairman of the Board. The agreement also provides for the right of first offer in the event that one of the shareholders desires to transfer any or all of its shares to a third party. The agreement further provides that no changes shall be permitted with respect to the ultimate beneficial ownership of any of our shares without the prior written consent of the other shareholder. The agreement is to continue unless terminated by mutual consent, we are wound up (other than to effect a scheme of reconstruction or amalgamation) or any shareholder ceases to hold at least 20% of our shares.

We expect that TMK Steel will use the proceeds of the TMK Steel Loan, together with other funds available to it, to acquire all of the shares in OAO TMK that are currently held by Dalecone. See "Use of Proceeds." If this transaction is completed, TMK Steel will become our sole shareholder and the shareholders' agreement between TMK Steel and Dalecone will terminate.

DIRECTORS AND MANAGEMENT

Our management bodies comprise the Board of Directors, the Management Board (collective executive body) and the General Director (sole executive body).

Board of Directors

Our directors, and their respective years of birth, positions and duties outside TMK as of the date hereof, are as follows:

Name	Year of birth	Position	Current duties outside TMK
Dmitry A. Pumpyanskiy	1964	Chairman of the Board of Directors	President of ZAO Sinara Group (Moscow branch)
Mychadin A. Eskindarov	1951	Director	Member of the Board of Directors of OAO Moscow Bank and OAO AKB Rosbank; the first Pro-rector at the Financial Academy of the Government of the Russian Federation
Petr D. Galitzine	1955	Director	Chief Representative of BASF representative office in Russia and CIS; General Director of ZAO BASF
Andrey Yu. Kaplunov	1960	Director	Vice-President of ZAO Sinara Group (Moscow branch)
Igor B. Khmelevsky	1972	Director	Vice-President of ZAO Sinara Group (Moscow branch)
Adrian N.W. Cobb	1949	Director	Director of Moscow representative office of CP-Credit Prive S.A.
Joseph Marous	1949	Director	Head of the representative office of Thyssen AG in Russia; member of the Board of Directors of OAO Thyssen Krupp Elevator; member of the Board of Directors of OAO Thyssen Krupp Materials; Chairman of the Automobile Components Committee, European Business Association in Russia
Sergey T. Papin	1955	Director	Vice-President of ZAO Sinara Group (Moscow branch)
Alexander G. Shiryayev	1952	Director	Director General of ZAO Sinara Group
Geoffrey Townsend	1949	Director	Independent consultant at KPMG on TASIS projects

The term of our Board of Directors expires on the date of our next annual meeting of shareholders, which is expected to occur between 1 March and 30 June 2007.

Brief biographies of our directors are set out below.

Dmitry A. Pumpyanskiy joined TMK in 2002 and has served as a member of our Board of Directors since 2004 and Chairman of the Board of Directors since June 2005. Dr. Pumpyanskiy graduated from the Ural S.M. Kirov Polytechnic College in 1986. From 1994 to 1998 he held various administrative positions in metallurgical enterprises, including OAO Verkh-Ysetski Metallurgical Works, AOOT Inter-Industry Concern Uralmetprom and OAO Mechel. Between 1998 and 1999, he was a General Director of ZAO Trade House of Sinarsky Pipe Plant. In 1999-2002, Dr. Pumpyanskiy held a position as the first deputy General Director and the Chairman of the Board of Directors of Sinarsky. During 2001-2002 he was a

General Director of ZAO Sinara Group. Between 2002 and 2005, Dr. Pumpyanskiy was a General Director of TMK. Since June 2005, Dr. Pumpyanskiy has held the position of President of ZAO Sinara Group (Moscow branch).

Mychadin A. Eskindarov has served as a member of our Board of Directors since 2005. Dr. Eskindarov received a degree in economics from Moscow Financial Institute in 1976 and received PhD degree in 1981. Since 1992, Dr. Eskindarov has been a Pro-rector for educational matters at the Financial Academy of the Government of the Russian Federation, and currently serves as the first Pro-rector of the Financial Academy of the Government of the Russian Federation. Since 2005, Dr. Eskindarov has been a member of the Board of Directors of OAO Moscow Bank and OAO AKB Rosbank.

Petr D. Galitzine has served as a member of our Board of Directors since 2005. Mr. Galitzine received a Bachelor of Science in Mechanical Engineering from Massachusetts Institute of Technology in 1978. Between 1993 and 2001, Mr. Galitzine was the Head of the representative office of Mannesmann AG in Russia. In 2001-2004, he served as a General Director at Galitzine Consulting Limited. Since 2005, he has been a Chief Representative of BASF representative office in Russia and CIS and a General Director of ZAO BASF.

Andrey Yu. Kaplunov joined TMK in 2001 and has served as a member of our Board of Directors since 2005. Mr. Kaplunov received a degree in economics from Moscow Financial Institute in 1982. Between 1998 and 1999 he served as deputy Head of currency and financial department of the Russian foreign economic union Zarubezhneft. From 1999 to 2000, Mr. Kaplunov was a senior Vice-President and a Director of the human resources and corporate development department at ZAO KB Guta Bank. In addition, Mr. Kaplunov served as a Director of the human resources and organisational development department of AKB Rosbank in 2000-2001. From 2001 to 2005, he was a deputy General Director of TMK responsible for organisational development. Since 2005, Mr. Kaplunov has been a Vice-President of ZAO Sinara Group.

Igor B. Khmelevsky joined TMK in 2003 and has served as a member of our Board of Directors since 2004. Mr. Khmelevsky received a degree in laws from Ural State Law Academy in 1994 and a degree in foreign languages from State Teachers College of Shadrinsky in 1995. In 1999 he served as deputy Head of the legal department at OAO Mechel. Between 1999 and 2001, Mr. Khmelevsky was the deputy General Director responsible for legal matters, head of the legal department at Zlatoustovsky Metallurgical Plant. From 2001 to 2003, Mr. Khmelevsky served as a deputy General Director responsible for legal matters and Head of the legal department at ZAO Sinara Group and from 2003 to 2005 he was the deputy General Director of TMK responsible for legal matters. Since 2005, Mr. Khmelevsky has been a Vice-President of ZAO Sinara Group.

Adrian N.W. Cobb has served as a member of our Board of Directors since 2005. Mr. Cobb received a Bachelor of Arts degree in Russian and French from Durham University in 1971 and became a member of the Institute of Certified Accountants of England and Wales in 1975. Between 1997 and 2002, Mr. Cobb was Financial Director of Caspian Pipeline Consortium, Moscow. During 2002-2004, he served as a Senior Financial Advisor at Shell Exploration and Production Services B.V. Since 2006, Mr. Cobb has been Director of Moscow representative office of CP-Credit Prive S.A.

Joseph Marous has served as a member of our Board of Directors since 2005. Mr. Marous received a degree in economics from Goethe University, Frankfurt in 1976. Mr. Marous currently holds the following positions: a Head of the Representative office of Thyssen AG in Russia (since 1999); a member of the Board of Directors of OAO Thyssen Krupp Elevator (since 2002) and OAO Thyssen Krupp Materials (since 2004); and Chairman of the automobile components committee of the European Business Association in Russia (since 2005).

Sergey T. Papin joined TMK in 2002 and has served as a member of our Board of Directors since 2005. Mr. Papin received a degree in metallurgical engineering from Donetsk Polytechnic Institute in 1977. Between 1996 and 2000, Mr. Papin was a Vice-President, a member of the Management Board and the Head of the expert and analytical council of OAO AB Incombank. From 2000 to 2002, he was the Vice-President and the Head of the department responsible for interaction with state authorities, advertising and the public relations at ZAO KB Guta Bank. From 2002 and 2005, Mr. Papin was deputy General Director of TMK responsible for public relations. Since 2005, Mr. Papin has been a Vice-President of ZAO Sinara Group.

Alexander G. Shiryayev joined TMK in 2003 and has served as a member of our Board of Directors since 2005. Mr. Shiryayev received a degree in economics from Sverdlov Institute of National Economics in

1991. From 1998 to 2000, Mr. Shiryaev served as the General Director and deputy General Director of OAO Uralshina. In 2001 Mr. Shiryaev served as deputy General Director responsible for strategic development at ZAO Trade House Sinarsky Pipe Plant. Between 2001 and 2003, he was the deputy General Director responsible for development at ZAO Sinara Group. In 2004-2005, Mr. Shiryaev worked as deputy General Director responsible for economics and finance at TMK Trade House. Since 2005, Mr. Shiryaev has been a General Director at ZAO Sinara Group

Geoffrey Townsend has served as a member of our Board of Directors since 2005. Mr. Townsend received a MA degree in Physics from St. Catherine's College, Oxford in 1970. Between 1995 and 2002, Mr. Townsend held various positions within KPMG in Russia, including the head of the consulting department (1995-1997) and the head of the corporate finance department (1996-2000). Mr. Townsend was a partner in KPMG Deutsche Treuhand-Gesellschaft from 1990 until 2002. Since 2004, Mr. Townsend has been working as an Independent consultant at KPMG.

None of the above directors has any family relationship with any other director or with any member of senior management.

Management Board

Currently, our Management Board consists of fourteen members. Members of the Management Board, and their respective years of birth and positions as of the date hereof, are as follows:

Name	Year of birth	Position
Sergey I. Agafonov	1964	Deputy Director General for Procurement
Sergey I. Bilan	1962	Deputy Director General for Marketing
Oleg V. Borisov	1953	Deputy Director General for Security
Anatoly I. Brizhan	1942	Managing Director of Sinarsky
Alexey S. Degay	1958	Managing Director of Seversky
Nikolay I. Fartushny	1949	Managing Director of Tagmet
Natalia B. Khonina	1952	Chief Accountant
Alexander G. Lyalkov	1961	Deputy Director General for Operations
Leonid G. Marchenko	1951	Deputy Director General, Chief Engineer
Vladimir B. Oborsky	1961	Executive Director, General Director of TMK Trade House
Tigran I. Petrosyan	1968	Deputy Director General for Economy
Adrian Popesku	1961	Chairman of the Administrative Council at TMK-Artrom
Konstantin A. Semerikov	1959	General Director and the Chairman of the Management Board of TMK
Vladimir V. Shmatovich	1964	Deputy Director General for Finance

Brief biographies of the members of the Management Board who are not directors of TMK are set out below.

Sergey I. Agafonov joined TMK in 2001. Mr. Agafonov graduated from Sverdlovsk Mining Institute in 1989. Between 1992 and 1994, he served as a procurer and sales engineer at Uralsko-Sibirskaya Company. In 1995-2000, he held different positions in ZAO Uralsko-Sibirskaya Trade Industrial Company, including supply engineer (1995), deputy General Director (1995), and General Director (2000). Between 2000 and 2001, Mr. Agafonov served as a commercial director and General Director in ZAO Trade House Volzhsky Pipe Plant. In 2001-2002 he was a General Director of TMK Trade House. In 2002 Mr. Agafonov served as a General Director and later as Financial Director of ZAO Trade House Kuznetsky Ferrosplav. In 2002-2003, he held a position of a deputy General Director of TMK Trade House responsible for interaction with fuel and energy enterprises. In 2004 he was a deputy General Director responsible for interaction with fuel and energy enterprises at TMK Trade House. Currently Mr. Agafonov serves as a Director for procurement at TMK and TMK Trade House.

Sergey I. Bilan joined TMK in 2001. Mr. Bilan graduated from Rostov Institute of Railway's Engineers in 1984. Between 1984 and 2001, he work at Tagmet. Since 2001 Mr. Bilan held the following positions at TMK: Head of the department of procurement marketing and Head of the department for marketing of regional markets and CIS markets (2001-2002), as acting and subsequently as a deputy General Director of TMK responsible for marketing (since 2002). In 2004-2006, he served as a deputy General Director of TMK Trade House and since February 2006 he has served as the first General Director at TMK Trade House. Currently Mr. Bilan is also our deputy General Director for marketing.

Oleg V. Borisov joined TMK in 2003. Mr. Borisov graduated from Sverdlovsk High Military and Political School for Tank and Artillery Studies in 1975. Between 1995 and 2001, he served as a Head of the security department and member of Management Board of AKB SKB-Bank. From 2001 to 2003, he was the head of security department in ZAO Sinara Group. Since 2003 Mr. Borisov has been deputy General Director for security.

Anatoly I. Brizhan joined TMK in 2003. Mr. Brizhan graduated from Ural Polytechnic Institute in 1970. Between 1961 and 2005, he held positions at Sinarsky, including as a Director (1984-1994), a General Director (1993-2003) and Managing Director (since 2005). In 2003-2005 he worked as a Chief counsel of the General Director of expert and analytical council of TMK.

Alexey S. Degay joined TMK in 2003. Mr. Degay graduated from Ural S.M. Kirov Polytechnic College in 1980. From 1987 to 2005 Mr. Degay held the following positions at Seversky: Head of the department for material and technical procurement (1991-1994), Commercial Director (1994-1995), first deputy General Director (1995-1997), General Director (1997-2004). Between 2003 and 2005, he worked as Chief counsel of the general director of expert and analytical council of TMK. Since 2004 he has been a Managing Director of Seversky.

Nikolay I. Fartushny joined TMK in 2004. Mr. Fartushny graduated from Dneprodzerzhinsky Industrial Institute after M.I. Arsenichev in 1973. Between 1973 and 2005, Mr. Fartushny began held various positions at Tagmet, including Technical Director (1997-2003), General Director of Tagmet (2003), and subsequently the plant's Managing Director (since 2005). Between 2003 and 2005, Mr. Fartushny also served as a Chief counsel of the general director of expert and analytical council of TMK.

Natalia B. Khonina joined TMK in 2003. Ms. Khonina graduated from Ural State University after A.M. Gorky in 1975. Ms. Khonina served as Chief Accountant at ZAO Uralregionprom (1997-1998), ZAO Trade House Sinarsky Pipe Plant (1998-2001), and ZAO Sinara Group (2001-2003). Ms. Khonina currently serves as Chief Accountant at TMK (since 2003), and TMK Trade House (since 2004).

Alexander G. Lyalkov joined TMK in 2003. Mr. Lyalkov graduated from Volgograd Polytechnic College in 1989. Between 1980 and 2005, Mr. Lyalkov worked at Volzhsky. He held a number of managing positions at Volzhsky including Operations Director (2001), first deputy Director of Volzhsky (2001-2002) and subsequently as the plant's General Director (2002-2004). In 2004—August 2006 Mr. Lyalkov was a Managing Director of Volzhsky. Since August 2006 he has served as first deputy general director of TMK Trade House responsible for operational matters and deputy general director of TMK responsible for operational matters.

Leonid G. Marchenko joined TMK in 2002. Mr. Marchenko graduated from Ural S.M. Kirov Polytechnic College in 1973. From 1973 to 2002 Mr. Marchenko held various positions at Sinarsky including deputy Director (1999-2002) and as the first deputy General Director, the Chief Engineer (2002). In 2002-2004, he served as a Chief Engineer at TMK. Since January 2005 Mr. Marchenko has served as our deputy General Director, Chief Engineer.

Vladimir B. Oborsky joined TMK in 2003. Mr. Oborsky graduated from Kiev High Military School in 1982 and Military Academy after M.V. Frunze in 1994. In 2000-2001 Mr. Oborsky held a position of the Head of the Division of VIP clients and tenders and Head of the Division for interaction with gas industry at ZAO Trade House of Volzhsky Pipe Plant. In 2001 he joined TMK Trade House: from 2001 to 2003 he served as a Head of the Department for interaction with AK Transneft and enterprises of the gas industry; between 2003 and 2005, he was Head of the Department for interaction with Gazprom, independent gas producers and AK Transneft. In 2005—February 2006 Mr. Oborsky was deputy general director for procurement at TMK. Since 2005 he has served as a general director at TMK Trade House. Since February 2006 he has been our Executive Director.

Tigran I. Petrosyan joined TMK in 2001. Mr. Petrosyan graduated from Erevan State University in 1993. In 1993-1994 he held a position in the Ministry of Economy of Republic of Armenia. From 1994 to 1995 he served as an economist at AKB Noy and Volzhsky. Between 1995 and 1997, he was deputy General Director of OOO Volzhsky Audit. In 2000-2001 Mr. Petrosyan worked as a Head of Plan and economic department at OAO PO Volzhsky Pipe Plant. In 2001-2002 Mr. Petrosyan was a Head of Plan and economic department at TMK. From 2002 to April 2006 he served as a Director of the Economic and planning directorate of TMK. Since April 2006 Mr. Petrosyan has been our deputy General Director for economy.

Adrian Popesku joined TMK in 2006. Mr. Popesku graduated from Timosiara Polytechnic University Trayan Vuya in 1985. Between 1999 and May 2006 Mr. Popesku was a General Director of Artrom. In May 2006 he assumed an office of the Chairman of Administrative Council at TMK-Artrom.

Konstantin A. Semerikov joined TMK in 2003. Mr. Semerikov graduated from the Moscow Institute of Steel and Alloys in 1981 with an engineering degree in metallurgy. Since 1992, he has held various positions in Tagmet. In 2001 he was elected as a member of the Management Board of Tagmet. In 2002-2003 Mr. Semerikov was Mayor of Taganrog. In May 2003, he was nominated deputy Chief Engineer of TMK and in December 2003 deputy General Director for operations. In 2004-2005 Mr. Semerikov served as the General and Executive Director of TMK Trade House. Since July 2005, Mr. Semerikov has been our General Director and the Chairman of our Management Board.

Vladimir V. Shmatovich joined TMK in 2005. Mr. Shmatovich graduated from Moscow Financial Institute in 1982. From 1996 to 2002, Mr. Shmatovich worked as a General Director and deputy General Director of OAO Interros. He served as a deputy General Director for economy and finance at OAO Udmurtneft (2002) and as a Director for financial control at OAO Sidanco (2002-2003). From 2003 to 2005 he was a deputy General Director and Director for economy and finance of OOO RusPromAvto, and from May 2005 to April 2006, he worked as a deputy General Director for economics and finance at TMK. Since June 2005 Mr. Shmatovich has been the deputy General Director for finance and economics at TMK Trade House. Since April 2006 Mr. Shmatovich has served as our deputy General Director for finance.

None of the above members of the Management Board has any family relationship with any director or with any other member of the Management Board.

Remuneration of Directors and Management

For the years ended 31 December 2005, 2004 and 2003, members of the Board of Directors received an aggregate remuneration of RUB 80,368,629 (approximately U.S.$3.0 million), RUB 56,632,657 (approximately U.S.$2.1 million) and RUB 13,900,750 (approximately U.S.$500,000), respectively, including salary, bonuses and other payments.

For the year ended 31 December 2005, members of the Management Board received remuneration of RUB 34,164,829 (approximately U.S.$1.3 million) including salary and bonuses. As our Management Board was established in June 2005, no remuneration was paid to its members for the years ended 31 December 2004 and 2003.

Members of the Board of Directors, including the Chairman, serve in their capacities pursuant to written agreements with us. Agreements with the members of the Board of Directors, each of which contains largely standard identical terms, provide for the payment of monthly compensation to each member of the Board of Directors and annual remuneration to the chairman and members of the Board of Directors' committees, as well as reimbursement of certain expenses. Such agreements are valid until termination of the powers of such member of the Board of Directors. Relations with the Chairman of the Board of Directors are governed by a separate agreement which is similar to agreements executed with the members of the Board of Directors. The Chairman has a right to receive monthly remuneration for the execution of his duties and for reimbursement of certain expenses. The agreement with our Chairman of the Board is valid until termination of the powers of the Chairman of the Board or re-election of the Chairman of the Board of Directors.

Members of our Management Board serve in their capacities pursuant to written labour agreements and contracts (*soglasheniya*) specifying their specific duties and responsibilities. Such contracts, containing identical terms, provide for the payment of monthly compensation and annual remuneration to each member of our Management Board. Annual remuneration is paid only if a member of the Management Board fully achieves the main objectives as provided under the contract. Furthermore, the General Director may grant to a member of the Management Board additional remuneration for specific achievements.

Board Practices

Board of Directors

Members of our Board of Directors are elected at our annual general shareholders' meeting by cumulative voting. Each director is elected for a term that expires at the next annual shareholders meeting and may be re-elected for an unlimited number of periods. Our Board of Directors currently consists of ten members, including three independent directors. According to our Charter the Board of Directors has the authority to make the principal management decisions for TMK, except in respect of those matters reserved for the shareholders.

The standing committees of our Board of Directors are:

- the Audit Committee;
- the Nomination and Remuneration Committee; and
- the Strategic Planning Committee.

Audit Committee

Pursuant to our internal regulations, our Audit Committee consists of at least three members from our Board of Directors, each of whom is to be an independent director (or, if this is not reasonably possible, either an independent or non-executive director, an "independent" director generally being a director who does not hold, and did not hold during the last five years organisational, management on administrative positions with TMK, is not an affiliate of TMK, is not a representative of the state government, and who meets certain other criteria as provided in our Regulations on the Management Board, and a "non-executive director" being a director who does not hold an organisational, management or administrative position with TMK). The Audit Committee consists of Messrs. Mychadin A. Eskindarov, Adrian Cobb and Geoffrey Townsend and is headed by Mr. Geoffrey Townsend, each of whom was elected on 30 June 2006 and serves until our next annual meeting of shareholders.

The Audit Committee is principally responsible for:

- review of our financial statements;
- review of reports of the Internal Audit Commission and the internal control department;
- review of, and making recommendations to, the Board of Directors in relation to the standards and procedures for internal and risk control of TMK;
- evaluating the efficiency of internal control procedures and preparing proposals for their improvement;
- assessment of planned major and interested party transactions to be entered into by TMK; and
- analysis, together with the external auditors, of major issues with respect to the audit of financial and accounting reporting.

Nomination and Remuneration Committee

Pursuant to our internal regulations, our Nomination and Remuneration Committee consists of at least three members from our Board of Directors, each of whom is to be an independent director (or, if this is not reasonably possible, either an independent or non-executive director). Currently, the Nomination and Remuneration Committee consists of Messrs. Mychadin A. Eskindarov, Andrey Yu. Kaplunov and Joseph Marous and is headed by Mr. Mychadin A. Eskindarov, each of whom was elected on 30 June 2006 and serves until our next annual meeting of shareholders.

The Nomination and Remuneration Committee encourages the recruitment of qualified specialists to our management and determining appropriate salary levels for our management.

The Nomination and Remuneration Committee is principally responsible for:

- establishing criteria for evaluation of candidates to the Board of Directors and the Management Board, as well as to the position of the General Director;
- defining principles and criteria for the amount of remuneration and compensation for the General Director and the members of the Board of Directors and the Management Board; and
- evaluating the performance of the General Director and the Management Board.

Strategic Planning Committee

Pursuant to our internal regulations, the Strategic Planning Committee consists of at least three members who are members of our Board of Directors and, if deemed necessary, other officers and employees of TMK. Currently, the Strategic Planning Committee consists of Messrs. Petr D. Galitzine, Joseph Marous and Alexander G. Shiryayev and is headed by Mr. Joseph Marous, each of whom was elected on 30 June 2006 and serves until our next annual meeting of shareholders.

The Strategic Planning Committee is principally responsible for:

- proposing our business priorities, including budgets, long-term plans, strategies and development programmes;
- proposing upgrades of our budgeting system, investment planning, monitoring and analysis processes;
- reviewing and making recommendations in relation to our investment policy;
- making proposals on dividend policy; and
- making proposals on the mergers and acquisitions policy and the sale of fixed assets.

Management of Subsidiaries

To achieve integrated control over the activities of our operating facilities, in December 2003 we have assumed the duty of a centralised management company. TMK has been appointed by the shareholders of each of Volzhsky, Seversky, Tagmet and Sinarsky as the management company until 31 December 2007.

These management contracts transfer all executive powers that are not under the direct control of the board of directors of these plants to TMK. We exercise the managing powers of a sole executive body of the companies that we manage including entering into transactions on behalf of each company (within the limits provided for by applicable law and restrictive charters), operate their bank accounts and represent them before various governmental and judicial agencies. Management is exercised by our officer acting under a power of attorney. Payments received by us are applied fully against our operating expenses and reflected fully in the appropriate line item of our consolidated financial statements.

Our appointment as a management company serves to centralise all management functions in a single body and facilitates the adoption of standard operating and financial management practices across all of our operations. The delegation of management functions to us also serves to improve the efficiency of management activities.

TMK-Artrom was appointed as the management company of TMK-Resita in June 2004 for a four-year period. Under the management contract TMK-Artrom provides organisation, management and administration services to TMK-Resita activities for which it is entitled to receive ROL 5.0 million (approximately U.S.$180 as of 25 September 2006) on a monthly basis.

Corporate Governance

Our corporate governance procedures have been prepared in accordance with general requirements of the Russian Joint Stock Companies Law, listing rules of the Russian stock exchanges, other regulatory acts governing operations of joint stock companies in the Russian Federation, our charter and internal regulations. We have adopted standards for relations with our shareholders, the composition and proceedings of our board of directors, the role of our executive officers, disclosure of information and the auditing of our financial performance that comply with the Recommended Corporate Governance Code adopted by the Federal Commission on Securities Market (the predecessor of the FSFM) on 4 April 2002. For the purposes of implementation of the provisions of the Recommended Corporate Governance Code, we have adopted the following documents relating to the corporate governance matters:

- Regulation on the General Shareholders' Meeting;
- Regulations on the Board of Directors;
- Regulations on the Management Board;
- Regulations on the Internal Audit Commission;
- Regulations on the Audit Committee of the Board of Directors;
- Regulations on the Strategic Planning Committee of the Board of Directors;
- Regulations on the Nomination and Remuneration Committee of the Board of Directors;
- Regulations on the Information Policy;
- Regulations on Use of Information with respect to TMK's Activities, Securities of TMK and Transactions Involving Them, which is not Public and the Disclosure of which May Cause Material Impact on the Market Value of TMK's Securities; and
- Dividend Policy.

In addition, we have approved an Ethics Code that establishes standards of professional activity and ethics for all our employees, including members of the Board of Directors, Management Board and Internal Audit Commission.

Certain Proceedings Against Our Management

At the date of this prospectus, no member of our Board of Directors or Management Board for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

There are no potential conflicts of interest between any duties of the members of the Board of Directors and the Management Board towards the Company and their private interests and/or other duties.

CERTAIN REGULATORY MATTERS

General

Russia has not enacted any specific legislation governing the operation of pipe manufacturing activities. The production, sale and distribution of pipes in the Russian Federation is regulated by general civil legislation and special legislation relating to quality standards, industrial safety rules, environmental and other issues.

At the federal level, the Ministry of Industry and Energy of the Russian Federation is the principal state body supervising the operation of the pipes sector. The ministry is responsible for the development of governmental policy in the industry, including, among other things, attraction of investments, foreign trade, taxation, support of scientific research and employment, however, it lacks direct regulatory authority. In October 2002, the Ministry of Industry and Energy published the Programme for Development of the Russian Steel Industry up to 2010. This programme proposes measures supporting voluntary certifications of steel products and promotion of innovations in the industry, reduction of import duties for high-tech machinery and funding of scientific research and process design. The implementation of the Programme is expected to facilitate the modernisation of the Russian steel industry, increase its export potential, improve the quality of steel products and allow the sector to develop in a positive manner over the relevant period.

The Ministry of Economic Development and Trade of the Russian Federation regulates Russian export and imports of products and coordinates intergovernmental negotiations relating to export and import activity.

The federal ministries in Russia are not responsible for compliance control or management of state property and provision of services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that are relevant to our activities include:

- the Federal Service for Environmental, Technological and Nuclear Supervision, which sets procedures for, and oversees compliance with, industrial safety and environmental rules and issues licences for certain industrial activities and activities relating to safety and environmental protection;
- the Federal Service for the Supervision of the Use of Natural Resources oversees compliance with the terms and conditions of licences issued by the Ministry of Natural Resources and environmental legislation;
- the Federal Agency for Technical Regulation and Metrology, which determines and oversees levels of compliance with applicable guidelines; and
- the Federal Antimonopoly Service oversees the acquisition of controlling stakes in companies and dominant market positions.

Aside from the above federal executive bodies, which are directly involved in the regulation of and supervision over the Russian pipe industry, a number of other governmental bodies and agencies have authority over general issues connected with the pipe industry such as defense, rail transport and tax enforcement.

Licencing

We are required to obtain numerous licences, authorisations and permits from Russian governmental authorities in the conduct of our operations. Federal Law No. 128-FZ "On Licencing of Certain Types of Activities," dated 8 August 2001, which came into force in February 2002 (the "Licencing Law"), established a list of activities which can only be performed on the basis of licences issued by the relevant Russian authorities. The list of activities relating to the pipe industry includes, among other things, activities connected with hazardous waste, operation of explosive and chemically hazardous production facilities, construction of buildings and other structures connected with pipe manufacturing.

Under the Licencing Law, the minimum period for which a licence is issued is five years. These licences are usually issued for a period of five years and may be extended upon application by the licencee. Licences for the use of natural resources may be issued for shorter or longer periods. In particular, licences for the use of surface water resources may be issued for periods of up to 25 years. Upon the expiration of a licence, it may be extended upon application by the licencee. Certain types of licences may also have unlimited terms. A licence can be suspended by the licencing authority or by the court if the licencee

becomes subject to administrative liability for violation of conditions and requirements of a licence under the procedure stipulated by Russian law. If a licencee does not mitigate any breach of the licence granted to it within the period established by the court or the licencing authority, the licencing authority must apply to a court for the cancellation of that licence.

Certification

Federal Law No. 184-FZ "On Technical Regulation," dated 27 December 2002, as amended, (the "Technical Regulation Law"), introduced new rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

The Technical Regulation Law represents the first step in the seven-year reform of Russian standardisation and certification legislation. The overall goal of the reform is to replace the Soviet-era GOST system (which contains a large number of requirements as to safety and production quality of goods and services) with a new system of state control over safety of goods.

The Technical Regulation Law provides for voluntary confirmation of products' compliance with technical regulations and envisages the mandatory confirmation of such compliance in certain instances. Confirmation of compliance may take the following two forms: declaration of compliance by producers or sellers, or certification.

Violation of the rules of mandatory certification, i.e. sale of the goods subject to mandatory certification without required certificates, may lead to an administrative fine.

Our products and products of our subsidiaries are certified to conform to the international standards including, among others, API 5L, 5CT, TUV, ASTM and DIN.

Land Use Rights

Russian legislation prohibits the carrying out of any commercial activity on a land plot without appropriate land use rights.

Under the Land Code of the Russian Federation of 25 October 2001, as amended, (the "Land Code"), companies generally have one of the following rights with regard to land in the Russian Federation: (1) ownership; (2) right of free use for a fixed term; or (3) lease.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities which, through public auctions or tenders or through private negotiations, can sell, lease or grant other use rights to the land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, Federal Law No. 137-FZ "On Introduction of the Land Code," dated 25 October 2001, with certain exceptions, requires companies using land pursuant to rights of perpetual use either to purchase the land from, or to enter into a lease agreement relating to, the land with the relevant federal, regional or municipal authority owner of the land by 1 January 2008.

Our subsidiaries generally have a right of ownership or perpetual use of their plots or have entered into long-term lease agreements. A lessee has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Antimonopoly Regulation

Currently competition in Russia is primarily regulated by the Russian Federation Law No. 948-I "On Competition and Limiting Monopoly Activity on the Commodities Markets," dated 22 March 1991, as amended, (the "Competition Law"). Certain regulatory powers are vested in the Federal Anti-Monopoly Service, or the FAS.

We are subject to regulation by the FAS in connection with some acquisitions that we make.

The FAS is authorised by law to approve (i) acquisitions of more than 20% of the voting shares in a Russian business entity; (ii) acquisitions of more than 10% of the fixed and intangible assets of companies;

and (iii) acquisition of control over companies, in each case if the combined assets of the target and acquirer's group of persons exceed 30 million statutory minimum wages, currently equivalent to RUB 3 billion (approximately U.S.$112 million) or if the target, the acquirer or a company in the acquirer's group of persons is registered as having more than a 35% share of a particular commodity market. The FAS is also authorised to approve the merger or consolidation, and to monitor the appointment of certain members of the management, of Russian business entities.

As a condition to issuing such approvals, the FAS may impose certain conditions designed to promote competition, including restrictions on conducting business, such as limitations on prices, geographical expansion, associations and agreements with competitors. In addition, a company holding a market share in a particular commodity market that exceeds 65% is presumed to hold a dominant position in that market. Such company is prohibited from abusing such a position, which includes activities that are characterised as restraining or eliminating the competition. Companies holding such a dominant position may not (i) limit sales in order to create a deficit or to increase prices; (ii) impose unfavourable contractual terms on their contractors that are not justified by the subject of the contract (for example, unjustified demands for the transfer of assets or property rights); (iii) impose discriminatory terms on access of competitors to the market; (iv) create barriers to entry into or exit from the market; (v) violate legal or regulatory requirements relating to pricing; (vi) fix excessively high or excessively low prices; (vii) decrease or terminate production of goods that are in demand or that are ordered by consumers when there is a possibility of producing such goods without sustaining loss; or (viii) arbitrarily refuse to enter into a sales agreement with particular customers, if it is feasible to produce or deliver the relevant goods.

The FAS is authorised to issue binding orders on companies holding a dominant position, such as requiring companies to treat customers equally or imposing pricing restrictions. In addition, the FAS has the power to require a spin-off or split of business operations of a company which holds a dominant position when the following conditions are met: the company has repeatedly (i.e., twice within three years) violated Russian antimonopoly regulations; the spin-off would increase competition; a structural unit of the company may be organisationally and territorially separated from the company; there is no tight technological interconnection between structural units of the company (in particular, less than 30% of the relevant structural unit's output is consummated internally); and the legal entities resulting from such spin-off may function autonomously.

On 26 July 2006 Federal law No. 135-FZ "On Competition Protection" (the "New Competition Law") was adopted. The New Competition Law will enter into force from 26 October 2006. It will entirely replace the Competition Law.

The New Competition Law provides for the antimonopoly regulation over the transactions which result in (i) shareholding of more than 25%, 50% and 75% of the voting shares in a joint stock company; (ii) acquisition of rights to more than one third, 50% or two thirds of the shares in a limited liability company; or (iii) acquisition of more that 20% of the main production or intangible assets.

Under New Competition Law, the acquirer must obtain the prior consent of the FAS in respect of the above transactions if the aggregate book value of assets of the acquirer and a target company exceeds RUB 3 billion, or their consolidated sales revenue for the last calendar year exceeds RUB 6 billion, and provided that the book value of assets of a target company exceeds RUB 150 million or any of the parties involved in the transaction is registered as having more than a 35% share in a particular product market.

Subsequent notification to the FAS in respect of the above transactions is required if either the sum of the book value of the assets of a target company and the acquirer or their consolidated sales revenue for the last calendar year exceeds RUB 200 million, and provided that the book value of the assets of a target company exceeds RUB 30 million or any of the parties involved in the transaction is registered as having more than a 35% share in a particular product market.

Prior antimonopoly control is required for the establishment of a business entity when the charter capital of the entity is paid by the shares or property of another business entity if founders and/or business entity shares/property of which are contributed to the charter capital meet certain requirements provided by the New Competition Law.

The New Competition Law modifies the definition of the "dominant position" of a company by reducing the size of the market share allowing to qualify the company as having a dominant position from 65% to 50%. In addition, companies are presumed to have a dominant position, if (i) the aggregate share of not more than three companies exceeds 50% where each company has a share larger than other companies on the respective commodity market; or (ii) the aggregate share of not more than five companies exceeds 70% where each company has a share larger than other companies of the respective commodity market.

Environmental Matters

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by Federal Law No. 7-FZ "On Environmental Protection," dated 10 January 2002 (the "Environmental Protection Law"), as well as by a number of other federal and local legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The Ministry of Natural Resources has established standards relating to the permissible impact on the environment and, in particular, limits for emissions and disposal of substances, waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Ecological approval

Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with Federal Law No. 174-FZ "On Ecological Expert Examination," dated 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described under "—Environmental liability."

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and Ministry of Natural Resources is responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Environmental protection programmes

We have been developing and implementing environmental protection programmes at all of our pipes manufacturing subsidiaries. Such programmes include measures to aid in adhering to the limits imposed on air and water pollution and storage of industrial waste, introduction of environmentally friendly industrial technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the recycling of water and industrial waste.

We strive to ensure that the activity of our subsidiaries conforms to world standards and environmental legislation. Our primary goal in this respect is to make environmental protection an integral part of our business. Our subsidiaries have implemented and constantly upgraded the integrated environmental management system that complies with ISO 14001 international standards.

Health and Safety

Due to the nature of our business, substantially all of our operating activities are conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is Federal Law No. 116-FZ "On Industrial Safety of Dangerous Industrial Facilities," dated 21 July 1997, as amended (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used. There are also regulations that address safety rules for the steel smelting and the production of pipes. Additional safety rules also apply to certain industries, including the metallurgical industry.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licenced expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia effective 1 February 2002, as amended (the "Labour Code"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order. In addition, the Labour Code provides for the state inspections of work safety to verify, in particular, the compliance of work conditions to state standards as well as compensations to employees due to hazardous work conditions.

Besides, companies with more than 50 employees must have a special work safety service or a work safety officer. Business entities are required to spend 0.2% of their production expenses on improvement of work safety.

Furthermore, on 29 May 2006, the Ministry of Public Health and Social Development of the Russian Federation issued Order No. 413 approving the model regulations on work safety to be used by employers.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Federal Service for Environmental, Technological and Nuclear Supervision has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code.

Employment contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law. The Labour Code specifies where the employer must enter into term contracts, and where the employer may, but not be obliged to, conclude such contracts subject to parties' mutual agreement. The employment contracts with chief executive officer may be concluded either for a fixed or for indefinite term. The term contracts with pensioners may only be concluded upon their hiring (i.e. the indefinite term contract may not be necessarily replaced by the term contract at the employee obtains the status of pensioner).

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence or health problems;
- systematic failure of the employee to fulfill his or her duties;
- any single gross violation by the employee of his or her duties; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or disabled child under the age of 18 or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother.

In case of unsuitability of the employee for the position due to health condition the employer is required to transfer him to another position suitable to his health condition. In case the employee refuses the offered transfer or there is no suitable position the employment contract is terminated.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees whose work subjects them to potentially harmful production operations may be entitled to additional paid vacation ranging from seven to 14 working days. The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, the retirement age for male who have worked in potentially harmful production operations and hot workshops for at least 10 years, and females for at least seven years and six months, is 50 years and 45 years, respectively.

Salary

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is RUB 1,100 from 1 May 2006 (approximately U.S.$40.74). Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

Trade Unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, our management routinely interacts with trade unions in order to ensure the appropriate treatment of employees and the stability of our business.

The activities of trade unions are generally governed by the Labour Code and by Federal Law No. 10-FZ "On Trade Unions, Their Rights and Guaranties of Their Activity", dated 12 January 1996, as amended (the "Trade Union Law").

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Code of the Russian Federation on Administrative Misdemeanours of 30 December 2001, nor the Criminal Code of the Russian Federation of 13 June 1996, currently has provisions specifically relating to these violations, general provisions and sanctions may be applicable. The Code on Administrative Misdemeanours provides only liability for violations of labour and labour protection law.

THE ISSUER

General

TMK Capital S.A. (the "Issuer") was incorporated as a *société anonyme* on 8 September 2006 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation have not yet been published in the *Mémorial, Recueil des Sociétés et Associations*. The Issuer is registered with the Luxembourg Register of Commerce and Companies under number B-119081. Its registered office is located at 2, boulevard Konrad Adenauer, L-1115 Luxembourg and its telephone number is +352 421 22-243.

The Issuer's subscribed share capital amounts to U.S.$50,000 divided into 500 registered shares with a par value of U.S.$100 each. All of the shares are fully paid up. Four-hundred and ninety nine (499) shares are owned by Stichting TMK Capital, and one (1) share by Stichting Participatie DITC Amsterdam.

The Issuer has a Board of Directors, currently consisting of three directors. The directors at present are:

- Rolf Caspers, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg;
- Tom Verheyden, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg; and
- Vincent de Rycke, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

There are no potential conflicts of interest between any duties of the members of the Board of Directors towards the Issuer and their private interests and/or other duties.

Deutsche Bank Luxembourg S.A. is the domiciliation agent of the Issuer. Its duties include the provision of certain administrative and related services. It may terminate its appointment at any time upon not less than two months' prior notice in writing, provided that any such termination shall not be effective until a replacement acceptable to the Issuer has been suggested by Deutsche Bank Luxembourg S.A.

The corporate object of the Issuer, as described in article 3 of its articles of incorporation is:

- the issue of loan participation notes and other debt securities for the purpose of financing loans to OAO TMK;
- the granting of loans to OAO TMK;
- the granting of security interests over its assets to a trustee in relation to the issuance of the loan participation notes and other debt securities;
- the making of deposits (including fiduciary deposits) at banks or with other depositaries; and
- the entering into all ancillary transactions, documents and agreements.

The Issuer may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate object at the exclusion of any banking activity.

In general, the Issuer may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Ernst & Young S.A., having its registered office at 7, Parc d'Activité Syrdall, L-5365 Munsbach, Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B-47771, has been appointed to act as statutory auditor of the Issuer and is a member of the Luxembourg body of registered auditors ("*Institut des Réviseurs d'Entreprises*").

Financial Statements

The Issuer was recently incorporated as a *société anonyme* under the laws of Luxembourg and, accordingly, since 8 September 2006 (the date of its incorporation), the Issuer has not commenced operations and no financial statements have been prepared as of the date of this Prospectus. The Issuer's fiscal year will end on December 31 of each year. The Issuer's financial statements will be prepared in accordance with Luxembourg GAAP.

THE LOAN GUARANTORS

Initial Loan Guarantors

TMK Trade House

Incorporation and Status

TMK Trade House was founded in April 2000 as a closed joint stock company under the laws of the Russian Federation. The registered office of TMK Trade House is 36 Malisheva Street, Yekaterinburg, 620219, Russian Federation, and its telephone number is +7 495 775-7600. TMK Trade House is registered in the Russian Federation under main state registration number 1027700429602.

Objects

The objects of TMK Trade House, as set out in its charter, are trading activities including wholesaling, import and export operations, warehousing, marketing and advertising.

Share Capital

TMK Trade House's share capital is RUB 8,400, represented by 100 registered ordinary shares, each with a nominal value of RUB 84, all of which has been issued and fully paid.

Organisational Structure

TMK Trade House is one of our subsidiaries. TMK Trade House has branch offices in the Russian cities of Volzhsky, Polevoy, Novokuznetsk, Taganrog, Kamensk-Uralsky and Moscow, as well as representative offices in Azerbaijan and the Republic of China.

Business

TMK Trade House is a trading entity. See "Business" for a further description of TMK Trade House's operations.

Management

TMK Trade House is managed by its sole executive body (general director) under supervision of its board of directors. Presently, TMK Trade House's board of directors is not formed and its functions are performed by the general shareholders' meeting until the board of directors is elected.

Auditors

Ernst & Young LLC are the auditors of the financial statements of TMK Trade House, which are prepared in accordance with Russian Accounting Standards. TMK Trade House's financial year corresponds to the calendar year.

Volzhsky Pipe Plant

Incorporation and Status

Volzhsky Pipe Plant started operations in 1970 and was registered on 25 June 2002 as an open joint stock company under the laws of the Russian Federation. The registered office of Volzhsky is 6 Autodoroga No. 7, City of Volzhsky, Volgograd Region, 404119, Russian Federation, and its telephone number is +7 8443 22 2150. Volzhsky is registered in the Russian Federation under number 1023401997101.

Objects

The objects of Volzhsky, as set out in its charter, are to manufacture pipes for various application, including seamless casing and line pipes, spiral welded large-diameter pipes for oil pipelines, seamless pipes for steam boilers, seamless pipes for mechanical engineering and round and square steel billets.

Share Capital

Volzhsky's share capital is RUB 1,440,910,000.00, represented by 1,440,910,000 registered ordinary shares, each with a nominal value of RUB 1.00, all of which has been issued and fully paid.

Organisational Structure

Volzhsky is one of our subsidiaries. Volzhsky has one wholly-owned subsidiary, Blagoustroystvo LLC.

Business

Volzhsky is one of our principal operating subsidiaries. See "Business" for a further description of Volzhsky's operations.

Management

Volzhsky is managed by its sole executive body under the supervision of its board of directors. Presently, Volzhsky's board of directors consists of seven members. The authority of the sole executive body was transferred to the managing company OAO TMK in December 2005.

Auditors

Ernst & Young LLC are the auditors of the financial statements of Volzhsky, which are prepared in accordance with Russian Accounting Standards. Volzhsky's financial year corresponds to the calendar year.

Additional Loan Guarantors

Seversky Pipe Plant

Incorporation and Status

Seversky Pipe Plant started its operations in 1739 and was registered on 26 November 1992 as an open joint stock company under the laws of the Russian Federation. The registered office of Seversky is 7 Vershinin street, City of Polevskoy, Sverdlovsk Region, 623388, Russian Federation, and its telephone number is +7 8 34350 35404. Seversky is registered in the Russian Federation under number 1026601606118.

Objects

The objects of Seversky, as set out in its charter, are to manufacture pipes of all types, including seamless casing and line pipes, spiral welded large-diameter pipes for oil pipelines, seamless pipes for steam boilers, seamless pipes for mechanical engineering and round and square steel billets.

Share Capital

Seversky's share capital is RUB 721,936,800, represented by 48,129,120 registered ordinary shares, each with a nominal value of RUB 15, all of which has been issued and fully paid.

Organisational Structure

Seversky is one of our subsidiaries. Seversky itself has no subsidiaries.

Business

Seversky is one of our principal operating subsidiaries. See "Business" for a further description of Seversky's operations.

Management

Seversky is managed by its sole executive body under supervision of its board of directors. Presently, Seversky's board of directors consists of seven members. The authority of the sole executive body was transferred to OAO TMK in December 2005.

Auditors

Ernst & Young LLC are the auditors of the financial statements of Seversky, which are prepared in accordance with Russian Accounting Standards. Seversky's financial year corresponds to the calendar year.

Sinarsky Pipe Plant

Incorporation and Status

Sinarsky Pipe Works was founded in 1934. Sinarsky was reorganised into an open joint stock company in November 1992. The registered office of Sinarsky is 1 Zavodskoy Proezd, City of Kamenetsk-Uralsky, Sverdlovsk region, 623401, Russia, and its telephone number is +7 3439 36 3560. Sinarsky is registered in the Russian Federation under number 1026600931686.

Objects

The objects of Sinarsky, as set out in its charter, are to manufacture drill, casting, tubing and line pipes and industrial seamless pipes.

Share Capital

Sinarsky's share capital is RUB 409,211,075.00, represented by 6,295,555 registered ordinary shares, each with a nominal value of RUB 65, all of which have been issued and fully paid.

Organisational Structure

Sinarsky is one of our subsidiaries. Sinarsky has three wholly—owned subsidiaries.

Business

Sinarsky is one of our principal operating subsidiaries. See "Business" for a further description of Sinarsky's operations.

Management

Sinarsky is managed by its sole executive body under the supervision of its board of directors. Presently, Sinarsky's board of directors consists of seven members. The authority of the sole executive body was transferred to OAO TMK in December 2005.

Auditors

Ernst & Young LLC are the auditors of the financial statements of Sinarsky, which are prepared in accordance with Russian Accounting Standards. Sinarsky's financial year corresponds to the calendar year.

Taganrog Metallurgical Works

Incorporation and Status

Taganrog Metallurgical Works was founded in 1986 and was registered as an open joint stock company under the laws of the Russian Federation on 16 November 1998. The registered office of Tagmet is 1 Zavodskaya Street, City of Taganrog, Rostov region, 347928, Russian Federation, and its telephone number is +7 8634 32 4201. Tagmet is registered in the Russian Federation under number 1026102572473.

Objects

The objects of Tagmet, as set out in its charter, are to manufacture drill, casing and line pipes, industrial seamless pipes and electric welded pipes.

Share Capital

Tagmet's share capital is RUB 508,706,000.00, represented by 508,706,000 registered ordinary shares, each with a nominal value of RUB 1.00, all of which have been issued and fully paid.

Organisational Structure

Tagmet is one of our subsidiaries. Tagmet does not have any subsidiaries or dependent companies.

Business

Tagmet is one of our principal operating subsidiaries. See "Business" for a further description of Tagmet's operations.

Management

Tagmet is managed by its sole executive body under the supervision of its board of directors. Presently, Tagmet's board of directors consists of seven members. The authority of the sole executive body was transferred to OAO TMK in December 2005.

Auditors

Ernst & Young LLC are the auditors of the financial statements of Tagmet, which are prepared in accordance with Russian Accounting Standards. Tagmet's financial year corresponds to the calendar year.

THE LOAN AGREEMENT

THIS AGREEMENT is dated 26 September 2006

BETWEEN:

(1) **OPEN JOINT STOCK COMPANY TMK,** an open joint stock company organised under the laws of the Russian Federation (the "**Borrower**"); and

(2) **TMK CAPITAL S.A.**, a société anonyme established under the laws of the Grand Duchy of Luxembourg and whose registered office is 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Luxembourg Register of Commerce and Companies under number B-119081 (the "**Lender**").

WHEREAS:

The Lender and the Borrower wish to record herein the terms of the Loan to be made by the Lender to the Borrower. The Loan is to be unconditionally, irrevocably, jointly and severally guaranteed by the Initial Loan Guarantors under the Initial Loan Guarantees and the Borrower has undertaken hereunder that the Loan will be additionally so guaranteed by each of the Additional Loan Guarantors once the Additional Loan Guarantors accede to the Deed of Loan Guarantee, by way of executing a deed of accession to the Deed of Loan Guarantee, substantially in the form set out in the Schedule to the Deed of Loan Guarantee, which is expected to occur within 90 calendar days of the date hereof. The Borrower may also be obligated to procure Further Loan Guarantees upon the satisfaction of certain conditions set out in Clause 14.12 hereof. (***Additional Loan Guarantees***)

IT IS AGREED:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

"**12-Month Consolidated EBITDA**" means the aggregate Consolidated EBITDA for the two latest Measurement Periods preceding any date of determination for which consolidated financial statements of the Group are available.

"**Acceleration Notice**" has the meaning set forth in Clause 15.2 (*Rights of Lender upon occurrence of an Event of Default*).

"**Account**" means the account of the Lender with Deutsche Bank AG, London Branch, account number IBAN-GB39 DEUT 4050 8128 013400.

"**Additional Amounts**" has the meaning set out in Clause 8.3 (***Additional Amounts***).

"**Additional Loan Guarantors**" means OAO Seversky Pipe Plant, OAO Sinarsky Pipe Plant and OAO Taganrog Metallurgical Works.

"**Affiliate**" of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; provided that beneficial ownership of 20 per cent. or more of the Capital Stock with voting power of a Person shall be deemed to be control.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

"**Approved Jurisdiction**" means the United States of America, Russia and any member nation of the European Union as constituted on the Original Issue Date.

"**Asset Sale**" means any lease, sale, sale and lease-back, transfer or other disposition either in one transaction or in a series of related transactions, by the Borrower and/or any of the Subsidiaries of

the Borrower to a Person or Persons that is/are outside the Group, of any Production Assets or Capital Stock of any Subsidiary of the Borrower the value of which exceeds 10 per cent. of the value of the total Production Assets of the Group in any 12-month period (determined in each case by reference to the most recent publicly available consolidated audited or reviewed balance sheet of the Borrower, prepared in accordance with IFRS); provided that "Asset Sale" shall not include sales or other dispositions of inventory or stock in trade in the ordinary course of business or assignments of or other arrangements over the rights or revenues arising from contracts for the sale of products at Fair Market Value; and provided that the value of the Capital Stock of the relevant Subsidiary so sold or disposed of shall for these purposes be deemed to be the value of the relevant proportion of that Subsidiary's Production Assets.

"**Board of Directors**" means, as to any Person, the board of directors of such Person or any duly authorised committee thereof.

"**Borrower**" means the party named as such above until a successor replaces it in accordance with Clause 14.5 (*Mergers and Similar Transactions*) and thereafter means such successor.

"**Business Day**" means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Moscow, Luxembourg, London and New York City.

"**Capitalised Lease Obligations**" means an obligation that is required to be classified and accounted for as a capital or finance lease for financial reporting purposes in accordance with IFRS and the amount of Indebtedness represented by such obligation will be the capitalised amount of such obligation at the time any determination thereof is to be made as determined in conformity with IFRS, and the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any preferred stock of such Person, whether now outstanding or issued after the Original Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into such Capital Stock.

"**Cash Equivalents**" means:

(a) any evidence of Indebtedness with a maturity of one year or less issued or directly and fully guaranteed or insured by a corporation organised under the laws of an Approved Jurisdiction or any Agency or instrumentality thereof; provided that the full faith and credit of an Approved Jurisdiction (or similar concept under the laws of the relevant Approved Jurisdiction) is pledged in support thereof;

(b) commercial paper with a maturity of one year or less issued by a corporation organised under the laws of an Approved Jurisdiction and rated at all times at least the same rating as that of the unsecured, unsubordinated debt obligations of Borrower by Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc., Moody's Investors Service Limited or Fitch Ratings Ltd. to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (b)) invested by application of Disposal Proceeds do not exceed at any time U.S.$10 million or its U.S. Dollar Equivalent; and/or

(c) commercial paper with a maturity of one year or less, issued by a corporation organised under the laws of an Approved Jurisdiction, and at all times listed or traded on the Moscow Inter-Currency Exchange to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (c)) invested by application of Disposal Proceeds do not exceed at any time U.S.$10 million or its U.S. Dollar Equivalent.

"**Change of Law**" means any of the enactment or introduction of any new law, the variation, amendment or repeal of an existing or new law, and any ruling on or interpretation or application by a competent authority of any existing or new law which, in each case, occurs after the date hereof and for this purpose the word "law" means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks or other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

(i) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and/or

(ii) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law); and

the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any of the foregoing by any court of law, tribunal, central bank, monetary authority or agency or any Taxing Authority or fiscal or other competent authority or agency.

"**Conditions**" has the meaning given to it in the Trust Deed.

"**Consolidated Depreciation and Amortisation**" means the consolidated depreciation and amortisation of fixed assets and intangibles of the Group as shown in the latest available consolidated Financial Statements of the Group prepared in accordance with IFRS.

"**Consolidated EBITDA**" means the Consolidated Net Income (Loss) for any period, as adjusted by adding back, to the extent deducted in calculating Consolidated Net Income (Loss), without duplication for such period:

(a) Consolidated Interest Expense;

(b) Consolidated Income Tax Expense; and

(c) Consolidated Depreciation and Amortisation, less any non-cash items increasing (decreasing) Consolidated Net Income (Loss) for that period.

"**Consolidated Income Tax Expense**" means in respect of any period the expenses of the Group in respect of income taxes as shown in the consolidated profit and loss account of the Group for such period prepared in accordance with IFRS.

"**Consolidated Indebtedness**" means at any date of determination (and without duplication) all Indebtedness of the Group as calculated in accordance with the then most recently published consolidated financial statements of the Group prepared in accordance with IFRS.

"**Consolidated Interest Expense**" means, in relation to any period, the total of the following as calculated in accordance with the consolidated financial statements of the Group for such period prepared in accordance with IFRS:

(a) cash and non-cash interest expense (net of interest income) for the relevant period (excluding any amortisation of debt issuance costs), including, without limitation (whether or not interest expense in accordance with IFRS):

  (i) amortisation of debt discount;

  (ii) the net costs associated with hedging agreements (including amortisation of fees and discounts);

  (iii) the interest portion of any deferred payment obligations;

  (iv) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

  (v) accrued interest; and

  (vi) interest due and payable under any guarantee, indemnity or equivalent arrangement; and

(b) the interest component of any capital lease obligation accrued during the relevant period; and

(c) all capitalised interest of each of the Loan Guarantors and their respective Subsidiaries in each case determined on a consolidated basis in accordance with IFRS.

"**Consolidated Net Income (Loss)**" means in respect of any period the consolidated net income (loss) of the Group for such period as shown in the then most recent consolidated profit and loss

account of the Group prepared in accordance with IFRS adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication:

(a) gains or losses, net of taxes (less all fees and expenses relating thereto), in respect of dispositions of assets other than in the ordinary course of business;

(b) any net foreign exchange gain or loss;

(c) any gain or loss on net monetary position;

(d) any share of the profit or loss of any associated company, associated undertaking or unconsolidated joint venture;

(e) the cumulative effect of changes in accounting principles; and

(f) any extraordinary items (net of taxes) including, without limitation, any loss or gain on impairment of fixed assets charged to the profit and loss account.

"**Core or Related Business**" means the business of (a) producing steel and steel pipe products, (b) investing in property, plant or equipment for the production of steel and steel pipe products, (c) purchasing and processing of raw materials and manufacturing equipment for the production of steel and steel pipe products, (d) conducting business connected with the consumption of steel and steel pipe products, (e) industrial construction for the production of steel and steel pipe products, (f) automobile, railway and ship transportation of steel and steel pipe products in connection with the Group's production of steel and steel pipe products, (g) conducting sales of steel and steel pipe products and related activities, or (h) evaluating, participating in or pursuing any other activity or opportunity that is related to those identified in paragraphs (a) to (g) above.

"**Credit Facilities**" means one or more credit agreements, loan agreements or similar facilities with banks or other institutional lenders, providing for revolving credit loans, term loans (including receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables)), bankers' acceptances or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"**Deed of Loan Guarantee**" means the deed of loan guarantee, substantially in the form set out in the Schedule hereto, containing the Loan Guarantees.

"**Disinterested Director**" means, with respect to any transaction or series of related transactions, a member of the Board of Directors of the Borrower who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions. A Person shall not be ineligible to constitute a Disinterested Director solely as a result of such Person owning any equity interests of the Borrower or any of its Subsidiaries or acting as an officer, director or employee of the Borrower or any of its Subsidiaries.

"**Dispute**" has the meaning set forth in Clause 25.7 (*Arbitration*).

"**Event of Default**" has the meaning set forth in Clause 15.1 (*Circumstances which constitute Events of Default*).

"**Fair Market Value**" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the competent management body of the Borrower or the relevant Material Subsidiary (including, in each case, a majority of the Disinterested Directors) whose determination shall be conclusive if evidenced by a resolution of such relevant competent management body, or, with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.$100 million (or its U.S. Dollar Equivalent), the price as determined by an Independent Appraiser.

"**Further Loan Guarantor**" means any Person who accedes to the Deed of Loan Guarantee as a result of the application of the requirements of Clause 14.12(b) hereof.

"**Further Loan Guarantee**" means any guarantee issued by means of accession to the Deed of Loan Guarantee as a result of the application of the requirements of Clause 14.12(b) hereof.

"**Group**" means the Borrower and its Subsidiaries, each of the Material Subsidiaries, each of the Loan Guarantors and their respective Subsidiaries.

"**Guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person:

(a) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, or

(b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such oblige against loss in respect thereof, in whole or in part,

provided, that "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. "Guarantee" used as a verb has a corresponding meaning.

"**IFRS**" means the International Financial Reporting Standards.

"**increased amounts of principal, interest or any other payment due hereunder**" has the meaning set forth in Clause 8.1(b) (*No Withholding and increased amounts of principal, interest or any other payment*).

"**Incur**" means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such Person (and "Incurrence," "Incurred" and "Incurring" shall have meanings correlative to the preceding). Indebtedness of any acquired Person or any of its Subsidiaries existing at the time such acquired Person becomes a Subsidiary (or is merged into or consolidated with the Borrower or any Subsidiary), whether or not such Indebtedness was Incurred in connection with, as a result of, or in contemplation of, such acquired Person becoming a Subsidiary (or being merged into or consolidated with the Borrower or any Subsidiary), shall be deemed Incurred at the time any such acquired Person becomes a Subsidiary or merges into or consolidates with the Borrower or any Subsidiary.

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto);

(d) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services, which purchase price is due more than 180 days after the earlier of the date of placing such property in service or taking delivery and title thereof or the completion of such services;

(e) all Capitalised Lease Obligations of such Person;

(f) all Indebtedness of other Persons secured by a Lien granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest half year period of the Person providing the Lien) of such Person, whether or not such Indebtedness is assumed by such Person;

(g) all Indebtedness of other Persons guaranteed or indemnified by such Person to the extent such Indebtedness is guaranteed or indemnified by such Person;

(h) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements; and

(i) any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing.

For the avoidance of doubt Indebtedness of any Person does not include (i) trade account payables arising solely in the ordinary course of business of such Person and maturing in less than 180 days

(other than promissory notes and similar obligations incurred for the purpose of a borrowing) and (ii) for the purposes of Clause 14.2 only, restructured tax payable reported in the most recent balance sheet prepared in accordance with IFRS of such Person.

For the purpose of determining compliance with any U.S. Dollar-denominated restriction on Indebtedness, the U.S. Dollar Equivalent of Indebtedness denominated in another currency shall be calculated.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation.

"**Independent Appraiser**" means any of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP, Ernst & Young LLP or such investment banking, accountancy or appraisal firm of international standing selected by the competent management body of the Borrower or the relevant Material Subsidiary (with the prior written consent of the Lender, which consent shall not be unreasonably withheld), *provided* it is not an Affiliate of the Borrower, or any Material Subsidiary.

"**Initial Loan Guarantors**" means OAO Volzhsky Pipe Plant and ZAO TMK Trade House.

"**Interest Payment Date**" means 29 March and 29 September of each year in which the Loan remains outstanding, being the last day of the corresponding Interest Period, commencing on 29 March 2007, and the last such date being the Repayment Date.

"**Interest Period**" means, except as otherwise provided herein, any of those periods mentioned in Clause 4 (*Interest Periods*).

"**Interest Rate**" means, except as otherwise provided herein, the interest rate specified in Clause 5.2 (*Calculation of Interest*).

"**Investment**" means, with respect to any Person, directly or indirectly, any advance (other than advances to customers in the ordinary course of business), loan (including guarantees), or other extension of credit (including guarantees) or capital contribution to (by means of any transfer of cash) or other property to others or any payment for property or services for the account or use of others, or any purchase, acquisition or ownership by such Person of any Capital Stock, bonds, notes, debentures, or other securities (including, without limitation, any interests in any partnership or joint venture) or evidence of indebtedness issued or owned by any Person and all other items that would be classified as investments on a balance sheet prepared in accordance with IFRS; provided that:

(a) hedging obligations entered into in the ordinary course of business and in compliance with the terms of this Agreement; and

(b) endorsements of negotiable instruments in the ordinary course of business, shall in each case be deemed not to be an Investment.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest) securing any obligation of any Person.

"**Loan**" means the U.S.$300,000,000 term loan granted to the Borrower by the Lender pursuant to the terms of this Agreement.

"**Loan Guarantees**" means the guarantees of the Loan Guarantors under the Deed of Loan Guarantee.

"**Loan Guarantors**" means the Initial Loan Guarantors together with the Additional Loan Guarantors and any other Person who becomes a guarantor pursuant to Clause 14.12 hereof and "**Loan Guarantor**" means any of them.

"**Luxembourg**" means the Grand Duchy of Luxembourg.

"**Material Adverse Effect**" means any material adverse effect on the business, financial condition or results of operations of the Borrower and its Subsidiaries taken as a whole.

"**Material Subsidiary**" means at any relevant time a Subsidiary of the Borrower:

(a) whose total consolidated assets represent not less than 10 per cent. of the total consolidated assets of the Borrower or whose gross consolidated revenues represent not less than 10 per cent. of the gross consolidated revenues of the Borrower (determined by reference to the most recent publicly available annual or interim financial statements of the Borrower prepared in accordance with IFRS and the latest financial statements of the Subsidiary); or

(b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary, save that each Loan Guarantor shall at all times be deemed to be a Material Subsidiary.

"**Measurement Period**" means each financial half-year ending on 30th June or 31st December. For the avoidance of doubt, any non-balance sheet financial information for a Measurement Period ending on 31st December of any year shall be calculated by subtracting (a) the relevant information for the Measurement Period ending on 30th June of that year from (b) the equivalent information for that year.

"**Noteholder**" means the person in whose name the Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

"**Notes**" means the U.S.$300,000,000 8.50 per cent. loan participation notes due 2009 proposed to be issued by the Lender in its capacity as issuer pursuant to the Trust Deed.

"**Officer**" means, with respect to a Person, the Chairman of the Board of Directors, the General Director, the Chief Executive Officer, the President, the Chief Financial Officer, the Controller, the Treasurer or the General Counsel of such Person.

"**Officers' Certificate**" means a certificate signed by two Officers of the Borrower.

"**Original Issue Date**" means 28 September 2006.

"**Permitted Indebtedness**" means:

(a) the Incurrence by the Borrower or any Subsidiary of intercompany Indebtedness to the Borrower and/or any Subsidiary; provided that (i) any disposition, pledge or transfer of the rights under any such Indebtedness to any Person other than a disposition, pledge or transfer to the Borrower or a Subsidiary and (ii) any transaction pursuant to which any Subsidiary that has Indebtedness owing to it from the Borrower or another Subsidiary ceases to be a Subsidiary, shall, in each case, be deemed to be an Incurrence of such Indebtedness which shall not be permitted by this paragraph (a);

(b) Refinancing Indebtedness in respect of (1) Indebtedness outstanding on the date hereof, and (2) Indebtedness Incurred pursuant to Clause 14.2;

(c) Net obligations under hedging agreements entered into in the ordinary course of business for the purposes of protection against or benefiting from fluctuations in the rates of exchange or prices and not for speculative purposes unrelated to transactions undertaken in the ordinary course of business;

(d) Indebtedness in respect of performance, bid, appeal and surety bonds and completion bonds and guarantees provided by the Borrower or any Subsidiary and that do not secure other indebtedness, in amounts and for purposes customary in the Core or Related Business;

(e) Indebtedness arising from netting arrangements and the honouring by a bank or other financial institution of a cheque, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within three Business Days of its Incurrence;

(f) Indebtedness arising from agreements of the Borrower or a Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Capital Stock of any Subsidiary; provided that (A) the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds (including the Fair Market Value of non-cash consideration) actually received by (or held in escrow as a collateral for such Indebtedness) the Borrower and its Subsidiaries in connection with such disposition

(without giving effect to any subsequent changes in value) and (B) such Indebtedness is not reflected in the balance sheet of the Borrower or any Subsidiary (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet shall not be deemed to be reflected on such balance sheet for purposes of this paragraph (f));

(g) Indebtedness Incurred in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit; provided that such Indebtedness is reimbursed within 30 days of its Incurrence;

(h) Indebtedness in respect of Capital Lease Obligations and Purchase Money Indebtedness, provided that the aggregate principal amount of such Indebtedness does not exceed the aggregate of the Fair Market Value (on the date of the Incurrence thereof) of the property or assets acquired, constructed or leased and expenses in connection therewith, and provided further that the aggregate principal amount of such Indebtedness Incurred under this sub-paragraph (viii) does not exceed U.S.$50 million (or its equivalent in other currencies) at any time outstanding; or

(i) Indebtedness in an aggregate principal amount up to U.S.$25 million (or its equivalent in other currencies) Incurred by the Borrower or a Subsidiary.

"**Permitted Liens**" means:

(a) Liens granted by: (i) a Subsidiary (including any Loan Guarantor) in favour of the Borrower or any Loan Guarantor, or (ii) a Subsidiary other than a Loan Guarantor in favour of another Subsidiary, or (iii) by the Borrower in favour of a Loan Guarantor, in each case with respect to the property or assets, or any income or profits therefrom, of the Borrower or such Subsidiary, as the case may be;

(b) any Lien existing on the Original Issue Date;

(c) Liens imposed by law, including but without limitation, Liens of landlords and carriers, warehousemen, mechanics, suppliers, material men, repairmen or other similar Liens arising in the ordinary course of business;

(d) any Lien on any property, income or assets of any Person existing at the time such Person is acquired, merged or consolidated with or into the Borrower or any Material Subsidiary and not created in contemplation of such event; provided that no such Lien shall extend to any other property, income or assets of such Person or to any other property or assets of the Subsidiaries of such Person or the Borrower or any of the Material Subsidiaries;

(e) any Lien existing on any property, income or assets prior to the acquisition thereof by the Borrower or any of the Material Subsidiaries and not created in contemplation of such acquisition; provided that no such Lien shall extend to any other property, income or assets of the Borrower or any of the Material Subsidiaries;

(f) any Lien on the property, income or assets of the Borrower or any of the Material Subsidiaries securing working capital facilities which make advances of a tenor of 180 days or less with an aggregate principal amount outstanding at any time not to exceed U.S.$200 million;

(g) any Lien on any property or assets of the Borrower or any Material Subsidiary securing Indebtedness incurred for the purpose of financing all or part of the acquisition, maintenance, repair or construction of such property or assets provided that (i) such Lien is created solely for the purpose of securing Indebtedness incurred by the Borrower or relevant Material Subsidiary in compliance with Clause 14.2, (ii) no such Lien shall extend to any other property or assets of the Borrower or any of the Material Subsidiaries, (iii) the aggregate principal amount of all Indebtedness secured by Liens under this paragraph (i) on such property or assets does not exceed the purchase price of such property or assets (including customs duties, transport, insurance, construction and installation costs and other incidental costs and expenses of purchase and any VAT or similar taxes thereon) and (iv) such Lien attaches to such property or assets concurrently with the maintenance or repair thereof or within 90 days after the acquisition or commencement of construction thereof, as the case may be;

(h) any Lien granted in favour of a Person providing Project Financing if the Lien is solely on the property, income, assets or revenues of the project for which the financing was incurred provided that (i) the person or persons providing such financing limits its recourse solely to the property, income, assets or revenues subject to such Lien, (ii) such Lien is created solely for the purpose of securing Indebtedness incurred by the Borrower or any Material Subsidiary in compliance with Clause 14.2, and (iii) no such Lien shall extend to any other property, income, assets or revenues of the Borrower or any Material Subsidiaries;

(i) any Lien securing the Loan and any Guarantee under any Guarantee Agreement;

(j) any Lien incurred, or pledges or deposits in connection with workers' compensation, unemployment insurance and other social security benefits and other obligations of like nature in the ordinary course of business;

(k) any deposits to secure the performance of bids, trade contacts, government contracts, leases, statutory obligations, customs duties, surety and appeal bonds, performance or return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature, in each case so long as, such Liens do not secure obligations constituting Indebtedness for borrowed money and are incurred in the ordinary course of business;

(l) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges and encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Borrower or any of its Material Subsidiaries and existing, arising or incurred in the ordinary course of business;

(m) any Lien securing Indebtedness of which Purchase Money Indebtedness is a part provided that the related Purchase Money Indebtedness shall not be secured by any property or other assets of the Borrower or a Subsidiary other than the property or assets so acquired or constructed and any rights under any Indebtedness incurred by the Borrower or a Subsidiary to the Borrower or a Subsidiary in connection with such acquisition, construction, improvement or lease of such property or assets, and the Lien securing such Indebtedness shall be created within 90 days of such acquisition, construction, improvement or lease;

(n) any Lien securing reimbursement obligations of the Borrower or any of its Subsidiaries with respect to letters of credit encumbering only documents and other property relating to such letters of credit and other property relating to such letters of credit and the products or proceeds thereof in the ordinary course of business;

(o) any Lien in respect of obligations arising under hedging agreements so long as the related indebtedness is permitted to be incurred under the terms of this Agreement and any such hedging agreement is not speculative;

(p) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(q) any Lien for *ad valorem*, income or property taxes or assessments, customs charges and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower or relevant Material Subsidiary has set aside in its accounts reserves to the extent required by IFRS;

(r) any extension, renewal or replacement of any Lien described in clauses (a) to (q) above, provided that (i) such extension, renewal or replacement shall be no more restrictive to the relevant Person in any material respect than the original Lien, (ii) the amount of Indebtedness secured by such Lien is not increased and (iii) if the property or assets securing the Indebtedness subject to such Lien are changed in connection with such refinancing, extension or replacement, the Fair Market Value of such property, income or assets is not increased;

(s) any Lien on the property, income or assets of the Borrower or any Subsidiaries securing Indebtedness of the Borrower or any Subsidiaries incurred in an aggregate principal amount outstanding at any one time not to exceed 10 per cent. of the total assets of the Group (determined by reference to the then most recent publicly available annual or interim financial statements of the Group prepared in accordance with IFRS). For the avoidance of doubt this paragraph (s) does not include any Lien created in accordance with paragraphs (a) to (r) hereof;

(t) any Lien securing Indebtedness in the aggregate principal amount not exceeding U.S.$400 million, to be Incurred in connection with the funding by the Borrower of a loan to TMK Steel Limited, created by way of a pledge of up to 25 per cent. plus one share of the issued and outstanding share capital of OAO Taganrog Metallurgical Works and 25 per cent. plus one share of the issued and outstanding share capital of OAO Seversky Tube Works; and

(u) any Lien securing Indebtedness in the aggregate principal amount not exceeding U.S.$155 million, to be Incurred in connection with the funding by the Borrower of a loan to TMK Steel Limited, created by way of an assignment by the Borrower and ZAO TMK Trade House of the rights to receive payment under pipe offtake contracts with certain of their customers.

"**Person**" means any individual, corporation, partnership, joint venture, trust, unincorporated organisation or government or any Agency or political subdivision thereof.

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Event of Default.

"**Proceedings**" has the meaning set forth in Clause 25.2 (*English Courts*).

"**Production Assets**" means property, plant and equipment of the Group determined in accordance with IFRS.

"**Project Financing**" means any financing of all or part of the costs of the acquisition, construction, development or operation of any asset or project if the person or persons providing such financing limits its recourse solely to the asset or project financed and the revenues derived from such asset or project.

"**Prospectus**" means the Preliminary Prospectus dated 14 September 2006 and the Prospectus dated 26 September 2006, relating to the offering of the Notes.

"**Purchase Money Indebtedness**" means Indebtedness:

(a) where the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of such property as at the date of the Incurrence thereof or such purchase price of cost, including any refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of refinancing and the maturity of such Indebtedness does not exceed the anticipated useful life of the property, plant, equipment or capital assets being financed; and

(b) Incurred to finance the acquisition, construction, improvement or lease of such property, plant, equipment or capital assets, including additions and improvements thereto;

provided, however, that such Indebtedness is Incurred within 180 days after the acquisition, construction, improvement or lease of such property by the Borrower or a Subsidiary.

"**Qualifying Jurisdiction**" means any jurisdiction the transfer or assignment of the Loan (or any rights, benefits and/or obligations hereunder) to which would not, at the time of such transfer or assignment, cause the Borrower to have to provide payments of increased amounts of principal, interest or any other payment due hereunder or Additional Amounts when interest, principal and any other amounts paid under this Loan Agreement is paid to or from such jurisdiction.

"**Qualified Securitisation Transaction**" means (i) any transaction by which an entity acquires or provides finance against the security of assets (financial or otherwise) or any rights arising from or by reference to such assets from the Borrower or any of its Subsidiaries and that entity funds such acquisition or financing from external funding sources (including, but not limited to, debt securities or banking facilities) on terms that such funding will be repaid primarily from the cashflows and/or values and/or rights attributable to such assets, or (ii) any asset-backed financing, receivables financing or comparable secured loan financing or similar arrangement pursuant to which, at any time, the aggregate principal amount of the funding raised does not at the initial funding thereof exceed 10 per cent. of the consolidated total assets of the Borrower as determined at any time by reference to the most recent consolidated balance sheet of the Borrower prepared in accordance with IFRS.

"**Rating Agencies**" means Moody's Investors Service Limited ("**Moody's**") or any successor to its rating agency business and Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc. ("**S&P**") or any successor to its rating agency business or any other rating agency that provides a corporate credit rating of the Borrower or a credit rating in respect of the Loan or the Notes, if applicable.

"**Rating Categories**" means (1) with respect to S&P, any of the following categories (any of which may include a "+" or "−"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (2) with respect to Moody's, any of the following categories (any of which may include a "1," "2" or "3"): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories), and (3) the equivalent of any such categories of S&P or Moody's used by another rating agency, if applicable.

"**Rating Decline**" means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Loan or the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the date of public notice of any transaction or series of transactions, or of the intention of the Borrower or of any Person to effect such a transaction or series of transactions, the corporate rating of the Borrower or the rating of the Loan or the Notes is decreased by both or, if such ratings are at the relevant time provided by more than two Rating Agencies, by the majority of the relevant Rating Agencies by one or more Rating Categories as a result of such transaction or series of transactions, as specified by both or, if such ratings are at the relevant time provided by more than two Rating Agencies, by the majority of the relevant Rating Agencies.

"**Redeemable Capital Stock**" means any Capital Stock that, either by its terms or by the terms of any security into which it is convertible or exchangeable or otherwise, is or upon the happening of an event or passage of time would be, required to be redeemed prior to 180 days after the Repayment Date or is redeemable at the option of the holder thereof at any time prior to 180 days after the Repayment Date, or is convertible into or exchangeable for debt securities at any time prior to 180 days after the Repayment Date at the option of the holder thereof.

"**Refinance**" means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part. "Refinanced" and "Refinancing" shall have correlative meanings.

"**Refinancing Indebtedness**" means any Refinancing by the Company or any Subsidiary, to the extent that such Refinancing does not:

(a) result in an increase in the aggregate principal amount of the Indebtedness of such Person as of the date of such proposed Refinancing (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and plus the amount of reasonable expenses incurred by the Company in connection with such Refinancing); or

(b) create Indebtedness with:

  (i) a Weighted Average Life to Maturity that is less than the Weighted Average Life to Maturity of the Indebtedness being Refinanced or

  (ii) a final maturity earlier than the final maturity of the Indebtedness being Refinanced.

"**Repayment Date**" means 29 September 2009, or if such day is not a Business Day, the next succeeding Business Day.

"**Russia**" shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and "Russian" shall be construed accordingly.

"**Russian GAAP**" means the rules set by Federal Law "On Accounting" (No. 129-FZ of November 21, 1996, as amended), the Regulation on Accounting and Reporting in the RF, approved by Order No. 34n of July 29, 1998, of the RF Ministry of Finance; the Accounting Regulation "Financial Statement of an Organisation" (PBU/499), approved by Order No. 43n of July 6, 1999, of the RF Ministry of Finance; and other normative acts of the Russian Federation regulating accounting procedures and the preparation of financial statements.

"**Stated Maturity**" means:

(a) with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final instalment of principal of such Indebtedness is due and payable; and

(b) with respect to any scheduled instalment of principal of or interest on any Indebtedness, the date specified in such Indebtedness as the fixed date on which such instalment is due and payable.

"**Subordinated Indebtedness**" means, with respect to the Borrower or any Loan Guarantor, any Indebtedness of the Borrower or such Loan Guarantor, as the case may be which is expressly subordinated in right of payments due under this Agreement or the relevant Note, as the case may be.

"**Subsidiary**" of any Person means (a) any corporation more than 50 per cent. of the outstanding voting power of the Capital Stock of which is owned or controlled, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries thereof, (b) any limited partnership of which such Person or any Affiliate of such Person is a general partner or (c) any other Person in which such Person, or one or more other Subsidiaries of such Person, or such Person and one or more other Subsidiaries, directly or indirectly, has more than 50 per cent. of the outstanding partnership or similar interests or has the power, by contract or otherwise, to direct or cause the direction of the policies, management and affairs thereof.

"**Taxes**" has the meaning set out in Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*).

"**Taxing Authority**" has the meaning set out in Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*).

"**Trust Deed**" means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Original Issue Date between the Lender, in its capacity as issuer, and the Trustee as amended, varied or supplemented from time to time.

"**Trustee**" means Deutsche Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

"**Unpaid sum**" has the meaning set forth in Clause 16.1 (*Default Interest Periods*).

"**U.S. Dollar Equivalent**" means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under "Currency Rates" in the section of the *Financial Times* entitled "Currencies, Bonds & Interest Rates".

"**Weighted Average Life to Maturity**" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(a) the then outstanding aggregate principal amount or liquidation preference, as the case may be, or such Indebtedness into

(b) the sum of the products obtained by multiplying:

  (i) the amount of each then remaining instalment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by

  (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

Other Definitions:

the "**Lender**" shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests;

"**repay**" (or any derivative form thereof) shall, subject to any contrary indication, be construed to include "prepay" (or, as the case may be, the corresponding derivative form thereof); and

"**VAT**" shall be construed as a reference to value added tax including any similar tax which may be imposed in place thereof from time to time.

1.2 Interpretation

Unless the context otherwise requires,

(a) a term has the meaning assigned to it;

(b) an accounting term not otherwise defined has the meaning assigned to it in accordance with IFRS consistently applied;

(c) "or" is not exclusive;

(d) words in the singular include the plural, and words in the plural include the singular;

(e) provisions apply to successive events and transactions;

(f) references to "U.S.$" or "U.S. dollars" are to United States dollars; and

(g) references to the "Loan Guarantee" are to any Loan Guarantee which may exist from time to time in accordance with the provisions hereof; in the event that no such Loan Guarantee exists at any time, the relevant provisions and references in this Agreement shall be deemed to be amended accordingly.

1.3 Statutes

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.4 Headings

Clause and Schedule headings are for ease of reference only.

1.5 Amended Documents

Except where the contrary is indicated, any reference in this Agreement to this Agreement, the Loan Guarantee or any other agreement or document shall be construed as a reference to this Agreement, the Loan Guarantee or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2. THE LOAN

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of U.S.$300,000,000.

3. AVAILABILITY OF THE LOAN

The Loan will be available by way of a single advance which will be made by the Lender to the Borrower and the Borrower will draw down the Loan on 28 September 2006, or such later date as may otherwise be agreed by the parties to this Agreement, if:

(1) the Lender has not, prior to 28 September 2006, or such later date as may otherwise be agreed by the parties to this Agreement, notified the Borrower that it has not received the condition precedent documents as listed in the agreements entered into in connection with the Notes in form and substance satisfactory to the Lender;

(2) the Lender has received the arranged funding for the Loan; and

(3) no event has occurred or circumstance arisen which would, whether or not with the giving of notice and/or the passage of time constitute an event described under Clause 15 (*Events of Default*) and the representations set out in Clause 11 (*Representations and Warranties of the Borrower*) and when made, the representations of each of the Loan Guarantors set out in the Loan Guarantee will be true and accurate in all material respects on the date they are given.

4. INTEREST PERIODS

The period for which the Loan is outstanding shall be divided into successive semi-annual periods, ending on and excluding 29 March and 29 September, each of which, other than the first (which shall commence on, and shall include, 28 September 2006) shall start on, and shall include, the last day of the preceding such period (each, an "**Interest Period**").

5. PAYMENT AND CALCULATION OF INTEREST

5.1 Payment of Interest

Not later than 10.00 am (New York City time) one Business Day prior to each Interest Payment Date, the Borrower shall pay to the Account, or, following a notice from the Trustee under the provisions of Clause 2.6(b) of the Trust Deed, to such other account as the Trustee may specify, all accrued and unpaid interest, any increased amounts of principal, interest or any other payment due hereunder and any Additional Amounts, calculated to the last day of each Interest Period, on the outstanding principal amount of the Loan.

5.2 Calculation of Interest

The amount of interest payable for any Interest Period shall be calculated by applying the rate of 8.50 per cent. per annum (the "**Interest Rate**") to the amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent, half a cent being rounded upwards, except for the first Interest Period, in respect of which the amount of interest payable in respect of each Note will be U.S.$4,273.61 per Note. When interest is required to be calculated for any other period, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed.

6. REPAYMENT

Subject to Clause 15.2 (*Rights of Lender upon occurrence of an Event of Default*), not later than 10:00 am (New York City time) one Business Day prior to the Repayment Date, the Borrower shall repay in full the outstanding principal amount of the Loan and, to the extent not already paid in accordance with Clause 5.1 (*Payment of Interest*), all accrued and unpaid interest, any increased amounts of principal, interest or any other payment due hereunder and any Additional Amounts, calculated to the last day of the last Interest Period.

7. PREPAYMENT

7.1 Prepayment for Tax Reasons

If, as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application) in, or determination under, the double taxation treaty between Russia and Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or the laws or regulations of Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or of any political sub-division thereof or any Agency therein, the Borrower would thereby be required to pay any increased amounts of principal, interest or any other payment due hereunder in respect of Taxes pursuant to Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*), or pay any Additional Amounts pursuant to Clause 8.3 (*Additional Amounts*), then the Borrower may (without premium or penalty), upon not less than 30 calendar days' written irrevocable notice to the Lender and the Trustee, including an Officers' Certificate of the Borrower, to the effect that the Borrower would be required to pay such increased amounts of principal, interest or any other payment due hereunder or Additional Amounts prepay the Loan in whole (but not in part) at any time together with all accrued and unpaid interest, any increased amounts of principal, interest or any other payment due hereunder and any Additional Amounts; provided, however, that no such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such increased amounts of principal, interest or any other payment due hereunder or Additional Amounts, as the case may be.

7.2 Prepayment for Reasons of Increased Costs or Illegality

The Borrower may, if it is required to make any payment by way of indemnity under Clause 10.1 (*Increased Costs*), subject to giving to the Lender not less than 30 calendar days' prior written notice to that effect (without premium or penalty), prepay the whole, but not part only, of the amount of the Loan, together with any amounts then payable under Clause 10.1 (*Increased Costs*) and accrued and unpaid interest, any increased amounts of principal, interest or any other payment due hereunder and Additional Amounts, if any.

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Loan made or to be made by it hereunder or to maintain the Notes, the Borrower may, if it is so required by the Lender and subject to Clause 10.3 (*Illegality*) hereof, prepay the Loan together with accrued and unpaid interest thereon and all other amounts owing to the Lender hereunder.

7.3 Noteholder Put

In the event that the Borrower fails to procure any of the Additional Loan Guarantees or any Further Loan Guarantee (if required) under Clause 14.12(a) or 14.12(b) respectively, hereof, the Borrower shall, on the last Business Day before the relevant Additional Loan Guarantee Event Payment Date (as defined in the Conditions), prepay the outstanding principal amount of the Loan plus a premium in respect of its breach of the obligation to procure any Additional Loan Guarantee in the amount of 1% of the outstanding principal amount of the Loan, plus accrued but unpaid interest and plus the Additional Amounts and increased amounts of principal, interest or any other payment due hereunder, as Notified to the Borrower by the Lender in a notice given to the Borrower no less than two Business Days prior to the Additional Loan Guarantee Event Payment Date.

Following such failure, as soon as possible, but in any event no later than within 10 calendar days after the date specified for the procurement of an Additional Loan Guarantee or, if relevant, after the date when any Further Loan Guarantee is to be procured, the Borrower shall deliver to the Lender (and the Trustee) a written notice in the form of an Officer's Certificate: (i) stating that an Additional Loan Guarantee Event has occurred; and (ii) specifying the Additional Loan Guarantee Event Payment Date, which date shall be a Business Day occurring 60 calendar days from the date such notice is delivered.

On the last Business Day prior to the Additional Loan Guarantee Event Payment Date the Borrower shall deposit in the Account, or, following a notice from the Trustee under the provisions of Clause 2.6(b) of the Trust Deed, to such other account as the Trustee may specify, an amount in cash equal to the amount payable hereunder.

7.4 Notice of Prepayment

Without prejudice to any other requirement in this Agreement, any notice of prepayment given by the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) or Clause 7.2 (*Prepayment for Reasons of Increased Costs or Illegality*) hereof, shall be irrevocable, shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment one Business Day prior to such date.

7.5 Costs of Prepayment

The Borrower shall, on the date of prepayment, pay all accrued and unpaid interest, any increased amounts of principal, interest or any other payment due hereunder and any Additional Amounts (each only with respect to the amount subject to such prepayment), as of such date of prepayment and all other amounts payable to the Lender hereunder in connection with such prepayment. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Prepayment*).

7.6 No Other Repayments

The Borrower shall not repay the whole or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement.

7.7 Purchase of Notes

The Borrower and its Subsidiaries may purchase Notes at any time in the open market or otherwise. If Notes are surrendered by the Borrower or any of its Subsidiaries to the Lender for cancellation (together with an authorisation addressed to the Registrar), the Lender shall credit the Borrower with the prepayment of an amount of the Loan equal to the principal amount of such cancelled Notes.

8. CERTAIN ADDITIONAL PAYMENTS

8.1 No Withholding and increased amounts of principal, interest or any other payment

(a) Subject to Clause 8.1(b), all payments made by the Borrower under or with respect to the Loan will be made free and clear of, and without withholding or deduction for, or on account of any present or future tax, duty, levy, impost, assessment, or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "**Taxes**") imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein or thereof having the power to tax (each, a "**Taxing Authority**") within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), unless the Borrower is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. For the avoidance of doubt, this Clause 8.1 shall not apply to any taxes on income payable by the Lender.

(b) If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), it shall, on the due date for such payment, increase the payment of principal or interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in U.S. dollars equal to the full amount which it would have received had payment not been made subject to such taxes ("**increased amounts of principal, interest or any other payment due hereunder**").

(c) The Borrower will also:

(i) make such withholding or deduction; and

(ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

(d) If the Lender pays any amount in respect of such Taxes in respect of which increased amounts of principal, interest or any other payment due hereunder are payable (without prejudice to, and duplication of, the provisions of Clause 8.3 (*Additional Amounts*)), the Borrower shall pay to the Lender an increased amount of principal, interest or any other payment due hereunder equal to such amount in U.S. dollars on demand.

(e) Whenever this Agreement mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with respect to the Loan, this includes, without duplication, payment of any increased amounts of principal, interest or any other payment due hereunder and Additional Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any successor of the Borrower is organised.

8.2 Exemption assistance

The Lender shall assist the Borrower in ensuring that all payments made under this Agreement are exempt from deduction or withholding of Tax.

8.3 Additional Amounts

Without prejudice to, and without duplication of, the provisions of Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*),

(a) if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the Noteholders) on account of Tax (other than Taxes on income payable by the Lender) in respect of the Loan or in respect of any instruments issued to, or documents entered into with, the Noteholders imposed by any Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes, or any liability in respect of any such Tax is asserted,

imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender (setting out in reasonable detail the nature and the extent of the obligation), pay to the Lender an amount sufficient to cover such payment, together with any interest, penalties, costs and expenses payable or incurred in connection therewith; and

(b) if at any time a Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes imposes an obligation on the Lender to withhold or deduct any amount on any payment made or to be made by the Lender to or for the account of the Noteholders and the Lender is required by the Notes to pay additional amounts to such Noteholders in connection therewith, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender (setting out in reasonable detail the nature and the extent of the obligation), pay to the Lender such additional amounts as may be necessary so that the net amount received by the Noteholders (including such additional amounts) in U.S. dollars after such withholding or deduction will not be less than the amount such Noteholders would have received if such withholdings or deductions had not been made and free from liability in respect of such withholding or deduction. The Lender shall, as soon as reasonably practicable, provide the Borrower in writing with reasonable details as to the reasons for such withholding or deduction.

Any payments required to be made by the Borrower under this Clause 8.3 are collectively referred to as "**Additional Amounts**". For the avoidance of doubt, the provisions of this Clause 8.3 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of increased amounts of principal, interest or any other payment due hereunder under Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*).

8.4 Tax Claims

If the Lender intends to make a claim for any Additional Amounts pursuant to Clause 8.3 (*Additional Amounts*), it shall notify the Borrower thereof; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 Tax Credits and Tax Refunds

(a) If any increased amounts of principal, interest or any other payment due hereunder are paid under Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*) or Additional Amounts are paid under Clause 8.3 (*Additional Amounts*) by the Borrower for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such increased amounts of principal, interest or any other payment due hereunder or, in the case of Additional Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Additional Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; provided that the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or prepayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner

it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof. The Lender shall use reasonable endeavours to obtain any tax credits or tax refunds available to the Lender and shall notify the Borrower of any such available tax credits or tax refunds.

(b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (i) such Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, (A) the Borrower applies on behalf of the Lender to the relevant Russian Taxing Authorities for a tax refund and such tax refund is credited by the Russian Taxing Authorities to the Lender or (B) if such tax refund is otherwise credited by a relevant Taxing Authority to the Lender pursuant to a final decision of such Taxing Authority, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and promptly transfer the amount equal to the tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

8.6 Representations of the Lender

The Lender represents that (a) it is a company which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; (b) at the date hereof, it does not have a permanent establishment in Russia; and (c) does not have any current intention to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Luxembourg and subject to taxation in Luxembourg.

The Lender shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated, including its obligations under Clause 8.8 (*Delivery of Forms*). The Lender makes no representation as to the application or interpretation of any double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated.

8.7 Exceptions

The Lender agrees promptly, upon becoming aware of such, to notify the Borrower if it ceases to be resident in Luxembourg or a Qualifying Jurisdiction or establishes a permanent establishment in Russia or if any of the representations set forth in Clause 8.6 (*Representations of the Lender*) are no longer true and correct. If the Lender ceases to be resident in Luxembourg or a Qualifying Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in Luxembourg or a Qualifying Jurisdiction by reason of any Change of Law (including a change in a double taxation treaty or in such law or treaty's application or interpretation), in each case taking effect after the date of this Agreement, the Borrower shall not be liable to pay to the Lender under Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*) or Clause 8.3 (*Additional Amounts*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in Luxembourg or a Qualifying Jurisdiction.

8.8 Delivery of Forms

The Lender shall within 30 calendar days of the request of the Borrower, to the extent it is able to do so under applicable laws including Russian laws, deliver to the Borrower a certificate issued by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming that the Lender is a tax resident in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and such other information or forms as the Borrower may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian Tax after the date of this Agreement or, as the case

may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian Tax has not been obtained. The Lender shall, within 30 calendar days of the request of the Borrower, to the extent it is able to do so under applicable laws including Russian laws, from time to time deliver to the Borrower any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian Tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 8.8 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and apostilled or otherwise legalised. If a relief from deduction or withholding of Russian Tax under this Clause 8.8 has not been obtained and further to an application of the Borrower to the relevant Russian Taxing Authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of the Borrower (x) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (y) thereafter furnish the Borrower with the details of such rouble bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such rouble bank account.

8.9 Tax Treatment

The Borrower and the Lender hereby agree to treat the Loan as a debt obligation of the Borrower payable to the Lender, as the beneficial owner of such debt obligation, for Russian and Luxembourg tax purposes.

9. TAX RECEIPTS

9.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, the Borrower shall promptly notify the Lender.

9.2 Evidence of Payment of Tax

The Borrower will make all reasonable endeavours to obtain certified copies, and translations into English, of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. The Borrower will furnish to the Lender and/or the Trustee, within 60 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by the Borrower or, if such receipts are not obtainable, other evidence of such payments by the Borrower.

10. CHANGES IN CIRCUMSTANCES

10.1 Increased Costs

If, by reason of (i) any Change of Law, other than a Change of Law which relates only to the basis or rate of Tax on the net income of the Lender or the amounts due pursuant to Clauses 20.1 and/or 20.4:

(a) the Lender incurs an additional cost as a result of the Lender's entering into or performing its obligations, including its obligation to make the Loan, under this Agreement (excluding Taxes payable by the Lender on its net income); or

(b) the Lender becomes liable to make any additional payment on account of Tax or otherwise, not being a tax imposed on its net income or the amounts due pursuant to Clauses 20.1 and/or 20.4, on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by it hereunder except where compensated under Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*) or under Clause 8.3 (*Additional Amounts*),

then the Borrower shall, from time to time within 30 calendar days of written demand of the Lender, pay to the Lender amounts sufficient to cover such properly documented (1) cost or (2) liability; provided that the Lender will not be entitled to indemnification where such increased cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender; and provided that the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall notify the Borrower thereof and provide a written description in reasonable detail of the relevant Change of Law, including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other person's affairs. The written description shall demonstrate the connection between the change in circumstance and the increased costs and shall be accompanied by relevant supporting documentation evidencing the matters described therein.

10.3 Illegality

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Loan made or to be made by it hereunder or to maintain the Notes, then the Lender shall, after becoming aware of the same, deliver to the Borrower a written notice, setting out in reasonable detail the nature and extent of the relevant circumstances, to that effect and:

(a) if the Loan has not then been made, the Lender shall not thereafter be obliged to make the Loan; and

(b) if the Loan is then outstanding and the Lender so requests by written notice to the Borrower, the Borrower shall: (i) on the latest date permitted by the relevant law or such earlier date as the Borrower elects (to be notified to the Lender not less than 30 calendar days prior to the date set for repayment by written notice), or (ii) if such request is received after the latest date permitted by the relevant law, on the date which is three Business Days after such request is received by the Borrower; repay the Loan pursuant to Clause 7.2 (*Prepayment for Reasons of Increased Costs or Illegality*).

10.4 Mitigation

If circumstances arise which would result in:

(a) any payment falling due to be made by or to the Lender or for its account pursuant to Clause 10.3 (*Illegality*);

(b) any payment falling due to be made by the Borrower pursuant to Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*); or

(c) a claim for indemnification pursuant to Clause 8.3 (*Additional Amounts*) or Clause 10.1 (*Increased Costs*),

then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall, upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such circumstances including, without limitation, by transfer of its rights or obligations under this Agreement to another entity; provided that the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any arrangements which it may have made with the Noteholders.

11. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower makes the following representations and warranties and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 Due Organisation

Each of the Borrower and its Subsidiaries has been duly incorporated and is validly existing as a legal entity in good standing (where such concept or an analogous concept exists) under the laws of its jurisdiction of incorporation and has full power and authority (corporate and other) to own or lease its properties and conduct its business, except where the failure to do so would not have a Material Adverse Effect; and the Borrower and each of its Subsidiaries is duly qualified to do business as a legal entity in good standing (where such concept or an analogous concept exists) in all jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to do so would not have a Material Adverse Effect.

11.2 Authorisations

The Borrower has full corporate power and authority to enter into this Agreement and the Agency Agreement (together the "Agreements") and each Agreement has been duly authorised, executed and delivered by the Borrower, and is a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except that the enforcement thereof may be limited by (i) bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and (ii) general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

11.3 No Default, Conflict or Violation

Neither the Borrower nor any of its Subsidiaries is in violation of its charter or by-laws or other constitutive documents; and no default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any agreement or instrument (for the avoidance of doubt including this Agreement) to which the Borrower or any of its Subsidiaries is a party or by which the Borrower or any of its Subsidiaries is bound or to which any of their respective properties is subject, except, in each case, where such violation, default or event would not, individually or in the aggregate, have a Material Adverse Effect.

The execution, delivery and performance of each Agreement by the Borrower, the compliance by the Borrower with all the provisions thereof and the consummation of the transactions contemplated thereby will not: (a) conflict with or constitute a breach of any of the terms or provisions of, or constitute a default under, the charter or other constitutive documents of the Borrower, (b) conflict with or constitute a breach of any agreement, indenture or other instrument to which the Borrower or any of its Subsidiaries is a party or by which the Borrower, any of its Subsidiaries or their respective property or assets is bound, and (c) violate or conflict with any laws, administrative regulations or rulings or court decrees applicable to the Borrower, any of its Subsidiaries or their respective property, except, in the case of clause (b), for any conflict, breach or violation which would not have a Material Adverse Effect.

11.4 Consents

The execution, delivery and performance of each Agreement by the Borrower, the compliance by the Borrower with all the provisions hereof and the consummation of the transactions contemplated hereby and the legality, validity, enforceability and, subject to Russian law requirements, admissibility in evidence of each Agreement will not require any consent, approval, authorisation or other order of any court, regulatory body, administrative agency or other governmental body (except such as may be required under the securities laws of any jurisdiction other than Russia, Luxembourg and the United Kingdom), except for such consents, approvals, authorisations or other orders as have been obtained and which are in full force and effect and except for such consents as may be obtained within 30 days of the requirement for such consent arising.

11.5 Financial Statements

The audited consolidated financial statements of the Borrower and the related notes thereto, as contained in the Prospectus, were prepared in accordance with IFRS consistently applied throughout the periods involved and present fairly, in all material respects, the consolidated

financial position of the Borrower as at the dates at which they were prepared and the results of the operations and the cash flows of the Borrower in respect of the periods for which they were prepared. The other financial and statistical information and data, including, but not limited to, the restated data showing the effect of the 2006 acquisition of Sinara Handel GmbH, set forth in the Prospectus, is in all material respects, accurately presented and prepared on a basis consistent with such financial statements, where applicable, and the books and records of the Borrower and its Subsidiaries. Since the 31 December 2005 audited consolidated financial statements contained in the Prospectus, except as disclosed in the Prospectus, (a) there has been no material adverse change in the condition (financial or otherwise) or affecting the business, prospects, financial position, or results of operations of the Borrower or the Borrower and its Subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business; and (b) neither the Borrower nor any of its Subsidiaries has entered into any transaction or agreement material to the Borrower or to the Borrower and its Subsidiaries taken as a whole, other than in the ordinary course of business.

The pro forma financial statements and the notes related thereto included in the Prospectus present fairly, in all material respects, the information shown therein and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to that transactions and circumstances described therein.

11.6 No Other Indebtedness

The Borrower has no Indebtedness, other than Indebtedness (a) as set forth in the December 31, 2005 audited consolidated balance sheet of the Borrower; (b) as disclosed in the Prospectus; or (c) that in the aggregate would not have a Material Adverse Effect.

11.7 Payment in U.S. Dollars

All payment obligations of the Borrower under this Agreement are required by the terms hereof to be paid in U.S. dollars, and the Borrower does not require any approvals, consents, licences and permissions to make and may make such payments in U.S. dollars.

11.8 Taxes

Except as disclosed in the Prospectus, each of the Borrower and the Material Subsidiaries has duly filed with the appropriate Taxing Authorities, or has received an extension for filing with respect to, all tax returns, reports and other information required to be filed by it, and each such tax return, report, or other information was, when filed, accurate and complete in all material respects; and each of the Borrower and the Material Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it, and to the best of the Borrower's knowledge, no overdue Tax liability or Tax deficiency is currently asserted against the Borrower or any of the Material Subsidiaries, except, in each case, where any failure to do so would not have a Material Adverse Effect.

11.9 Litigation and Contracts

Except as set forth in the Prospectus (which disclosure shall be disregarded for the purpose of Clause 11.21 (*Repetition*)): (A) there are no pending legal or governmental proceedings against the Borrower or any of its Subsidiaries or any of their respective properties and (B) there are no pending legal or governmental proceedings naming, and, to the best knowledge of the Borrower, there are no threatened legal or governmental proceedings against or naming, the Borrower or any of its Subsidiaries or any of their respective properties that, in each case, if determined adversely to the Borrower or any such Subsidiary, would individually or in the aggregate have a Material Adverse Effect or would have a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement and, to the best knowledge of the Borrower, no such proceedings are contemplated.

11.10 Labour

There are no labour disputes involving the employees of the Borrower or any of its Subsidiaries that exist, or to the best knowledge of the Borrower, that are threatened, except where such would not, individually or in the aggregate, have a Material Adverse Effect.

11.11 Title, Licences and Consents

Each of the Borrower and its Subsidiaries possesses all certificates, authorisations, licences and permits issued by appropriate governmental agencies or bodies necessary to conduct the business now conducted by it, except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect and neither the Borrower nor any of its Subsidiaries has received any notice of proceedings relating to the revocation or modification for any such certificate, authorisation or permit that, if determined adversely to the Borrower or any of its Subsidiaries, could have a Material Adverse Effect.

Except as disclosed in the Prospectus, each of the Borrower and its Subsidiaries (A) has good and marketable title to all items of real property owned by it and good and marketable title to all other property and assets owned by it, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects that would affect the value thereof or interfere with the use made or proposed to be made thereof by it, and (B) holds any real property and buildings leased by it under valid, subsisting and enforceable leases with no exceptions that would interfere with the use made or proposed to be made thereof by it, except, in the cases of each of (A) and (B), where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

The Borrower and each of its Subsidiaries owns or possesses all patents, patent applications, trademarks, service marks, trade names, licences, copyrights and proprietary or other confidential information currently employed by it in connection with its business (collectively, "**intellectual property rights**"), except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect; and neither the Borrower nor any of its Subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Borrower or any of its Subsidiaries, could individually or in the aggregate have a Material Adverse Effect.

11.12 Adequate Insurance

Except as disclosed in the Prospectus, the Borrower and each of its Material Subsidiaries has, where relevant, applied for insurance with an insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively; the Borrower and each of its Material Subsidiaries has not been refused any insurance coverage sought or applied for; and the Borrower and each of its Material Subsidiaries, where relevant, has no reason to believe that they will not be able to obtain, within 60 days of the date of the making of the Loan, such coverage as may be necessary to continue their business at a cost that would not have a Material Adverse Effect.

11.13 No Withholding or Similar Tax

Under current laws and regulations of Russia and Luxembourg and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 8.6 (*Representations of the Lender*) hereof, all payments of principal and/or interest, increased amounts of principal, interest or any other payment due hereunder, Additional Amounts or any other amounts payable on or in respect of the Loan may be paid by the Borrower to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Luxembourg, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that the Borrower makes no representation as to any income or similar Tax of Luxembourg (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein.

11.14 Rating

No Rating Agency (a) has imposed (or has informed the Borrower that it is considering imposing) any condition (financial or otherwise) on the Borrower's retaining any rating assigned to the Borrower or any securities of the Borrower or (b) has indicated to the Borrower that it is considering (i) the downgrading, suspension or withdrawal of, or any review for a possible change

that does not indicate the direction of the possible change in, any rating so assigned or (ii) any change in the outlook for any rating of the Borrower, as applicable, or any securities of the Borrower.

11.15 No Liquidation or Similar Proceedings

No receiver or liquidator (or similar person) has been appointed in respect of the Borrower or any Subsidiary of the Borrower or in respect of any part of the assets of the Borrower or any Subsidiary of the Borrower; no resolution, order of any court, regulatory body, governmental body or otherwise, or petition or application for an order, has been passed, made or presented for the winding up of the Borrower or any Subsidiary of the Borrower or for the protection of the Borrower or any such Subsidiary from its creditors; and the Borrower has not, and no Subsidiary of the Borrower has, stopped or suspended payments of its debts, become unable to pay its debts or otherwise become insolvent.

11.16 Certificates

Each certificate signed by any director or officer of the Borrower and delivered to the Lender or counsel for the Lender on the date of the making of the Loan shall be deemed to be a representation and warranty by the Borrower to the Lender as to the matters covered thereby.

11.17 *Pari Passu* Obligations

The obligations of the Borrower under this Agreement will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

11.18 No Stamp Taxes

Under the laws of Russia in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Agreement.

11.19 No Events of Default

No event has occurred or circumstances arisen which would (whether or not with the giving of notice and/or the passage of time) constitute an event described in Clause 15 (*Events of Default*).

11.20 Health, Safety and Environment

Each of the Borrower and its Subsidiaries is in compliance with all statutes, and all rules, regulations, requirements, decisions and orders of, and agreements with, any governmental agency or body and any court, relating to the protection of human health and safety (including occupational health and safety), the use, handling, transportation, disposal or release of hazardous or toxic substances, or the protection or restoration of the environment (collectively, "**HSE laws**"), and has received, and is in compliance with all terms and conditions of, all permits, licences or other approvals required of it under applicable HSE laws in order to conduct its business, except, in each case, where the failure to be in compliance with or receive such permits, licences or other approvals would not, individually or in the aggregate, have a Material Adverse Effect.

Neither the Borrower nor any of its Subsidiaries is subject to any claims, costs or liabilities associated with any HSE laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with HSE laws or to acquire or comply with the terms and conditions of any permit, licence or approval under any HSE laws, any constraints on operating activities and any potential liabilities to third parties) which could, individually or in the aggregate, have a Material Adverse Effect; and, to the best of the Borrower's knowledge, having made all due inquiries, there are no past or present events, conditions, circumstances, activities, practices, incidents or actions that would be reasonably likely to give rise to such costs, liabilities or claims.

11.21 Repetition

Each of the representations and warranties in Clause 11 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the date of the making of the Loan

and each of Clause 11.1 (*Due Organisation*) (solely with respect to the Borrower and provided that, upon the occurrence of a merger or sale of assets pursuant to Clause 14.5 (*Mergers and Similar Transactions*), the Borrower is the Surviving Entity), Clause 11.2 (*Authorisations*) Clause 11.3 (*No Default, Conflict or Violation*) and Clause 11.9 (*Litigation and Contracts*) (solely with respect to any legal or governmental proceedings pending or, to the best knowledge of the Borrower, threatened in writing delivered to the Borrower, before any court, tribunal, arbitration panel or Agency challenging the lawfulness, validity or enforceability of this Agreement (except for any such proceedings as may have been disclosed in writing by the Borrower to the Lender prior to the relevant date of repetition)) shall be deemed to be repeated and updated on each Interest Payment Date. The Borrower shall inform the Lender in writing of any breach or prospective breach of such deemed repeated representations and warranties as soon as it becomes aware of the same.

12. REPRESENTATIONS AND WARRANTIES OF THE LENDER

In addition to the representations and warranties set forth in Clause 8.6 (*Representations of the Lender*), the Lender makes the representations and warranties set out in Clause 12.1 (*Status*) to Clause 12.4 (*No Conflicts*), inclusive, and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1 Status

The Lender is duly incorporated under the laws of Luxembourg and is resident in Luxembourg for taxation purposes and has full corporate power and authority to enter into this Agreement and any other agreements relating to the Notes, and to undertake and perform the obligations expressed to be assumed by it herein and therein.

12.2 Authorisation

Each of this Agreement and any other agreements entered into by the Lender in connection with the Notes has been duly authorised, executed and delivered by the Lender, and is a legal, valid and binding obligation of the Lender, enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and general equitable principles.

12.3 Consents and Approvals

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and any other agreements relating to the Notes and the performance by the Lender of the obligations expressed to be undertaken in such agreements have been obtained and are in full force and effect.

12.4 No Conflicts

The execution of this Agreement and any other agreements relating to the Notes and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or the constitutive documents of the Lender.

13. FINANCIAL INFORMATION

The Borrower will, at its own expense, so long as the Loan remains outstanding, furnish to the Lender, copies of all reports and other communications (financial or other) furnished to stockholders of the Borrower and furnish to the Lender, (i) as promptly as practicable, copies of any reports and financial statements furnished to or filed with any securities exchange (other than any securities exchange in Russia) on which any class of securities of the Borrower is listed (such financial statements to be on a consolidated basis and prepared in accordance with IFRS consistently applied with the preceding period); and (ii) such additional publicly available information concerning the business and financial condition of the Borrower as the Lender may from time to time reasonably request. In addition, the Borrower shall furnish to the Lender, such information as the London Stock Exchange plc (or any other or further stock exchange or stock

exchanges or any other relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of the Notes.

If so requested by the Lender, the Borrower shall deliver to the Lender and/or the Trustee, within 14 days of such request, an Officers' Certificate (a) stating that to the best of each of the Officers' knowledge (i) the Borrower has kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in this Agreement and (ii) the Borrower is not in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Potential Event of Default or Event of Default shall have occurred, describing all such Potential Events of Default or Events of Default of which he may have knowledge) and (b) setting out the calculations of the ratios set out in Clause 14.12(b) (*Procurement of Further Loan Guarantees*).

14. COVENANTS

For so long as any amount remains outstanding hereunder:

14.1 Limitation on Liens

Neither the Borrower nor any of its Material Subsidiaries shall, directly or indirectly, create, incur, assume or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness unless, at the same time or prior thereto, the Loan (a) is secured equally and rateably therewith or (b) has the benefit of other security or other arrangement, in each case to the satisfaction of the Trustee.

14.2 Incurrence of Indebtedness

(a) Neither the Borrower nor any Subsidiary shall incur any Indebtedness, other than in circumstances where, (i) no Potential Event of Default nor Event of Default shall have occurred and be continuing at the time, or would occur as a consequence, of the incurrence of such Indebtedness and (ii) after giving effect on a *pro forma* basis to the incurrence of such Indebtedness, the incurrence or repayment of any other Indebtedness since the date of the then most recently published consolidated financial statements of the Group prepared in accordance with IFRS and the receipt and application of the proceeds therefrom, the ratio of Consolidated Indebtedness to 12-month Consolidated EBITDA is 3.5:1 or lower.

(b) At any time when the ratio of Consolidated Indebtedness to 12-month Consolidated EBITDA is greater than 3.5, the Borrower and its Subsidiaries may only Incur additional Indebtedness if it is Permitted Indebtedness.

(c) Notwithstanding any other provision of this Clause 14.2, the maximum amount that the Borrower or a Subsidiary may Incur pursuant to this Clause 14.2 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely to the result of fluctuations in the exchange rate of currencies.

14.3 Transactions with Affiliates

Neither the Borrower nor any Subsidiary shall, directly or indirectly, enter into or make or amend any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of the Borrower or any other Subsidiary unless such transaction or series of related transactions is entered into in good faith and in writing and:

(a) such transaction or series of related transactions is on terms that are no less favourable to the Borrower or the relevant Subsidiary, as the case may be, than those that would be available in a comparable transaction at arm's-length with an unrelated third party; and

(b) with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.$20 million or its U.S. Dollar Equivalent either (i) such transaction or series of related transactions has been approved by a majority of the Disinterested Directors, or in the event there is only one Disinterested Director, by such Disinterested Director or (ii) the Borrower delivers to the Lender and the Trustee a written opinion of an

Independent Appraiser with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required, stating that such transaction or series of related transactions is on terms that are no less favourable to the Borrower or the relevant Subsidiary, as the case may be, than those that would be available in a comparable transaction in arm's-length dealings with an unrelated third party;

provided, however, that this provision shall not apply to:

(i) any employment agreement, collective bargaining agreement or employee benefit arrangements with any officer or director of the Borrower or any Subsidiary, including under any stock option or stock incentive plans, entered into in the ordinary course of business;

(ii) payment of reasonable fees and compensation to employees, officers, directors, consultants or agents in the ordinary course of business;

(iii) transactions between or among the Borrower and/or any of the Subsidiaries;

(iv) transactions undertaken pursuant to contractual obligations or rights in existence on the Original Issue Date (as in effect on the Original Issue Date) or any amendment thereto after the Original Issue Date (so long as such amendment is not disadvantageous to the Lender in any material respect in the reasonable opinion of the Borrower);

(v) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and otherwise in compliance with the terms of this agreement which are on terms at least as favourable to the Borrower or the relevant Subsidiary as might reasonably be obtained at such time from an unrelated third party;

(vi) sales of Capital Stock (other than Redeemable Capital Stock) of the Borrower

(vii) sales or other transfers or dispositions of accounts receivables and other related assets customarily transferred in a Qualified Securitisation Transaction, and acquisitions of Investments in connection with a Qualified Securitisation Transaction, in each case to or from the relevant securitisation vehicle;

(viii) any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation) undertaken by the Borrower or any of its Subsidiaries as may be permitted pursuant to Clause 14.5, or

(ix) entry by the Borrower, into a Loan to TMK Steel Limited, as described in the "Use of Proceeds" section of the Prospectus.

14.4 Asset Sales

Neither the Borrower nor any Subsidiary shall consummate any Asset Sale, unless the proceeds received by the Borrower or the relevant Subsidiary, as the case may be, are at least equal to the Fair Market Value of the assets sold or disposed of and an amount equal to such proceeds (less any costs incurred in relation to such Asset Sale) (the "Disposal Proceeds") is:

(a) applied to repay permanently any Indebtedness of the Group (other than Indebtedness subordinated to the Loan);

(b) invested in assets of a nature or type that is used or usable in the ordinary course of a Core or Related Business of the Borrower or any of its Material Subsidiaries;

(c) retained as cash deposited with a bank or invested in Cash Equivalents; and/or

(d) applied to finance: (i) an acquisition of Capital Stock of a Person engaged in a Core or Related Business who, following the consummation of such Asset Sale, is to become a Subsidiary of the Borrower, or (ii) an acquisition of, or a merger, reorganisation or other combination of, a business of the Group with, the business of a Person that is similar or related to the Core or Related Business, in each case within 360 days of the date when such proceeds are received (it being understood that receipt by the Borrower or any Subsidiary of Capital Stock of any Person who, following the consummation of such Asset Sale is to become a Subsidiary of the Borrower, as consideration for such Asset Sale shall be deemed to satisfy the financing of the acquisition of Capital Stock requirement set out above);

provided that if the Disposal Proceeds are applied pursuant to paragraph (c), the Borrower or the relevant Material Subsidiary, as the case may be, shall apply or invest the Disposal Proceeds on or prior to the date falling 540 days after the date when such proceeds are received either to (i) repay permanently a Consolidated Indebtedness (other than Indebtedness subordinated to the Loan), (ii) invest in assets of a nature or type that is used or usable in the ordinary course of Core or Related Business of the Borrower or any of its Material Subsidiaries or (iii) applied to finance the acquisition of Capital Stock of, or merger, reorganisation or other combination of a business of the Group with the business of, a Person whose business is similar or related to the Core or Related Business.

14.5 Mergers and Similar Transactions

(a) Subject to Clause 14.5(b), neither the Borrower nor any Material Subsidiary shall, in each case without the prior written consent of the Trustee (which consent may only be given by the Trustee if it is of the opinion that to do so will not be materially prejudicial to the interests of the Noteholders):

(i) in the case of any of the Material Subsidiaries (A) enter into any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation contemplated or as may be contemplated from time to time by any applicable legislation), or (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (for the avoidance of doubt, not including Capital Stock of such Material Subsidiaries) to any Person; and

(ii) in the case of the Borrower (A) merge with or into or enter into a transaction whose effect would be similar to that of a merger, (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets to any Person or (C) permit any Person to merge with or into the Borrower.

(b) Clause 14.5(a) shall not apply to any transactions provided that:

(i) in the case of any such transaction by a Material Subsidiary, the conditions set out in (iii) to (v) below are satisfied; and

(ii) in the case of the Borrower either (A) the Borrower is the continuing Person, or (B) if other than the Borrower, the Person into which the Borrower is merged or that acquired or leased such property and assets of the Borrower (the "**Surviving Entity**") shall (1) be a company organised and validly existing under the laws of, as applicable, Russia or a member state of the European Union (as the European Union is constituted on the Original Issue Date), (2) expressly assume, by amendment to the Loan Agreement, executed and delivered by such continuing Person to the Lender and the Trustee, in form and substance satisfactory to the Lender and the Trustee, the due and punctual payment of the principal of and interest under the Loan Agreement and the due and punctual performance and observance of all the covenants, conditions and other obligations of the Borrower under the Loan Agreement, and (3) deliver to the Lender and the Trustee an opinion of counsel with respect to such amendment to the Loan Agreement in a form and substance reasonably acceptable to the Lender and the Trustee, and provided that in each case the conditions set out in (iii) to (v) below are satisfied;

(iii) immediately before and after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Borrower or the relevant Material Subsidiary or the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the Borrower or the relevant Material Subsidiary or the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions), no Potential Event of Default or Event of Default shall have occurred and be continuing;

(iv) the Borrower delivers to the Lender and the Trustee an opinion of counsel or tax adviser in form and substance reasonably acceptable to the Trustee, to the effect that the Noteholders in each of the Relevant Jurisdictions will not recognise income, gain

or loss for tax purposes as a result of the merger or sale of assets and such Noteholders would, after the merger or sale of assets, be subject to taxes on the same amount and in the same manner and at the same times as would have been the case if such merger or sale of assets had not occurred; and

(v) the Person (if other than the Borrower or the relevant Material Subsidiary) into which the Borrower or the relevant Material Subsidiary is merged or that acquired or leased such property and assets of the Borrower or the relevant Material Subsidiary principally undertakes, in its ordinary course of business prior to the merger, acquisition or lease, as the case may be, a Core or Related Business.

14.6 Maintenance of Authorisations

(a) the Borrower or the relevant Material Subsidiary shall take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business; and

(b) the Borrower or the relevant Material Subsidiary shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in any relevant jurisdiction for the purposes of the execution, delivery or performance of the Notes and the Trust Deed and for the validity and enforceability thereof, provided that, in any case, if the Borrower or the relevant Material Subsidiary remedies any failure to comply with (a) and (b) above within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

14.7 Maintenance of Property

The Borrower and each Material Subsidiary shall cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Borrower or the relevant Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided that if the Borrower or the relevant Material Subsidiary remedies any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.$25 million (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

14.8 Payment of Taxes and Other Claims

The Borrower and each of the Material Subsidiaries shall pay or discharge, or cause to be paid and discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Borrower or the Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of any of the Borrower or the Material Subsidiaries; provided that none of the Borrower or the Material Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS as consistently applied, or other appropriate provisions have been or will be made or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims of the Group, does not in the aggregate exceed U.S.$25 million (or its U.S. Dollar Equivalent).

14.9 Insurance

The Borrower and each of the Material Subsidiaries shall obtain and maintain insurance with an insurer or insurers of sufficient standing (in the reasonable judgment of the Borrower or the relevant Material Subsidiary) against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged in the jurisdiction(s) where it operates; provided that if the Borrower or the relevant Material Subsidiary remedies any failure to comply with the

above within 90 days or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by the Borrower or the relevant Material Subsidiary over the preceding 3 years) do not exceed U.S.$25 million (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

14.10 Financial Information

The Borrower undertakes to deliver to the Lender and the Trustee:

(i) its audited annual consolidated financial statements, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 180 days of the end of the financial year to which such statements relate;

(ii) its reviewed semi-annual consolidated financial statements, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate; and

(iii) its other interim consolidated financial statements (if the Borrower prepares any such other interim consolidated financial statements), prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate, in each case together with a certificate signed by the individual then responsible for the financial matters of the Group stating that since the date of the last certificate or, if none, the Original Date each of the Borrower and the Material Subsidiaries has performed its obligations under, and complied with, the terms of this Agreement and is not in default in the performance of any of the terms of this Agreement (or, if an Event of Default or Potential Event of Default shall have occurred, describing all such Events of Default or Potential Event of Default, of which he may have knowledge). In addition, the Borrower shall provide such a certificate to the Issuer and the Trustee within 10 days of any request by the Issuer.

14.11 Change of Business

Neither the Borrower nor any of the Material Subsidiaries shall make any material change to the Core or Related Business of the Group.

14.12 Additional Loan Guarantees

(a) Procurement of Additional Loan Guarantees

The Borrower shall procure that the Additional Loan Guarantors, not later than 90 days after the Original Issue Date, execute Additional Loan Guarantees substantially in the form set out in the Schedule hereto in favour of the Lender whereby the Additional Loan Guarantors will, jointly and severally, unconditionally and irrevocably guarantee that if the Borrower does not pay any sum payable by in under the Loan Agreement by the time and on the date specified for such payment (whether on the normal due date, an acceleration or otherwise) the Additional Loan Guarantors will pay that sum to or the order of the Borrower before the close of business that day.

(b) The Borrower shall also procure that:

(i) an opinion of counsel or tax adviser, in form and substance reasonably acceptable to the Lender and the Trustee, to the effect that neither the Lender nor any Noteholder will recognise any income, gain or loss for Tax purposes as a result of the addition of such Additional Loan Guarantees, subject to customary exceptions, qualifications and limitations; and

(ii) an opinion of counsel reasonably acceptable to the Lender, in form and substance satisfactory to the Lender and the Trustee, stating that all legal conditions precedent in relation to such substitution or addition have been complied with and that each Additional Loan Guarantee constitutes legal, valid and binding obligations of the respective Additional Loan Guarantor, enforceable in accordance with its terms, subject to customary exceptions, qualifications and limitations.

(c) Procurement of Further Loan Guarantees

The Borrower will use its reasonable best efforts to cause each Material Subsidiary to execute and deliver to the Lender (with a copy to the Trustee) a Loan Guarantee, in the form set out in the

Schedule hereto, pursuant to which such Material Subsidiary will unconditionally and irrevocably guarantee the payment of all moneys payable under this Agreement and will become vested with all the duties and obligations of a Loan Guarantor as if originally named a Loan Guarantor hereunder, as soon as practicable (but in any event no later than 60 days) after the consolidated (where relevant) total fixed assets or the consolidated revenues of such Material Subsidiary (determined by reference to the most recent period for which financial statements of such Material Subsidiary prepared under IFRS are available or, if the relevant Material Subsidiary does not prepare financial statements in accordance with IFRS, the most recent period for which audited financial or reviewed financial statements of such Material Subsidiary are available) equals or exceeds 20 per cent. of the Group's consolidated total fixed assets or 20 per cent. of the Group's consolidated revenues, respectively (determined by reference to the most recent period for which the Group's financial statements prepared in accordance with IFRS are available).

A Loan Guarantor will be automatically and unconditionally released and discharged from its Loan Guarantee: (i) upon any sale, exchange or transfer to any Person which is not an Affiliate of Borrower of all or substantially all of the Capital Stock of the Loan Guarantor held by Borrower and other Subsidiaries of Borrower (which sale, exchange or transfer is not prohibited by these Conditions) or (ii) upon the reorganisation (whether by way of merger or accession) of the relevant Loan Guarantor pursuant to which such Loan Guarantor accedes to or is merged into the Borrower.

The Borrower will give notice to the Lender (with a copy to the Trustee) in accordance with Clause 24 hereof of any Loan Guarantor becoming or ceasing to be a Loan Guarantor and, so long as the Notes are listed on the London Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the London Stock Exchange and/or such other exchange (including preparation of a supplemental offering circular) in relation to any Loan Guarantor becoming or ceasing to be a Loan Guarantor.

14.13 Other Information

The Borrower shall:

(a) provide the Lender and the Trustee with a list of its authorised signatories (together with specimen signatures) and forthwith to notify the Lender and the Trustee of any changes to the list; and

(b) forthwith following a request by the Lender notify the Lender and the Trustee of any Notes held by or on behalf of the Borrower or any Loan Guarantor or any of their Affiliates, in each case as beneficial owner.

15. EVENTS OF DEFAULT

15.1 Circumstances which constitute Events of Default

Each of the following constitutes an "**Event of Default**" with respect to the Loan:

(a) default by the Borrower or any Loan Guarantor in the payment of principal of (or premium, if any, on) the Loan, in the currency and in the manner provided herein or in the Loan Guarantee, as the case may be, when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise and such default continues for a period of 5 Business Days;

(b) default by the Borrower or any Loan Guarantor in the payment of interest on the Loan, in the currency and in the manner provided herein or in the Loan Guarantee, as the case may be, when the same becomes due and payable if such default continues for a period of 7 Business Days;

(c) failure by the Borrower or any Loan Guarantor to prepay the Loan in accordance with Clause 7.3 (*Noteholder Put*) hereof and such default continues for a period of 10 Business Days;

(d) default by the Borrower or any Loan Guarantor in the performance or breach of any other provisions of this Agreement or the Loan Guarantee, as the case may be and (except where

in any such case that failure is not capable of remedy) that failure continues for a period of 30 days following the submission by the Lender of a notice in writing requiring the breach to be remedied; provided that a failure in the performance by the Borrower of the provisions contained in Clauses 14.12 hereof shall be deemed not to constitute an Event of Default;

(e) any representation and warranty of the Borrower in this Agreement or any Loan Guarantor in the Loan Guarantee or in any other documents, certificate or notice delivered to the Lender in connection with this Agreement, the Loan Guarantee or the Notes proves to be inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated if not remedied within 30 days;

(f) any Indebtedness of either the Borrower or any of its Subsidiaries is not paid when due (taking into account any originally applicable grace period), or any Indebtedness of either the Borrower or any of its Subsidiaries is either declared to be or otherwise becomes due and payable prior to its Stated Maturity (otherwise than at the option of the Borrower or any of its Subsidiaries, as the case may be, or (provided that no Event of Default has occurred) any person entitled to such Indebtedness; provided, however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its Stated Maturity is equal to or greater than U.S.$20 million (or its U.S. Dollar Equivalent in another currency) disregarding any guarantee of the Borrower or its Subsidiaries given in respect of such Indebtedness owed by the Borrower or its Subsidiaries, as the case may be;

(g) any final judgment or order (not covered by insurance) for the payment of money in excess of U.S.$20 million (or, to the extent non-U.S. dollar denominated, the U.S. Dollar Equivalent of such amount) in the aggregate for all such final judgments or orders against all such Persons (treating any deductibles, self-insurance or retention as not so covered) shall be rendered against the Borrower or any Material Subsidiary and shall not be paid or discharged, and there shall be any period of 60 consecutive calendar days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed U.S.$20 million (or, to the extent non-U.S. dollar denominated, the U.S. Dollar Equivalent of such amount) during which a stay of enforcement of such final judgment or order, by reason of a pending appeal or otherwise, shall not be in effect;

(h) the validity of this Agreement or the Loan Guarantee is contested by the Borrower or any Loan Guarantor or the Borrower or any Loan Guarantor shall deny any of its obligations under this Agreement or any Loan Guarantor shall deny any of its obligations under the Loan Guarantee; or it is, or will become, unlawful for the Borrower or any Loan Guarantor to perform or comply with any of its obligations under or in respect of this Agreement or the Loan Guarantee, as the case may be, or any of such obligations shall become unenforceable or cease to be legal, valid and binding;

(i) a decree, judgment, or order by any Agency or a court of competent jurisdiction shall have been entered adjudging the Borrower or any of its Material Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation of the Borrower or any of its Material Subsidiaries under any bankruptcy or similar law, and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or a decree or order of a court of competent jurisdiction over the appointment of a receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of the Borrower or any of its Material Subsidiaries, or any substantial part of the assets or property of any such Person, or for the winding up or liquidation of the affairs of any such Person, shall have been entered, and such decree, judgment or order shall have remained in force undischarged and unstayed for a period of 60 days; or

(j) the Borrower or any of its Material Subsidiaries shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganisation under any bankruptcy or similar law or similar statute, or shall consent to the filing of any such petition, or shall consent to the appointment of a custodian, receiver, liquidator, trustee or assignee in bankruptcy or insolvency of it or any substantial part of its assets or property, or shall make

a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall, within the meaning of any Bankruptcy Law, become insolvent, fail generally to pay its debts as they become due, or takes any corporate action in furtherance of or to facilitate, conditionally or otherwise, any of the foregoing.

15.2 Rights of Lender upon occurrence of an Event of Default

(a) If an Event of Default occurs under this Agreement and is continuing, the Lender and/or the Trustee may, by written notice (an "**Acceleration Notice**") to the Borrower, or if the Lender and/or the Trustee receives written instructions from the Noteholders,

(i) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate, and

(ii) declare the principal amount of, premium, if any, and accrued and unpaid interest, increased amounts of principal, interest or any other payment due hereunder and Additional Amounts, if any, on the Loan to be immediately due and payable and the same shall become immediately due and payable,

pursuant to and in accordance with the terms of any agreements entered into in connection with the arranged funding.

(b) If an Event of Default specified in Clause 15.1(h), (i) or (j) occurs with respect to the Borrower or any of its relevant Material Subsidiaries, the obligations of the Lender hereunder shall immediately terminate, and the principal amount of, premium, if any, and accrued and unpaid interest, increased amounts of principal, interest or any other payment due hereunder and Additional Amounts, if any, on the Loan then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Lender and/or the Trustee, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

15.3 Other Remedies

If an Event of Default occurs and is continuing, the Lender by notice to the Borrower and/or the Loan Guarantors, as the case may be, and/or the Trustee may pursue any available remedy to collect the payment of principal or interest on the Loan or to enforce the performance of any provision of this Agreement or the Loan Guarantee. A delay or omission by the Lender and/or the Trustee in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

15.4 Notification of Potential Event of Default or Event of Default

The Borrower shall and shall procure that each of the Loan Guarantors shall promptly on becoming aware thereof inform the Lender of the occurrence of any Potential Event of Default or Event of Default and, upon receipt of a written request to that effect from the Lender, confirm to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no Potential Event of Default or Event of Default has occurred.

16. DEFAULT INTEREST AND INDEMNITY

16.1 Default Interest Periods

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 19 (*Payments*) or if any sum due and payable by the Borrower under any judgement of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "**unpaid sum**") is discharged shall be divided into successive periods, each of which, other than the first, shall start on the last day of the preceding such period and the duration of each of which shall, except as otherwise provided in this Clause 16 (*Default Interest and Indemnity*), be selected by the Lender, but shall in any event not be longer than one month.

16.2 Default Interest

During each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*) an unpaid sum shall bear interest at a rate per annum equal to the Interest Rate.

16.3 Payment of Default Interest

Any interest which shall have accrued under Clause 16.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

16.4 Borrower's Indemnity

The Borrower undertakes to pay to the Lender a sufficient premium to cover any reasonably incurred and properly documented cost, claim, loss, expense (including legal fees) or liability, together with any VAT thereon, which it may sustain or incur as a consequence of the occurrence of any Event of Default or any default by the Borrower in the performance of any of the obligations expressed to be assumed by it in this Agreement.

16.5 Unpaid Sums as Advances

Any unpaid sum shall, for the purposes of this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*), be treated as an advance and accordingly in this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*) the term "Loan" includes any unpaid sum and the term "Interest Period," in relation to an unpaid sum, includes each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*).

17. AMENDMENTS TO AGREEMENTS RELATING TO THE NOTES

Any amendment to, or waivers of any provision of, any agreements entered into in connection with the Notes shall be prohibited without the express written consent of the Borrower, which consent shall not be unreasonably withheld (other than amendments or waivers that are made pursuant to any legal, regulatory or accounting requirement, with respect to which the Lender shall consult with the Borrower to the extent reasonably practicable).

18. CURRENCY OF ACCOUNT AND PAYMENT

18.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

18.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

19. PAYMENTS

19.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S.

dollars and in same day funds on such date, or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in U.S. dollars, to the Account, or, following a notice from the Trustee under the provisions of Clause 2.6(b) of the Trust Deed, to such other account as the Trustee may specify,. The Borrower shall procure that the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message three Business Days prior to the date that such payment is required to be made by this Agreement the payment instructions relating to such payment.

19.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any Change of Law, exchange control regulations or any similar event, for the Borrower to make any payments hereunder in the manner specified in Clause 19.1 (*Payments to the Lender*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made; provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

19.3 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

20. COSTS AND EXPENSES

20.1 Transaction Expenses and Fees

In consideration of the Lender making the Loan available to the Borrower, the Borrower hereby agrees that it shall pay to the Lender a fee including applicable front-end expenses incurred in connection with the financing of the Loan, the negotiation, preparation and execution of this Loan Agreement and all related documents and other expenses connected with and necessary for the extension of the Loan (the "Loan Arrangement Fee"), in the amount of U.S.$3,745,443.27. The Lender shall promptly submit an invoice to the Borrower stating the amount due. The Borrower and the Lender shall enter into and sign a delivery and acceptance act ("**Act of Acceptance**"). Such Act of Acceptance shall specify (i) the net amount due, (ii) any applicable Russian income tax withholding (if any), (iii) any applicable Russian value added tax (if any) and (iv) the resulting total amount inclusive of tax.

20.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time on demand of the Lender and following receipt from the Lender of a description in writing in reasonable detail of the relevant costs and expenses, together with the relevant supporting documents evidencing the matters described therein, reimburse the Lender for all costs and expenses, including legal fees, together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement except where the relevant claim is successfully defended by the Borrower.

20.3 Stamp Taxes

The Borrower shall pay all stamp, registration and other similar Taxes to which this Agreement or any judgement given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on demand of the Lender, indemnify the Lender against any properly documented liabilities, costs, expenses and claims resulting from any failure to pay or any delay in paying any such Tax.

20.4 Ongoing Fees and Expenses

In consideration of the Lender (i) making available the Loan hereunder and (ii) supporting such a continuing loan and managing the account, the Borrower shall pay to the Lender each year ongoing fees as increased by expenses. Such fees shall be sufficient to cover expenses of the Lender

arising with respect to any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees) arising out of, or in connection with the arranged funding, or based on any dispute or issue arising out of, or in connection with, the arranged funding. Payments to the Lender referred to in this Clause shall be made by the Borrower as soon as reasonably practicable and in any event no later than 15 days following receipt of an invoice from the Lender setting out in detail the nature of fees and calculation of the relevant payment. In addition, the Borrower and the Lender shall enter and sign an Act of Acceptance as provided in Clause 20.1 above.

21. ASSIGNMENTS AND TRANSFERS

21.1 Binding Agreement

This Agreement shall be binding upon and inure to the benefit of each party hereto and its or any subsequent successors and assigns.

21.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder, except as permitted under Clause 14.5 (*Mergers and Similar Transactions*).

21.3 Assignments by the Lender

The Lender may not assign or transfer all or any part of its rights and benefits or obligations hereunder except pursuant to (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits hereunder, in each case pursuant to the provisions of the Trust Deed.

22. CALCULATIONS AND EVIDENCE OF DEBT

22.1 Basis of Accrual

Default interest payable hereunder shall accrue from day to day and shall be calculated on the basis of a year of 360 days consisting of 12 30-day months.

22.2 Evidence of Debt

The Lender shall maintain, in accordance with its usual practice, accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

22.3 Change of Circumstance Certificates

A certificate signed by two authorised signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*No Withholding and increased amounts of principal, interest or any other payment*) or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Additional Amounts*) or Clause 10.1 (*Increased Costs*) shall, in the absence of manifest error, be *prima facie* evidence of the existence and amounts of the specified obligations of the Borrower.

23. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

23.1 Remedies and Waivers

No failure by the Lender to exercise, nor any delay by the Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

23.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

24. NOTICES; LANGUAGE

24.1 Communications in Writing

Each communication to be made hereunder shall be made in writing and, unless otherwise stated, shall be made by fax or letter.

24.2 Delivery

Any communication or document to be made or delivered by one person to another pursuant to this Agreement shall, unless that other person has by 15 calendar days' written notice to the same, specified another address, be made or delivered to that other person at the address identified with its signature below and shall be effective or when left at that address (in the case of a letter) or when received by the addressee (in the case of a fax). Provided that any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

24.3 Language

This Agreement shall be signed in English. Each communication and document made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation thereof into English certified by an officer of the person making or delivering the same as being a true and accurate translation thereof.

25. LAW AND JURISDICTION

25.1 English Law

This Agreement is governed by, and shall be construed in accordance with, English law.

25.2 English Courts

Each of the Lender and the Borrower agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Agreement ("**Proceedings**") and, for such purposes, irrevocably submit to the jurisdiction of such courts.

25.3 Appropriate Forum

Each of the Lender and the Borrower irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

25.4 Service of Process

The Lender and the Borrower agree that the process by which any Proceedings in England are begun may be served on them by being delivered to Law Debenture Corporate Services Limited, at its registered offices for the time being Fifth Floor, 100 Wood Street, London EC2V 7EX, Attn: Vicki Baker (email: vicki.baker@LawDeb.com; fax: +44 20 7606 0643). If any such Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall immediately appoint a further Person in England to accept service of process on its behalf. If such Person mentioned in this Clause is not or ceases to be

effectively appointed to accept service of process on the Borrowers' behalf, the Borrower shall immediately appoint a further Person in England to accept service of process on its behalf. Nothing in this Clause shall affect the right of either party hereto to serve process in any other manner permitted by law.

25.5 Non-exclusivity

The submission to the jurisdiction of the English courts in accordance with Clause 25.2 (*English courts*) hereof shall not, and shall not be construed so as to, limit the right of any party hereto to take Proceedings in any other court of competent jurisdiction.

25.6 Consent to Enforcement, etc.

Each of the Lender and the Borrower consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever, irrespective of its use or intended use, of any order or judgement which is made or given in such Proceedings.

25.7 Arbitration

If any dispute or difference of whatever nature howsoever arises from or in connection with this Agreement, or any supplement, modifications or additions thereto (each a "**Dispute**"), the Lender may elect, by notice to the Borrower, to settle such claim by arbitration in accordance with the following provisions. The Borrower hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "**Rules**") as at present in force by a panel of three arbitrators appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Articles 7(2) and 7(3) of the Rules shall be the London Court of International Arbitration.

25.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

25.9 Counterparts

This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

FORM OF DEED OF LOAN GUARANTEE

THIS DEED OF LOAN GUARANTEE is entered into on 26 September 2006

BETWEEN:

(1) OAO VOLZHSKY PIPE PLANT AND ZAO TMK TRADE HOUSE (each a "**Loan Guarantor"** and collectively, the "**Initial Loan Guarantors**"); and

(2) TMK CAPITAL S.A., a corporation incorporated under the laws of Luxembourg as a société anonyme with registered office at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, and registered with the Luxembourg Register of Commerce and Companies under number B-119081 (the "**Lender**").

WHEREAS:

The Lender has agreed, pursuant to the terms of the Loan Agreement, to grant to the Borrower a single disbursement term loan facility in the amount of U.S.$300,000,000 and each Loan Guarantor has agreed to guarantee all the obligations of the Borrower to the Lender under the Loan Agreement on an irrevocable, unconditional, joint and several basis.

NOW THIS DEED WITNESSETH AS FOLLOWS:

INTERPRETATION

Terms defined in the Loan Agreement dated 26 September 2006 (the "**Loan Agreement**") between the Lender and OAO TMK as Borrower (the "**Borrower**") shall have the same meaning when used in this Loan Guarantee, except where the context otherwise requires and except that, for the purposes of this Loan Guarantee:

(1) the term "**Loan Guarantor**" shall include any of the Borrower's Subsidiaries from time to time guaranteeing the obligations of the Borrower under the Loan Agreement; and

(2) the term "**Subsidiary**", except as otherwise stated, shall be construed as a reference to the Subsidiary of the relevant Loan Guarantor.

1. LOAN GUARANTEE AND INDEMNITY

1.1 Loan Guarantee and Indemnity

Each Loan Guarantor irrevocably and unconditionally jointly and severally:

(a) guarantees to the Lender the due and punctual performance by the Borrower of all the Borrower's obligations under the Loan Agreement;

(b) undertakes with the Lender that whenever the Borrower does not pay any amount when due under or in connection with the Loan Agreement, that Loan Guarantor shall immediately on demand pay or cause to be paid in full that amount as if it was the principal obligor; and

(c) agrees, as an independent primary obligation, that it shall pay to the Lender on demand sums sufficient to indemnify the Lender against any cost, loss or liability suffered by the Lender by reason of the non-payment, as and when the same shall become due and payable, of any sum expressed to be payable by the Loan Guarantor under this Loan Guarantee, whether by reason of any of the obligations guaranteed by that Loan Guarantor being or becoming unenforceable, invalid or illegal including any and all reasonable expenses properly documented, such as legal fees and expenses incurred by the Lender in enforcing any rights under the Loan Agreement or this Loan Guarantee.

1.2 Continuing guarantee

This Loan Guarantee is a continuing guarantee and extends to the total balance of sums payable by the Borrower under the Loan regardless of any intermediate payment or discharge in whole or in part.

1.3 Reinstatement

If any payment by the Borrower is avoided or reduced or any discharge given by the Lender or the Noteholders (whether in respect of the obligations of the Borrower or any security for those obligations or otherwise) as a result of any insolvency, reorganisation or similar event in respect of the Borrower:

(a) the liability of each Loan Guarantor shall continue as if the payment, discharge, avoidance or reduction had not occurred; and

(b) the Lender shall be entitled to recover the full amount of such payment from each Loan Guarantor, as if the payment, discharge, avoidance or reduction had not occurred.

1.4 Waiver of defences

As between each Loan Guarantor and the Lender, but without affecting the Borrower's obligations, each Loan Guarantor will be liable as if it were the sole principal debtor and not merely a surety. Accordingly, such Loan Guarantor will not be discharged nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor, including:

(a) any time, waiver or consent granted to, or composition with, the Borrower or other person;

(b) the release of the Borrower or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;

(c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, the Borrower or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;

(d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of the Borrower or any other person;

(e) any amendment (however fundamental) or replacement of the Loan Agreement or any other document or security;

(f) any unenforceability, illegality or invalidity of any obligation of any person under the Loan Agreement or any other document (including any other guarantee given in respect of the Loan) or security or the absence of any action to enforce the same;

(g) any insolvency or similar proceedings; or

(h) any failure by any party to perform any requisite due diligence or to present any requisite document, claim, demand for payment, protest or notice with respect to the Loan Agreement.

1.5 Immediate recourse

Each Loan Guarantor waives any right it may have of first requiring the Lender (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from that Loan Guarantor under this Loan Guarantee. This waiver applies irrespective of any law or any provision of the Loan Agreement to the contrary.

1.6 Appropriations

Until all amounts which may be or become payable by the Borrower pursuant to the terms of the Loan Agreement have been irrevocably paid in full, the Lender (or any trustee or agent on its behalf) may:

(a) refrain from applying or enforcing any other moneys, security or rights held or received by the Lender (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and no Loan Guarantor shall be entitled to the benefit of the same; and

(b) hold in an interest-bearing suspense account any moneys received from any Loan Guarantor or on account of any Loan Guarantor's liability under this Loan Guarantee.

1.7 Deferral of Loan Guarantors' rights

Until all amounts which may be or become payable by the Borrower pursuant to the terms of the Loan Agreement have been irrevocably paid in full no Loan Guarantor will exercise any rights which it may have by reason of the performance by it of its obligations under this Loan Guarantee:

(a) to be indemnified by the Borrower;

(b) to claim any contribution from any other Loan Guarantor of the Borrower's obligations under the Loan Agreement; and/or

(c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Lender under the Loan Agreement or of any other guarantee or security taken pursuant to, or in connection with, the Loan Agreement by the Lender.

1.8 Additional security

This Loan Guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Lender, for the avoidance of doubt including any other guarantee (present or future) given in connection with the Loan Agreement.

1.9 Acceleration

Each Loan Guarantor further agrees that, as between it, on the one hand, and the Lender, on the other hand, (i) for the purposes of this Loan Guarantee, the maturity of the obligations guaranteed by this Loan Guarantee may be accelerated as provided in Clauses 7 (*Prepayments*) and 15 (*Events of Default*) of the Loan Agreement, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed thereby; provided, however, that if a court of competent jurisdiction determines that the Loan was improperly accelerated pursuant to the terms thereof, then the maturity of such obligations may not be accelerated for the purposes of this Loan Guarantee, and (ii) in the event of any acceleration of such obligations (whether or not due and payable) such obligations shall forthwith become due and payable by each Loan Guarantor for purposes of this Loan Guarantee.

1.10 Termination and accession of Loan Guarantors

This Loan Guarantee will be terminated in relation to any Loan Guarantor and the relevant Loan Guarantor will be automatically and unconditionally released and discharged from its obligations hereunder upon: (i) any sale, exchange or transfer to any Person which is not an Affiliate of Borrower of all or substantially all of the Capital Stock of the relevant Loan Guarantor held by Borrower and/or other Subsidiaries of Borrower (which sale, exchange or transfer is not prohibited under the Terms and Conditions of the Notes) or (ii) upon the reorganisation (whether by way of merger or accession) of the relevant Loan Guarantor pursuant to which such Loan Guarantor accedes to or is merged into the Borrower.

The Borrower will give notice to the Lender and the Trustee in accordance with Clause 14 of the Loan Agreement of any Loan Guarantor becoming or ceasing to be a Loan Guarantor and, so long as the Notes are listed on the London Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the London Stock Exchange and/or such other exchange (including preparation of a supplemental offering circular) in relation to any Loan Guarantor becoming or ceasing to be a Loan Guarantor.

1.11 Suspense Account

Provided that the Trustee, acting in the best interests of the Noteholders, instructs the Lender to do so, the Lender may place any amount, received or recovered by or on behalf of itself from any of the Loan Guarantors in respect of any sum payable by the Borrower under the Loan Agreement, in a suspense account and keep it there for as long as the Lender (on instructions of the Trustee, acting in the best interests of the Noteholders) considers appropriate.

2. REPRESENTATIONS AND WARRANTIES OF EACH LOAN GUARANTOR

Each Loan Guarantor makes, in respect of itself, the following representations and warranties and acknowledges that the Lender has entered into the Loan Agreement in reliance on these representations and warranties.

2.1 Due Organisation

The Loan Guarantor and its Subsidiaries have been duly incorporated and is validly existing as a legal entity under the laws of its jurisdictions of incorporation and has full power and authority (corporate and other) to own or lease its properties and conduct its business as described in the Prospectus, except where the failure to do so would not have a material adverse effect in relation to that Loan Guarantor and its subsidiaries taken as a whole (a "**Material Adverse Effect"**); and the Loan Guarantor and each of its Subsidiaries is duly qualified to do business as a legal entity in all jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to do so would not have a Material Adverse Effect.

2.2 Authorisations

The Loan Guarantor has full corporate power and authority to enter into this Loan Guarantee, and this Loan Guarantee has been duly authorised, executed and delivered by that Loan Guarantor, and is a legal, valid and binding obligation of that Loan Guarantor, enforceable against that Loan Guarantor in accordance with its terms, except that the enforcement thereof may be limited by (i) bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and (ii) general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

2.3 No Default, Conflict or Violation

Neither the Loan Guarantor nor any of its Subsidiaries is in violation of its charter or by-laws or other constitutive documents; and no default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any agreement or instrument (for the avoidance of doubt including this Loan Guarantee) to which the Loan Guarantor or any of its Subsidiaries is a party or by which the Loan Guarantor or any of its Subsidiaries is bound or to which any of their respective properties is subject, except, in each case, where such default or event would not, individually or in the aggregate, have a Material Adverse Effect.

The execution, delivery and performance of this Loan Guarantee by the Loan Guarantor, the compliance by the Loan Guarantor with all the provisions hereof and the consummation of the transactions contemplated hereby will not: (a) conflict with or constitute a breach of any of the terms or provisions of, or constitute a default under, the charter or other constitutive documents of the Loan Guarantor, (b) will not conflict with or constitute a breach of any agreement, indenture or other instrument to which the Loan Guarantor or any of its Subsidiaries is a party or by which the Loan Guarantor, any of its Subsidiaries or their respective property or assets are bound, and (c) will not violate or conflict with any laws, administrative regulations or rulings or court decrees applicable to that Loan Guarantor, any of the its Subsidiaries or their respective property, except, in the case of clause (b), for any conflict, breach or violation which would not have a Material Adverse Effect.

2.4 Consents

The execution, delivery and performance of this Loan Guarantee by the Loan Guarantor, the compliance by the Loan Guarantor with all the provisions hereof and the consummation of the transactions contemplated hereby and the legality, validity, enforceability and, subject to Russian law requirements, admissibility in evidence of this Loan Guarantee will not require any consent, approval, authorisation or other order of any court, regulatory body, administrative agency or other governmental body (except as such may be required under any securities laws of any jurisdiction other than Russia, Luxembourg and the United Kingdom) except for such consents, approvals, authorisations or other orders as have been obtained and which are in full force and effect and except for such consents as may be obtained within 30 days of the requirement for such consent arising.

2.5 Financial Statements

The audited financial statements of the Loan Guarantor and the related notes thereto were prepared in accordance with Russian GAAP consistently applied throughout the periods involved and present fairly, in all material respects, the financial position of the Loan Guarantor as at the

dates at which they were prepared and the results of the operations and the cash flows of the Loan Guarantor in respect of the periods for which they were prepared. The financial and statistical information and data set forth in the Prospectus is, in all material respects, accurately presented and prepared on a basis consistent with such financial statements and the books and records of the Loan Guarantor and its Subsidiaries. Since the 31 December, 2005 financial statements (a) there has been no material adverse change in the condition (financial or otherwise) or affecting the business, prospects, financial position, or results of operations of the Loan Guarantor or the Loan Guarantor and its Subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business; and (b) neither the Loan Guarantor nor any of its Subsidiaries have entered into any transaction or agreement material to the Loan Guarantor or to the Loan Guarantor and its Subsidiaries taken as a whole, other than in the ordinary course of business.

2.6 No Other Indebtedness

The Loan Guarantor has no Indebtedness, other than Indebtedness (a) as set forth in the December 31, 2005 audited consolidated balance sheet of the Loan Guarantor; (b) as disclosed in the Prospectus or (c) that in the aggregate would not have a Material Adverse Effect.

2.7 Payment in U.S. Dollars

All payment obligations of the Loan Guarantor under this Agreement are required by the terms hereof to be paid in U.S. dollars, and the Loan Guarantor has received all required approvals, consents, licenses and permissions to make and may make such payments in U.S. dollars.

2.8 Taxes

The Loan Guarantor and each of its Subsidiaries that are also Material Subsidiaries have duly filed with the appropriate Tax Authorities, or has received an extension for filing with respect to, all tax returns, reports and other information required to be filed by it, and each such tax return, report, or other information was, when filed, accurate and complete in all material respects; and, the Loan Guarantor and each of its Subsidiaries that are also Material Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it, and to the best of that Loan Guarantor's knowledge, no overdue Tax liability or Tax deficiency is currently asserted against the Loan Guarantor or any of its subsidiaries that are also Material Subsidiaries, except, in each case, where any such failure to do so would not have a Material Adverse Effect.

2.9 Litigation and Contracts

Except as set forth in the Prospectus (which disclosure shall be disregarded for the purpose of Clause 2.20 (*Repetition*)) (A) there are no pending legal or governmental proceedings against the Loan Guarantor or any of its Subsidiaries or any of their respective properties and (B) there are no pending legal or governmental proceedings naming, and, to the best knowledge of the Loan Guarantor, there are no threatened legal or governmental proceedings against or naming, that Loan Guarantor or any of its Subsidiaries or any of their respective properties that, in each case, if determined adversely to the Loan Guarantor or any such Subsidiary, would individually or in the aggregate have a Material Adverse Effect or would have a material adverse effect on the ability of that Loan Guarantor to perform its obligations under this Loan Guarantee and, to the best knowledge of that Loan Guarantor, no such proceedings are contemplated;

2.10 Labour

There are no labour disputes involving the employees of the Loan Guarantor or any of its Subsidiaries that exist, or to the best knowledge of the Loan Guarantor, that are threatened, except where such would not, individually or in the aggregate, have a Material Adverse Effect.

2.11 Title, Licenses and Consents

Each of the Loan Guarantor and its Subsidiaries possess all certificates, authorisations, licences and permits issued by appropriate governmental agencies or bodies necessary to conduct the business now conducted by it, except, in each case, where the failure to do so would not, individually or in

the aggregate, have a Material Adverse Effect and neither the Loan Guarantor nor any of its Subsidiaries have received any notice of proceedings relating to the revocation or modification or any such certificate, authorisation or permit that, if determined adversely to the Loan Guarantor or any of its Subsidiaries, could have a Material Adverse Effect;

Each of the Loan Guarantor and its Subsidiaries (A) have good and marketable title to all items of real property owned by it and good and marketable title to all other property and assets owned by it, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects that would affect the value thereof or interfere with the use made or proposed to be made thereof by it, and (B) holds any real property and buildings leased by that Loan Guarantor and its subsidiaries under valid, subsisting and enforceable leases with no exceptions that would interfere with the use made or proposed to be made thereof by it, except, in each of the cases (A) and (B), where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

The Loan Guarantor and each of its Subsidiaries owns or possesses all patents, patent applications, trademarks, service marks, trade names, licenses, copyrights and proprietary or other confidential information currently employed by it in connection with its businesses (collectively, "**intellectual property rights**"), except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect; and neither the Loan Guarantor nor any of its Subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Loan Guarantor or any of its Subsidiaries, could individually or in the aggregate have a Material Adverse Effect.

2.12 Adequate Insurance

The Loan Guarantor and each of its subsidiaries that are also Material Subsidiaries have, where relevant, applied for insurance with insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively; that Loan Guarantor and each of its Subsidiaries that are also Material Subsidiaries have not been refused any insurance coverage sought or applied for; and that Loan Guarantor and each of its Subsidiaries that are also Material Subsidiaries have, where relevant, no reason to believe that they will not be able to obtain, within 60 days of the date hereof, such coverage as may be necessary to continue their business at a cost that would not have a Material Adverse Effect.

2.13 No Withholding or Similar Tax

Under current laws and regulations of Russia and Luxembourg and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 12 (*Representations and Warranties of the Lender*) of the Loan Agreement, all payments of principal and/or interest, increased amounts of principal, interest or any other payment due hereunder, Additional Amounts or any other amounts payable on or in respect of this Loan Guarantee may be paid by the Loan Guarantor to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Luxembourg, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that the Loan Guarantor makes no representation as to any income or similar Tax of Luxembourg (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein.

2.14 No Liquidation or Similar Proceedings

No receiver or liquidator (or similar person) has been appointed in respect of the Loan Guarantor or any Subsidiary of the Loan Guarantor or in respect of any part of the assets of the Loan Guarantor or any Subsidiary of the Loan Guarantor; no resolution, order of any court, regulatory body, governmental body or otherwise, or petition or application for an order, has been passed, made or presented for the winding up of the Loan Guarantor or any Subsidiary of the Loan Guarantor or for the protection of the Loan Guarantor or any such Subsidiary from its creditors; and that Loan Guarantor has not, and no Subsidiary of the Loan Guarantor has, stopped or suspended payments of its debts, become unable to pay its debts or otherwise become insolvent.

2.15 Certificates

Each certificate signed by any director or officer of the Loan Guarantor and delivered to the Lender or counsel for the Lender on the date of granting this Loan Guarantee shall be deemed to be a representation and warranty by the Loan Guarantor to the Lender as to the matters covered thereby.

2.16 *Pari Passu* Obligations

The obligations of the Loan Guarantor under this Loan Guarantee will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of that Loan Guarantor, except as otherwise provided by mandatory provisions of applicable law.

2.17 No Stamp Taxes

Under the laws of Russia in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Loan Guarantee.

2.18 Health, Safety and Environment

Each of the Loan Guarantor and its Subsidiaries is in compliance with all statutes, and all rules, regulations, requirements, decisions and orders of, and agreements with, any governmental agency or body and any court, relating to the protection of human health and safety (including occupational health and safety), the use, handling, transportation, disposal or release of hazardous or toxic substances, or the protection or restoration of the environment (collectively, "**HSE laws**"), and has received, and is in compliance with all terms and conditions of, all permits, licenses or other approvals required of them under applicable HSE laws in order to conduct their businesses, except, in each case, where the failure to be in compliance with or receive such permits, licenses or other approvals would not, individually or in the aggregate, have a Material Adverse Effect;

Neither the Loan Guarantor nor any of its Subsidiaries is subject to any claims, costs or liabilities associated with any HSE laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with HSE laws or to acquire or comply with the terms and conditions of any permit, license or approval under any HSE laws, any constraints on operating activities and any potential liabilities to third parties) which could, individually or in the aggregate, have a Material Adverse Effect; and, to the best of the Loan Guarantor's knowledge, having made all due inquiries, there are no past or present events, conditions, circumstances, activities, practices, incidents or actions that would be reasonably likely to give rise to such costs, liabilities or claims

2.19 Events of Default

No event has occurred or circumstances arisen which would (whether or not with the giving of notice and/or the passage of time) constitute an Event of Default in relation to the Loan Guarantor or a default under any agreement or instrument evidencing any Indebtedness of the Loan Guarantor.

2.20 Repetition

Each of the representations and warranties in Clause 2 (*Representations and Warranties of Each Loan Guarantor*) shall be deemed to be repeated by the Loan Guarantor on the date of the granting of the Loan Guarantee and, as long as the Loan Guarantee in relation to the Loan Guarantor has not been terminated, each of Clause 2.1 (*Due Organisation*) (solely with respect to the Loan Guarantor and provided that, upon the occurrence of a merger or sale of assets pursuant to Clause 3.5 (*Mergers and Similar Transactions*), the Loan Guarantor is the Surviving Entity), Clause 2.2 (*Authorisations*), Clause 2.3 (*No Conflict*) and Clause 2.8 (*Litigation and Contracts*) (solely with respect to any legal or governmental proceedings pending or, to the best knowledge of the Loan Guarantor, threatened in writing, delivered to the Loan Guarantor before any court, tribunal, arbitration panel or Agency challenging the lawfulness, validity or enforceability of this Loan Guarantee (except for any such proceedings as may have been disclosed in writing by that Loan Guarantor to the Lender prior to the relevant date of repetition)) shall be deemed to be repeated and updated on each Interest Payment Date. The Loan Guarantor shall inform the Lender in

writing of any breach of prospective breach of such deemed repeated representations and warranties as soon as it becomes aware of the same. Each Additional and each Further Loan Guarantor shall be deemed to make each of the above representations and warranties on the date on which it executes the Deed of Accession, with such modifications as are appropriate to take into account the jurisdiction in which such Additional or Further Loan Guarantor is incorporated or resident for tax purposes.

3. COVENANTS OF THE LOAN GUARANTORS

Each Loan Guarantor covenants as follows, in respect of itself, and acknowledges that the Lender has entered into the Loan Agreement in reliance on these covenants:

3.1 Limitation on Liens

The Loan Guarantor has not and shall not, directly or indirectly, create, incur, assume or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness unless, at the same time or prior thereto, this Loan Guarantee and any sum owing hereunder (a) is secured equally and rateably therewith or (b) has the benefit of other security or other arrangement, in each case to the satisfaction of the Trustee.

3.2 Incurrence of Indebtedness

(a) The Loan Guarantor shall not incur any Indebtedness, other than in circumstances where (i) no Potential Event of Default or Event of Default shall have occurred and be continuing at the time, or would occur as a consequence, of the incurrence of such Indebtedness and (ii) after giving effect on a *pro forma* basis to the incurrence of such Indebtedness, the incurrence or repayment of any other Indebtedness since the date of the then most recently published consolidated financial statements of the Group prepared in accordance with IFRS and the receipt and application of the proceeds therefrom, the ratio of Consolidated Indebtedness to 12-month Consolidated EBITDA is 3.5:1 or lower.

(b) At any time when the ratio of Consolidated Indebtedness to 12-month Consolidated EBITDA is greater than 3.5, the Loan Guarantor may only Incur additional Indebtedness if it is Permitted Indebtedness.

(c) Notwithstanding any other provision of Clause 3.2, the maximum amount that the Loan Guarantor may Incur pursuant to Clause 3.2 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely to the result of fluctuations in the exchange rate of currencies.

3.3 Transactions with Affiliates

The Loan Guarantor shall not, directly or indirectly, enter into or make or amend any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of the Loan Guarantor unless such transaction or series of related transactions is entered into in good faith and in writing and:

(a) such transaction or series of related transactions is on terms that are no less favourable to the Loan Guarantor than those that would be available in a comparable transaction at arm's-length with an unrelated third party; and

(b) with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.$20 million or its U.S. Dollar Equivalent either (i) such transaction or series of related transactions has been approved by a majority of the Disinterested Directors, or in the event there is only one Disinterested Director, by such Disinterested Director or (ii) the Loan Guarantor (or the Borrower) delivers to the Lender and the Trustee a written opinion of an Independent Appraiser with experience appraising the terms and conditions of the type of

transaction or series of related transactions for which an opinion is required, stating that such transaction or series of related transactions is on terms that are no less favourable to the Loan Guarantor, as the case may be, than those that would be available in a comparable transaction in arm's-length dealings with an unrelated third party;

provided, however, that this provision shall not apply to:

(i) any employment agreement, collective bargaining agreement or employee benefit arrangements with any officer or director of the Loan Guarantor, including under any stock option or stock incentive plans, entered into in the ordinary course of business;

(ii) payment of reasonable fees and compensation to employees, officers, directors, consultants or agents in the ordinary course of business;

(iii) transactions between or among the Loan Guarantor, the Borrower and/or any of the Subsidiaries of the Borrower;

(iv) transactions undertaken pursuant to contractual obligations or rights in existence on the Original Issue Date (as in effect on the Original Issue Date) or any amendment thereto after the Original Issue Date (so long as such amendment is not disadvantageous to the Lender in any material respect in the reasonable opinion of the Loan Guarantor);

(v) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and otherwise in compliance with the terms of this agreement which are on terms at least as favourable to the Loan Guarantor as might reasonably be obtained at such time from an unrelated third party;

(vi) sales of Capital Stock (other than Redeemable Capital Stock) of the Borrower;

(vii) sales or other transfers or dispositions of accounts receivables and other related assets customarily transferred in a Qualified Securitisation Transaction, and acquisitions of Investments in connection with a Qualified Securitisation Transaction, in each case to or from the relevant securitisation vehicle; or

(viii) any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation) undertaken by the Loan Guarantor as may be permitted pursuant to Clause 3.5.

3.4 Asset Sales

The Loan Guarantor shall not consummate any Asset Sale, unless the proceeds received by the Loan Guarantor are at least equal to the Fair Market Value of the assets sold or disposed of and an amount equal to such proceeds (less any costs incurred in relation to such Asset Sale) (the "**Disposal Proceeds**") is:

(a) applied to repay permanently any Indebtedness of the Group (other than Indebtedness subordinated to the Loan);

(b) invested in assets of a nature or type that is used or usable in the ordinary course of a Core or Related Business of the Borrower, any Loan Guarantor or any Material Subsidiary of the Borrower;

(c) retained as cash deposited with a bank or invested in Cash Equivalents; and/or

(d) applied to finance: (i) an acquisition of Capital Stock of a Person engaged in a Core or Related Business who, following the consummation of such Asset Sale, is to become a Subsidiary of the Borrower, or (ii) an acquisition of, or a merger, reorganisation or other combination of a business of the Group with, the business of a Person that is similar or related to the Core or Related Business, in each case within 360 days of the date when such proceeds are received (it being understood that receipt by the Borrower, any Material Subsidiary of the Borrower or any Loan Guarantor of Capital Stock of any Person who, following the consummation of such Asset Sale is to become a Subsidiary of the Borrower, as consideration for such Asset Sale shall be deemed to satisfy the financing of the acquisition of Capital Stock requirement set out above);

provided that if the Disposal Proceeds are applied pursuant to paragraph (c), the Borrower, any Subsidiary of the Borrower or the Loan Guarantor, as the case may be, shall apply or invest the Disposal Proceeds on or prior to the date falling 540 days after the date when such proceeds are

received either to (i) repay permanently Consolidated Indebtedness (other than Indebtedness subordinated to the Loan), (ii) invest in assets of a nature or type that is used or usable in the ordinary course of Core or Related Business of the Borrower, any of its Material Subsidiaries or any Loan Guarantor or (iii) applied to finance the acquisition of Capital Stock of, or merger, reorganisation or other combination of a business of the Group with the business of, a Person whose business is similar or related to the Core or Related Business.

3.5 Mergers and Similar Transactions

(a) Subject to Clause 3.5(b), the Loan Guarantor shall not, without the prior written consent of the Trustee (which consent may only be given by the Trustee if it is of the opinion that to do so will not be materially prejudicial to the interests of the Noteholders): (A) enter into any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation contemplated or as may be contemplated from time to time by, any applicable legislation), or (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (for the avoidance of doubt, not including its Capital Stock) to any Person;

(b) Clause 3.5(a) shall not apply to any transactions provided that:

(i) in the case of any such transaction between the Loan Guarantor and any other Loan Guarantor or the Loan Guarantor and the Borrower, the conditions set out in (iii) to (v) below are satisfied; and

(ii) otherwise either: (A) the Loan Guarantor shall be the continuing Person, or (B) the Person (if other than the Loan Guarantor) into which the Loan Guarantor is merged or that acquired or leased such property and assets of the Loan Guarantor (the "**Surviving Entity**") shall (1) be a company organised and validly existing under the laws of the Russian Federation or a member state of the European Union (as the European Union is constituted on the Original Issue Date), (2) expressly assume, by amendment to this Loan Guarantee or an accession thereto, executed and delivered by such continuing Person to the Lender and the Trustee, in form and substance satisfactory to the Lender and the Trustee, the due and punctual payment of such sums as may become due under this Loan Guarantee and the due and punctual performance and observance of all the covenants, conditions and other obligations of the Loan Guarantor under this Loan Guarantee and (3) deliver to the Lender and the Trustee an opinion of counsel with respect to such amendment to this Loan Guarantee in a form and substance reasonably acceptable to the Lender and the Trustee, and provided that in each case the conditions set out in (iii) to (v) below are satisfied;

(iii) immediately before and after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Borrower or the Loan Guarantor or the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the Borrower or the Loan Guarantor or the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions), no Potential Event of Default or Event of Default shall have occurred and be continuing;

(iv) the Borrower or the Loan Guarantor delivers to the Lender and the Trustee an opinion of counsel or tax adviser in form and substance reasonably acceptable to the Trustee, to the effect that the Noteholders in each of the Relevant Jurisdictions will not recognise income, gain or loss for tax purposes as a result of the merger or sale of assets and such Noteholders would, after the merger or sale of assets, be subject to taxes on the same amount and in the same manner and at the same times as would have been the case if such merger or sale of assets had not occurred; and

(v) the Person (if other than the Borrower or the Loan Guarantor) into which the Loan Guarantor is merged or that acquired or leased such property and assets of the Loan Guarantor principally undertakes, in its ordinary course of business prior to the merger, acquisition or lease, as the case may be, a Core or Related Business.

3.6 Maintenance of Authorisations

(a) the Loan Guarantor and each of its Subsidiaries shall take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Loan Guarantor, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business; and

(b) the Loan Guarantor and each of its Subsidiaries shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in any relevant jurisdiction for the purposes of the execution, delivery or performance of the Notes and the Trust Deed and for the validity and enforceability thereof, provided that, in any case, if the Borrower, any of its Material Subsidiaries or the Loan Guarantor or its relevant Subsidiary, remedies any failure to comply with (a) and (b) above within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

3.7 Maintenance of Property

The Loan Guarantor and each of its Subsidiaries shall cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Loan Guarantor or the relevant Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided that if the Loan Guarantor or the relevant Subsidiary remedies any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.$25 million (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

3.8 Payment of Taxes and Other Claims

The Loan Guarantor and each of its Subsidiaries shall pay or discharge, or cause to be paid and discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Loan Guarantor or any of its Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of any of the Loan Guarantor; provided that none of the Loan Guarantor or any of its Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with Russian GAAP as consistently applied or other appropriate provisions have been or will be made or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims of the Group, does not in the aggregate exceed U.S.$25 million (or its U.S. Dollar Equivalent).

3.9 Insurance

The Loan Guarantor and each of its Subsidiaries shall obtain and maintain insurance with an insurer or insurers of sufficient standing (in the reasonable judgment of the Loan Guarantor or the relevant Subsidiary) against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged in the jurisdiction(s) where it operates; provided that if the Loan Guarantor or the relevant Subsidiary remedies any failure to comply with the above within 90 days or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by the Loan Guarantor or the relevant Subsidiary over the preceding 3 years) do not exceed U.S.$25 million (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

3.10 Financial Information

The Loan Guarantor undertakes to deliver to the Lender and the Trustee, at its own expense, copies of such financials statements, communications and reports as are furnished to the stockholders of the Loan Guarantor or as the Lender or the Trustee may reasonably request.

If so requested by the Lender or the Trustee, the Loan Guarantor shall deliver to the Lender and the Trustee, within 14 days of such request, an Officers' Certificate stating that to the best of each of the Officers' knowledge (i) the Loan Guarantor has kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in this Agreement and (ii) the Loan Guarantor is not in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Potential Event of Default or Event of Default shall have occurred, describing all such Potential Events of Default or Events of Default of which he may have knowledge).

3.11 Change of Business

Neither the Loan Guarantor nor any of its Subsidiaries shall make any material change to their respective Core or Related Businesses.

3.12 No Limitation on Dividend or Other Payments Affecting the Loan Guarantor or any of its Subsidiaries

(a) Subject to sub-clause 3.12(b) below, the Loan Guarantor shall not and it shall not cause or permit any of its Subsidiaries to, directly or indirectly create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of itself or any Subsidiary to:

(i) pay dividends or make any other distributions on or in respect of its Capital Stock to the Borrower or such Loan Guarantor or any Subsidiary of the Borrower or pay any Indebtedness owed to the Borrower or such Loan Guarantor or any such Subsidiary;

(ii) make loans or advances to, or guarantee any Indebtedness or other obligations of the Borrower or such Loan Guarantor, or

(iii) transfer any of its property or assets to the Borrower or such Loan Guarantor or any of the Borrower's or such Loan Guarantor's Subsidiaries.

(b) The provisions of sub-Clause 3.12(a) above shall not restrict any encumbrance or restriction:

(i) arising solely by operation of law;

(ii) existing under an agreement in effect on the date hereof; provided, however, that the terms, conditions and scope of any such encumbrance or restriction included in any such agreement may be amended only if:

(1) such amended encumbrance or restriction, when taken together with all the other encumbrances and restrictions in such agreement (as amended), will not be materially more restrictive or disadvantageous (A) to the Lender or the Loan Guarantor than the encumbrance or restriction being amended or (B) to the Loan Guarantor than is customary in comparable transactions (in each case, as determined by the Loan Guarantor); and

(2) the amended terms, conditions and scope of any such amended encumbrance or restriction, when taken together with the terms, conditions and scope of all the other encumbrances and restrictions in such agreement (as amended), will not materially adversely affect the Loan Guarantor's ability to make payments on this Loan Guarantee (as determined by the Loan Guarantor).

4. TAXATION

4.1 Increased amounts of principal, interest or any other payment

(a) Subject to Clause 4.1(b), all payments made by each Loan Guarantor under or with respect to this Loan Guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment, or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "**Taxes**") imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein or thereof having the power to tax (each, a "**Taxing Authority**") within the jurisdiction in which the relevant Loan Guarantor is

resident for tax purposes or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), unless the relevant Loan Guarantor is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. For the avoidance of doubt, this Clause 4.1 shall not apply to any Taxes on income payable by the Lender.

(b) If at any time a Loan Guarantor is required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), it shall, on the due date for such payment, increase the payment of principal, interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in U.S. dollars equal to the full amount which it would have received had payment not been made subject to such taxes ("increased amount of principal, interest or any other payment due hereunder").

(c) Each Loan Guarantor will also:

(xii) make such withholding or deduction; and

(xiii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

(d) If the Lender pays any amount in respect of such Taxes, in respect of which increased amounts of principal, interest or any other payment due hereunder are payable (without prejudice to, and duplication of, the provisions of Clause 4.3 (*Additional Amounts*), each relevant Loan Guarantor shall pay to the Lender an increased amount of principal, interest or any other payment due hereunder equal to such amount in U.S. dollars on demand.

(e) Whenever this Loan Guarantee mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with respect to the Loan or the Loan Guarantee, this includes, without duplication, payment of any increased amounts of principal, interest or any other payment due hereunder and Additional Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any Loan Guarantor or any successor of the Borrower or of any Loan Guarantor is organised.

4.2 Payments

The Lender shall assist each Loan Guarantor in ensuring that all payments made under this Loan Guarantee are exempt from deduction or withholding of Tax.

4.3 Additional Amounts

Without prejudice to, and without duplication of, the provisions of Clause 4.1 (*Increased amounts of principal, interest or any other payment due hereunder*),

(a) if at any time the Lender makes or is required to make any payment to a Person (other than to the Noteholders) on account of Tax (other than Taxes on income payable by the Lender) in respect of this Loan Guarantee or in respect of the Notes or documents entered into in respect thereof, imposed by any Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, each Loan Guarantor shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, pay to the Lender an amount equal to such payment or liability, together with any interest, penalties, costs and expenses payable or Incurred in connection therewith; and

(b) if at any time a Taxing Authority imposes an obligation on the Lender to withhold or deduct any amount on any payment made or to be made by the Lender to or for the account of the Noteholders and the Lender is required by the terms of the Notes, or documents entered into in connection therewith, to pay additional amounts to the Noteholders in connection therewith,

each Loan Guarantor shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, pay to the Lender an amount equal to such additional amounts as may be necessary so that the net amount received by the Noteholders (including such increased amounts of principal, interest or any other payment due hereunder) in U.S. dollars after such withholding or deduction will not be less than the amount the Noteholders would have received if such withholdings or deductions had not been made and free from liability in respect of such withholding or deduction.

Any payments required to be made by any Loan Guarantor under this Clause 4.3 are collectively referred to as "**Additional Amounts**". For the avoidance of doubt, the provisions of this Clause 4.3 shall not apply to any withholding or deductions of Taxes with respect to this Loan Guarantee which are subject to payment of increased amounts of principal, interest or any other payment due hereunder under Clause 4.1 (*Increased amounts of principal, interest or any other payment due hereunder*).

4.4 Tax Claims

If the Lender intends to make a claim for any Additional Amounts pursuant to Clause 4.3 (*Additional Amounts*), it shall notify each relevant Loan Guarantor thereof; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

4.5 Tax Credits and Tax Refunds

(a) If any increased amounts of principal, interest or any other payment due hereunder are paid under Clause 4.1 (*Increased amounts of principal, interest or any other payment*) or Additional Amounts are paid under Clause 4.3 (*Additional Amounts*) by any Loan Guarantor for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such increased amounts of principal, interest or any other payment due hereunder or, in the case of Additional Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Additional Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to each relevant Loan Guarantor such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; provided that the Lender shall not be obliged to make any payment under this Clause 4.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or prepayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to each relevant Loan Guarantor hereunder and shall be accepted by each relevant Loan Guarantor in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 4.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof.

(b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by the jurisdiction in which the relevant Loan Guarantor is resident for tax purposes or Luxembourg (or any Qualified Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (i) such Tax is deducted or withheld by any Loan Guarantor and pursuant to Clause 4.1 (*Increased amounts of principal, interest or any other payment due hereunder*) an increased amount is paid by any relevant Loan Guarantor to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, (A) the relevant Loan Guarantor applies on behalf of the Lender to the relevant Taxing Authorities for a tax refund and such tax refund is credited by the relevant Taxing Authorities to the Lender or (B) if such tax refund is otherwise credited by a relevant

Taxing Authority to the Lender pursuant to a final decision of such Taxing Authority, the Lender shall as soon as reasonably possible notify such relevant Loan Guarantor of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of each relevant Loan Guarantor specified for that purpose by each relevant Loan Guarantor.

4.6 Representations of the Lender

The Lender represents that it is a company which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; (b) at the date hereof, it does not have a permanent establishment in Russia and (c) does not have any current intention to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Luxembourg and subject to taxation in Luxembourg.

The Lender shall make reasonable and timely efforts to assist each relevant Loan Guarantor to obtain relief from the withholding of income tax in any jurisdiction in which the relevant Loan Guarantor is resident for tax purposes, pursuant to the double taxation treaty between the jurisdiction in which the relevant Loan Guarantor is resident for tax purposes and the jurisdiction in which the Lender is incorporated, including its obligations under Clause 4.8 (*Delivery of Forms*). The Lender makes no representation as to the application or interpretation of any double taxation treaty between the jurisdiction in which the relevant Loan Guarantor is resident for tax purposes and the jurisdiction in which the Lender is incorporated.

4.7 Exceptions

The Lender agrees promptly, upon becoming aware of such, to notify each Loan Guarantor if it ceases to be resident in Luxembourg or a Qualifying Jurisdiction or if any of the representations set forth in Clause 4.6 (*Representations of the Lender*) are no longer true and correct. If the Lender ceases to be resident in Luxembourg or a Qualifying Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in Luxembourg or a Qualifying Jurisdiction by reason of any Change of Law (including a change in a double taxation treaty or in such law or treaty's application or interpretation), in each case taking effect after the date of this Loan Guarantee, no Loan Guarantor shall be liable to pay to the Lender under Clause 4.1 (*Increased amounts of principal, interest or any other payment due hereunder*) or Clause 4.3 (*Additional Amounts*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in Luxembourg or a Qualifying Jurisdiction.

4.8 Delivery of Forms

The Lender shall within 30 calendar days of the request of any Loan Guarantor, to the extent it is able to do so under applicable law including the laws of the jurisdiction in which the relevant Loan Guarantor is resident for tax purposes, deliver to that Loan Guarantor a certificate issued by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming that the Lender is a tax resident in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and such other information or forms as the relevant Loan Guarantor may need to be duly completed and delivered by the Lender to enable that Loan Guarantor to apply to obtain relief from deduction or withholding of the relevant Tax after the date of this Loan Guarantee or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of the relevant Tax has not been obtained. The Lender shall, within 30 calendar days of the request of any Loan Guarantor, to the extent it is able to do so under applicable laws, including the laws of the jurisdiction in which the relevant Loan Guarantor is resident for tax purposes, from time to time deliver to that Loan Guarantor any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable that Loan Guarantor to apply to obtain relief from deduction or withholding of the relevant Tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of the relevant Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 4.8 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and apostilled or otherwise legalised. If a relief from deduction or

withholding of the relevant Tax under this Clause 8.8 has not been obtained and further to an application of that Loan Guarantor to the relevant Taxing Authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of that Loan Guarantor (x) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (y) thereafter furnish that Loan Guarantor with the details of such rouble bank account. The relevant Loan Guarantor shall pay for all costs associated, if any, with opening and maintaining such rouble bank account.

4.9 Notification of Requirement to Deduct Tax

If, at any time, a Loan Guarantor is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, that Loan Guarantor shall promptly notify the Lender.

4.10 Evidence of Payment of Tax

Each relevant Loan Guarantor will make all reasonable endeavours to obtain certified copies, and translations into English, of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. That Loan Guarantor will furnish to the Lender and the Trustee, within 60 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by that Loan Guarantor or, if such receipts are not obtainable, other evidence of such payments by that Loan Guarantor.

5. CURRENCY OF ACCOUNT AND PAYMENT

5.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from each Loan Guarantor hereunder.

5.2 Currency Indemnity

If any sum due from any Loan Guarantor under this Loan Guarantee or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against such Loan Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the relevant Loan Guarantor shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

6. ASSIGNMENTS AND TRANSFERS

6.1 No Assignments and Transfers by the Loan Guarantors

No Loan Guarantor shall be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

6.2 Assignments by the Lender

The Lender may not assign or transfer all or any part of its rights and benefits or obligations hereunder except pursuant to (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits hereunder, in each case pursuant to the provisions of the Trust Deed.

7. PARTIAL INVALIDITY

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining

provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

8. NOTICES; LANGUAGE

8.1 Communications in Writing

Each communication to be made hereunder shall be made in writing and, unless otherwise stated, shall be made by fax or letter.

8.2 Delivery

Any communication or document to be made or delivered by one person to another pursuant to this Agreement shall, unless that other person has by 15 calendar days' written notice to the same specified another address, be made or delivered to that other person at the address identified with its signature below and shall be effective or when left at that address (in the case of a letter) or when received by the addressee (in the case of a fax). Provided that any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

8.3 Language

This Agreement shall be signed in English. Each communication and document made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation thereof into English certified by an officer of the person making or delivering the same as being a true and accurate translation thereof.

9. GOVERNING LAW AND JURISDICTION

9.1 English Law

This Loan Guarantee is governed by, and shall be construed in accordance with, English law.

9.2 English Courts

Each Loan Guarantor irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Loan Guarantee ("**Proceedings**") and, for such purposes, irrevocably submit to the jurisdiction of such courts.

9.3 Appropriate Forum

Each Loan Guarantor irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes (as defined below), and agrees not to claim that any such court is not a convenient or appropriate forum.

9.4 Service of Process

Each Loan Guarantor agrees that the process by which any Proceedings in England are begun may be served on them by being delivered to Law Debenture Corporate Services Limited, Fifth floor, 100 Wood Street, London, EC2V 7EX, Attn: Vicki Baker (email: vickibaker@LawDeb.com, fax: +44 20 7606 0643) or their registered offices for the time being. If any Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on any Loan Guarantor's behalf, the relevant Loan Guarantor shall immediately appoint a further Person in England to accept service of process on its behalf. Nothing in this Clause shall affect the right of either party hereto to serve process in any other manner permitted by law.

9.5 Non-exclusivity

The submission to the jurisdiction of the English courts in accordance with Clause 9.2 (*English Courts*) hereof shall not, and shall not be construed so as to, limit the right of any party hereto to take Proceedings in any other court of competent jurisdiction.

9.6 Consent to Enforcement, etc.

Each Loan Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever, irrespective of its use or intended use, of any order or judgement which is made or given in such Proceedings.

9.7 Arbitration

If any dispute or difference of whatever nature howsoever arises from or in connection with this Loan Guarantee, or any supplement, modifications or additions thereto, (each a "**Dispute**"), the Lender may elect, by notice to each Loan Guarantor, to settle such claim by arbitration in accordance with the following provisions. Each Loan Guarantor hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "**Rules**") as at present in force by a panel of three arbitrators appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Articles 7(2) and 7(3) of the Rules shall be the London Court of International Arbitration.

9.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Loan Guarantee has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Loan Guarantee, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

IN WITNESS whereof this Loan Guarantee has been entered into as a deed poll by each Loan Guarantor on the date which appears first on page 1.

Schedule

Form of Loan Guarantor Deed of Accession

To: TMK Capital S.A.
From: [Subsidiary]
and
OAO TMK

Dated:

Dear Sirs,

1. We refer to a deed of loan guarantee dated as of 26 September 2006 and made between TMK Capital S.A. as Issuer, OAO VOLZHSKY PIPE PLANT and ZAO TMK TRADE HOUSE as the Initial Loan Guarantors (the "**Deed of Loan Guarantee**").

2. Terms defined in the Deed of Loan Guarantee shall bear the same meaning herein.

3. The Borrower requests that [*Subsidiary*] become an [Additional/Further] Loan Guarantor pursuant to Clause 1.10 (*Termination and Accession of Loan Guarantors*) of the Deed of Loan Guarantee.

4. [*Subsidiary*] is a [corporate form] duly organised under the laws of [*name of relevant jurisdiction*].

5. [*Subsidiary*] confirms that it has received from the Borrower a true and up-to-date copy of the Loan Agreement as at the date hereof.

6. [*Subsidiary*] undertakes, upon its becoming a Loan Guarantor, to perform all the obligations expressed to be undertaken under the Deed of Loan Guarantee by a Loan Guarantor and agrees that it shall be bound by the Deed of Loan Guarantee [add any other agreements binding on Loan Guarantors] in all respects as if it had been an original party thereto [except that: [ ]].

7. The Borrower:
   (a) repeats the Representations that are deemed to be repeated in the Loan Agreement;
   (b) confirms that no Potential Event of Default or Event of Default is continuing or would occur as a result of [*Subsidiary*] becoming a [Additional/Further] Loan Guarantor; and
   (c) confirms that all the conditions precedent to the addition of a [Additional/Further] Loan Guarantor have been satisfied.

8. [*Subsidiary*] makes the representations set out in Clause 2 (*Representations and Warranties of Each Loan Guarantor*) of the Deed of Loan Guarantee in respect of itself and on its own behalf other than ●, which makes it on behalf of itself and ●.

9. [*Subsidiary's*] administrative details are as follows:

   Address:

   Fax.:

   Telephone:

   Contact Name:

10. This Deed of Accession shall be governed by English law. The [Additional/Further] Loan Guarantor irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings ("**Proceedings**"), and to settle any disputes which arise out of or in connection with this Deed of Accession and, for such purposes, irrevocably submits to the jurisdiction of such courts.

    The [Additional/Further] Loan Guarantor irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and settle any Disputes (as defined below), and agrees not to claim that any such court is not a convenient or appropriate forum.

    The submission to the jurisdiction of English courts shall not, and shall not be construed as to, limit the right of any party hereto to take Proceedings in any other court of competent jurisdiction.

    The [Additional/Further] Loan Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against nay property whatsoever, irrespective of its use or intended use, of any order or judgement which is made or given in such Proceedings.

11. ***Process Agent****

EITHER

[The [Additional/Further] Loan Guarantor agrees that the process by which any Proceedings in England are commenced and any other documents required to be served in relation to such Proceedings may be served on it at [*name and address of Subsidiary's place of business in England*] or at any address in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If [*Subsidiary*] ceases to have a place of business in Great Britain the [Additional/Further] Loan Guarantor shall immediately appoint another person in England to accept service of process on its behalf. If it fails to do so (and such failure continues for a period of not less than fourteen days), the Agent shall be entitled to appoint such a person by notice. Nothing contained herein shall restrict the right to serve process in any other manner allowed by law. This applies to Proceedings in England and to Proceedings elsewhere.]]

OR

[The [Additional/Further] Loan Guarantor agrees that the process by which any Proceedings in England are commenced and any other documents required to be served in relation to such Proceedings may be served on it by being delivered to [PROCESS AGENT], at its registered office for the time being. If the appointment of the person mentioned above ceases to be effective the [Additional/Further] Loan Guarantor shall immediately appoint another person in England to accept service of process on its behalf. If it fails to do so (and such failure continues for a period of not less than fourteen days), the Agent shall be entitled to appoint such a person by notice. Nothing contained herein shall restrict the right to serve process in any other manner allowed by law. This applies to Proceedings in England and to Proceedings elsewhere.]

12. If any dispute or difference of whatever nature arises from or in connection with this Deed of Accession, or any supplement, modifications or additions thereto (each a "**Dispute**"), any party to this Deed may elect, by notice in writing to the other party, to settle such claim by arbitration in accordance with the following provisions. The parties to this Deed hereby agree that, regardless of the nature of the Dispute, it may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "**Rules**") as in force at the date of the Deed by a panel of three arbitrators appointed in accordance with the Rules. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set out in Article 7(2) and Article 7(3) of the Rules shall be the London Court of International Arbitration.

Executed as a deed by
TMK Capital S.A.
and signed and delivered as a deed by

_____ and

_____

on its behalf in the presence of:

Witness:

Signature:

Name:

Address:

Executed as a deed by
[*[Additional/Further] Loan Guarantor*]
and signed and delivered as a deed
on its behalf in the presence of:

Witness:

Signature:

Name:

Address:

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* This clause is required only if the [Additional/Further] Loan Guarantor is not incorporated in England or Wales.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which contains summaries of certain provisions of the Trust Deed and which will be endorsed on each Note Certificate in definitive form (if issued) and will be attached and (subject to the provisions hereof) apply to the Global Note Certificate:

The U.S.$300,000,000 8.50 per cent. Loan Participation Notes due 2009 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of TMK CAPITAL S.A. (the "**Issuer**") are constituted by, are subject to and have the benefit of, a trust deed (as amended or supplemented from time to time, the "**Trust Deed**") dated 28 September 2006 between the Issuer and Deutsche Trustee Company Limited as trustee (the "**Trustee**", which expression includes all persons from time to time appointed trustee or trustees under the Trust Deed). The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing the U.S.$300,000,000 loan (the "**Loan**") to OAO TMK (the "**Borrower**"). The Loan is unconditionally, irrevocably, jointly and severally guaranteed (the "**Initial Loan Guarantees**") by OAO Volzhsky Pipe Plant and ZAO TMK Trade House (the "**Initial Loan Guarantors**") under a Deed of Loan Guarantee in favour of the Issuer as Lender under the Loan Agreement dated 26 September 2006 (the "**Deed of Loan Guarantee**"), and the Borrower has undertaken in the Loan Agreement that the Loan will be additionally so guaranteed (the "**Additional Loan Guarantees**")) by each of OAO Seversky Pipe Plant, OAO Sinarsky Pipe Plant and OAO Taganrog Metallurgical Works (the "**Additional Loan Guarantors**" and, together with the Initial Loan Guarantors and Further Loan Guarantors (as defined below), the "**Loan Guarantors**") executing a deed of accession to the Deed of Loan Guarantee, substantially in the form set out in the Schedule to the Deed of Loan Guarantee, which is expected to occur within 90 calendar days after the Issue Date. The Borrower may also be obligated to procure certain further loan guarantees upon the satisfaction of certain conditions set out in Clause 14.12 of the Loan Agreement (the "**Further Loan Guarantees**"). The Initial Loan Guarantees, Additional Loan Guarantees and Further Loan Guarantees are together referred to as (the "**Loan Guarantees**").

In each case where amounts of principal, interest, additional amounts, or any other amounts due pursuant to Condition 8 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders (as defined in Condition 2 (*Register and Transfers*)), on each date upon which such amounts are due in respect of the Notes, for an amount equivalent to the sums of principal, interest, increased amounts of principal, interest or any other payment due or any other amounts actually received by, or for the account of, the Issuer pursuant to the Loan Agreement or the Loan Guarantees, as the case may be, less any amount in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively upon the Borrower's covenant to pay under the Loan Agreement or each Loan Guarantor's covenant to pay under the Loan Guarantees, as the case may be, and the credit and financial standing of the Borrower or each Loan Guarantor, respectively. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

Security

Pursuant to the Trust Deed, the Issuer has:

(A) charged by way of first fixed security to the Trustee: (i) its present and future rights, title, interest and benefit to principal, interest and other amounts paid and payable to it under the Loan Agreement and the Initial Loan Guarantees; (ii) its present and future right, title, interest and benefit to receive amounts paid and payable to it under any claim, award or judgment relating to the Loan Agreement and the Initial Loan Guarantees (in each case other than its right to amounts in respect of any rights, title, interests and benefits of the Issuer under the following clauses of the Loan Agreement: Clause 7.5, second sentence thereof (*Costs of Prepayment*), Clause 8.3(a) (*Additional Amounts*), Clause 10 (*Changes in Circumstances),* Clause 11 (*Representations and Warranties of the Borrower*), Clause 16.4 (*Borrower's Indemnity*), Clause 20 (*Costs and Expenses*), and (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of the Loan Agreement) Clause 18.2 (*Currency Indemnity*); and the following clauses of each Initial Loan Guarantee: Clause 2 (*Representations and Warranties of each Guarantor*), Clause 4.3 (*Additional Amounts*), and (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of any Initial Loan Guarantee) Clause 5.2 (*Currency Indemnity*) (such rights referred to herein as the "**Reserved Rights**") and will so charge its rights, title, interest and benefit under the Additional Loan Guarantees and the Further Loan Guarantees;

(B) charged by way of first fixed security to the Trustee its rights, title, interest and benefit sums held on deposit from time to time, in an account in London in the name of the Issuer with the Principal Paying

Agent (defined below), account number IBAN-GB39 DEUT 4050 8128 013400, together with the debt represented thereby (other than interest from time to time earned thereon and the Reserved Rights) (the "**Account**"); and

(C) has assigned absolutely to the Trustee all of its present and future rights, title, interest and benefit in and under the Loan Agreement and the Initial Loan Guarantees and will so assign its rights, title, interest and benefit under the Additional Guarantees and the Further Guarantees (save in each case for those rights charged or excluded in (A) and (B) above) (the "**Loan Assignment**" and the "**Loan Guarantee Assignment**", respectively and, together, the "**Security Interests**").

In addition, the Issuer has granted a power of attorney by way of security in favour of the Trustee in respect of the Security Interests created pursuant to the Trust Deed.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to enforce the Security Interests pursuant to Condition 13 (*Enforcement*)).

The Notes are the subject of an agency agreement dated 28 September 2006 (as amended or supplemented from time to time, the "**Agency Agreement**") among the Issuer, Deutsche Trustee Company Limited, at its specified office in London, as trustee (the "**Trustee**", which expression includes any successor or additional trustee appointed from time to time in connection with the Notes), Deutsche Bank Luxembourg S.A., at its specified office in Luxembourg, as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, London Branch, at its specified office in London, as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes) and Deutsche Bank AG, London Branch, at its specified office in London as transfer agent (the "**Transfer Agent**", which expression includes any additional or successor transfer agent appointed from time to time in connection with the Notes) and each as paying agent (each a "**Paying Agent**" and together the "**Paying Agents**", which expressions include any additional or successor paying agent appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrar, any Transfer Agent, the Principal Paying Agent and any Paying Agent and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed, the Deed of Loan Guarantee, the Loan Agreement and the Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Deed of Loan Guarantee, the Loan Agreement and the Agency Agreement applicable to them. Copies of the Trust Deed, the Deed of Loan Guarantee, the Loan Agreement and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Winchester House, 1 Great Winchester Street, London EC2N 2DB and at the Specified Offices (as defined in the Agency Agreement) of the Registrar, the Principal Paying Agent, any Transfer Agent and any Paying Agent. The initial Specified Offices of the initial Agents are set out below.

1. Form, Denomination and Title

Form and denomination: The Notes are in registered form in amounts of U.S.$100,000 (referred to as the **principal amount** of a Note). A note certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar and at the registered office of the Issuer. The Registrar will provide to the Issuer a copy of the updated register as soon as possible after each change to the register.

Title: The title to the Notes passes only by registration in the register of Noteholders. The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes, whether or not such Note is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft of the relative Note Certificate, and no person shall be liable for so treating such holder.

2. Register and Transfers

(a) *Register:* The Registrar will maintain outside the United Kingdom a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the

Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate")** will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Transfers:* Subject to Conditions 2(e) (*Closed periods*) and 2(f) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or a Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor in accordance with Condition 2(c) (*Registration and delivery of Note Certificates*) below.

(c) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with Condition 2(b) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Note(s) transferred to the relevant Holder at the Registrar's Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its Specified Office. In the case of the transfer of part only of the Notes, a new Note Certificate in respect of the balance of the Notes not transferred will be so delivered or (at the risk and, if mailed at the request of the transferor otherwise than by ordinary uninsured mail, at the expense of the transferor) sent by mail to the transferor.

(d) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Issuer or the Registrar, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(e) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(f) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the Borrower. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Transfer Agent to any Noteholder who requests in writing a copy of such regulations and will be available at the office of the Registrar in Luxembourg and the Transfer Agent in Luxembourg.

3. Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute obligations of the Issuer to apply an amount equal to the gross proceeds from the issue of the Notes for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest, increased amounts of principal, interest or any other payment due and Additional Amounts, if any, actually received by, or for the account of, the Issuer pursuant to the Loan Agreement and/or any Loan Guarantee, as the case may be (less any amounts in respect of the Reserved Rights), the right to receive which is, *inter alia*, being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

Payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest, increased amounts of principal, interest or any other payment due or Additional Amounts, if any, pursuant to the Loan Agreement and/or any Loan Guarantee, as the case may be (less any amounts in respect of the Reserved Rights) will be made *pro rata* among all Noteholders (subject to Conditions 6(c) (*Noteholders' Put*) and Condition 8 (*Taxation*)), on the corresponding payment dates (as provided in the Loan Agreement) of, and in the currency of, and subject to the conditions attaching to, the equivalent payment in accordance with the Loan Agreement and/or any Loan Guarantee, as the case may be. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. The Issuer shall be under no obligation to exercise in favour of the Trustee or the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower and/or the Issuer and any of the Loan Guarantors, as the case may be.

Noteholders are deemed to have accepted that:

(i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or liability, or obligation in respect of the performance and observance by the Borrower or any of the Loan Guarantors, as the case may be, of its obligations under the Loan Agreement or any Loan Guarantee, respectively, or the recoverability of any sum of principal, interest, increased amounts of principal, interest or any other payment due or Additional Amounts, if any, due or to become due from the Borrower or any of the Loan Guarantors, as the case may be, under the Loan Agreement or any Loan Guarantee, respectively;

(ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower or any of the Loan Guarantors, as the case may be;

(iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower or any of the Loan Guarantors, as the case may be, under or in respect of the Loan Agreement or any Loan Guarantee, respectively;

(iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, the Principal Paying Agent, any Transfer Agent or any Paying Agent of their respective obligations under the Agency Agreement;

(v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower and each the Loan Guarantor, as the case may be, of their respective obligations under the Loan Agreement and/or the Loan Guarantees, the Borrower's covenant to pay under the Loan Agreement and each Guarantor's covenant to pay under its respective Loan Guarantee, respectively and their respective credit and financial standings. The Borrower has represented and warranted to the Issuer in the Loan Agreement that, subject to certain potential qualifications set out in Clause 11.2 (*Authorisations*) of the Loan Agreement, the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower. Each Loan Guarantor has represented and warranted to the Issuer in the Deed of Loan Guarantee that, subject to certain qualifications set out in Clause 2.2 (*Authorisations*) of the Deed of Loan Guarantee, its Loan Guarantee constitutes legal, valid and binding obligations of such Loan Guarantor;

(vi) the Issuer (and, pursuant to the Loan Assignment, the Trustee) will rely on self-certification by the Borrower and any Loan Guarantor and certification by third parties as a means of monitoring whether the Borrower or such Loan Guarantor is complying with its obligations under the Loan Agreement or the relevant Loan Guarantee, respectively, (including, without limitation, compliance with the covenants in Clause 14 (*Covenants*) of the Loan Agreement) and shall not otherwise be responsible for investigating any aspect of the Borrower's or any Loan Guarantor's performance or compliance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security;

(vii) the Issuer will not be liable for any withholding or deduction or for any payment on account of Taxes (as defined in the Loan Agreement) (not being a tax imposed on the Issuer's net income) required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement or any Loan Guarantee, as the case may be, which will or may affect payments made or to be made by the Borrower or any of the Loan Guarantors, as the case may be under the Loan Agreement or any Loan Guarantee, respectively, save to the extent that it has received increased amounts of principal, interest or any other payment due or Additional Amounts under the Loan Agreement or any Loan Guarantee, as the case may be, in respect of such withholding or deduction; the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in this context in Clause 8 (*Taxes*) and Clause 10.4 (*Mitigation*) of the Loan Agreement and in Clause 4 (*Taxation*) of the Deed of Loan Guarantee; and

(viii) where the Trustee or the Issuer is required, pursuant to the Loan Agreement, to determine whether a matter or amount is "material" or "substantial" or has a Material Adverse Effect (as defined in the Loan Agreement), the Trustee shall be entitled, if it deems reasonably necessary, to direct the Issuer (and the Issuer shall be entitled pursuant to the terms of the Loan Agreement) to require the Borrower to obtain advice in relation thereto from an Independent Appraiser (as defined in the Loan Agreement). The Borrower shall have 5 business days after the occurrence of the circumstance which gives rise to the need for such determination to appoint an Independent Appraiser, failing which the Trustee shall use reasonable endeavours to make such appointment within 15 business days of being notified of the Borrower's failure. The Trustee shall have no responsibility for performing the role of the Independent Appraiser itself, shall not be obliged to take any action in relation to making such appointment unless previously indemnified and/or secured to its satisfaction and shall have no liability for any failure to appoint such Independent Appraiser. If the Trustee has not engaged an Independent Appraiser after 15 business days, the Trustee shall not make such a determination but shall call a meeting of Noteholders which shall by means of an Extraordinary Resolution make such a determination in place of the Trustee.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or any Loan Guarantee exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or any Loan Guarantee or have direct recourse to the Borrower or any of the Loan Guarantors except through action by the Trustee under the Security Interests. Neither the Issuer nor the Trustee pursuant to the Loan Assignment or the Loan Guarantee Assignment, as the case may be, shall be required to take proceedings to enforce payment under the Loan Agreement or any Loan Guarantee, as the case may be, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Issuer are solely to make payments of amounts in aggregate equivalent to each sum actually received by or for the account of the Issuer from the Borrower or the Loan Guarantors, as the case may be, in respect of principal, interest, increased amounts of principal, interest or any other payment due or Additional Amounts, if any, as the case may be, pursuant to the Loan Agreement or any Loan Guarantee, as the case may be, (less any amount in respect of the Reserved Rights), the right to which is being assigned by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the Borrower and the Loan Guarantors complying with their obligations under the Loan Agreement or the Loan Guarantees, as the case may be, the credit and financial standing of the Borrower and the Loan Guarantors and the ability of the Issuer (or, in certain circumstances as described in Condition 13 (*Enforcement*) the Trustee) to enforce such obligations against the Borrower and the Loan Guarantors under the Loan Agreement or the Loan Guarantees, as the case may be.

The obligations of the Issuer to make payments as stated in the previous paragraph constitute direct and general obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments to be made by the Borrower under the Loan Agreement or by any of the Loan Guarantors under the Loan Guarantees to the Account (before such time that the Issuer has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) will satisfy *pro tanto* the obligations of the Issuer to make payments in respect of the Notes.

4. Issuer's Covenant

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (each as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement or the Deed of Loan Guarantee and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement and/or the Loan Guarantees, as the case may be, except as otherwise expressly provided in the Trust Deed, the Loan Agreement and/or the Loan Guarantees. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Trustee to the Noteholders in accordance with Condition 15 (*Notices*).

5. Interest

(a) *Accrual of interest:* The Notes bear interest from 28 September 2006 (the "**Issue Date**") at the rate of 8.50 per cent. per annum (the "**Interest Rate**") payable semi-annually in arrear on 29 March and 29 September in each year (each, other than the Issue Date, an "**Interest Payment Date**"), subject as provided in Condition 7 (*Payments*). Each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an "**Interest Period**".

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation of the relevant Note Certificate, payment of principal is improperly withheld or refused, in which case interest will continue to accrue (before or after any judgment) from the due date for redemption to, but excluding, the date on which payment in full of the principal is made under the Notes.

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Interest Rate to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) except for the first Interest Period, in respect of which the amount of interest payable in respect of each Note will be U.S.$4,273.61 per Note. When interest is required to be calculated in respect of a period other than an Interest Period, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed.

(b) *Default Interest under the Loan Agreement:* In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on unpaid sums from the Borrower and/or the Loan Guarantor, as the case may be, pursuant to Clause 16 (*Default Interest and Indemnity*) of the Loan Agreement the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on unpaid sums actually so received. Any payments made by the Issuer under this Condition 5(b) will be made on the next following Business Day (as defined in Condition 7(c) (*Payments on Business Days*)) after the day on which the Issuer receives such amounts from the Borrower and/or the Loan Guarantor, as the case may be, and, save as provided in this Condition 5(b), all subject to and in accordance with Condition 7 (*Payments*).

6. Redemption and Purchase

(a) *Final redemption:* Unless previously prepaid pursuant to Clause 7 (*Prepayment*) of the Loan Agreement or repaid in accordance with Clause 10.3 (*Illegality*) of the Loan Agreement, the Borrower or the Loan Guarantors, as the case may be, will be required to repay the Loan on its due date as provided in the Loan Agreement and, subject to such repayment, all the Notes will be redeemed at their principal amount on 29 September 2009, subject as provided in Condition 7 (*Payments*).

(b) *Redemption by the Issuer:* The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 25 days' notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set out in the notice of prepayment referred to in Condition 6(b)(i) or (ii) below) in accordance with Condition 15 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 8 (*Taxation*), if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has received a notice of prepayment from the Borrower pursuant to Clause 7.1 *Prepayment for Tax Reasons*) or Clause 7.2 (*Prepayment for Reasons of Increased Costs or Illegality*) of the Loan Agreement; or

(ii) the Issuer has delivered a notice to the Borrower, the contents of which require the Borrower to repay the Loan, in accordance with the provisions of Clause 10.3 (*Illegality*) of the Loan Agreement.

The Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 6(b). A copy of the Borrower's notice of prepayment or details of the circumstances contemplated by Clause 10.3 (*Illegality*) of the Loan Agreement and the date fixed for redemption shall be set out in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 6(b) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6, subject as provided in Condition 7 (*Payments*).

(c) *Redemptions at the option of the Noteholders:*

(A) Should the Borrower fail to fulfil its obligations to procure any Additional Loan Guarantee or any Further Loan Guarantee (if required) under Clauses 14.12(a) or 14.12(b) of the Loan Agreement (each an "**Additional Loan Guarantee Event**"), the Issuer will make an offer to purchase (the "**Additional Loan Guarantee Event Offer**") and shall purchase all of the Notes duly tendered at a price per Note of 101% of the principal amount thereof, plus accrued but unpaid interest thereon and plus any additional amounts or other amounts that may be due thereon, up to but excluding the date of repurchase (the "**Additional Loan Guarantee Event Payment**"). Pursuant to Clause 7.3(a) of the Loan Agreement, the Borrower is required to give notice to the Issuer (and, following the Loan Assignment, the Trustee) of the failure to procure the Additional Loan Guarantees or, if relevant, any Further Loan Guarantee (the "**Borrower Additional Loan Guarantee Event Notice**") as soon as possible but in any event no later than within 10 calendar days after the date specified for the procurement thereof, and thereafter to prepay the Loan in such amounts as correspond to the Issuer's obligations to prepay the Notes hereunder. The Issuer, upon the receipt of the Borrower's notice, shall mail to each Holder, postage paid, with a copy to the Trustee, the Agents and the UK Listing Authority, and shall publish a notice thereof in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) a notice containing the following information: (i) that an Additional Loan Guarantee Event Offer is being made pursuant to this Condition 6(c) and all Notes properly tendered thereunder will be accepted for payment; (ii) the purchase price and the purchase date, which will be a **Business Day** (which in this Condition 6(c) shall have the meaning given to it in the Loan Agreement) which is 60 calendar days from the date of delivery to the Issuer of the Borrower Additional Loan Guarantee Event Notice, except as may be otherwise required by applicable law (the "**Additional Loan Guarantee Event Payment Date**"); (iii) that any note not properly tendered or not tendered at all will remain outstanding and continue to accrue interest and additional amounts, if any; (iv) that unless the Issuer defaults in the payment of the Additional Loan Guarantee Event Payment, all Notes accepted for payment pursuant to the Additional Loan Guarantee Event Offer will cease to accrue interest and additional amounts, if any, on the Additional Loan Guarantee Event Payment Date; (v) that all Holders electing to have any Notes repurchased pursuant to the Additional Loan Guarantee Event Offer will be required to surrender the Notes, with the form entitled "Noteholder Put Notice" set out in Schedule II to the Agency Agreement (the "**Noteholder Put Notice**"), completed, to the Paying Agent and at the address specified in the notice prior to the close of business on the fifth Business Day preceding the Additional Loan Guarantee Event Payment Date; (vi) that Holders will be entitled to withdraw their tendered Notes and their election to require the Issuer to repurchase such Notes provided that the Paying Agent receives prior to the close of business on the third Business Day preceding the Additional Loan Guarantee Event Payment Date, a facsimile transmission or letter setting out the name of the Holder, the principal amount of Notes tendered for repurchase, and a statement that such Holder is withdrawing his tendered Notes and his election to have such Notes repurchased; and (vii) that Holders whose Notes are being repurchased only in part will be issued new Note Certificates equal in principal amount to the unpurchased portion of the principal amount of the Notes surrendered, which unpurchased portion must be in integral multiples of U.S.$100,000.

(B) The Issuer will comply with the requirements of any laws of any jurisdiction in which the Additional Loan Guarantee Event Offer is made, in each case to the extent such laws or regulations are applicable in connection with the repurchase of the Notes pursuant to an Additional Loan Guarantee Event Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Loan Agreement or these Conditions, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations contained in the Loan Agreement or these Conditions by virtue thereof.

(C) On the second Business Day preceding the Additional Loan Guarantee Event Payment Date, the Issuer will provide a notice (the "**Issuer Additional Loan Guarantee Event Notice**") to the Trustee and the Borrower setting out the details of the Additional Loan Guarantee Event Payment (including the computation thereof) required to be made by the Issuer for such Notes or portions thereof on the Additional Loan Guarantee Event Payment Date.

(D) On the last Business Day prior to the Additional Loan Guarantee Event Payment Date, the Borrower will, pursuant to Clause 7.3 (a) (*Noteholder Put*) of the Loan Agreement, failing which the Loan Guarantors pursuant to the Loan Guarantees will, deposit in the Account an amount equal to the aggregate Additional Loan Guarantee Event Payment in respect of all Notes or portions thereof properly tendered and not properly withdrawn as set out in the Issuer Additional Loan Guarantee Event Notice. On the Additional Loan Guarantee Event Payment Date, the Issuer will, to the extent permitted by law,

(i) accept for payment all Notes or portions thereof properly tendered and not properly withdrawn pursuant to the Additional Loan Guarantee Event Offer and (ii) deliver, or cause to be delivered, to the Registrar for cancellation on behalf of the Issuer the Notes so accepted together with a certificate of the Management Board of the Issuer stating that such Notes or portions thereof have been tendered to and purchased by the Issuer. In accordance with the instructions of the Holder set out in the Noteholder Put Notice, the Paying Agent will promptly either (x) pay to the Holder or (y) mail to each Holder of Notes postage prepaid, the Additional Loan Guarantee Event Payment for such Notes, and the Registrar will promptly authenticate and deliver to the Holder of the Notes a new Note Certificate or Certificates, equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided, however, that each new Note will be in integral multiples of U.S.$100,000. The Issuer will publicly announce the results of the Additional Loan Guarantee Event Offer on or as soon as practicable after the Additional Loan Guarantee Event Payment Date.

(d) *No other redemption:* Except where the Loan is accelerated pursuant to Clause 15.2 (*Rights of Lender upon occurrence of an Event of Default*) of the Loan Agreement, the Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 6(b) (*Redemption by the Issuer*) and 6(c) (*Redemptions at the option of the Noteholders*) above.

(e) *Purchase:* The Issuer or the Borrower or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(f) *Cancellation:* All Notes redeemed or purchased by the Issuer and all Notes purchased by the Borrower or any of its subsidiaries (for the avoidance of doubt including the Loan Guarantors) and surrendered, together with an authorisation addressed to the Registrar by the Borrower or such subsidiaries, to the Lender pursuant to Clause 7.8 of the Loan Agreement (*Purchase of Notes*), shall be cancelled.

7. Payments

(a) *Principal:* Payments of principal shall be made by U.S. dollar cheque drawn on, or upon application by, a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by, the payee, upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate(s) at the Specified Office of the Registrar and/or the Transfer Agent.

(b) *Interest:* Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee, and (in the case of interest payable on redemption in whole) upon presentation for surrender of the relevant Note Certificate(s) at the Specified Office of the Registrar and/or the Transfer Agent.

(c) *Payments on Business Days:* Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date for payment, or, if the due date for payment is not a Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of the Registrar and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Business Day or (B) a cheque mailed in accordance with this Condition 7 (*Payments*) arriving after the due date for payment or being lost in the mail. In this Condition 7, "Business Day" means any day (other than a Saturday or Sunday) on which banks generally are open for business in Luxembourg, London and New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(d) *Partial payments:* If the Principal Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(e) *Record date:* Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Specified Office of the Registrar on the

fifteenth day before the due date for such payment (the "**Record Date**") whether or not a Business Day. Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

(f) *Payment to the Account:* Save as the Trustee may otherwise direct at any time after the Charge (as defined in the Trust Deed) created pursuant to the Trust Deed becomes enforceable, the Issuer will pursuant to the provisions of Clause 7.1 (*Payments to the Principal Paying Agent*) of the Agency Agreement require the Borrower or the Loan Guarantors, as the case may be, to make all payments of principal and interest to be made pursuant to the Loan Agreement or the Loan Guarantees, respectively, less any amounts in respect of the Reserved Rights, to the Account.

(g) *Payment obligations limited:* The obligations of the Issuer to make payments under Conditions 6 (*Redemption and Purchase*) and 7 (*Payments*) shall constitute an obligation only to account to the Noteholders on such date upon which a payment is due in respect of the Notes, for an amount equivalent to sums of principal, interest, increased amounts of principal, interest or any other payment due or Additional Amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement and/or any Loan Guarantee less any amount in respect of the Reserved Rights.

8. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made to, or for the account of, each Holder free and clear of, and without withholding or deduction for, any Taxes imposed or levied by the Grand Duchy of Luxembourg ("**Luxembourg**") or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. No such additional amounts shall be payable in respect of any Note:

(a) held by a Holder who is liable for such Taxes in respect of such Note by reason of its having some connection with Luxembourg other than the mere holding of such Note (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, Luxembourg); or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after a Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days; or

(c) where such withholding or deduction is imposed or levied on a payment to an individual and is required to be made pursuant to any European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) for any Taxes that would not have been imposed but for the failure of the relevant Holder to comply with the Issuer's written request, addressed to the relevant Holder and delivered at least 30 days prior to the date when the relevant payment is due, to provide information with respect to any reasonable certification, documentation, information or other reporting requirement concerning the nationality, residence, identity or connection with the taxing jurisdiction of the relevant Holder; or

(e) presented for payment by or on behalf of a Holder who would be able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

Notwithstanding the foregoing provisions, the Issuer shall only make payments of additional amounts to the Noteholders pursuant to this Condition 8 (*Taxation*) to the extent and at such time as it shall have actually received an equivalent amount for such purposes from the Borrower and/or the Loan Guarantors under the Loan Agreement and/or any Loan Guarantee, as the case may be, by way of increased amounts of principal, interest or any other payment due or Additional Amounts or otherwise.

To the extent that the Issuer receives a lesser sum, in respect of an increased amounts of principal, interest or any other payment due from the Borrower and/or the Loan Guarantors for the account of the Noteholders, the Issuer shall account to each Noteholder entitled to receive an additional amount pursuant to this Condition 8 (*Taxation*) for an additional amount equivalent to a *pro rata* portion of such

increased amounts of principal, interest or any other payment due (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement and/or any Loan Guarantee on the date of, in the currency of, and subject to any conditions attaching to the payment of such increased amounts of principal, interest or any other payment due to the Issuer.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 or any undertaking given in addition to or in substitution of this Condition 8 pursuant to the Trust Deed, the Loan Agreement or the Deed of Loan Guarantee.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Luxembourg, references in these Conditions to Luxembourg shall be construed as references to Luxembourg and/or such other jurisdiction.

9. Prescription

Claims for principal shall become void unless the relevant Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, in each case of the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or any Paying Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or Paying Agent may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Borrower, any of the Loan Guarantors and any entity relating to the Issuer, the Borrower or any of the Loan Guarantors without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent or additional or successor other paying agents and transfer agents; provided, however, that the Issuer shall, if and so long as the Notes are listed on the

London Stock Exchange and the rules of the London Stock Exchange so require, maintain a transfer and paying agent in London and shall at all time maintain a registrar outside the United Kingdom. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

The Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that is not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

12. Meetings of Noteholders; Modification and Waiver; Substitution

(a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Loan Agreement, the Loan Guarantees or any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined in the Trust Deed). Such a meeting may be convened on no less than 21 days' notice by the Trustee, the Borrower or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, to alter the governing law of the Conditions, the Trust Deed, the Loan Agreement or any Loan Guarantee, to change any date fixed for payment of principal or interest under the Loan Agreement or any Loan Guarantee, to alter the method of calculating the amount of any payment under the Loan Agreement or any Loan Guarantee or to change the currency of payment or events of default under the Loan Agreement or any Loan Guarantee (each, a "**Reserved Matter**") may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions, the Trust Deed or pursuant to the Loan Assignment, the Loan Agreement or any Loan Guarantee (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders or which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any breach or proposed breach of the Notes or the Trust Deed by the Issuer or, pursuant to the Loan Assignment, the Loan Agreement or the Deed of Loan Guarantee by the Borrower or any Loan Guarantor, as the case my be, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement and the Loan Guarantees shall not be treated as such (other than a proposed breach or breach relating to a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

(c) *Substitution:* The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes to a third party provided that certain conditions specified in the Trust Deed are fulfilled.

13. Enforcement

At any time after the Trustee has actual notice of the occurrence of an Event of Default (as defined in the Loan Agreement) or Relevant Event (as defined below) shall have occurred and be continuing, the

Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes (including enforcing the Security Interests and, where applicable, directing the Issuer to enforce its rights against the Borrower or the Loan Guarantors under the Loan Agreement or the Loan Guarantees), but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

The Trust Deed also provides that, in the case of an Event of Default, or a Relevant Event, the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, (1) require the Issuer to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (in the case of an Event of Default), or (2) enforce the security created in the Trust Deed in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 8 (*Taxation*) and thereupon shall cease to be outstanding.

For the purposes of these Conditions, "**Relevant Event**" means the earlier of any of (i) the failure by the Issuer to make any payment of principal or interest on the Notes when due, following receipt by the Issuer of the corresponding amount under the Loan Agreement and/or any Loan Guarantee, (ii) the filing of an application for the institution of controlled management ("*gestion contrôlée*"), suspension of payment (*sursis de paiement*), liquidation by decision of the court ("*liquidation judiciaires*"), bankruptcy, moratorium, insolvency, composition proceedings ("*concordat préventif de la faillite*"), general agreement with any of its creditors or any other similar legal procedure, (iii) the appointment of a "*commissaire à la gestion contrôlée*", a "*liquidateur judiciaire*", a "*curateur*", a "*commissaire*" or any similar officer in respect of the Issuer, or (iv) the taking of any action in furtherance of the dissolution of the Issuer.

14. Further Issues

The Issuer may from time to time, with the consent of the Borrower and the Loan Guarantors and without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Borrower, the Loan Guarantors and the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

15. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are listed on the London Stock Exchange and the rules of that Exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

16. Governing Law and Jurisdiction

(a) *Governing law:* The Trust Deed, the Agency Agreement, the Notes, the Loan Agreement, the Deed of Loan Guarantee and all other agreements entered into in connection therewith are governed by, and shall be construed in accordance with, English law. The provisions of Articles 86 to 94-8 of the Luxembourg law of 10 August 1915 on commercial companies, as amended, are hereby excluded.

(b) *Jurisdiction:* The Issuer has in the Trust Deed (i) submitted irrevocably to the non-exclusive jurisdiction of the courts of England for the purposes of hearing any determination and suit, action or

proceedings or settling any disputes arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Loan Agreement or the Deed of Loan Guarantee; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated a person in England to accept service of any process on its behalf; and (iv) consented to the enforcement of any judgment.

17. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term of condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

SUMMARY OF PROVISIONS OF THE NOTES WHILE IN GLOBAL FORM

The Notes will be represented by a Global Note Certificate. The Global Note Certificate contains provisions which apply to the Notes in respect of which the Global Note Certificate is issued, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes have the same meanings as in the paragraphs below. The following is a summary of those provisions:

Exchanges

The Notes will initially be represented by a global note certificate in registered form. The Global Note Certificate will be registered in the name of BT Globenet Nominees Limited as nominee for, and will be deposited with Deutsche Bank AG, London Branch as a common depositary for, Euroclear and Clearstream, Luxembourg.

Interests in the Global Note Certificate will be exchangeable (free of charge), in whole but not in part, for Note Certificates in definitive form without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. The these purposes "**Exchange Event**" means that (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available, (ii) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions, or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Global Note Certificate in definitive form.

The Issuer will promptly give notice to Noteholders in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Note Certificate) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfers

Transfers of interests in the Notes will be effected through the records of Euroclear and Clearstream, Luxembourg or any alternative clearing system and their direct and indirect participants.

Redemption and Purchase

In the event of the purchase or redemption by or on behalf of the Issuer, the Borrower or any of the Borrower's subsidiaries, as the case may be and cancellation of a part of the Global Note Certificate in accordance with Condition 6(c) (*Redemptions at the option of the Noteholders*) or 6(f) (*Cancellation*) of the Terms and Condition of Notes, the portion of the principal amount thereof so purchased, or redeemed, and cancelled shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate, whereupon the principal amount thereof shall be reduced by the amount so purchased and cancelled and endorsed. Upon the purchase or redemption of the whole of the Global Note Certificate in accordance with Condition 6(c) (*Redemptions at the option of the Noteholders*) or Condition 6(f) (*Cancellation*) of the Terms and Conditions of the Notes, the Global Note Certificate shall be surrendered to or to the order of the Registrar and cancelled. So long as the Notes are held on behalf of Euroclear or Clearstream, Luxembourg or any alternative clearing system, such purchases and redemptions will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system, as appropriate.

Payments

To the extent that the Issuer has actually received the relevant funds from the Borrower, payments of interest in respect of Notes represented by the Global Note Certificate will be made without presentation or, in the case of payment of interest due on redemption and the final payment of principal, against presentation and surrender of the Global Note Certificate to or to the order of the Registrar. Upon any payment of principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate. Payments while Notes are represented by the Global Note Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system.

Accountholders

For so long as all of the Notes are represented by the Global Note Certificate and such Global Note Certificate is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "Noteholders" and references to "holding of Notes" and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, the Borrower, any Loan Guarantor and the Trustee, solely in the nominee for the relevant clearing system (the "**Relevant Nominee**") in accordance with and subject to the terms of the Global Note Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

Notices

So long as any of the Notes are represented by the Global Note Certificate and it is held on behalf of Euroclear, Clearstream, Luxembourg, or any alternative clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg, or any alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the "Terms and Conditions of the Notes." For so long as the Notes are listed on the London Stock Exchange and the rules of the London Stock Exchange so require, notice shall also be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*).

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences under the tax laws of the country of which they are residents of a purchase of Notes, including, but not limited to, the consequences of receipt of interest and sale or redemption of the Notes. The following is a general description of certain tax laws relating to the Notes and the Loan as in effect on the date hereof and does not purport to be a comprehensive discussion of the tax treatment of the Notes.

The Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as to taxation of interest payments on the Loan. The summary is based on the laws of the Russian Federation in effect on the date of this Prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation, nor does the summary seek to address the availability of double tax treaty relief in respect of the Notes, or practical difficulties involved in claiming relief under an applicable double tax treaty.

Prospective investors should consult their own tax advisors regarding the tax consequences of investing in the Notes. No representations with respect to the Russian tax consequences to any particular Noteholder are made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. For instance, starting from 1 January 2006, a number of amendments were introduced to the Profits Tax Chapter of the Tax Code of the Russian Federation with respect to securities and other financial instruments as well as changes to the provisions governing deductibility of interest. There is no practical experience of implementing these changes and there are only few official clarifications. The interpretation and application of tax law provisions will, in practice, rest substantially with local tax inspectors.

For the purposes of this summary, a "non-resident Noteholder" means:

- an individual Noteholder present in Russia for an aggregate period of less than 183 days (excluding the day of arrival into Russia but including the day of departure from Russia) in a given calendar year. Prospectively, the definition of the non-resident Noteholder will change as of 1 January 2007. As of this date, the non-resident Noteholder should be considered an individual present in Russia for an aggregate period of less than 183 days (excluding the day of arrival into Russia but including the day of departure from Russia) in any period comprised of 12 consecutive months. As of 1 January 2007, presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for purposes of medical treatment or education; or
- a legal entity or organisation in each case not organised under the laws of the Russian Federation, which holds and disposes of the Notes otherwise than through a permanent establishment in Russia.

A resident Noteholder means any person (including any individual and any legal entity) who is not a non-resident Noteholder.

The Russian tax treatment of interest payments made by the Borrower to the Issuer or to the Trustee under the Loan Agreement may affect the holders of the Notes. See "—Taxation of Interest on the Loan" below.

Taxation of the Notes

Non-Resident Noteholders

A non-resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and principal on the Notes received from the Issuer.

A non-resident Noteholder also generally should not be subject to any Russian taxes in respect of any gain or other income realised on redemption, sale or other disposition of the Notes outside of the Russian Federation, provided that the proceeds of such disposition are not received from a source within the Russian Federation.

In the event that proceeds from a disposition of Notes are received from a source within the Russian Federation, a non-resident Noteholder that is a legal entity or organisation should not be subject to Russian tax on any gain on sale or other disposition of the Notes, provided that no portion thereof is attributable to accrued interest on the Notes. Any portion of such sales proceeds attributable to accrued interest may be subject to Russian withholding tax at a rate of 20%, subject to reduction or elimination under provisions of an applicable double tax treaty that are related to interest income, even if the disposal itself results in a capital loss. Non-resident holders that are legal persons and organisations should consult their own tax advisers with respect to the details and risks associated with this possibility.

Subject to any available tax treaty relief, the receipt of proceeds by a non-resident individual from a source within the Russian Federation in respect of a gain from a disposition of the Notes is likely to be treated as Russian-source income for personal income tax purposes and, as such, will be subject to Russian personal income tax at a rate of 30% on the gross proceeds received less any available cost deduction (including the original purchase price). In certain circumstances, if the disposal proceeds are paid by a Russian legal entity or organisation, by a permanent establishment of a foreign organisation in Russia, or by an individual entrepreneur located in Russia, the personal income tax at a rate of 30% will be withheld at the source. If this tax is not withheld at the source, then the non-resident individual may be subsequently required to file a tax return and pay the tax. There is some uncertainty regarding the treatment of the portion of the proceeds, if any, from a disposition of the Notes that is attributable to accrued interest on the Notes. Subject to reduction or elimination under provisions of an applicable tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30%, even if the disposition results in a capital loss.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honors some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that reduce or eliminate Russian tax liability with respect to income received from a source within the Russian Federation by a non-resident Noteholder on a disposition of Notes. To obtain the benefit of such tax treaty provisions, the Noteholder must comply with the certification, information and reporting requirements in force in the Russian Federation. Currently, a Noteholder would need to provide the payer of income with a certificate of tax residence issued by the competent authority of the relevant treaty country. This certificate should be apostilled or legalised by a respective competent authority. A notarised Russian translation of the certificate would be required. In addition, a Noteholder who is an individual must provide appropriate documentary proof of income received and the tax payment made outside the Russian Federation on income with respect to which the treaty benefits are claimed. Because of uncertainties regarding the form and the procedures for providing such documentary proof, individuals in practice would not be able to obtain advance treaty relief on the receipt of proceeds from a source within the Russian Federation and obtaining a refund of the taxes withheld can be extremely difficult and time-consuming, if not impossible.

Although beneficial ownership is a concept that is not developed under the Russian tax legislation, it is likely that the requirement to provide confirmation of residence as referred to in the preceding paragraph relates to the ultimate investors rather than to any brokers or other entities that hold the investments on behalf of the ultimate investors. Such brokers or other entities may, therefore, be required to provide information with respect to the identity and residence of the ultimate investors in the format required by the Russian tax authorities. Such information may vary depending upon the nature of the services provided to the ultimate investors by a holder of the Notes.

The situation described in the previous paragraph in practice increases the risk of the application of a Russian withholding income tax. The possibility of the application of the double tax treaty if the immediate investor is not considered a beneficial owner is questionable, and there is a possibility that withholding income tax on the accrued interest portion of payments on the Notes will be subject to the Russian withholding tax at a rate of 20%.

If double tax treaty relief is available but Russian taxes have nevertheless been withheld from the payer of the proceeds, an application for the refund of the taxes withheld may be filed within three years from the end of the tax period in which the tax was withheld for non-resident Noteholders who are legal persons or organisations, and within one year from the end of the year to which the treaty benefit relates for non-resident Noteholders who are individuals. Tax authorities in practice may request a variety of documentation confirming the right to benefits under a double tax treaty, even if such documentation is not explicitly required by law. Obtaining a refund of the taxes withheld can be time consuming and burdensome, if not impossible.

In certain instances, if any taxes are required to be deducted or withheld from any payments by the Issuer with respect to the Notes (other than payments made by the Borrower on the Loan) by applicable law, the Borrower, subject to certain customary exceptions, will pay to the Issuer the Additional Amounts equal to the amounts of such deductions or withholdings.

Russian tax legislation specifically disallows compensation of Russian taxes payable by other taxpayers; therefore, payments as compensation for taxes paid or to be paid by other taxpayers may be in direct conflict with Russian tax legislation.

There is a risk that under Russian law such Additional Amounts will be treated as income derived from a Russian source, which would be subject to a 20% withholding tax. Where applicable, such withholding tax may be eliminated under the provisions of relevant double taxation treaties, subject to the documentation requirements outlined above.

Non-resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of any proceeds received on a disposition of Notes.

Resident Noteholders

A resident Noteholder will be subject to all applicable Russian taxes in respect of gains from disposition of the Notes and interest received on the Notes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal entity are subject to Russian withholding tax at a rate of 20%, absent reduction or elimination of tax liability pursuant to the terms of an applicable double tax treaty. Based on the professional tax advice it has received, the Borrower believes that payments of interest to the Issuer on the Loan should not be subject to withholding tax under the terms of the double tax treaty between Russia and Luxembourg. However, there can be no assurance that advance relief will be available.

In particular, it is possible that Russian tax authorities may apply a look-through approach to the Issuer based upon the substance of its operations. Thus, based upon commentary to the OECD Model Tax Convention and recent positions taken by the Russian Ministry of Finance, there is a risk (though relatively low, as p.1 of the Article 11 of the Luxembourg – Russia double tax treaty does not explicitly refer to the beneficial ownership requirement in regard to the interest income) that Russian authorities may consider Investors to be recipients of interest payments from the Borrower related to the Loan provided by the Issuer. As of the date of this Prospectus, we are not aware of any cases where the Russian tax authorities have applied this approach in practice, but this situation may change in the future. Should the current practice change, the application of the relevant double tax treaty for the particular Investors would also be questionable and there is a possibility that withholding income tax on interest payments will be withheld at a rate of 20%. Should any such withholding apply, then the Borrower would be obligated to pay increased amounts of principal, interest or other payments due in connection therewith to make Noteholders' status equal to that under the "non-withholding" scenario.

Russian thin capitalisation rules, as explained below, will be applicable to Interest payable on the Loan by the Borrower since the Russian affiliated entities of a non-Russian legal entity that directly owns more than 20% of the Borrower (TMK Steel Ltd.), act as the Loan Guarantors for the Borrower's debt obligations under the Deed of Loan Guarantee. Under the Russian thin capitalisation rules, the deductibility of Interest payable on the Loan is subject to certain limitations if the Borrower's outstanding debt to the non-Russian legal entity that directly or indirectly owns more than 20% of the Borrower or to such legal entity's affiliated Russian entities, or guaranteed by such entity or by such entity's affiliated Russian entities, jointly qualified as "controlled debt" of the Borrower under the Russian thin capitalisation rules, exceeds 300% of the Borrower's own capital. Any interest expense paid by the Borrower in excess of such limitations (on a pro- rata basis corresponding to the share of investment by the particular non-Russian legal entity into the charter capital of the Borrower) will not be deductible by the Borrower and will be reclassified as a dividend for the Borrower for the purposes of Russian profit tax and will be subject to a Russian withholding income tax at a rate of 15%.

There is also a risk that the reduced rates of withholding tax applicable to dividend income as stipulated by the Luxembourg-Russia double tax treaty would not be applicable to interest that is reclassified as a dividend under the thin capitalisation rules outlined above due to the fact that the Issuer is not a direct

shareholder of the Borrower. Thus, if any portion of interest on the Loan is reclassified as a dividend, then there is a risk that it shall be subject to Russian withholding taxes at the rate of 15%.

If interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the double tax treaty between Russia and Luxembourg will cease to exist and payments of interest may be subject to the Russian withholding tax at a rate of 20%. In such cases, Noteholders may seek reduction of withholding tax under double taxation treaties entered into by their countries of residence and Russia, where such treaties exist and to the extent they are applicable, however, there can be no assurance that such treaty relief will be available.

For treaty relief from Russian withholding tax, preliminary approval from the Russian tax authorities is neither required nor possible to obtain. However, the Russian tax authorities may subsequently scrutinise the Issuer's eligibility for treaty relief during tax audits.

If payments under any Loan are subject to any withholding of Russian tax (as a result of which the Issuer would have reduced payments under the Notes by the amount of such withholding), the Borrower is obliged (subject to certain conditions) to increase payments as may be necessary so that the net payments received by the Noteholders will be equal to the amounts they would have received in the absence of such withholding. It should be noted, however, that the possibility of enforcing tax gross-up provisions under Russian law is not certain.

No Russian VAT is applicable to rendering of financial services that involve provision of loans in monetary form. No value added tax will be payable in Russia in respect of interest and principal payments under the Loan.

Taxation of Payments under the Loan Guarantees

In general, payments under a guarantee by a Russian entity to a non-resident legal entity should not be subject to Russian withholding tax to the extent such payments do not represent Russian source income. However, it is possible that Russian tax authorities may characterise payments under the Deed of Loan Guarantee as Russian source income. If the Russian tax authorities took such a position, the part of such payments covering the interest on the Loan would be subject to a 20% withholding tax at the source. This tax may be subject to relief under the terms of the double taxation treaty between Russia and Luxembourg providing the treaty clearance procedure would be met by the Issuer. However, there can be no assurance that such relief will be available.

If payments under the Deed of Loan Guarantee become due to the Trustee pursuant to the Trust Deed, any benefit of the double tax treaty between Russia and Luxembourg will cease to exist, and payments under the Loan Guarantee may be subject to Russian withholding tax at a rate of 20%. In such cases, Noteholders may seek a reduction of or exemption from withholding tax under any applicable double tax treaties between their countries of residence and Russia, however, there can be no assurance that such treaty relief will be available.

If payments under the Deed of Loan Guarantee are subject to any withholding of Russian tax as a result of which the Issuer would have reduced payments under the Notes by the amount of such withholding, the Loan Guarantor must, subject to certain conditions, pay increased amounts of principal, interest or other payments due thereunder, so that Noteholders receive net payments equal to those that they would have received absent such withholding.

Russian thin capitalisation rules may also be applicable to payments under the Deed of Loan Guarantee pursuant to the same rules as discussed above, thus, giving rise to additional tax risks.

No value added tax will be payable in Russia in respect of payments under the Deed of Loan Guarantee representing principal or interest on the Loan.

Luxembourg Taxation

The following is a general description of certain Luxembourg tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of Luxembourg. This summary is based upon the law as in effect on the date of this Prospectus. The information contained within this section is limited to taxation issues, and

prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer will be made in full without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Luxembourg or any authority thereof or therein having the power to tax, unless such deduction is required by law. In the event of any deduction or withholding on account of tax becoming required by law, the Issuer shall make the required deduction or withholding and shall not pay any additional amounts to the Noteholders.

Withholding Tax

Save for the provisions of the Savings Directive (see below), there is no withholding tax on interest, other than interest on profit participating bonds and similar instruments, payable to non-resident Noteholders so long as the interest rate is considered to be at arm's length. Since the payments made by the Issuer to the Noteholders will not depend on the profit generated by the Issuer, such payments will not be subject to any withholding tax in Luxembourg.

Interest payments made under the Notes by Luxembourg paying agents to Luxembourg resident individual beneficial owners of the Notes or certain foreign resident entities that secure interest payments on behalf of such Noteholders (unless such entity has opted for the exchange of information regime) will be subject to a final 10% withholding tax. The 10% withholding tax on the interest payments received by Luxembourg resident individuals receiving the payment in their private capacity constitutes a final tax charge (i.e., the interest payment does not need to be included in the recipient's tax return). Luxembourg resident individuals receiving the interest payments as business income must include interest income in their taxable basis. The 10% withholding tax levied will then be credited against their final income tax liability.

Taxes on Income and Capital Gains

A Noteholder who derives income from such Note or who realises a gain on the disposal or redemption thereof will not be subject to Luxembourg taxation on such income or capital gains unless:

(a) such holder is, or is deemed to be, a resident company fully taxable in Luxembourg; or

(b) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg.

Luxembourg resident individual Noteholders who hold Notes in their private capacity are however not subject to taxation on capital gain upon disposal of a Note, unless such a disposal precedes the acquisition of the Note or the Note is disposed of within six months of its date of acquisition.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder unless:

(a) such holder is, or is deemed to be, a Luxembourg fully taxable resident company; or

(b) such Note is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg.

The net wealth tax does not apply to resident and non-resident individuals.

Inheritance and Gift Tax

Where the Notes are transferred for no consideration, note in particular:

(a) no Luxembourg inheritance tax is levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased holder was not a resident of Luxembourg for inheritance tax purposes; and

(b) Luxembourg gift tax will be levied on the transfer of a Note by way of a gift by the Noteholder if this gift is registered in Luxembourg.

Value Added Tax

There is no Luxembourg value-added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note,

provided that Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services.

Other Taxes and Duties

There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes.

Residence

A Noteholder will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such Note or the execution, performance, delivery and/or enforcement of that or any other Note.

Stamp Duty and Stamp Duty Reserve Tax

No stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on a transfer by delivery of the Notes in definitive form.

EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Directive 2003/48/EC)

A European Directive regarding the taxation of savings income in the form of interest payments within the European Community (the "Savings Directive") was passed on 3 June 2003 and published on 26 June 2003. Subject to a number of important conditions being met, the Savings Directive foresees that European Union Member States will have to provide to the tax authorities of another Member State details of payments of interest or similar income paid by a paying agent within its jurisdiction to an individual who is the beneficial owner of the interest and resident in that other Member State. Luxembourg, Austria and Belgium may, however, apply a withholding tax system for a transitional period starting on 1 July 2005 (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The Savings Directive further proscribes that an individual subject to the withholding regime set by Luxembourg, Austria or Belgium should have the right to elect that the exchange of information regime be applied instead.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and Dresdner Bank AG London Branch (together the "Lead Managers") and Renaissance Securities (Cyprus) Limited (the "Senior Co-Lead Manager" and, together with the Lead Managers, the "Managers") have jointly and severally agreed, subject to the satisfaction of the terms and conditions of a subscription agreement, dated 26 September (the "Subscription Agreement"), by and among the Issuer, the Managers and TMK, to subscribe and pay for the Notes at the issue price of 100% of the principal amount of the Notes. The Subscription Agreement provides that the obligation of the Managers to purchase the Notes is subject to the satisfaction of certain conditions, including, among other things, the delivery of legal opinions by legal counsel and tax opinions by tax advisers. In connection with the offering of the Notes, TMK has agreed to pay management, underwriting and selling commissions to the Managers and to reimburse certain of their expenses related to the offering of the Notes. See "Use of Proceeds." TMK and the Issuer have agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to the closing of the issue of the Notes.

The Managers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Borrower and its affiliates (including its shareholders).

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented that it has not offered or sold any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of any Notes in circumstances in which section 21 (1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each of the Managers has represented and agreed that it has not offered or sold and will not offer or sell any Notes as part of its initial distribution in the Russian Federation.

The Notes have not been and will not be registered in the Russian Federation and are not intended for "placement" or "public circulation" in the Russian Federation. The Prospectus does not constitute an advertisement of the Notes in the Russian Federation.

Republic of Italy

Each Manager has acknowledged and agreed that no prospectus has been nor will be published in Italy in connection with the offering of the Notes and that such offering has not been cleared by the Italian Securities Exchange Commission (*Commissione Nazionale per le Società e la Borsa*, the "CONSOB")

pursuant to Italian securities legislation and, accordingly, has represented and agreed that the Notes may not and will not be offered, sold or delivered, nor may or will copies of the Prospectus or any other documents relating to the Notes be distributed in Italy, except (i) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of July 1, 1998, as amended, (the "Regulation No. 11522"), provided that such professional investors are legal entities, or (ii) in other circumstances which are exempted from the rules on investment solicitation pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the "Italian Finance Law") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Each Manager has represented and agreed that any offer, sale or delivery of the Notes or distribution of copies of the Prospectus or any other document relating to the Notes in Italy may and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be: (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Finance Law, Legislative Decree No. 385 of 1 September 1993, as amended (the "Italian Banking Law"), Regulation No. 11522, and any other applicable laws and regulations; (ii) in compliance with Article 129 of the Italian Banking Law and the implementing guidelines of the Bank of Italy, pursuant to which the issue or the offer of securities in Italy may need to be preceded and followed by appropriate notices to be filed with the Bank of Italy depending, among other things, on the aggregate amount of the securities issued or offered in Italy and their characteristics; and (iii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Any investor purchasing the Notes in the offering is solely responsible for ensuring that any offer or resale of the Notes it purchased in the offering occurs in compliance with applicable Italian laws and regulations.

The Prospectus and the information contained therein are intended only for the use of its recipient and, unless in circumstances which are exempted from the rules on investment solicitation pursuant to Article 100 of the Italian Finance Law and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended, is not to be distributed, for any reason, to any third party resident or located in Italy. No person resident or located in Italy other than the original recipients of this document may rely on it or its content /may rely on this document or its content.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the Prospectus Directive in Italy, such requirements shall be replaced by the applicable requirements under the relevant implementing measures of the Prospectus Directive in Italy.

General

Each Manager has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which they offer, sell or deliver Notes or distribute this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer, TMK or any Loan Guarantor.

Other than the applications made to admit the Notes to Listing on the Official List of the U.K. Listing Authority and to trading on the Regulated Market of the London Stock Exchange, no action has been taken, in any jurisdiction, by the Issuer. TMK, any Loan Guarantor or any of the Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of the Prospectus or any other offering or publicity material relating to the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any prospectus, offering circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of the Notes by it will be made on the same terms.

Persons into whose possession this Prospectus comes are required by the Issuer. TMK, the Loan Guarantors and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us with respect to U.S., English and Russian law by White & Case LLC. Certain legal matters in connection with the Offering will be passed upon for the Managers by Cleary Gottlieb Steen & Hamilton LLP.

INDEPENDENT AUDITORS

The consolidated financial statements and related notes as of and for the years ended 31 December 2005 and 2004 have been audited by Ernst & Young LLC, independent auditors, of Sadovnicheskaya Naberezhnaya 77, building 1, 115035 Moscow, Russian Federation.

GENERAL INFORMATION

1. The Notes are expected to be accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code of the Notes is 026951321 and the ISIN is XS0269513213.
2. OAO TMK expects to obtain all necessary consents, approvals, authorisations or other orders for the issue of the Notes and the other documents to be entered into by it in connection with the issue of the Notes, and each of the Initial Loan Guarantors expects to obtain all necessary consents, approvals and authorisations in the Russian Federation in connection with their entry into, and the performance of their obligations under, the Loan Guarantees, as set out in the Trust Deed and the other documents entered into by the Initial Loan Guarantors in connection with the issue of the Notes.
3. The issue of the Notes was authorised by a decision of the Board of Directors of the Issuer on 22 September 2006. The entry into the Loan Agreement was authorised by a decision of the Board of Directors of OAO TMK on 18 September 2006, and by a decision of the Board of Directors of the Issuer on 22 September 2006. The Initial Loan Guarantees were authorised by a decision of the sole shareholders of Volzhsky on 21 September 2006 and by a decision of the general meeting of shareholders of TMK Trade House on 21 September 2006. The Additional Loan Guarantees are expected to be authorised by decisions of the general meetings of shareholders of Seversky on or about 15 November 2006; of Sinarsky on or about 15 November 2006; and of Tagmet on or about 15 November 2006.
4. It is expected that listing of the Notes on the Official List of the U.K. Listing Authority and admission of the Notes to trading on the Regulated Market of the London Stock Exchange will be granted on or before 28 September 2006, subject only to the issue of the Notes. Prior to official listing and admission to trading, however, the London Stock Exchange will permit dealings in accordance with its rules. Transactions will normally be effected for settlements in U.S. dollars and for delivery on the third business day after the day of the transaction. We expect that the total expenses related to the listing and admission of the Notes to trading will be approximately U.S.$4.3 million.
5. There has been no significant change in the financial or trading position of the Issuer, the Borrower or the Initial Loan Guarantors since 31 December 2005. There has been no material adverse change in the financial position or prospects of the Issuer since 8 September 2006, the date of its incorporation. There has been no material adverse change in the financial position or prospects of OAO TMK or the Initial Loan Guarantors since 31 December 2005, such date being the date of the latest audited financial statements.
6. Except as disclosed under "Business — Legal Proceedings — European Union Anti-dumping Proceedings," neither the Borrower, the Issuer, nor any Initial Loan Guarantor is involved in, or has been involved in during the previous 12 months, any government, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Borrower, the Issuer or any Initial Loan Guarantor.
7. Copies in English of the following documents may be inspected at and are available at the offices of the Principal Paying Agent and Transfer Agent during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for so long as any of the Notes are outstanding:
   (a) the charter of OAO TMK and each Loan Guarantor and the articles of incorporation of the Issuer;
   (b) this Prospectus, together with any amendment or supplement hereto;
   (c) the Loan Agreement;
   (d) the Agency Agreement;
   (e) the Trust Deed, which includes the forms of the Global Note Certificate and the Individual Note Certificates;
   (f) any Loan Guarantees; and
   (g) the consolidated financial statements of TMK prepared in accordance with IFRS as of and for the years ended 31 December 2005 and 2004, together with the report of Ernst & Young LLC thereon.
8. OAO TMK prepares annual consolidated and interim condensed consolidated financial statements in accordance with IFRS. The Loan Guarantors do not prepare any financial information in accordance with IFRS.

9. Save for the fees payable to the Managers, the Trustee and the Agents, so far as TMK and the Issuer are aware no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

10. The following table sets forth certain information with respect to our significant subsidiaries:

TMK entity	Effective interest as at 30 June 2006[1]	Registered office
Production division		
OAO Volzhsky Pipe Plant	100%[2]	Avtodoroga no. 7,6, 404119 Volzhsky, Volgograd Region, Russian Federation
OAO Seversky Pipe Plant	91.81%	Vershinina 7, 623388 Polevskoy, Sverdlovsk Region, Russian Federation
OAO Taganrog Metallurgical Works	95.74%	Zavodskaya street 1, 347928 Taganrog, Russian Federation
OAO Sinarsky Pipe Plant	92.29%	Zavodskoy proyezd 1, Kamensk-Uralsky, Sverdlovsk Region, Russian Federation
SC TMK-Artrom S.A.	80.56%[3]	Slatina, Drapanesti Street, km 93, Olt County
SC TMK-Resita S.A.	99.49%[3]	Romania, 1700, Resita, 36 Traian Halescu Street, Caras-Severin
Sales and marketing division		
ZAO TMK Trade House	100%[4]	Malysheva street 36, 620219 Yekateringburg, Russian Federation
TOO TMK-Kazakhstan	100%	Ugolnaya street 24/2, Asmana, Kazakhstan
Sinara Trading AG	100%	Basteiplatz 7, 8039 Zürich, Switzerland
Sinara Handel GmbH.	100%	64-66 Mauritiuswall, 50676 Cologne, Germany
Transport division		
OOO TK TMK-Trans	100%	Alexander Nevsky street 19/25, 125047 Moscow, Russian Federation

(1) Represents our proportionate ownership of the relevant entity through our consolidated subsidiaries as of 30 June 2006.

(2) Including one share owned by Sinarsky.

(3) OAO TMK holds interest through Sinara Handel GmbH.

(4) Including 1% owned by Sinarsky.

GLOSSARY OF SELECTED TERMS

API	American Petroleum Institute. API is the U.S. petroleum industry's primary trade association that, among other things, develops consensus standards for the oil and natural gas industry.
ASTM International	A leading global voluntary standard development organisation, formerly known as ASTM, or the American Society for Testing and Materials.
Billet	A round or square steel product that has been hot-worked by forging, rolling or extrusion. A billet is a semi-finished product used for the production of seamless pipes. Billets are delivered in bars of certain diameter and cut into pieces of certain length, according to the length of the desired finished pipe. Thereafter, billets are heated and pierced to form a tube hollow.
Casing pipes	Pipes used as structural retainers for the walls of the drilled hole of deep wells in order to prevent collapse. Casing pipes have smooth wall and can be delivered with metal or composite caps at both ends for thread protection. Corrosion-resistant water-based paint is applied on the outside pipe surface to protect against atmospheric corrosion. Casing pipes are manufactured from steel that has been smelted in an electric furnace and cast by continuous casters, and the pipes are heat treated in a walking beam furnace.
Continuous casting	A method of producing blooms, billets and slabs in long lengths using water-cooled moulds. The castings are continuously withdrawn through the bottom of the caster whilst the teeming of the metal is proceeding. The need for primary and intermediate mills and the storage and use of large numbers of ingot moulds is eliminated.
Electric arc furnace ("EAF")	A steel melting furnace in which heat is generated by electricity that arcs from the graphite electrodes to the metal bath. DC units consume less energy and fewer electrodes, but they are more expensive. Both carbon and alloy steels are produced in electric arc furnaces and scrap rather than molten metal is used as the base material.
Electric resistance welded ("ERW") steel pipes	Pipes produced welding together pieces of high-quality continuous cast, low-carbon steel. High performance welded steel pipes possess high strength corrosion resistance, high deformability and high toughness. Welded steel pipes are used in oil and gas industry (as line pipes, OCTG and casing), construction and automotive industries, as well for water conveyance and general engineering purposes.
Extrusion	Production of a section by forcing a billet to flow through a die. Both hot and cold metal can be used. Seamless tubes are produced by forcing a hot billet to flow through a die over a mandrel positioned centrally in the die.
Heat treatment	A process where solid steel or components manufactured from steel are subject to treatment by heating to obtain required properties, and includes softening, normalising, stress relieving, hardening.

Ingot	A mass of metal that results from casting molten steel into a mould. An ingot is usually rectangular in shape and is subsequently rolled into blooms and billets for rods, bars and sections and slabs for plates, sheet and strip. With the increasing use of the continuous casting process the ingot casting is less used as the molten steel is now directly cast into a bloom or billet.
Line steel pipes	Line steel pipes, usually seamless steel pipes, are used for construction of long distance pipelines for combustible liquids and gases, nuclear station pipelines, heating system pipelines and general purpose pipelines. Line pipes are manufactured from steel that has been smelted in an electric furnace and cast by continuous casters. Corrosion-resistant, water-based paint is applied to the outside surface of such pipes to protect against atmospheric corrosion, and a three-layer protective polyethylene coating can be applied if required. See also "oil and gas pipes" and "seamless steel pipes."
Longitudinal welded pipes	Pipes formed from bending metal plates and welding them in such a manner that weld seam runs along the axis of the pipe
Mandrel	A metal rod or bar around which material, such as metal, may be shaped.
OCTG pipes	Oil Country Tubular Goods pipes (i.e. oil and gas pipes) made in accordance with the API specifications.
Open-hearth furnace	Steel is produced in the open hearth process by melting scrap and hot metal on the hearth of a combustion reverberating furnace bath. Scrap, flux and ore are charged into the furnace prior to heating. Fuel is burned in the furnace and the heat necessary to melt the raw materials is provided by radiation from the burning fuel. Hot metal is charged and slag is formed and flushed. During melting, the oxidisation of carbon and other impurities (such as silicon and manganese) takes place. Open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, high levels of pollutants, slow melting process and relatively low productivity.
Rolling	The process of shaping metal by passing it between rolls revolving at the same peripheral speed and in opposite directions.
Spiral welded pipes	Pipe made from coils of steel by bending and welding in such a manner that the weld seam spirals around the circumference of the pipe.
Threaded connections	Threaded connections are similar to grooves on a bolt and enable sections of drill pipe and other kinds of pipe to be screwed together.

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Independent Auditors' Report

The Shareholders and Board of Directors
OAO TMK

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

We draw attention to Notes "Corporate Information" and "Significant Accounting Policies" to the consolidated financial statements. The functional currency of the Group is Russian rouble. The presentation currency of the accompanying consolidated financial statements is the United States dollar. The accompanying consolidated financial statements were issued in addition to the consolidated financial statements presented in Russian roubles. We have audited and reported separately on those consolidated financial statements presented in Russian roubles and issued our unqualified audit report dated April 28, 2006.

Ernst & Young LLC

April 28, 2006

Moscow, Russia

OAO TMK

Consolidated Income Statement
for the year ended December 31, 2005
(All amounts in thousands of US dollars)

	NOTES	2005	2004
Net sales	1	2,799,056	1,922,198
— Goods		*2,776,443*	*1,901,777*
— Services		*22,613*	*20,421*
Cost of sales	2	(2,074,824)	(1,544,789)
Gross profit		724,232	377,409
Selling expenses	3	(127,253)	(127,148)
Advertising and promotion expenses	4	(2,969)	(1,634)
General and administrative expenses	5	(115,015)	(81,934)
Research and development expenses	6	(5,477)	(3,448)
Other operating expenses	7	(24,126)	(24,419)
Other operating income	8	639	569
Foreign exchange (loss)/gain		(11,582)	1,137
Finance costs	9	(75,204)	(97,423)
Finance income		1,952	3,226
Profit before tax		365,197	46,335
Income tax expense	11	(96,611)	(18,289)
Net profit		**268,586**	**28,046**
Attributable to:			
Equity holders of the parent entity		**259,068**	**26,004**
Minority interests		**9,518**	**2,042**
		268,586	**28,046**
Earnings per share attributable to equity holders of the parent entity — basic and diluted (in US dollars)	12	**0.30**	**0.22**

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

OAO TMK

Consolidated Balance Sheet
for the year ended December 31, 2005
(All amounts in thousands of US dollars)

	NOTES	2005		2004	
ASSETS					
Current assets					
Cash and cash equivalents	13	39,843		7,080	
Short-term investments	14	422		14,041	
Accounts receivable	15	93,705		146,792	
Accounts receivable from related parties	28	51,670		56,421	
Loans to related parties	28	40,340		456	
Inventories	18	416,862		365,613	
Prepayments and input VAT	16	137,540		165,398	
Prepayments to related parties	28	2,664	**783,046**	27,166	**782,967**
Non-current assets					
Investments and other long-term receivables	17	29,880		18,948	
Long-term receivables from related parties	28	30,082		7,849	
Property, plant and equipment, net	19	1,356,926		1,416,945	
Investment property	19	2,004		—	
Goodwill	20	37,180		38,565	
Deferred income taxes	11	4,021		2,901	
Intangible assets	20	12,516	**1,472,609**	10,629	**1,495,837**
TOTAL ASSETS			**2,255,655**		**2,278,804**
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and advances from customers	21	152,863		208,724	
Accounts payable to related parties	28	1,040		14,543	
Accrued liabilities	22	95,720		89,068	
Finance lease liabilities, current portion	23	1,222		3,787	
Loans and borrowings	24	403,269		620,126	
Loans and borrowings from related parties	28	31,394		10,084	
Dividends		1,254	**686,762**	1,813	**948,145**
Non-current liabilities					
Loans and borrowings	24	163,190		117,087	
Finance lease liabilities, net of current portion	23	23		1,038	
Deferred income taxes	11	233,611		260,439	
Post-employment benefit	25	17,396		11,088	
Other liabilities	26	7,044	**421,264**	4,038	**393,690**
Total liabilities			**1,108,026**		**1,341,835**
Equity					
Parent shareholders' equity					
Issued capital	30	305,407		305,407	
Accumulated profits		562,207		326,456	
Reserve capital	30	15,387		2,376	
Additional paid-in capital	30	136,590		135,162	
Foreign currency translation reserve		67,005	1,086,596	102,641	872,042
Minority interest			61,033		64,927
Total equity			**1,147,629**		**936,969**
TOTAL EQUITY AND LIABILITIES			**2,255,655**		**2,278,804**

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, 2005
(All amounts in thousands of US dollars)

	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Foreign currency translation reserve	Parent shareholders' equity	Minority interests	TOTAL
At January 1, 2004	—	367,809	—	311,155	65,106	744,070	136,802	880,872
Effect of exchange rate changes	—	—	—	—	37,535	**37,535**	17,505	**55,040**
Net profit	—	—	—	26,004	—	**26,004**	2,042	**28,046**
Appropriation of profit to reserve capital (Note 30, ii)	—	—	2,376	(2,376)	—	**—**	—	**—**
Issue of share capital (Note 30, i)	305,407	—	—	—	—	**305,407**	—	**305,407**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 30, vi)	—	—	—	—	—	**—**	(2,343)	**(2,343)**
Purchase of minority interests (Note 30, v)	—	102,197	—	—	—	**102,197**	(102,197)	**—**
Increase in additional paid-in capital from the acquisition of subsidiary (Note 10)	—	264,760	—	—	—	**264,760**	13,118	**277,878**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 30, iv)	—	—	—	(817)	—	**(817)**	—	**(817)**
Distribution to owners (Note 30, iv)	—	(599,604)	—	(7,510)	—	**(607,114)**	—	**(607,114)**
At December 31, 2004	**305,407**	**135,162**	**2,376**	**326,456**	**102,641**	**872,042**	**64,927**	**936,969**
Effect of exchange rate changes	—	—	—	—	(35,636)	**(35,634)**	(2,305)	**(37,939)**
Net profit	—	—	—	259,068	—	**259,068**	9,518	**268,586**
Appropriation of profit to reserve capital (Note 30, ii)	—	—	13,011	(13,011)	—	**—**	—	**—**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 30, vi)	—	—	—	—	—	**—**	(1,192)	**(1,192)**
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 30, iv)	—	—	—	(7,593)	—	**(7,593)**	—	**(7,593)**
Purchase of minority interests (Note 30, v)	—	1,428	—	—	—	**1,428**	(9,915)	**(8,487)**
Dividends (Note 30, iii)	—	—	—	(2,592)	—	**(2,592)**	—	**(2,592)**
Distribution to owners (Note 30, iv)	—	—	—	(121)	—	**(121)**	—	**(121)**
At December 31, 2005	**305,407**	**136,590**	**15,387**	**562,207**	**67,005**	**1,086,598**	**61,033**	**1,147,631**

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

OAO TMK

Consolidated Cash Flow Statement
for the year ended December 31, 2005
(All amounts in thousands of US dollars)

	NOTE	2005	2004
Cash flows from operating activities			
Profit before income tax		365,197	46,335
Adjustments for:			
Depreciation		98,546	91,714
Amortisation		460	18
Loss on disposal of property, plant and equipment	7	5,547	840
Loss/(gain) on sale of investments		42	(512)
Investments impairment		54	—
Foreign exchange loss/(gain)		11,582	(1,137)
Interest expense	9	75,204	97,423
Interest income		(1,993)	(2,714)
Donations		1,693	—
Inventory adjustments	2	1,644	192
Bad debt expense	3	236	4,525
Operating cash flow before working capital changes		558,212	236,684
Increase in inventories		(64,895)	(103,773)
Decrease (increase) in accounts receivable		57,419	(40,952)
Decrease (increase) in prepayments		36,913	(67,312)
Increase (decrease) in accounts payable		14,491	(14,874)
Increase in accrued liabilities		18,943	21,167
(Decrease) increase in advances from customers		(76,716)	107,460
Cash generated from operations		544,367	138,400
Income taxes paid		(104,929)	(22,396)
Net cash from operating activities		**439,438**	**116,004**
Cash flows from investing activities			
Purchase of property, plant and equipment		(116,387)	(62,020)
Proceeds from sale of property, plant and equipment		1,529	916
Proceeds from sale of investments		2,235	—
Proceeds from repayment of loans		663	7,547
Payments for increases in ownership interests in subsidiaries		(6,755)	(1,732)
Cash in subsidiary acquired via non-cash transation	10	—	90
Loans granted		(41,023)	(8,069)
Interest received		1,505	2,745
Net cash used in investing activities		**(158,233)**	**(60,523)**
Cash flows from financing activities			
Proceeds from issue of share capital		—	305,407
Proceeds from borrowings		1,560,797	2,030,112
Repayment of borrowings		(1,695,505)	(1,681,683)
Payment under finance lease liabilities		(4,116)	(6,809)
Distribution to owners	30iv	(121)	(607,114)
Payments to entities under common control for the transfer of ownership interest in subsidiaries	28	(20,000)	—
Interest paid		(76,786)	(93,731)
Dividends paid		(2,592)	—
Dividends paid by subsidiaries of the Group		(9,286)	(2,300)
Net cash used in financing activities		**(247,609)**	**(56,118)**
Effect of exchange rate changes on cash and cash equivalents		(833)	427
Net increase/(decrease) in cash and cash equivalents		32,763	(210)
Cash and cash equivalents at the beginning of the year		7,080	7,290
Cash and cash equivalents at the end of the year		**39,843**	**7,080**

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

Corporate Information

The consolidated financial statements of OAO "TMK" and its subsidiaries (the "Group") for the period ended December 31, 2005 presented in United States dollars ("US dollars") were authorized for issue in accordance with a resolution of the General Director on April 28, 2006. These consolidated financial statements presented in US dollars are issued in addition to the consolidated financial statements for the same period presented in Russian roubles, which were authorized for issue on April 28, 2006 (refer Note "Significant Accounting Policies" for description of the translation method). The parent company of the Group OAO "TMK" (the "Company") is registered in the Russian Federation. The list of subsidiaries is disclosed in Note 27.

As of December 31, 2005, the Company's shareholders were TMK Steel Limited and Dalecone Limited, owing 67% and 33%, respectively, in the share capital. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

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

Further, in 2005 there was an additional transaction with an entity under common control with the Group: in December 2004, the Group signed an agreement on the purchase of 100% ownership interest in Sinara Trading AG, an entity registered in Switzerland. Title transferred to the Group and control over Sinara Trading was obtained by the Group on May 25, 2005. Sinara Trading AG is the Group's distributor of pipe products in countries outside of Russia. This business combination has been accounted for using the pooling of interests method and, as a result, the consolidated balance sheet as of December 31, 2004 presented as corresponding information in these consolidated financial statements is different from the consolidated balance sheet included in the consolidated financial statements of the Group as of December 31, 2004 and for the year then ended which was authorized for issue in accordance with the resolution of the General Director of the Company on July 1, 2005 in that it reflects the transfer of ownership interest in Sinara Trading AG in a transaction with an entity under common control with the Group.

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

The Group employed 46,973 employees as of December 31, 2005 (December 31, 2004: 47,256 employees).

Significant Accounting Policies

- **Basis of Presentation of Financial Statements**

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

Group companies maintain their accounting records in Russian roubles, Kazakhstani tenge or Swiss francs and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, Kazakhstan Accounting Standards or accounting standards of Switzerland. The consolidated financial statements presented in US dollars are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in compliance with IFRS. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) use of fair values, (6) business combinations, and (7) translation to the presentation currency.

The consolidated financial statements have been prepared under the historical cost convention, other than in respect of property, plant and equipment at the date of transition to IFRS as described below.

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

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

- **Functional and Presentation Currency**

The functional currency of the Group is the Russian rouble (the "rouble").

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. As described herein these consolidated financial statements are issued in addition to the consolidated financial statements of the Group presented in Russian roubles.

The Group has applied IAS 21 (revised), The Effects of Changes in Foreign Exchange Rates, to translate the financial position of the Group as of December 31, 2005 and the results for the year then ended and corresponding figures into its presentation currency, US dollars, as follows:

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

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

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

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

- **Estimation Uncertainty**

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

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating units (each individual subsidiary) to which the item is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In 2005, no impairment losses were recognized or reversed.

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". In 2005, the change in estimate of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately 4,892.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2005 was 37,180. More details are provided in Notes 10, 20.

Post-Employment Benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2005 and 2004, allowances for doubtful accounts have been made in the amount of 6,057 and 6,757, respectively (Notes 15, 17).

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2005 and 2004, allowance for obsolete and slow-moving items was 5,122 and 3,557, respectively (Note 18). In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Deferred Income Tax Assets

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

- **Changes in Accounting Policies**

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

- IFRS 2 "Share-Based Payment";
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
- IAS 1 (revised) "Presentation of Financial Statements";
- IAS 2 (revised) "Inventories";
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
- IAS 10 (revised) "Events after the Balance Sheet Date";
- IAS 16 (revised) "Property, Plant and Equipment";
- IAS 17 (revised) "Leases";
- IAS 24 (revised) "Related Party Disclosures";
- IAS 27 (revised) "Consolidated and Separate Financial Statements";
- IAS 28 (revised) "Investments in Associates";
- IAS 31 (revised) "Interests in Joint Ventures";
- IAS 32 (revised) "Financial Instruments: Presentation and Disclosure";
- IAS 33 (revised) "Earnings per Share";
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement";
- IAS 40 (revised) "Investment property".

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

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

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

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

Significant Accounting Policies

- **Index to Accounting Policies**

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A) Principles of Consolidation

Subsidiaries

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

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

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

Acquisition of Subsidiaries

The Group uses the purchase method to account for the acquisition of subsidiaries. According to the purchase method, assets, liabilities and contingent liabilities of the acquisition are measured at their fair value at the acquisition date, irrespective of the extent of any minority interest.

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

Minority Interest

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

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

Increases in Ownership Interests in Subsidiaries

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

Purchase of Subsidiaries from Entities under Common Control

Subsidiaries purchased from entities under common control are accounted for using the pooling of interest method.

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

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

B) Cash and Cash Equivalents

Cash is comprised of cash in hand and cash held on demand with banks.

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

C) Investments

The Group's investments are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition. All purchases and sales of investments are recognised on the settlement date which is the date that the investment is delivered to or by the Group.

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in profit and loss.

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

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

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

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

D) Trade Receivables

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

E) Borrowings

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

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

F) Inventories

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

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

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

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

G) Property, Plant and Equipment

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

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

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

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

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

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

H) Investment Property

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

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

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

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

I) Leases

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

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

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

J) Goodwill

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

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

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

K) Other Intangible Assets

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

Research and Development

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

Other Intangible Assets

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

L) Impairment of Assets (Other than Goodwill)

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

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs.

Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

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

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

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

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

M) Provisions

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

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

N) Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 33%), based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Post-Employment Benefits

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

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

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

O) Value Added Tax

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

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

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

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

P) Deferred Income Tax

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

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

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

Q) Equity

Share Capital

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

Share Premium

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

Dividends

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

R) Revenue Recognition

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

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

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

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1) Segment Information

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

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

The Group's primary segment reporting format is the dominant source for disclosure of its operating activities in its financial statements. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Group discloses its sales revenue, gross profit, assets, liabilities and depreciation costs based on the main groups of products segregated into segments: seamless pipes, welded pipes, other operations, unallocated.

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

The cost of sales is also adjusted for the amount of losses (profits) from inventory shortages (surpluses), provision for obsolete and slow-moving inventory and unallocated overheads.

1) Segment Information (continued)

Primary reporting format — business segments

Year ended December 31, 2005	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
Net sales	911,937	1,701,374	185,745	—	**2,799,056**
Gross profit	127,919	577,850	18,463	—	**724,232**
Segment assets	277,942	1,169,287	116,470	691,955	**2,255,654**
Segment liabilities	14,577	96,260	63,399	933,789	**1,108,025**
Additions to property, plant and equipment	1,733	84,590	4,206	17,739	**108,268**
Depreciation and amortization	9,817	70,601	4,080	14,508	**99,006**

Year ended December 31, 2004	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
Net sales	487,960	1,284,708	149,530	—	**1,922,198**
Gross profit	60,178	305,312	11,919	—	**377,409**
Segment assets	310,356	1,242,851	51,964	673,633	**2,278,804**
Segment liabilities	85,778	60,213	5,062	1,190,783	**1,341,836**
Property, plant and equipment acquired in business combination	44,605	141,685	5,248	73,767	**265,305**
Additions to property, plant and equipment	3,365	39,940	3,438	11,963	**58,706**
Depreciation and amortization	9,739	67,530	7,862	6,601	**91,732**

Secondary reporting format — geographical segments

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

Year ended December 31, 2005	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
Net sales	2,041,503	393,535	77,130	124,207	3,180	113,020	46,481	**2,799,056**

Year ended December 31, 2004	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
Net sales	1,426,388	291,286	64,973	57,639	2,679	73,275	5,958	1,922,198

In 2005 and 2004, substantially all of the Group's assets were located in Russia.

2) Cost of Sales

	2005	2004
DIRECT COST		
Raw materials	1,427,290	1,006,031
Add-on materials of production	65,566	54,638
Labor cost	72,360	54,151
Service of production	4,102	1,896
Energy	74,137	57,927
TOTAL DIRECT COST	1,643,455	1,174,643
PRODUCTION OVERHEADS		
Salaries & wages	140,558	112,301
Other compensation	7,267	1,814
Travel	658	484
Freight	2,329	2,099
Communications	353	339
Professional services	5,721	2,946
Rent/occupancy	77	191
Utilities	44,363	37,317
Depreciation	93,323	84,803
Insurance	97	85
Taxes	12,505	11,334
Repairs and maintenance	17,616	10,031
Supplies	72,695	68,769
Special instrument	10,041	7,138
Other	1,981	857
Less: capitalized costs	(6,432)	(1,866)
TOTAL PRODUCTION OVERHEAD CHARGES	403,151	338,642
CHANGES OF INVENTORY	(8,981)	(82,637)
COST OF MERCHANDISE		
Cost of goods	35,555	113,949
TOTAL COST OF MERCHANDISE	35,555	113,949
INVENTORY ADJUSTMENT		
Book to physical	(78)	(572)
Obsolete and slow-moving	1,722	764
TOTAL INVENTORY ADJUSTMENT	1,644	192
TOTAL COST OF SALES	**2,074,824**	**1,544,789**

3) Selling Expenses

	2005	2004
Salaries & wages	20,275	16,000
Other compensation	250	52
Travel	1,998	1,260
Freight	77,500	53,324
Communications	858	623
Professional services	8,653	38,190
Rent/occupancy	3,258	2,199
Utilities	246	384
Depreciation	1,067	705
Insurance	550	285
Taxes	72	5
Repairs and maintenance	134	541
Supplies	11,366	8,375
Bad debt expense	236	4,525
Other	790	680
TOTAL SELLING EXPENSES	**127,253**	**127,148**

4) Advertising and Promotion Expenses

	2005	2004
Media	770	592
Displays, exhibits and catalogues	1,920	748
Taxes	—	64
Other	279	230
TOTAL ADVERTISING & PROMOTION EXPENSES	**2,969**	**1,634**

5) General and Administrative Expenses

	2005	2004
Salaries & wages	63,145	46,959
Other compensation	5,367	2,550
Travel	4,129	3,201
Freight	609	504
Communications	665	543
Professional services	20,958	9,275
Rent/occupancy	2,478	2,052
Utilities	3,365	2,821
Depreciation	4,651	4,020
Insurance	385	1,297
Taxes	2,152	1,658
Repairs and maintenance	1,550	1,319
Supplies	4,221	4,497
Other	1,340	1,238
TOTAL GENERAL & ADMINISTRATION EXPENSES	**115,015**	**81,934**

6) Research and Development Expenses

	2005	2004
Salaries & wages	3,005	2,408
Other compensation	104	16
Travel	58	34
Freight	29	21
Communications	20	19
Professional services	866	126
Utilities	114	76
Depreciation	955	495
Taxes	1	—
Repairs and maintenance	69	54
Supplies	249	175
Other	7	24
TOTAL SELLING EXPENSES	**5,477**	**3,448**

7) Other Operating Expenses

	2005	2004
Loss on disposal of property, plant and equipment	5,547	840
Loss on sale of current assets	14	—
Social and social infrastructure maintenance expenses	11,121	14,046
Charitable donations	7,389	3,452
Other	55	6,081
TOTAL OTHER OPERATING EXPENSES	**24,126**	**24,419**

8) Other Operating Income

	2005	2004
Gain on sale of current assets	—	552
Other	639	17
TOTAL OTHER OPERATING INCOME	**639**	**569**

9) Finance Costs

	2005	2004
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	2,334	3,409
Interest expense	72,870	94,014
TOTAL FINANCE COST	**75,204**	**97,423**

10) Acquisition of Tagmet

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

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

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

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

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

If Tagmet was consolidated into the Group with effect from January 1, 2004, on a pro forma basis, the revenue and net profit of the Group for the year ended December 31, 2004 would have been 1,930,729 and 19,290, respectively.

11) Income Tax

	2005	2004
Current income tax	115,636	32,208
Deferred income tax benefit related to origination and reversal of temporary differences	(19,025)	(13,919)
TOTAL INCOME TAX EXPENSE	**96,611**	**18,289**

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

	2005	2004
Income before taxation	365,196	46,335
Theoretical tax charge at statutory rate in Russia of 24%	87,647	11,121
Tax effect of items which are not deductable or assessable for taxation purposes:		
Tax fines	(1,133)	974
Other non-deductible expenses	12,458	5,977
Effect of lower tax rate in Switzerland	(3,356)	(783)
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	995	1,000
TOTAL INCOME TAX EXPENSE	**96,611**	**18,289**

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

	2005	Change recognised in income statement	Translation difference	2004	Change recognised in income statement	Change due to business combinations	Translation difference	2003
Deferred income tax liabilities:								
Property, plant and equipment	(236,790)	16,718	9,146	(262,654)	14,717	(38,165)	(14,318)	(224,888)
Inventory	(1,700)	1,511	93	(3,303)	681	(1,038)	(183)	(2,763)
Undistributed earnings of subsidiaries	(978)	24	37	(1,039)	(896)	—	(41)	(102)
Other	(453)	199	21	(673)	(423)	—	(29)	(221)
	(239,921)	**18,452**	**9,297**	**(267,669)**	**14,079**	**(39,203)**	**(14,571)**	**(227,974)**
Deferred income tax assets:								
Tax losses available for offset	4,662	(561)	(185)	5,407	268	4,611	207	321
Accrued liabilities	2,539	(1,330)	(120)	3,989	811	134	210	2,833
Accounts receivable	1,623	867	(44)	800	86	653	30	30
Prepayments and other current assets	386	(529)	(25)	940	(519)	1,369	36	53
Provisions	5,361	3,406	(134)	2,088	870	9	102	1,108
Finance lease obligations	297	(1,263)	(36)	1,595	(1,137)	1,249	90	1,393
Trade and other payable	79	(17)	(2)	99	(539)	129	15	496
	14,947	**572**	**(547)**	**14,919**	**(160)**	**8,153**	**690**	**6,235**
Net tax effect of temporary differences	—	19,025	—	—	13,919	—	—	—
Less: not recognized deferred income tax asset	(4,616)	—	172	(4,788)	—	(4,611)	(176)	—
Net deferred income tax liability	**(233,611)**	—	—	**(260,439)**	—	—	—	**(222,561)**
Net deferred income tax assets	**4,021**	—	—	**2,901**	—	—	—	**822**

11) Income Tax (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company. As at December 31, 2005, deferred tax asset in the amount of 4,616 (2004: 4,788) has not been recorded as it is not probable that sufficient taxable profit will be available to offset the deductible temporary differences to which the asset relates to.

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

As of December 31, 2005, the Group has not recognised deferred tax liability in respect of 360,931 (2004: 99,794) 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.

12) Earnings per Share

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

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

	2005	2004
Weighted average number of ordinary shares outstanding	873,001,000	119,263,295
Net profit attributable to the equity holders of the parent entity	259,068	26,004
Earnings per share attributable to the equity holders of the parent entity		
Basic and diluted (U.S.$)	**0.30**	**0.22**

The increase in the weighted average number of ordinary shares outstanding in the year ended December 31, 2005 was caused by the issue of ordinary shares in the year ended December 31, 2004 (Note 30).

13) Cash and Cash Equivalents

	December 31, 2005	December 31, 2004
Russian Rouble denominated cash on hand and balances with banks	31,872	1,916
Foreign currency denominated balances with bank (US dollar, Euro, Swiss Franc)	7,971	5,164
TOTAL CASH AND CASH EQUIVALENTS	**39,843**	**7,080**

14) Short-term Investments

	December 31, 2005	December 31, 2004
Promissory notes	422	13,753
Miscellaneous	—	288
TOTAL SHORT-TERM INVESTMENTS	**422**	**14,041**

15) Accounts Receivable

	December 31, 2005	December 31, 2004
Trade receivables	92,873	145,447
Officers and employees	1,157	1,282
Other accounts receivable	5,710	6,813
GROSS ACCOUNTS RECEIVABLE	99,740	153,542
Allowance for doubtful debts	(6,035)	(6,750)
NET ACCOUNTS RECEIVABLE	**93,705**	**146,792**

Accounts receivable amounting to 14,296 and 20,168 are denominated in US dollars at December 31, 2005 and December 31, 2004, respectively. Amounts receivable amounting to 7,037 and 1,428 are denominated in Euros at December 31, 2005 and December 2004, respectively.

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

	2005	2004
Balance at the beginning of the year	6,750	1,940
Utilized during the year	(701)	—
Currency translation	(234)	292
Additional increase in allowance	220	4,518
BALANCE AT THE END OF THE YEAR	**6,035**	**6,750**

16) Prepayments and Input VAT

	December 31, 2005	December 31, 2004
Prepayement for services, inventories	19,180	49,239
Prepayment for rent	381	285
Deferred charges	1,530	1,478
Prepayment for VAT, Input VAT	114,627	110,894
Prepayment for income tax	119	1,895
Prepayment for property tax	213	128
Prepayment for other tax	941	1,113
Prepayment for insurance	522	191
Miscellaneous	27	175
TOTAL PREPAYMENTS	**137,540**	**165,398**

Prepayments amounting to 2,200 and 4,286 are denominated in foreign currency, mainly Euros and US dollars, at December 31, 2005 and December 31, 2004, respectively.

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

17) Investments and Other Long-term Receivables

	December 31, 2005	December 31, 2004
Trade receivables	664	443
Advances to employees	3,002	2,007
Prepayment for property, plant and equipment	21,792	10,668
Borrowing costs relating to unused borrowing facilities	2,025	—
Investments	28	3,090
Prepayment for increases in ownership interests in subsidiaries	—	1,766
Other	2,392	981
GROSS INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	29,903	18,955
Allowance for doubtful debts	(23)	(7)
NET INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	**29,880**	**18,948**

Non-current accounts receivables amounting to 5,624 and 3,365 are denominated in foreign currency, mainly Euros, at December 31, 2005 and December 31, 2004, respectively.

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

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

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

18) Inventories

	December 31, 2005	December 31, 2004
Raw materials	147,015	104,758
Work in process	94,705	66,520
Finished goods	59,930	56,233
Goods in transit	39,920	70,132
Consigned goods	—	1,242
Supplies	80,414	70,285
GROSS INVENTORIES	421,984	369,170
Allowance for obsolescence and slow-moving	(5,122)	(3,557)
NET INVENTORIES	**416,862**	**365,613**

As of December 31, 2005, inventories carried at net realizable value were 39,599 (December 31, 2004: 52,119).

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

	2005	2004
Balance at the beginning of the year	3,557	2,603
Currency translation	(157)	190
Additional increase in allowance	1,722	764
BALANCE AT THE END OF THE YEAR	**5,122**	**3,557**

Inventories of 19,289 (December 31, 2004: 131,338) have been pledged as security for borrowings.

19) Property, Plant and Equipment

	Land and buildings	Machinery & equipment	Transport & motor vehicles	Furniture & fixtures	Construction in progress	TOTAL
COST						
Balance at January 1, 2005	697,511	821,477	18,405	12,062	33,905	**1,583,360**
Additions	1,568	336	183	69	101,975	**104,131**
Assets put in operations	15,412	22,479	2,393	3,635	(43,920)	**—**
Transfer to investment property	(1,979)	(102)	—	(308)	—	**(2,389)**
Disposals	(6,181)	(6,922)	(312)	(862)	(1,435)	**(15,712)**
Translation difference	(25,205)	(29,777)	(701)	(476)	(2,193)	**(58,352)**
BALANCE AT DECEMBER 31, 2005	**681,126**	**807,491**	**19,968**	**14,120**	**88,332**	**1,611,038**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2005	(32,008)	(125,194)	(5,286)	(3,927)	—	**(166,415)**
Depreciation charge	(19,257)	(74,260)	(3,055)	(2,801)	—	**(99,373)**
Transfer to investment property	220	11	—	59	—	**290**
Disposals	580	2,310	157	721	—	**3,768**
Translation difference	1,467	5,736	241	174	—	**7,618**
BALANCE AT DECEMBER 31, 2005	**(48,998)**	**(191,397)**	**(7,943)**	**(5,773)**	**—**	**(254,112)**
NET BOOK VALUE AT DECEMBER 31, 2005	**632,128**	**616,094**	**12,025**	**8,347**	**88,332**	**1,356,926**
NET BOOK VALUE AT JANUARY 1, 2005	**665,503**	**696,283**	**13,119**	**8,135**	**33,905**	**1,416,945**

Bank borrowings are secured by properties and equipment with the carrying value of 119,882 (December 31, 2004: 533,910) (Note 24).

	Land and buildings	Machinery & equipment	Transport & motor vehicles	Furniture & fixtures	Construction in progress	TOTAL
COST						
Balance at January 1, 2004	552,082	604,466	10,989	7,126	18,994	**1,193,657**
Additions	—	5,287	193	249	52,976	**58,704**
Assets in operations	8,781	30,841	1,811	4,437	(45,870)	**—**
Disposals	(8,216)	(4,251)	(321)	(2,128)	(1,549)	**(16,465)**
Increase due to business combination (Note 10)	106,800	144,245	4,808	1,773	7,679	**265,305**
Translation difference	38,064	40,889	925	605	1,676	**82,159**
BALANCE AT DECEMBER 31, 2004	**697,511**	**821,477**	**18,405**	**12,062**	**33,905**	**1,583,360**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2004	(13,882)	(53,642)	(1,946)	(1,384)	—	**(70,854)**
Depreciation charge	(16,790)	(67,094)	(3,214)	(2,909)	—	**(90,007)**
Disposals	156	1,364	113	542	—	**2,175**
Translation difference	(1,492)	(5,822)	(239)	(176)		**(7,729)**
BALANCE AT DECEMBER 31, 2004	**(32,008)**	**(125,194)**	**(5,286)**	**(3,927)**	**—**	**(166,415)**
NET BOOK VALUE AT DECEMBER 31, 2004	**665,503**	**696,283**	**13,119**	**8,135**	**33,905**	**1,416,945**
NET BOOK VALUE AT JANUARY 1, 2004	**538,200**	**550,824**	**9,043**	**5,741**	**18,994**	**1,122,803**

19) Property, Plant and Equipment (continued)

Investment property was as follows:

COST	
Balance at January 1, 2005	—
Transfer from property, plant and equipment	2,389
Additions	79
Disposals	(1)
Translation difference	(42)
Balance at December 31, 2005	**2,425**
ACCUMULATED DEPRECIATION	
Balance at January 1, 2005	—
Transfer from property, plant and equipment	(291)
Depreciation charge	(138)
Disposals	—
Translation difference	8
Balance at December 31, 2005	**(421)**
NET BOOK VALUE AT DECEMBER 31, 2005	**2,004**

The fair value of investment property approximates its carrying amount.

20) Goodwill and Other Intangible Assets

	Patents and trademarks	Goodwill	Information system projects (software R\3)	Other	TOTAL
COST					
Balance at January 1, 2005	233	38,565	8,422	2,029	**49,249**
Additions	23	—	3,160	875	**4,058**
Disposals	—	—	(16)	(1,291)	**(1,307)**
Translation difference	(9)	(1,385)	(356)	(63)	**(1,814)**
BALANCE AT DECEMBER 31, 2005	**247**	**37,180**	**11,210**	**1,550**	**50,186**
ACCUMULATED AMORTISATION					
Balance at January 1, 2005	(45)	—	—	(10)	**(55)**
Amortisation charge	(12)	—	(387)	(62)	**(461)**
Disposals	—	—	—	17	**17**
Translation difference	2	—	6	1	**9**
BALANCE AT DECEMBER 31, 2005	**(55)**	**—**	**(381)**	**(54)**	**(489)**
NET BOOK VALUE AT DECEMBER 31, 2005	**192**	**37,180**	**10,829**	**1,496**	**49,696**
NET BOOK VALUE AT JANUARY 1, 2005	**188**	**38,565**	**8,422**	**2,019**	**49,194**

20) Goodwill and Other Intangible Assets (continued)

	Patents and trademarks	Goodwill	Information system projects (software R\3)	Other	TOTAL
COST					
Balance at January 1, 2004	215	2,334	—	65	**2,614**
Additions	5	—	8,110	1,888	**10,003**
Disposals	—	—	—	—	**—**
Increase due to business combination (Note 29)	—	35,140	—	—	**35,140**
Translation difference	13	1,091	312	76	**1,492**
BALANCE AT DECEMBER 31, 2004	**233**	**38,565**	**8,422**	**2,029**	**49,249**
ACCUMULATED AMORTISATION					
Balance at January 1, 2004	(27)	—	—	(6)	**(33)**
Amortisation charge	(16)	—	—	(3)	**(19)**
Disposals	—	—	—	—	**—**
Translation difference	(2)	—	—	(1)	**(3)**
BALANCE AT DECEMBER 31, 2004	**(45)**	**—**	**—**	**(10)**	**(55)**
NET BOOK VALUE AT DECEMBER 31, 2004	**188**	**38,565**	**8,422**	**2,019**	**49,194**
NET BOOK VALUE AT JANUARY 1, 2004	**188**	**2,334**	**—**	**59**	**2,581**

21) Accounts Payable and Advances from Customers

	December 31, 2005	December 31, 2004
Trade and other payables	95,391	60,390
Advances from customers	53,937	134,138
Accounts payable for property, plant and equipment	2,474	2,912
Issued notes to third parties	—	9,910
Other	1,061	1,374
TOTAL ACCOUNTS PAYABLE	**152,863**	**208,724**

Trade payables amounting to 25,496 and 52,499 are denominated in foreign currency, mainly US dollars, at December 31, 2005 and December 31, 2004, respectively.

22) Accrued Liabilities

	December 31, 2005	December 31, 2004
Payroll liabilities	18,975	16,567
Accrued and withheld taxes on payroll	6,001	5,282
Liabilities for VAT	14,146	10,148
Liabilities for income tax	10,645	9,896
Liabilities for property tax	989	983
Liabilities for other taxes	731	812
Deferred VAT	37,785	36,797
Liabilities for unused annual leaves, current portion	1,322	1,228
Accrual for tax fines	607	4,812
Accrual for long-service benefit	3,318	2,185
Miscellaneous	1,201	358
TOTAL ACCRUED LIABILITIES	**95,720**	**89,068**

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

23) Finance Lease Liabilities

In 2001-2002, the Group entered into lease agreements under which they have a bargain option to acquire the leased assets at the end of lease term ranging from 2 to 7 years. The estimated average remaining useful life of leased assets varies from 6 to 30 years.

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

	2005	2004
Machinery and equipment	8,325	16,711
Transport and motor vehicles	57	65
	8,382	**16,776**

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

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

	Principal	Interest	Total
2006	1,222	61	1,283
2007-2009	23	8	31
	1,245	**69**	**1,314**

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

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

	2005	2004
US dollars	1,246	3,592
Euros	—	1,233
	1,246	**4,825**

24) Interest-Bearing Loans and Borrowings

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

	2005	2004
Current:		
Russian banks	198,097	278,042
International banks	96,827	36,979
Raiffeisen Leasing liability	576	—
Interest payable	5,037	3,224
Current portion of non-current loans and borrowings	103,093	301,881
Unamortized debt issue costs	(361)	—
	403,269	**620,126**
Non-current:		
Russian banks	83,630	50,000
International banks	10,423	296,623
Bearer coupon debt securities	173,717	72,076
Raiffeisen Leasing liability	785	1,869
Unamortized debt issue costs	(2,272)	(1,600)
Less: current portion of non-current loans and borrowings	(103,093)	(301,881)
	163,190	**117,087**

Loans for 53,218 as of December 31, 2005 and 222,958 as of December 31, 2004, inclusive of short-term borrowings, were guaranteed by collateral of property, plant and equipment, inventories (Notes 18, 19) and, as of December 31, 2005, by shares of a subsidiary of the Group, representing net assets with the carrying amount of 39,213.

Long-term debt is repayable as follows:

	December 31, 2005	December 31, 2004
1 to 2 years	45,912	92,112
2 to 3 years	10,750	19,935
3 to 4 years	105,163	6,640
Over 4 years	3,637	—
Unamortized debt issue costs	(2,272)	(1,600)
	163,190	**117,087**

Breakdown of borrowings by currency:

	Interest rates	December 31, 2005	December 31, 2004
Russian Rouble	8%-13%	327,549	396,537
Euro	6 month Euribor + 3.5% 6 month Euribor + 5% 5.6%-7.4%	32,815	—
US Dollar	8%-20% LIBOR + 4.5%	206,095	340,676
		566,459	**737,213**

24) Interest-Bearing Loans and Borrowings (continued)

Some of the loan agreements provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and guarantees issued to other parties. Three loans for the total amount of 70,161 are secured by proceeds from export sales of VTZ, Tagmet and Sinara-Trading, the Group's subsidiaries.

Bank Loans

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

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

Bearer Coupon Debt Securities

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

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 roubles (U.S.$35.98 at exchange rate as of the date of issuance) each. The bonds mature on March 24, 2009. Interest rate for the first and second semi-annual coupons is 11.09% per annum. Interest rate for the third and fourth semi-annual coupons is 10.09% per annum. Interest rate for the fifth, sixth, seventh and eighth semi-annual coupons will be established and announced by the Company within 5 days before the fourth coupon due date. Early redemption of bonds is available within 5 days of the fourth coupon period, from the 724^{th} to the 728^{th} days from the date of issuance.

Liability to Raiffeisen Leasing

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

Unutilised Borrowing Facilities

As of December 31, 2005, the Group had unutilised borrowing facilities in the amount of 122,542.

25) Post-Employment Benefits

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

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

	2005	2004
Movement in the benefit liability:		
At January 1	(11,088)	(9,475)
Benefit expense	(7,295)	(802)
Benefit paid	471	368
Change in liability due to business combination	—	(558)
Translation difference	516	(621)
At December 31	**(17,396)**	**(11,088)**
Net benefit expense (recognized in cost of sales):		
Current service cost	1,090	662
Interest cost on benefit obligation	843	871
Net actuarial loss (gain) recognized in the period	5,362	(731)
Net benefit expense	7,295	802
The principal actuarial assumptions used in determining pension obligations for the Group's plan are shown below:		
Discount rate	7.75%	8.50%
Average long-term rate of compensation increase	6.25%	6.50%

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

26) Other Non-current Liabilities

	December 31, 2005	December 31, 2004
Unused annual leave	6,956	3,947
Other long-term liabilities	88	91
BALANCE AT THE END OF YEAR	**7,044**	**4,038**

27) Principal Subsidiaries

Company	Location	Main activity	Actual ownership interest December 31, 2005	Effective ownership interest December 31, 2005	Actual ownership interest December 31, 2004	Effective ownership interest December 31, 2004
OAO "Sinarsky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, sale of electric and heating power and other services	91.12%	91.12%	88.69%	88.69%
OAO "Seversky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services	91.60%	91.60%	91.12%	91.12%
OAO "Volzhsky Pipe Plant"	Russia	Manufacturing of 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	95.32%	95.32%	94.59%	94.59%
ZAO "Trade House TMK"	Russia	Sale of steel pipes	100.00%	99.91%	100.00%	99.89%
TOO "TMK-Kazakhstan"	Kazakhstan	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
OOO "TMK-Trans"	Russia	Transportation services	100.00%	100.00%	100.00%	100.00%
OOO "Blagoustroystvo"	Russia	Services	100.00%	100.00%	100.00%	100.00%
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%
OOO "Skladskoy Kompleks TMK"	Russia	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%
Sinara Trading AG	Switzerland	Sale of steel pipes	100.00%	100.00%	100.00%	100.00%

28) Related Parties Disclosures

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

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

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at December 31, 2005 and 2004 are detailed below.

In the year ended December 31, 2005, transactions with related parties constituted approximately 7% of the total volume of the Group's sales of goods (2004: 14%).

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

28) Related Parties Disclosures (continued)

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

	2005	2004
Cash		
— Entities under common control with the Group	12,489	227
— Entities under control of the minority shareholders of the Company	5	28
	12,494	**255**
Accounts receivable — current		
— Entities under common control with the Group	51,546	56,320
— Entities under control of the minority shareholders of the Company	124	101
	51,670	**56,421**
Accounts receivable — non-current		
— Entities under common control with the Group	30,082	7,849
	30,082	**7,849**
Loans to related parties		
— Entities under common control with the Group	40,340	456
	40,340	**456**
Prepayments — current		
— Entities under common control with the Group	2,646	27,166
— Entities under control of the minority shareholders of the Company	18	—
	2,664	**27,166**
Accounts payable — current		
— Entities under common control with the Group	1,040	14,543
	1,040	**14,543**
Borrowings from related parties		
— Entities under common control with the Group	—	4,014
— Entities under control of the minority shareholders of the Company	31,394	6,070
	31,394	**10,084**

Accounts receivable from related parties amounting to 26,767 and 19,612 are denominated in US dollars at December 31, 2005 and December 31, 2004, respectively. Amounts receivable amounting to 42,013 and 23,553 are denominated in Euros at December 31, 2005 and December 2004, respectively.

Prepayments to related parties amounting to 2,646 and 27,112 are denominated in foreign currency, mainly US dollars, at December 31, 2005 and 2004, respectively.

Accounts payable to related parties amounting to 512 and 14,330 are denominated in foreign currency, mainly Euros, at December 31, 2005 and 2004, respectively.

28) Related Parties Disclosures (continued)

The following table provides the total amount of transactions with related parties for the years ended December 31, 2005 and 2004:

	2005	2004
Sales revenue		
— Entities under common control with the Group	147,599	194,299
— Entities under control of the minority shareholders of the Company	—	22,355
	147,599	**216,654**
Purchases of goods and services		
— Entities under common control with the Group	57,302	69,554
— Entities under control of the minority shareholders of the Company	1,318	39,526
	58,620	**109,080**
Purchases of equipment and intangible assets		
— Entities under common control with the Group	29,680	36,088
	29,680	**36,088**
Interest expenses from loans and borrowings		
— Entities under common control with the Group	525	983
— Entities under control of the minority shareholders of the Company	1,472	3,741
	—	—
	1,997	**4,724**
Interest (income) from loans and borrowings		
— Entities under common control with the Group	(1,135)	(2,155)
— Entities under control of the minority shareholders of the Company	—	(327)
	(1,135)	**(2,482)**

In addition, certain transactions with related parties are disclosed in Note 24 to these consolidated financial statements.

Prior to February 26, 2004, the date of acquisition of Tagmet (Note 10), the Group re-sold raw materials to Tagmet that were purchased from the Group's suppliers, and purchased pipe products from Tagmet for subsequent re-sale to the Group's customers. The Group's sales of pipe products purchased from Tagmet were included in sales (welded and seamless pipes in the business segments disclosure) in these consolidated financial statements. The Group's purchases of pipe products from Tagmet were included in purchases from related parties in the table above. The Group's sales of raw materials to Tagmet prior to February 26, 2004 were included in sales (other products in business segments disclosure) in these consolidated financial statements and in sales to related parties in the table above.

In June 2005, the Group signed an agreement with an entity under common control with the Group for the purchase of 100% ownership interest in Sinara Handel GmbH, an entity registered in Germany, for the consideration of 40,000. The title to the 100% ownership interest in Sinara Handel GmbH transferred to the Group in 2006 (Note 32). Sinara Handel GmbH owns controlling interests in two pipe plants in Romania. Sinara Handel GmbH is the Group's supplier of certain types of raw materials and equipment. The amount of 20,000 was paid by the Group prior to December 31, 2005 and was included in long-term receivables from related parties in these consolidated balance sheet as of December 31, 2005.

28) Related Parties Disclosures (continued)

Non-current accounts receivable from related parties include a long-term portion of receivables for securities sold in the amount of 4,986 due in 2006 and 2007. The nominal value of the receivable as of December 31, 2005 was 7,766, including a current portion of 2,779. The long-term portion was discounted at a rate of 15%. In the year ended December 31, 2005, the payment schedule for this receivable was changed. The decrease in the fair value of the receivable of 439 resulting from re-scheduling of payments was recorded as a reduction in interest income in these consolidated income statement for 2005.

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

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

Compensation of Key Management Personnel of the Group

Key management personnel comprise members of Board of Directors and certain executives of the Group, totalling 30 and 15 persons as at December 31, 2005 and 2004, respectively.

The total amount of compensation to key management personnel, which is included in the income statement as part of the general and administrative expenses, was 8,867 and 3,500 in the years ended December 31, 2005 and 2004, respectively.

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

29) Contingencies, Commitments and Operating Risks

Operating Environment of the Group

The Russian economy while deemed to be of market status continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The stability of the Russian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms.

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.

29) Contingencies, Commitments and Operating Risks (continued)

Contractual Commitments and Guarantees

As of December 31, 2005, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 754,803 thousand roubles (26,224), 68,409 thousand euros (81,250) and 6,380 thousand US dollars for the total amount 113,854 (all amounts of contractual commitments are expressed net of VAT). The Group paid advances of 19,169 on these contractual commitments.

Contingent Liabilities

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 52,160.

Insurance Policies

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

Legal Claim

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

Guarantees of Debts of Others

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

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

30) Equity

i) Share Capital

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

30) Equity (continued)

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

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

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

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

ii) Reserve Capital

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

iii) Dividends

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

In accordance with Russian legislation, dividends may only be declared to the shareholders from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had 327,139 and 46,461 of undistributed and unreserved earnings as of December 31, 2005 and 2004, respectively. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 372,237 and 111,357 as of December 31, 2005 and 2004, respectively.

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

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

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

In December 2004, the Group signed an agreement with an entity under common control with the Group on the purchase of 100% ownership interest in Sinara Trading AG, an entity registered in Switzerland, for the consideration of 8,787 thousand Swiss francs (7,753 at the exchange rate as of December 31, 2004). Sinara Trading AG is the Group's distributor of pipe products in the countries outside of Russia. The title transferred to the Group and control over Sinara Trading was obtained by the Group on May 25, 2005. The amount of 7,510 was paid by the Group prior to December 31, 2004. The Group additionally paid the amount of 121 in 2005. These payments were recorded as a reduction in accumulated profits in these consolidated financial statements.

Sinara Trading paid dividends in the amount of 817 for 2004 in the year ended December 31, 2004 and 7,593 for 2005 in May 2005 to its former owner, before the transfer of Sinara Trading shares to TMK.

30) Equity (continued)

v) Acquisition of Minority Interests in Subsidiaries

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

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

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

31) Financial Risks

Credit Risk

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

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

Foreign Exchange Risk

The Group exports production to European countries and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (Notes 13, 15, 16, 17) and liabilities (Notes 21, 23, 24) give rise to foreign exchange exposure.

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

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. Interest rates on long-term borrowings are fixed, except for 48,612 of variable-rate debt. Interest rates are disclosed in Note 24.

Fair Value of Financial Instruments

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

31) Financial Risks (continued)

The fair value of the bonds issued by the Group with a nominal amount of 2,000,000 thousand roubles (or 66,627) is equal to 70,605 as of December 31, 2005. The fair value of the bonds issued by the Group in March 2005 with a nominal amount of 3,000,000 roubles (or 108,632) is equal to 106,711 as of December 31, 2005. The fair value of the bonds was determined based on market quotations.

32) Events after the Balance Sheet Date

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

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

On February 26, 2006, the Company purchased an additional 0.25% of OAO "Tagmet" shares for 1,261. The Company's interest in the subsidiary increased to 95.57%.

On March 1, 2006, the title to the 100% ownership interest in Sinara Handel GmbH was transferred to the Group (Note 28). In addition to the information disclosed in respect of this acquisition, IFRS 3, Business Combinations, requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities. It is impracticable to the Group to disclose this information because the acquired subsidiaries have not prepared their financial statements in accordance with IFRS at the time these consolidated financial statements were authorised for issue. This purchase of a subsidiary from an entity under common control with the Group will be accounted for using the pooling of interests method (Note A).

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

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