OJSC Chelyabinsk Tube-Rolling Plant

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2007

Contents

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of the OJSC Chelyabinsk Tube-Rolling Plant:

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

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

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

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

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

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
20 June 2008

Open Joint Stock Company Chelyabinsk Tube-Rolling Plant
Consolidated Balance Sheet

In thousands of Russian Roubles	Note	31 December 2007	31 December 2006
Assets			
Non-current assets			
Property, plant and equipment	8	14,851,363	13,008,695
Advances for capital construction		6,965,778	1,790,315
Intangible assets	9	1,959,891	594,815
Other non-current assets		3,530	-
Total non-current assets		**23,780,562**	**15,393,825**
Current assets			
Inventory	10	9,745,111	8,482,169
Accounts receivable	11	10,542,593	8,077,241
Current income tax prepayment		553,347	201,135
Promissory notes and loans receivable	12	4,832,587	1,101,838
Cash and cash equivalents	13	681,899	727,045
Total current assets		**26,355,537**	**18,589,428**
Total assets		**50,136,099**	**33,983,253**
Equity			
Share capital	14	2,498,261	2,498,261
Legal reserve		70,857	23,619
Share premium		-	23,346
Treasury shares		(8,207)	(7,577)
Retained earnings		13,238,671	8,079,588
Equity attributable to the Company's equity holders		**15,799,582**	**10,617,237**
Minority interest		**4,647,100**	**3,836,942**
Total equity		**20,446,682**	**14,454,179**
Liabilities			
Non-current liabilities			
Borrowings	15	4,574,369	4,404,664
Promissory notes payable	16	2,855	12,834
Employee benefits		97,593	24,539
Share in net assets attributable to minority participants		92	171,361
Deferred income tax liability	23	651,813	836,377
Total non-current liabilities		**5,326,722**	**5,449,775**
Current liabilities			
Borrowings	15	19,235,706	6,496,161
Accounts payable and accrued expenses	18	3,358,919	3,806,541
Advances from customers		1,205,229	3,037,407
Unamortised balance of fair value of originated financial guarantees		97,841	89,782
Taxes payable	17	465,000	649,408
Total current liabilities		**24,362,695**	**14,079,299**
Total liabilities		**29,689,417**	**19,529,074**
Total liabilities and equity		**50,136,099**	**33,983,253**

Approved for issue and signed on behalf of the Management Board on 20 June 2008.

P. E. Pelyugin
General Director

S. S. Knysheva
Chief Accountant

The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2007	2006
Revenue	19	80,663,796	60,811,034
Cost of sales	20	(62,659,800)	(46,160,297)
Gross profit		**18,003,996**	**14,650,737**
Distribution expenses	21	(2,674,203)	(1,462,640)
General and administrative expenses	21	(5,079,216)	(4,953,192)
Operating profit		**10,250,577**	**8,234,905**
Finance costs	22	(1,248,597)	(758,423)
Profit before income tax		**9,001,980**	**7,476,482**
Income tax expense	23	(2,449,826)	(2,094,194)
Profit for the period		**6,552,154**	**5,382,288**
Profit is attributable to:			
Equity holders of the Company		5,325,786	4,413,129
Minority interest		1,226,368	969,159
Profit for the period		**6,552,154**	**5,382,288**
Earnings per share for profit attributable to the equity holders of the Company, basic and diluted (expressed in RR per share)	**24**	**11.7**	**9.3**

In thousands of Russian Roubles	Note	2007	2006
Cash flows from operating activities			
Profit before income tax		9,001,980	7,476,482
Adjustments for:			
(Gain on recognition of negative goodwill)/goodwill impairment	9,20,21,28	(70,085)	89,052
Share in net assets of a subsidiary attributable to the minority participants	21	3,658	-
(Amortisation)/recognition of fair value of originated financial guarantees	21	8,059	89,782
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	8,9,10, 21,22	1,627,470	1,478,273
Impairment of trade and other receivables	21	31,408	152,800
Impairment of promissory notes	21	238,988	-
Change in inventory impairment provision	20	(28,922)	18,451
Losses on disposals of property, plant and equipment	21	108,448	18,753
Gain on disposal of subsidiary	21	-	(53,076)
Finance costs	22	1,273,671	1,087,624
Net gain from sale of securities	22	(32,685)	-
Foreign exchange differences on non-operating items		(67,868)	(336,858)
Operating cash flows before working capital changes		**12,094,122**	**10,021,283**
Increase in accounts receivable and prepayments		(3,144,473)	(6,830,433)
Increase in inventories		(1,227,283)	(2,563,423)
Decrease in trade and other payables		(2,445,642)	9,027,571
Cash generated from operations		**5,276,723**	**9,654,998**
Income taxes paid		(3,028,179)	(2,424,707)
Interest paid		(1,331,162)	(1,197,386)
Interest received		125,106	56,910
Net cash from operating activities		**1,042,488**	**6,089,815**
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets		(3,542,386)	(1,980,950)
Increase in advances for capital construction		(5,175,463)	(1,312,227)
Proceeds from sale of property, plant and equipment		156,974	4,059
Purchase of promissory notes and loans given		(9,744,293)	(3,078,721)
Proceeds from sale of promissory notes and loans repaid		5,798,734	3,156,914
Acquisition of minority interest in PNTZ	9	(400,670)	(733,619)
Acquisition of minority interest in Basa MTS	9	(40,100)	-
Acquisition of minority interest in Meta Invest	9	(256,008)	-
Cash disposed in UTS, net of proceeds from disposal		-	(20,838)
Sale of minority interest in Tirus		-	9,303
Acquisition of Zhilevskaya Metallobasa, net of cash acquired	28	(609,708)	-
Cash acquired in UTS, net of purchase consideration	28	109,453	-
Prepaid acquisition of Vtorchermet	11,30	(223,257)	-
Acquisition of Meta Invest, net of cash acquired		-	(594,406)
Purchase of a discontinued operation		-	(640,000)
Proceeds from sale of a discontinued operation		-	637,700
Cash acquired in Tirus		-	95,901
Net cash used in investing activities		**(13,926,724)**	**(4,456,884)**
Cash flows from financing activities			
Proceeds from borrowings and promissory notes		59,804,808	37,870,562
Repayment of borrowings and promissory notes		(46,822,277)	(39,418,966)
Cash paid to acquire treasury shares		(4,670,220)	(7,577)
Cash received upon disposal of treasury shares		4,526,779	-
Net cash from financing activities		**12,839,090**	**(1,555,981)**
Net (decrease)/increase in cash and cash equivalents		**(45,146)**	**76,950**
Cash and cash equivalents at the beginning of the period		**727,045**	**650,095**
Cash and cash equivalents at the end of the period	13	**681,899**	**727,045**

	Attributable to the equity holders of the Company							
In thousands of Russian Roubles	**Share capital**	**Legal reserve**	**Retained earnings**	**Share premium**	**Treasury shares**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2006	**2,498,261**	**23,619**	**3,666,459**	**23,346**	**-**	**6,211,685**	**2,869,665**	**9,081,350**
Profit for the year	-	-	4,413,129	-	-	4,413,129	969,159	5,382,288
Total recognised profit for the year	-	-	4,413,129	-	-	4,413,129	969,159	5,382,288
Acquisition of treasury shares	-	-	-	-	(7,577)	(7,577)	-	(7,577)
Acquisition of treasury shares by a subsidiary	-	-	-	-	-	-	(11,387)	(11,387)
Acquisitions and disposals of subsidiaries	-	-	-	-	-	-	9,505	9,505
Balance at 31 December 2006	**2,498,261**	**23,619**	**8,079,588**	**23,346**	**(7,577)**	**10,617,237**	**3,836,942**	**14,454,179**
Profit for the year	-	-	5,325,786	-	-	5,325,786	1,226,368	6,552,154
Total recognised profit for the year	-	-	5,325,786	-	-	5,325,786	1,226,368	6,552,154
Increase in legal reserve (Note 14)	-	47,238	(47,238)	-	-	-	-	-
Acquisition of treasury shares	-	-	-	-	(4,670,220)	(4,670,220)	-	(4,670,220)
Disposals of treasury shares	-	-	(119,465)	(23,346)	4,669,590	4,526,779	-	4,526,779
Increase in participation interest in subsidiaries (Note 9)	-	-	-	-	-	-	(416,210)	(416,210)
Balance at 31 December 2007	**2,498,261**	**70,857**	**13,238,671**	**-**	**(8,207)**	**15,799,582**	**4,647,100**	**20,446,682**

1 OJSC Chelyabinsk Tube-Rolling Plant and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for OJSC Chelyabinsk Tube-Rolling Plant (the "Company" or "CTRP") and its subsidiaries (together referred to as the "Group").

The Company was incorporated on 21 October 1992 and is domiciled in the Russian Federation. The Company is Open Joint Stock Company and was set up in accordance with Russian regulations.

As at 31 December 2007 the immediate parent company of the Group was Mountrise Limited, which owned 76% of the Company's shares (at 31 December 2006: no immediate controlling party).

As at 31 December 2007 the Group is ultimately controlled by Mr. A. I. Komarov (2006: no ultimate controlling party).

Principal activity. The Group's principal activities include the production and distribution of tubes and tube products for oil and gas pipelines, housing and utilities infrastructure and industrial applications. The Group's principal manufacturing facilities are based in Chelyabinsk and Pervouralsk. Principal subsidiaries are disclosed in Note 26. All companies of the Group are incorporated under the Laws of the Russian Federation. At 31 December 2007, the Group employed approximately 21,453 employees (31 December 2006: 21,657).

The Group has substantial transactions with related parties. In particular, the Group sells a significant portion of its finished goods to CJSC Trade House Uraltrubostal ("UTS"). In order to consolidate its distributions the Group acquired 99% of UTS in December 2007 (Note 28). Certain transactions entered into between the Group and its related parties may not be on arms-length terms (Note 7).

Registered address and place of business. The Company's registered address is Russian Federation, 454129, Chelyabinsk, Mashinostroiteley Str., 21.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Amendments of the consolidated financial statements after issue. The Company's shareholders and management have the power to amend the consolidated financial statements after issue.

Presentation currency. All amounts in these financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the current carrying amounts in these financial statements.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

2 Basis of Presentation and Significant Accounting Policies (continued)

Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost transferred can not be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest. Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

Purchases of minority interest. Difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as goodwill or negative goodwill. Gains and losses on the disposal of interests in subsidiaries where the parent retains control are reported within income statement.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for in accordance with the purchase method of accounting.

Property, plant and equipment. Before transition to IFRS measurement of property, plant and equipment was based on statutory regulations. Upon transition to IFRS for the purpose of determining property, plant and equipment value as at 1 January 2003, the Company used an independent appraiser to perform a valuation of property, plant and equipment as historical cost and accumulated depreciation information was not readily available. Values determined by the appraiser formed deemed cost for IFRS financial statements. Subsequent additions to property, plant and equipment are recorded at purchase or construction cost.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired.

Borrowing costs, inclusive of interest on borrowings to finance the construction of property, plant and equipment, are expensed in the period incurred.

At each reporting date the Group's management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the income statement. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

Depreciation. Land is not depreciated. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Buildings and infrastructure	20 to 50
Plant and machinery	10 to 30
Equipment and motor vehicles	5 to 15

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Goodwill. Goodwill represents an excess of the cost of an acquisition over the fair value of the acquirer's share in the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

2 Basis of Presentation and Significant Accounting Policies (continued)

Intangible assets. All of the Group's intangible assets, excluding goodwill, have definite useful lives and primarily include computer software and favourable leasehold interests.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring them to use. They are amortised using the straight-line method over their useful lives, but not exceeding five years.

Favourable leashold interests are recognised at fair value as determined in the course of a subsidiary purchase price allocation and are amortised using straight-line method over the lease period not exceeding fifty years.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and, when impaired, the asset is written down to the higher of value in use and fair value less costs to sell.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related consolidated balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: available-for-sale and loans and receivables.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the available-for-sale category.

Initial recognition of financial instruments. Trading investments are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus or minus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

2 Basis of Presentation and Significant Accounting Policies (continued)

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognized on the delivery date with the change in value between the commitment date and delivery date not recognized for assets carried at the acquisition cost or amortized cost; recognized in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized in profit or loss. Dividends on available-for-sale equity instruments are recognized in the income statement when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognized in the consolidated income statement unless it relates to transactions that are recognized, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2 Basis of Presentation and Significant Accounting Policies (continued)

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the income statement. The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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

Value added tax. Value added tax related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are carried at amortized cost using the effective interest method. Borrowing costs are recognized as an expense on a time proportion basis using the effective interest method. The Group does not capitalize borrowing costs.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognized 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 there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2 Basis of Presentation and Significant Accounting Policies (continued)

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.

Financial guarantees. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the remaining commitment at the balance sheet date.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2007, the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 24.5462 (31 December 2006: US$ 1 = RR 26.3311). The official Euro to RR exchange rate at 31 December 2007, as determined by the Central Bank of the Russian Federation, was 35.9332 (31 December 2006: 34.6965).

Revenue recognition. Revenues from sales of goods are recognized at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Revenues are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to the statement of income as cost of sales.

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. In addition the Group provides various retirement benefits to its employees. The benefits include lump sum payments upon retirement. Employee's benefits liability is estimated applying projected unit credit method.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those of expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Earnings per share. Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. The effect of reclassifications on the consolidated income statement for the year ended 31 December 2006 were as follows:

In thousands of Russian Roubles	**As originally presented**	**Adjustment**	**As adjusted**
Revenue (Note 19)	59,585,591	1,225,443	60,811,034
Cost of sales (Note 20)	(45,092,537)	(1,067,760)	(46,160,297)
General and administrative expenses (Note 21)	(4,795,509)	(157,683)	(4,953,192)

2 Basis of Presentation and Significant Accounting Policies (continued)

In 2007 the Group revised its approach to recognition of revenues and expenses related to sales of scrap metal as other expenses within administrative expenses on a net basis. The Group's management believes that sale of metal scrap is becoming increasingly important for the Group and represents one of its core activities. Therefore, revenue from sales of scrap metal should be classified as revenue and cost of sales.

3 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 9.

Goodwill was allocated to the three cash-generating units: UTS, Meta-Invest and OJSC Pervouralsky Novotrubny Zavod ("PNTZ"). Management believes that the reasonably possible change in estimates will not lead to a material goodwill impairment for any of the cash generating units.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 25.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market prices, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Assumptions to determine provisions. The Group determines recoverability of accounts receivable and originated advances by comparing actual cash collection to the contractual payment schedule. In the case when a risk of non-collection is assessed as probable, a provision for the doubtful accounts receivable and originated advances is recognised.

Inventory obsolescence. The provision for obsolete inventory is based on the Group's ability to identify obsolete inventory and assess future perspective of its utilisation.

4 Adoption of New or Revised Standards and Interpretations

The following revised and issued standards were adopted in accordance with their transitional provisions and effective date and have no material impact on these consolidated financial statements:

IFRS 7 Financial Instruments Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduced new disclosures in order to update the information about financial instruments including the data about quantitative aspects of risk exposures and the methods of risk management. New quantitative disclosures will provide data about the risk exposure increase based on internal information submitted by key management personnel of the Company. Quantitative and qualitative disclosures will also allow to obtain information on credit risk, liquidity risk and market risk exposure, including market risk sensitivity analysis. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32 "Financial Instruments: Disclosures". A Complementary amendment to IAS 1 introduced disclosures about the Company's capital level and how it manages the capital. New disclosures are presented in these consolidated financial statements.

Other new standards and interpretations. The group applied the following interpretations that became effective from 1January 2007:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

Adoption Impact. New interpretations (IFRIC) 7 – 10 had no material impact on the financial statements of the Group.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the entity has not early adopted.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the standard will have on segment disclosures in the consolidated financial statements.

Puttable financial instruments and obligations arising on liquidation - IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Vesting Conditions and Cancellations - Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

5 New Accounting Pronouncements (continued)

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

IFRS 1, 'First time adoption of IFRS' and IAS 27, 'Consolidated and separate financial statements', amended (issued in May 2008, effective for annual periods beginning on or after 1 January 2009). The amended standards allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removed the definition of the cost method from IAS 27 and replaced it with a requirement to present dividends as income in the separate financial statements of the investor.

The IASB has issued the '***Improvements to IFRSs***' standard which amends 20 standards, basis of conclusions and guidance based on the exposure draft issued in October 2007. The improvements include changes in presentation, recognition and measurement plus terminology and editorial changes. Most of the amendments are effective annual periods beginning on or after 1 January 2009.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

6 Segment Reporting

The Group has only one business segment – tube production. With regard to the secondary geographical segments, sales are based on the country in which the customer is located, while total assets and capital expenditures are based on where the assets are located. All of the Group's assets and capital expenditures are located in Russia. For the geographical segments of the Group's sales refer to Note 19.

7 Balances and Transactions with Related Parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and 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. Related parties of the Group are predominantly comprised of parties under the control of the Group's shareholders.

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

In thousands of Russian Roubles	**Entities controlled by the Group's shareholders**	**Entity under significant influence of the Group's shareholders**
Gross amount of trade and other receivables	419,272	49,933
Originated loans and promissory notes receivable:		
- RR denominated, bearing interest of 11% p.a.	2,757,482	-
- RR denominated, bearing interest of 10% p.a.	111,574	
- RR denominated, interest-free	234,909	-
- US$ denominated, 9.1%	490,925	-
Trade and other payables	(255,326)	(1,767)
Unamortised balance of fair value of originated financial guarantees	(62,299)	-

7 Balances and Transactions with Related Parties (continued)

The income and expense items with related parties for the year ended 31 December 2007 were as follows:

In thousands of Russian Roubles	**Entities controlled by the Group's shareholders**	**Entity under significant influence of the Group's shareholders**
Revenue	61,784,430	26,821
Purchases	(6,953,296)	(207,802)
Selling, general and administrative expenses	(1,007,929)	-
Finance costs	57,606	3,197

The income and expense items with related parties for the year ended 31 December 2007 were as follows:

	Entities controlled by the Group's shareholders		**Entity under significant influence of the Group's shareholders**	
	Thousand tons	RR thousand	Thousand tons	RR thousand
Sales of tubes	1,636.1	60,290,866	0.1	3,635
Sales of scrap metal	323.5	1,100,144	0.5	22,419
Other sales	-	393,420	-	767
Total revenues	**1,959.6**	**61,784,430**	**0.6**	**26,821**
Purchases of tubes	179.1	(5,824,352)	1.6	(51,128)
Purchases of zinc	2.0	(8,422)	2.1	(156,674)
Purchases of scrap metal	143.6	(764,178)	-	-
Purchases of coating materials	-	(26,340)	-	-
Other purchases	-	(330,004)	-	-
Total purchases	**324.7**	**(6,953,296)**	**3.7**	**(207,802)**
Management services	-	(854,114)	-	-
Operating lease income	-	104,249	-	-
Information and consulting services	-	(295,830)	-	-
Amortisation of fair value of originated financial guarantees	-	37,766	-	-
Total selling, general and administrative costs	-	**(1,007,929)**	**-**	**-**

The cash flow items with related parties for the year ended 31 December 2007 were as follows:

In thousands of Russian Roubles	**Entities controlled by the Group's shareholders**	**Entity under significant influence of the Group's shareholders**
Operating activities	12,132,536	(253,291)
Financing activities	616,654	3,197
Investing activities	3,555,843	85,000

At 31 December 2007, other rights and obligations with related parties are stated below. The amounts are the guarantees issued/received by the Group on behalf of related parties and represent the maximum exposure for the guarantor:

In thousands of Russian Roubles	**Entities controlled by the Group's shareholders**	**Entity under significant influence of the Group's shareholders**
Guarantees issued by the Group	6,604,209	-

7 Balances and Transactions with Related Parties (continued)

At 31 December 2006, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	Entities controlled by the Group's shareholders	Entity under significant influence of the Group's shareholders
Total trade and other receivables	2,938,441	-
Provision for impairment of trade and other receivables	(91,570)	-
Originated loans and promissory notes receivable:	-	
- RR denominated, interest-free	234,909	-
- RR denominated, bearing interest of 6.5% p.a.	26,560	-
- RR denominated, bearing interest of 9% - 10% p.a.	374,400	-
Accounts payable	(1,459,894)	(181)
Unamortised balance of fair value of originated financial guarantees	(89,782)	-

The income and expense items with related parties for the year ended 31 December 2006 were as follows:

In thousands of Russian Roubles	Entities controlled by the Group's shareholders	Entity under significant influence of the Group's shareholders
Revenue	33,007,957	9,692
Purchases	(3,052,819)	(185,527)
Gain on disposal of UTS	53,076	-
Selling, general and administrative expenses	(646,690)	-
Finance costs	16,243	4,693

The income and expense items with related parties for the year ended 2006 had the following structure:

	Entities controlled by the Group's shareholders		Entity under significant influence of the Group's shareholders	
	Thousand tons	RR thousand	Thousand tons	RR thousand
Sales of tubes	1,262.8	32,105,426	-	-
Sales of scrap metal	225.2	879,546	-	-
Other sales	-	22,985	-	9,692
Total revenues	**1,488.0**	**33,007,957**	**-**	**9,692**
Purchases of tubes	109.6	(2,426,240)	-	-
Purchases of zinc	-	-	1.8	(185,527)
Purchases of scrap metal	131.9	(611,601)	-	-
Purchases of coating materials	-	(12,586)	-	-
Other purchases	-	(2,392)	-	-
Total purchases	**241.5**	**(3,052,819)**	**1.8**	**(185,527)**
Accounts receivable impairment provision	-	(91,570)	-	-
Management services	-	(410,500)	-	-
Information and consulting services	-	(52,538)	-	-
Amortisation of fair value of originated financial guarantees	-	(89,782)	-	-
Other distribution, general and administrative	-	(2,300)	-	-
Total selling, general and administrative expenses	**-**	**(646,690)**	**-**	**-**

The cash flow items with related parties for the year ended 31 December 2006 were as follows:

In thousands of Russian Roubles	Entities controlled by the Group's shareholders	Entity under significant influence of the Group's shareholders
Operating activities	38,210,549	(202,854)
Financing activities	(277,458)	-
Investing activities	(306,902)	-

7 Balances and Transactions with Related Parties (continued)

At 31 December 2006, other rights and obligations with related parties are stated below. The amounts are the guarantees issued/received by the Group on behalf of related parties and represent the maximum exposure for the guarantor:

In thousands of Russian Roubles	**Entities controlled by the Group's shareholders**	**Entity under significant influence of the Group's shareholders**
Guarantees issued by the Group	4,150,623	-
Guarantees received by the Group	(1,281,965)	-

Transactions with Directors

Total compensation included in general and administrative expenses amounted to RR 370,3 million (2006: RR 261,3 million). The Board of Directors includes 6 directors (2006: 7 directors). As of 31 December 2007 no compensation was paid.

In February 2007 the Group acquired 28.7% of Zhilevskaya Metallobasa for RR 175.1 million from a member of the Board of Directors of PNTZ, a subsidiary of the Company.

Minority interest

As of 31 December 2007 RR 3,271,608 thousand (34.6% of net assets of PNTZ) included in minority interest balance was attributable to related parties (31 December 2006: RR 3,017,371 thousand, 34.6% of net assets of PNTZ).

8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of Russian Roubles	Land	Buildings	Infrastructure	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 1 January 2006	**152,137**	**9,748,131**	**1,620,263**	**18,026,516**	**868,497**	**847,758**	**31,263,302**
Accumulated depreciation and impairment	**-**	**(6,197,918)**	**(1,161,385)**	**(10,745,020)**	**(435,649)**	**(315,000)**	**(18,854,972)**
Carrying amount at 1 January 2006	**152,137**	**3,550,213**	**458,878**	**7,281,496**	**432,848**	**532,758**	**12,408,330**
Additions/Transfers	81,124	277,462	39,894	1,172,122	78,412	394,012	2,043,026
Acquired in a business combination	-	67,121	56,232	101,731	3,061	30,922	259,067
Disposed in a business combination	-	-	-	(4,596)	(14,830)	-	(19,426)
Disposals	-	(65,857)	(7,330)	(81,496)	(23,315)	(92,969)	(270,967)
Depreciation and impairment charge	-	(220,853)	(40,030)	(1,048,615)	(101,837)	-	(1,411,335)
Carrying amount at 31 December 2006	**233,261**	**3,608,086**	**507,644**	**7,420,642**	**374,339**	**864,723**	**13,008,695**
Cost or valuation at 31 December 2006	**233,261**	**9,997,621**	**1,707,941**	**18,572,092**	**911,519**	**1,184,588**	**32,607,022**
Accumulated depreciation and impairment	**-**	**(6,389,535)**	**(1,200,297)**	**(11,151,450)**	**(537,180)**	**(319,865)**	**(19,598,327)**
Carrying amount at 31 December 2006	**233,261**	**3,608,086**	**507,644**	**7,420,642**	**374,339**	**864,723**	**13,008,695**
Additions/Transfers	26,047	144,831	68,378	813,892	263,557	1,987,815	3,304,520
Acquired in a business combination (Note 28)	104,999	117,266	-	29,181	79,678	105	331,229
Disposals	(26,679)	(78,246)	(14,120)	(55,725)	(14,538)	(65,045)	(254,353)
Depreciation and impairment charge	-	(202,380)	(79,238)	(1,118,908)	(112,771)	(25,431)	(1,538,728)
Carrying amount at 31 December 2007	**337,628**	**3,589,557**	**482,664**	**7,089,082**	**590,265**	**2,762,167**	**14,851,363**
Cost or valuation at 31 December 2007	**337,628**	**10,181,472**	**1,762,199**	**19,359,440**	**1,240,216**	**3,107,463**	**35,988,418**
Accumulated depreciation and impairment	**-**	**(6,591,915)**	**(1,279,535)**	**(12,270,358)**	**(649,951)**	**(345,296)**	**(21,137,055)**
Carrying amount at 31 December 2007	**337,628**	**3,589,557**	**482,664**	**7,089,082**	**590,265**	**2,762,167**	**14,851,363**

Bank borrowings were secured on property, plant and equipment with carrying value of RR 5,592 million (31 December 2006: RR 5,453 million) (Notes 15 and 25).

8 Property, Plant and Equipment (continued)

The Company uses 10.5 million square meters of land, 8.3 million square meters of which (79% of the total land utilised by the Company) is owned by the Company.

The assets transferred to the Company upon privatization did not include the land on which the Group's factories and buildings, comprising the Company's principal manufacturing facilities, are located. In 2003 the Company purchased 3.7 million square meters of land where the principal manufacturing facilities are located (approximately 35.2% of total land utilised by the Group), for a consideration of RR 152.6 million. The transaction was registered as required by Russian legislation in 2003.

The land plots occupied by the principal manufacturing facilities of PNTZ total 5 million square meters (approximately 47.6% of total land utilised by the Group). In 2006 the Group purchased 4.6 million square meters (approximately 43.8% of total land utilised by the Group) occupied by the PNTZ principal manufacturing facilities. The other 0.4 million square meters (approximately 3.8% of total land utilised by the Group) are rented from state authorities.

The remaining 1.8 million square meters of land (17.1% of total land utilised by the Group) are used by the Group based on existing land usage rights.

0.9 million square meters of land held by the Group (approximately 8.6% of total land utilised by the Group) of land are occupied by social sphere objects of the Group (flats and recreation facilities, impaired in full). The Group utilises this land based on existing land usage rights.

As of 31 December 2007, assets under construction are shown net of an impairment provision for capitalised reconstruction of workshop No. 1, which was suspended in 1998, and a number of other capital construction that in the management's opinion will not be continued in the foreseeable future. At 31 December 2007, the amount of the provision comprises RR 345.3 million (2006: RR 219.9 million).

In 2007 a provision in the amount of RR 215.6 million (2006: RR 125.3 million) was charged for impairment of assets under construction, unused machines and equipment of the workshops designed for production of products demand for which is expected to be low in the foreseeable future or is already not in demand (Note 20). The impairment was performed based on value in use calculations and the equipment was impaired to zero.

9 Intangible Assets

In thousands of Russian Roubles	Goodwill	Software	Lease rights	Other	Total
Cost at 1 January 2006	**1,805,556**	**188,288**	**-**	**4,312**	**1,998,156**
Accumulated amortisation and impairment	**(1,599,152)**	**(77,176)**	**-**	**(1,903)**	**(1,678,231)**
Carrying amount at 1 January 2006	**206,404**	**111,112**	**-**	**2,409**	**319,925**
Additions	21,695	67,262		404	89,361
Acquired in business combination	304,076	-	37,443	-	341,519
Impairment loss (Note 20)	(89,052)	-	-	-	(89,052)
Amortisation expense	-	(64,567)	-	(2,371)	(66,938)
Carrying amount at 31 December 2006	**443,123**	**113,807**	**37,443**	**442**	**594,815**
Cost at 31 December 2006	**2,131,327**	**255,550**	**37,443**	**4,716**	**2,429,036**
Accumulated amortisation and impairment	**(1,688,204)**	**(141,743)**	**-**	**(4,274)**	**(1,834,221)**
Carrying amount at 31 December 2006	**443,123**	**113,807**	**37,443**	**442**	**594,815**
Additions	-	72,308	-	41,836	114,144
Purchases of minority interest	781,338	-	-	-	781,338
Acquired in business combination (Note 28)	429,747	44,749	83,840	-	558,336
Amortisation expense	-	(73,748)	(2,358)	(12,636)	(88,742)
Carrying amount at 31 December 2007	**1,654,208**	**157,116**	**118,925**	**29,642**	**1,959,891**
Cost at 31 December 2007	**3,342,412**	**372,607**	**121,283**	**46,552**	**3,882,854**
Accumulated amortisation and impairment	**(1,688,204)**	**(215,491)**	**(2,358)**	**(16,910)**	**(1,922,963)**
Carrying amount at 31 December 2007	**1,654,208**	**157,116**	**118,925**	**29,642**	**1,959,891**

9 Intangible Assets (continued)

Goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs"), which are PNTZ, UTS and Meta Invest. As a result of UTS acquisition (Note 28) a new CGU emerged. It encompasses all Group's distribution network and includes earlier identified CGUs – Basa MTS and Metris. The Group's management changed the initial business model so that the major part of benefits from this acquisition passed to UTS rather than Metris and Basa MTS and revised goodwill distribution having reallocated it to UTS. The change in goodwill allocation had no impact on the consolidated balance sheet, income statement, statement of changes in equity or cash flow statement. Since the Group's management believes that the synergy effect of acquisitions on other entities is not significant, no goodwill is allocated to other CGUs.

The carrying value of goodwill as of 31 December 2006 related to PNTZ, Metris and unallocated goodwill which arose on acquisition of Meta-Invest.

Management completed acquisition price allocation for Meta-Invest. Management identified additional lease rights of RR 37,443 thousand recorded within intangible assets since the acquisition date. Purchase price allocation for Zhilevskaya Metallobasa acquired in February 2007 was also completed.

In thousands of Russian Roubles	**31 December 2007**	**31 December 2006**
PNTZ	881,634	228,099
UTS	600,911	133,431
Meta-Invest	171,663	81,593
Total carrying value of goodwill	**1,654,208**	**443,123**

In 2007, the Group acquired an additional 25.5% stake in Meta-Invest for a consideration of RR 256 million. The Group also increased Meta-Invest's charter capital by RR 660 million. As a result of these transactions the Group's share went up to 99.9%, resulting goodwill was RR 53.3 million and minority share of net assets decreased by RR 174.9 million.

In 2007, CTRP acquired 1,051,533 shares of PNTZ (4.3% of the total issued share capital) for RR 1,101.2 million. As a result of this transaction goodwill increased by RR 697.6 million and minority interest decreased by RR 428.7 million.

As of 1 January 2007 the group held 55,183 (0.2% of the total issued share capital) of PNTZ which were acquired for RR 33.1 million. In 2007 the Group acquired further 69,922 (0.3% of the total issued share capital) of PNTZ for RR 61.7 million. Than both stakes were disposed to a related party for RR 106.9 million. As a result of this transaction goodwill decreased by RR 19 million and minority interest increased by RR 14.2 million in 2007.

In 2007, the Group acquired 8,390 shares of Basa MTS (33% of the total issued share capital) for a total of RR 40.1 million. As a result of this transaction goodwill increased by RR 37.7 million and minority interest decreased by RR 2.4 million.

Since UTS was acquired not long before the reporting date the Group intends to complete acquisition price allocation within 12 months after the acquisition date. Goodwill on this acquisition was calculated on a provisional basis and includes labour resources and potential synergy effect which cannot be accurately assessed prior to the completion of acquisition price allocation.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

Key assumptions used in value-in-use calculations:

	PNTZ	**UTS**	**Meta-Invest**
Operating profit margin	21.7%-22.1%	21%	7%-10%
Growth rate beyond five years	3%	3%	3%
Pre-tax discount rate	18.0%	17.4%	20.3%

Value in use of goodwill allocated to PNTZ, UTS, Meta-Invest have been determined assuming growth rate beyond five years of 3% and pre-tax discount rates of 18.0%, 17.4% and 20.3% accordingly. Any reasonably possible changes either in the terminal growth rates or discount rates do not lead to goodwill impairment.

10 Inventory

In thousands of Russian Roubles	31 December 2007	31 December 2006
Raw materials	5,644,337	4,537,249
Work in progress	1,310,233	1,154,424
Finished goods	2,898,399	2,927,276
Allowance for obsolete and slow-moving inventory	(107,858)	(136,780)
Total inventory	**9,745,111**	**8,482,169**

Inventories with a carrying value of RR 3,774 million were pledged as security for borrowings as at 31 December 2007 (31 December 2006: RR 2,799 million). Pledged inventory includes primarily raw materials. (Notes 15 and 25).

11 Trade and Other Receivables

In thousands of Russian Roubles	31 December 2007	31 December 2006
Trade receivables denominated in RR	7,392,004	2,489,107
Trade receivables denominated in US$	591,863	178,551
Trade receivables denominated in Euro	61,732	40,665
VAT and other taxes recoverable	1,123,949	899,179
Interest receivable	32,035	19,782
Other receivables	250,655	636,411
Provision for impairment of trade receivables	(232,282)	(376,129)
Total financial assets	9,219,956	3,887,566
Advances and prepayments	1,099,380	3,489,139
Advance for acquisition of subsidiary (Note 30)	223,257	700,536
Total non-financial assets	1,322,637	4,189,675
Total trade and other receivables	**10,542,593**	**8,077,241**

Management believes that fair value of accounts receivable does not differ significantly from their carrying amounts.

No accounts receivable were renegotiated as of 31 December 2007 (31 December 2006: none).

As of 31 December 2007, trade receivables of RR 3,563,637 thousand (31 December 2006: RR 1,791,499 thousand) were individually impaired. The amount of the provision was RR 232,282 thousand as of 31 December 2007 (31 December 2006: RR 376,129 thousand). The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations or to balances with long periods of settlement. According to estimates, a portion of receivables is expected to be recovered. The ageing of these receivables is as follows:

In thousands of Russian Roubles	31 December 2007	31 December 2006
Below three months	3,161,256	1,517,875
3 to 6 months	264,398	-
Beyond 6 months	137,983	273,624
Total gross amount of impaired accounts receivable	**3,563,637**	**1,791,499**

As of 31 December 2007, trade receivables of RR 3,908,949 thousand (31 December 2006: RR 1,459,695 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

In thousands of Russian Roubles	31 December 2007	31 December 2006
Below three months	3,903,897	1,437,995
3 to 6 months	2,364	333
Beyond 6 months	2,688	21,367
Trade accounts receivable past due but not impaired	**3,908,949**	**1,459,695**

Movements on the provision for impairment of trade receivables are as follows:

In thousands of Russian Roubles	2007	2006
As of 1 January	**(376,129)**	**(288,270)**
Provision accrued	(202,428)	(226 263)
Provision reversed	171,020	73,463
Receivables written off during the year as uncollectible	175,255	7,532
Disposed in business combination	-	57,409
As of 31 December	**(232,282)**	**(376,129)**

11 Trade and Other Receivables (continued)

The creation and release of provision for impaired receivables were included in general and administrative expenses in the income statement (Note 21). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date approximates fair value of each class of receivables mentioned above plus the amount of promissory notes and loans receivable, cash and cash equivalents. The Group does not hold any collateral as security for these financial assets.

12 Promissory Notes and Loans Receivable

In thousands of Russian Roubles	**31 December 2007**	**31 December 2006**
Promissory notes and loans to entities controlled by the Group's shareholders (Note 7), 6.5%-11%	3,359,981	400,960
Promissory notes and loans to entities controlled by the Group's shareholders (Note 7), interest free	234,909	234,909
Vneshtorgbank promissory notes, 4.1% p.a.	-	106,616
Promissory notes and loans receivable, third parties, 9.1% - 12% p. a.	1,237,697	25,497
Promissory notes from third parties, interest free	238,988	333,856
Provision for impairment of promissory notes (Note 21)	(238,988)	-
Total promissory notes and loans receivable	**4,832,587**	**1,101,838**

All promissory notes and loans are denominated in Russian Roubles. Fair value of promissory notes does not differ significantly from their carrying value. During the period promissory notes from third parties at gross value of RR 238,988 thousand were impaired in full.

13 Cash and Cash Equivalents

In thousands of Russian Roubles	**31 December 2007**	**31 December 2006**
Cash on hand and balances with banks, RR	641,681	549,576
Cash balances with banks, US$	40	153,411
Cash balances with banks, Euro	100	19,929
Term deposits in US$ (interest rate: 4.25%-4.5% p.a.)	40,078	-
Term deposit in EUR (interest rate: 3.1% p.a.)	-	4,129
Total cash and cash equivalents	**681,899**	**727,045**

Balances with banks payable on demand are non-interest bearing.

14 Share Capital

The nominal registered amount of the Company's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 is RR 472,383 thousand (31 December 2006: RR 472,383 thousand).

The total authorised number of ordinary shares is 472,382,880 shares (2006: 472,382,880 shares) with a par value of RR 1 per share (2006: RR 1 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

In 2006, the Company purchased 252,588 treasury shares representing 0.05% of the total authorized share capital for a cash consideration of RR 7,577 thousand.

In 2007, the Group purchased 43,769,914 Company's shares representing 9.27% of the total authorized share capital for a cash consideration of RR 4,670,220 thousand and sold 43,942,045 Company's shares representing 9.3% of the total authorized share capital for a cash consideration of RR 4,526,779 thousand.

As of 31 December 2007, the Company held 80,457 treasury shares for a total of RR 8,207 thousand which account for 0.02% of the total authorized share capital.

Share premium represents the excess of contributions received over the nominal value of shares issued. In 2007 the Group earned negative share premium of RR 23,346 thousand. The remaining portion of access of cost of the treasury shares disposed over proceeds from disposal was charged to retained earnings.

14 Share Capital (continued)

In accordance with Russian law and amendments to the Company's Charter legal reserve was increased by RR 47,238 thousand and reached RR 70,857 thousand as of 31 December 2007 (31 December 2006: RR 23,619 thousand).

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the net statutory profit as the basis for distribution. In 2007, the net statutory profit for the Company for the period as reported in the statutory reporting forms was RR 4,036.3 million (2006: RR 2,777.8 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount of the distributable reserves in these consolidated financial statements.

In 2007 and 2006, the Company did not declare or pay dividends.

15 Current and Non-Current Borrowings

Non-current borrowings by principal lender are analysed as follows:

In thousands of Russian Roubles	**31 December 2007**	**31 December 2006**
UniCreditBank loan at MOSPRIME+2.5% - MOSPRIME+2.75%, RR denominated	1,745,781	-
Bonds payable, coupon rate 9.5% (both 2007 and 2006), RR denominated	3,000,000	3,000,000
EBRD loan at LIBOR +4.75% - LIBOR +5.5%, US$ denominated	-	2,749,439
Other non-current borrowings	2,151	1,781
Less current portion of non-current borrowings	(173,563)	(1,346,556)
Total non-current borrowings	**4,574,369**	**4,404,664**

In June 2005, the Company issued 3 million bonds at par value of RR 1 thousand each. The bonds are repayable starting from the 1820-th day following the date of placement. The interest yield is determined for each coupon and amounts to 9.5% p.a.

The loan from UniCreditBank (Mezhdunarodny Moskovsky Bank) was denominated in RR at a range of interest rates from MOSPRIME+2.5% to MOSPRIME+2.75% p. a. with maturity in May 2013. The loan is secured by inventory with a carrying value of RR 350 million (Notes 10 and 25).

The non-current borrowings maturity schedule is as follows:

In thousands of Russian Roubles	**31 December 2007**	**31 December 2006**
1 to 2 years	350,946	803,885
2 to 3 years	3,349,108	600,779
3 to 4 years	349,450	3,000,000
4 to 5 years	349,715	-
Beyond 5 years	175,150	-
Total non-current borrowings	**4,574,369**	**4,404,664**

15 Current and Non-Current Borrowings (continued)

Current borrowings by principal lender are analysed as follows:

In thousands of Russian Roubles	31 December 2007	31 December 2006
EBRD loan at EURIBOR + 3.1%, Euro denominated	3,540,458	-
EBRD loan at LIBOR + 3.1%, US$ denominated	1,860,148	-
HVB loan at EURIBOR + 0.29%, EUR denominated	228,931	-
Sberbank loans at 10% (2006: 6.8% - 8.0%), RR denominated	875,000	2,860,000
Sberbank loans at 6.8%-9.0%, RR denominated	2,091,500	-
BSGV loan at MOSPRIME + 2.2%, RR denominated	1,000,000	-
WESTLB VOSTOK loan at 8.75%, RR denominated	350,000	-
UniCreditBank loan (2006: Mezhdunarodny Moskovsky Bank) at 9.3%-9.4%, RR denominated (2006: 7% - 9.8%)	1,105,000	360,000
GazpromBank loan at 7.5% - 10% (2006: 6.2% - 7.5%), RR denominated	7,131,564	1,430,500
Bank of Moscow loan at 8.4% (2006: 7.7 %), RR denominated	600,000	300,000
BNP Paribas loan at MosIBOR+1% - 1,6%, RR denominated	247,000	-
Raiffeisen bank loan at MOSPRIME + 2.2% - 2.4%, RR denominated	-	170,000
Other borrowings	32,542	29,105
Total current borrowings	**19,062,143**	**5,149,605**
EBRD loan at LIBOR +4.75% - LIBOR +5.5%, US$ denominated	-	1,346,556
UniCreditBank loan at MOSPRIME+2.5% - MOSPRIME+2.75%, RR denominated	173,563	-
Total current portion of non-current borrowings	**173,563**	**1,346,556**
Total current borrowings	**19,235,706**	**6,496,161**

In June 2007, the Group entered into a loan agreement with Hypovereinsbank (HVB) for a credit line of EUR 97.5 million at Euribor + 0.29%, which carry a number of debt covenants. As of 31 December 2007, the outstanding balance on this credit line was RR 228.9 million.

In January and May 2007 the Group concluded loan agreements with EBRD which contain certain covenants, including its obligation to insure all its assets and to pledge property, plant and equipment, and some other obligations, such as the obligation to maintain quarterly turnovers with Unicreditbank of at least US$ 15 million and certain financial ratios. The loans are secured by a pledge of property, plant and equipment with a net book value of RR 1,675 million (31 December 2006: RR 1,646 million). The Group and its shareholders pledged controlling interests in CTRP and PNTZ to EBRD.

The Group did not comply with a certain debt covenant of HVB loan as of 31 December 2007 and EBRD loans as of 31 December 2007 and 31 December 2006. In December 2006 the Group obtained a waiver from EBRD for the breaches incurred which did not cover breaches subsequent to 31 December 2006.

For both banks, HVB and EBRD, loans were classified as current borrowings. The original maturity of loans with debt covenant in breach was as follows:

In thousands of Russian Roubles	31 December 2007	31 December 2006
Payable within one year	285,108	1,346,556
1 to 2 years	1,163,865	802,104
2 to 3 years	1,200,698	600,779
3 to 4 years	1,205,514	-
4 to 5 years	1,210,752	-
Beyond 5 years	563,600	-
Total	**5,629,537**	**2,749,439**

Sberbank loans were received in roubles at the fixed interest rate of 6.8% - 10% p.a. and mature in January-December 2008. The loans are secured by property, plant and equipment with a net book value of RR 3,023 million (Notes 8 and 25). The loans were also secured by a pledge of inventory with a carrying value of RR 3,180 million (Notes 10 and 25).

BSGV loans were received in roubles at MOSPRIME + 2.2% p.a. and mature in February 2008. The loans were not collateralized.

WESTLB VOSTOK loan was received at the fixed interest rate of 8.75% p.a. and mature in December 2008. The loan was not collateralized.

15 Current and Non-Current Borrowings (continued)

UniCreditBank (Mezhdunarodny Moskovsky Bank) loans were received in roubles at the rates of 9.25% to 9.35% p.a. and mature in March-June 2008. The loans were not collateralized.

Bank of Moscow loan was received in roubles at 8.35% p.a. and matures in March 2008. The loan was not collateralized.

Gazprombank loans were received in roubles at 7.5% - 10% p.a. and mature in January-June 2008. The loans were not collateralized.

BNP Paribas loan was advanced in roubles at MosIBOR+1% - 1.6% p.a. and matures in May-June 2008. The loan was not collateralized.

As of 31 December 2007, the Group had undrawn credit lines from several banks secured by a pledge of property, plant and equipment with a net book value of RR 893 million and inventory with a carrying value of RR 244 million (Notes 8, 10 and 25).

Management believes that the effective interest rates do not differ significantly from the nominal interest rates disclosed above.

Management believes that fair values of the loans do not differ significantly from their carrying amounts.

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency liabilities or interest rate exposures.

16 Promissory Notes Payable

As of 31 December 2007, the Group had outstanding non-current promissory notes totaling RR 2,855 thousand (31 December 2006: RR 12,834 thousand). These non-current promissory notes are non-interest bearing and were recorded at fair value, which is the net present value of future payments at the date of origination, and is subsequently amortized over the maturity period using the effective interest rate. The discount rate used to calculate net present value of the promissory notes was 10% (31 December 2006: 10%).

Maturity schedule for non-current promissory notes payable:

In thousands of Russian Roubles	**31 December 2007**	**31 December 2006**
2 to 5 years	-	9,874
Beyond 5 years	2,855	2,960
Total non-current promissory notes	**2,855**	**12,834**

17 Taxes Payable

Current taxes payable are comprised of the following:

In thousands of Russian Roubles	**31 December 2007**	**31 December 2006**
Value added tax	198,466	477,579
Unified social tax	118,103	46,780
Personal income tax	53,584	43,145
Property tax	49,602	44,602
Income tax	2,339	-
Other taxes	42,906	37,302
Total taxes payable	**465,000**	**649,408**

18 Accounts Payable and Accrued Expenses

In thousands of Russian Roubles	**31 December 2007**	**31 December 2006**
Trade payables denominated in RR	2,112,165	3,055,746
Trade payables denominated in US$	79,537	8,472
Trade payables denominated in Euro	21,626	2,836
Interest accrued	72,637	6,554
Accrued liabilities and other creditors	190,048	59,025
Total financial liabilities	2,476,013	3,132,633
Wages and salaries payable*	882,906	673,908
Total accounts payable and accrued expenses	**3,358,919**	**3,806,541**

*Non-financial liabilities

19 Revenues

In thousands of Russian Roubles	2007	2006
Export	7,703,838	4,740,732
Domestic	72,959,958	56,070,302
Total revenue	**80,663,796**	**60,811,034**

In 2007 67% of the Group's export sales were to CIS countries, 24% to Western Europe and 9% to other regions (2006: 49% to CIS, 36% to Western Europe and 15% to other regions).

20 Cost of Sales

In thousands of Russian Roubles	2007	2006
Raw materials	42,089,172	32,599,820
Salaries and salary taxes	4,257,342	2,926,391
Deprecation and amortization	1,200,853	1,151,594
Energy and utilities	1,859,257	1,528,577
Production overheads and repairs	2,255,684	1,267,589
Cost of goods for resale	10,640,739	6,372,148
Social costs	276,851	337,745
Impairment of goodwill (Note 9)	-	89,052
Impairment of property, plant and equipment (Note 8)	215,649	125,253
Changes in balances of work in progress and finished goods	(106,825)	(256,323)
Change in inventory provision	(28,922)	18,451
Total cost of sales	**62,659,800**	**46,160,297**

21 Distribution, General and Administrative Expenses

In thousands of Russian Roubles	2007	2006
Transportation and customs expenses	2,491,227	1,364,051
Commission	68,290	16,940
Advertising and marketing expenses	114,686	81,649
Total distribution expenses	**2,674,203**	**1,462,640**
Taxes other than income tax	384,845	272,330
Insurance	307,752	290,223
Salaries and salary taxes	1,828,822	1,829,010
Change in provision for impairment of accounts receivable	31,408	152,800
Change in provision for impairment of promissory notes	238,988	-
Auxiliary materials	195,007	270,089
Non-production overheads and repairs	327,960	133,219
Management and professional services	1,370,540	939,374
Loss on disposal of property, plant and equipment	108,448	18,753
Operating lease (income)/expenses	(37,005)	181,675
Deprecation and amortization	210,968	201,426
Gain on disposal of subsidiary	-	(53,076)
Fair value of originated guarantees	8,059	89,782
Charity	120,784	59,436
Access of share in net assets acquired in a subsidiary over purchase consideration (Note 28)	(70,085)	-
Loss attributable to minority shareholders	3,658	-
Other costs	49,067	568,151
General and administrative expenses	**5,079,216**	**4,953,192**

22 Finance Costs

In thousands of Russian Roubles	2007	2006
Interest income	123,575	76,692
Interest expense	(1,397,246)	(1,164,316)
Net foreign exchange gain	13,391	329,201
Gain on disposal of available-for-sale investment	32,685	-
Other finance income and costs, net	(21,002)	-
Finance costs	**(1,248,597)**	**(758,423)**

23 Income Tax

Income taxes comprise the following:

In thousands of Russian Roubles	2007	2006
Current tax charge	2,678,307	2,317,688
Deferred tax	(228,481)	(223,494)
Income tax expense for the year	**2,449,826**	**2,094,194**

A reconciliation between the theoretical and actual income tax charge is provided below.

In thousands of Russian Roubles	2007	2006
IFRS profit before income tax	**9,001,980**	**7,476,482**
Theoretical tax charge at statutory rate (2007: 24%; 2006: 24%)	2,160,475	1,794,355
Tax effect of items which are not deductible or assessable for taxation purposes		
- Goodwill impairment	-	21,372
- Access of share in net assets acquired in a subsidiary over purchase consideration	(16,821)	-
- Taxes, fines and penalties	4,728	12,462
- (Gain)/loss on disposal of investments and property, plant and equipment	(8,626)	3,861
- Social costs	82,116	60,681
- Non-deductible employee benefits	93,302	65,060
- Other non deductible expenses	134,652	136,403
Income tax expense for the year	**2,449,826**	**2,094,194**

Differences between IFRS and Russian tax legislation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2006: 24%).

23 Income Tax (continued)

In thousands of Russian Roubles	31 December 2005	(Charged)/ credited to profit and loss	Acquired in business combination	Disposed in business combination	31 December 2006	(Charged)/ credited to profit and loss	Acquired in business combination (Note 28)	31 December 2007
Tax effect of deductible temporary differences:								
Tax effect of originated financial guarantees	-	21,548	-	-	21,548	(9,064)	-	12,484
Tax effect of accounts receivable	61,330	32,673	(13,778)	-	80,225	12,449	26,628	119,302
Tax effect of accounts payable and accruals	20,503	26,023	-	-	46,526	5,783	-	52,309
Tax effect of other deductible temporary differences	4,123	(1,007)	-	-	3,116	30,714	-	33,830
Deferred tax asset	**85,956**	**79,237**	**(13,778)**	**-**	**151,415**	**39,882**	**26,628**	**217,925**
Tax effects of taxable temporary differences:								
Tax effect of property, plant and equipment and intangible assets	(956,113)	56,966	-	(37,890)	(937,037)	127,491	(70,545)	(880,091)
Tax effect of inventories	(126,290)	84,572	-	-	(41,718)	77,736	-	36,018
Tax effect of non-current promissory notes	(7,696)	480	-	-	(7,216)	7,216	-	-
Tax effect of borrowings	(4,060)	2,239	-	-	(1,821)	(23,844)	-	(25,665)
Deferred tax liabilities	**(1,094,159)**	**144,257**	**-**	**(37,890)**	**(987,792)**	**188,599**	**(70,545)**	**(869,738)**
Total net deferred tax liability	**(1,008,203)**	**223,494**	**(13,778)**	**(37,890)**	**(836,377)**	**228,481**	**(43,917)**	**(651,813)**

24 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company in the amount of RR 5,325,786 thousand (12 months ended 31 December 2006: RR 4,413,129 thousand) by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares, which comprised 455,168,975 shares (12 months ended 31 December 2006: 472,319,733 shares).

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share.

25 Contingencies, Commitments and Operating Risks

Legal proceedings**.** During 2007 the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Tax legislation. 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.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. 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.

As of 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks related to recovery of input VAT; the impact of any challenge by the tax authorities cannot be reliably estimated, however, it may be significant to the financial condition and/or the overall operations of the Group.

In addition to the matters above, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 497,598 thousand (2006: RR 155,664 thousand) which relate primarily to VAT and unified social tax.

25 Contingencies, Commitments and Operating Risks (continued)

Capital expenditure commitments. At 31 December 2007 the Group had contractual capital expenditure commitments to acquire equipment and work of capital nature totaling RR 13,949 million (31 December 2006: RR 52,6 million).

Operating lease commitments. Some of the production facilities of PNTZ are located on the land plots held under operating lease (Note 8). The lease agreements are concluded through 2012-2016 with charges subject to annual re-negotiation.

Guarantees. Guarantees are irrevocable assurances that the Group will make payments in the event that the other party cannot meet its obligations.

At 31 December 2007 the Group received guarantees totaling RR 3,709 million, which represents the maximum risk exposure to the guarantor; no guarantees were provided by the related parties. The guarantees were received primarily from the banks to underwrite the obligations of third parties.

At 31 December 2007, the Group issued guarantees in the amount of RR 401 million to Raiffesen Bank and Metalinvestbank, who guaranteed the Group's commitments to deliver products to third parties against their advances (RR 395 million) and Group's liabilities to administrators of tenders (RR 6 million).

At 31 December 2007 the guarantees issued by the Group to related parties of RR 739 million in 2007 were outstanding. Guarantees were issued to Bank of Moscow to secure a related party's liabilities within the framework of bank guarantee contracts for the provision of products to third parties.

In October 2006 and April 2007 the Group issued guarantees to Bank of Moscow expiring in October and March 2008, respectively, in the equivalent of RR 4,356 million as security for letters of credit denominated in UK pound sterling and US dollars and they were outstanding at 31 December 2007. Fair value of the guarantees originated was measured at RR 90 million and amortized to the amount of RR 52 million.

At 31 December 2007, the Group recognized RR 1,509 million of financial guarantee to Gazprombank expiring in May 2008 and May 2009 (Note 7) as an irrevocable assurance securing a related party's credit commitments with a maximum level of exposure for the Group at 31 December 2007 in the amount of RR 995 million. Fair value of the financial guarantee issued was measured at RR 10 million.

In December 2007 the Group provided Bank of Moscow with a guarantee expiring in November 2009 as security of a third party's credit commitments denominated in US$ in the equivalent of RR 4,909 million. Fair value of the financial guarantee issued was measured at RR 36 million.

Assets pledged and restricted. At 31 December 2007 the Group has the following assets pledged as collateral:

		31 December 2007		31 December 2006	
In thousands of Russian Roubles	**Note**	**Asset pledged, carrying value**	**Related liability**	**Asset pledged, carrying value**	**Related liability**
Raiffeisen Bank	15	325,754	-	992,483	-
EBRD	15	1,674,972	1,860,148	1,645,630	2,749,439
SBERBANK	15	3,023,205	1,775,000	1,985,186	2,860,000
Bank of Moscow	15	567,610	-	829,997	300,000
Property, plant and equipment	8	**5,591,541**	**3,635,148**	**5,453,296**	**5,909,439**
EBRD	15			275,937	2,749,439
SBERBANK	15	3,180,096	1,185,000	740,396	1,300,000
Bank of Moscow	15	-	-	635,006	300,000
Gazprombank	15	-	-	1,147,682	1,045,500
Unicreditbank (MMB)	15	244,003	-		
Unicreditbank (MMB)	15	350,000	1,750,000	-	-
Inventory	10	**3,774,099**	**2,935,000**	**2,799,021**	**5,394,939**
Total		**8,228,273**	**6,570,148**	**8,252,317**	**11,304,378**

Insurance policies. Under the bank loan covenants the Group is to insure its assets during the loan period. The Group has insured all its manufacturing property, plant and equipment during 2007 for a maximum of RR 15,201 million (deductible of RR 24 million). However, the insurance does not cover the risks of damage to third parties and losses from temporary suspension in the production process. Management does not assess exposure to those risks as significant.

25 Contingencies, Commitments and Operating Risks (continued)

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reliably estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Recent volatility in global financial markets. Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of Eurobond issues and similar wholesale financing by Russian banks has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Deteriorating operating conditions for debtors or borrowers may also have an impact on management's cash flow forecasts and our assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in our impairment assessments, however management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets or their increased volatility.

26 Subsidiaries

The principal subsidiaries consolidated within the Group and the degree of control exercised by CTRP are as follows:

Subsidiary	Country of incorporation	Activities	31 December 2007 % share	31 December 2006 % share
SKS Metris	Russia	Tube distribution	100.0%	100.0%
Basa MTS	Russia	Tube distribution	98.2%	65.3%
PNTZ	Russia	Tube manufacturing	61.5%	57.2%
Tirus	Russia	Tube distribution	97.0%	97.0%
Meta Invest	Russia	Rent of property	99.99%	75.4%
Zhilevskaya Metallobasa	Russia	Tube distribution	100.0%	-
UTS	Russia	Tube distribution	99.0%	-

Tirus is a parent company of a group including 27 legal entities none of which is individually material.

27 Financial Risks Management

27.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Although the Group lacks formalized risk management program, its overall risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimize potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge its risk exposures.

Risk management is carried out by treasury departments of each of the Group companies under general guidance of the treasury department of CTRP. Treasury departments of the companies of the Group identify, evaluate and take measures to minimize financial risks in close co-operation with the CTRP's treasury department.

27 Financial Risks Management (continued)

27.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency other than the Group's functional currency. The Group companies do not have a formal policy to manage their foreign exchange risk against their functional currency. However, most of the Group's borrowings are denominated in Euro (Note 15) and most of the Group's revenue proceeds are denominated in US dollars, management of the Group believes that a result of foreign exchange losses/gains on translation of Euro-denominated borrowings or US dollar-denominated revenue proceeds and receivables has no significant impact on financial statements. Management of the Group aims at holding low cash balances with banks to minimize foreign exchange risk exposure on its cash balances.

At 31 December 2007, if the Russian Rouble had weakened/strengthened by 5% against US dollar with all other variables held constant, post-tax profit for the year would have been RR 51,267 thousand (lower)/higher (31 December 2006: RR 97,694 thousand (lower)/higher), mainly as a result of foreign exchange losses/gains on translation of US$-denominated receivables and borrowings denominated in US$.

At 31 December 2007, if the Russian Rouble had weakened/strengthened by 5% against Euro with all other variables held constant, post-tax profit for the year would have been RR 143,891 thousand (lower)/higher (31 December 2006: RR 1,545 thousand (lower)/higher), mainly as a result of foreign exchange losses/gains on translation of Euro-denominated borrowings.

Profit is more sensitive to movement in RR exchange rates against US$ and Euro in 2007 than in 2006, whereby the contribution of Euro exchange risk increased significantly. The reason is the increase in Euro denominated borrowings. Since the Group does not hold any financial instruments revalued through equity, the effect of changes in exchange rate on equity would be the same as on post-tax profit.

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities. The Group is not exposed to commodity price risk because both its finished products and raw materials are not traded on a public market.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant assets bearing interest at floating rates, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Management of the Group minimizes exposure to fluctuations in interest rates by holding unused facilities both under fixed and variable interest rate loans. All loan agreements permit early redemption. Management of the Group is able to redeem and withdraw loans managing the exposure to the interest rate risk. During the years ended 31 December 2007 and 2006, the Group's borrowings at variable rate were denominated in RR, US Dollars and Euro.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal, existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent major interest-bearing positions. Based on the simulations performed, the impact on profit or loss of a 1% shift in interest rate would be an (decrease)/increase of RR 39,372 thousand (2006: RR 35,491 thousand).

(b) Credit risk

Credit risk is managed at the level of individual Group companies. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, promissory notes and loans receivable and from exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only top 20 Russian banks by capital are accepted.

27 Financial Risks Management (continued)

27.1 Financial risk factors (continued)

(b) Credit risk (continued)

Starting from December 2007, after the acquisition of UTS (Note 28), major clients are represented by final customers, i.e. large oil and gas or pipeline construction companies. Limits of the accounts receivable are established on quarterly basis and monitored by the management of the Group.

The table below shows the balances of the six major counterparties at the balance sheet date.

In thousands of Russian Roubles	**Agency**	**Rating**	**31 December 2007**	**31 December 2006**
Gazprombank	Moody's Investors Service	BAA2	322,562	443,827
Bank of Moscow	Moody's Investors Service	BAA2	123,676	6,877
SBERBANK	Moody's Investors Service	BAA2	47,122	213,265
Total risk concentrations within cash and cash equivalents			**493,360**	**663,969**
Trubnye Innovatsionny Technologii			2,932,081	-
OMK-Stal			400,245	1,725,396
Evrasiysky Truboprovodny Consortium			-	3,202,370
Caspian Pipeline Consortium-K			319,740	-
Total risk concentrations within trade receivables			**3,652,066**	**4,927,766**

Trade and other receivables comprise RR 8,064 million (31 December 2006: RR 2,969 million). Balances due from related parties account for RR 419 million out of this amount (31 December 2006: RR 2,938 million). Management of the Group believes that credit risks on trade receivables balances stands at a minimum level, because the customers are major oil and gas companies or pipeline construction companies for which the Group has a long history of relationships with.

Balances due from retail customers comprise RR 821 million (31 December 2006: RR 288 million). Sales to retail customers are made upon investigation of credit history of each specific counterparty. For new customers without a credit history goods are dispatched upon receipt of advance payment.

Balances due from overseas buyers comprise RR 32.2 million (31 December 2006: RR 39 million). The buyers are mainly represented by state-owned companies or large oil and gas companies or large companies engaged in construction of pipelines which the Group has a long history of relationships with.

The balance of promissory notes and loans receivable comprise RR 4,833 million (31 December 2006: RR 1,102 million) and include balances due from related parties of RR 3,594 million (31 December 2006: RR 636 million). Management believes that the balances due from related parties do not bear significant credit risks. Management believes that the balances due from the unrelated companies are fully recoverable as the counterparties are represented by reliable business partners of the Group.

Cash was collected according to the contractual terms during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The credit risk exposure also covers the guarantees issued by the Group totaling RR 11.9 billion (31 December 2006: RR 4.5 billion), Note 25.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines. At 31 December 2007, the amount of unused credit lines and committed credit facilities comprised RR 15 billion (31 December 2006: RR 6.3 billion).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

27 Financial Risks Management (continued)

27.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

In thousands of Russian Roubles	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2007				
Trade and other payables	3,358,919	-	-	-
Promissory notes payable	11,404	-	-	31,495
Borrowings	20,658,186	777,704	4,404,245	181,792
At 31 December 2006				
Trade and other payables	3,806,541	-	-	-
Promissory notes payable	-	-	10,174	31,336
Borrowings	7,277,164	1,186,275	4,055,434	-

27.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management understands the term 'capital' as a financial notion of capital defined as invested money or invested purchasing power.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The Group's ability to issue new shares or otherwise modify share capital is limited by restrictions imposed by debt covenants of EBRD loans. The Gazprombank loan covenants impose limitations on the maximum aggregated amount of current borrowings of the companies of the Group at RR 16.5 billion based on the statutory financial statements. The Group was in compliance with this covenant as of 31 December 2007 (Note 15).

The gearing ratios at 31 December 2007 and 31 December 2006 were as follows:

In thousands of Russian Roubles	31 December 2007	31 December 2006
Total debt (Notes 15, 18)	27,168,994	14,707,366
Less: cash and cash equivalents (Note 13)	(681,899)	(727,045)
Net debt	26,487,095	13,980,321
Total equity	20,446,682	14,454,179
Total capital	46,933,777	28,434,500
Gearing ratio	**56%**	**49%**

28 Business Combinations

Zhilevskaya Metallobasa

On 20 February 2007 the Group acquired 100% of CJSC Zhilevskaya Metallobasa for a cash consideration of RR 611.3 million. The acquired subsidiary contributed revenue of RR 7.9 million and a loss of RR 1.9 million to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, consolidated revenue and consolidated profit of the Group would not have changed significantly.

In thousands of Russian Roubles	Note	Acquiree's carrying amount	Attributed fair value
Cash and cash equivalents		1,562	1,562
Property, plant and equipment	8	80,465	282,222
Intangible assets	9	-	83,840
Other assets		9,162	9,476
Deferred tax liability	23	-	(68,619)
Borrowings		(109,849)	(109,849)
Trade and other payables		(17,109)	(17,109)
Fair value of net assets of subsidiary			**181,523**
Fair value of acquired interest in net assets of subsidiary			**181,523**
Goodwill arising from the acquisition	9		429,747
Total purchase consideration			**611,270**
Less cash and cash equivalents of subsidiary acquired			(1,562)
Net outflow of cash and cash equivalents on acquisition			**609,708**

Consideration of RR 611.3 million was paid during the year ended 31 December 2007.

Fair values of assets acquired and liabilities assumed are based on a discounted cash flow model. The valuation of identifiable assets, liabilities and contingent liabilities was performed by an independent professional appraiser.

The goodwill which arose on acquisition of CJSC Zhilevskaya Metallobasa was allocated to CGU - CJSC Trade House Uraltrubostal which includes CJSC Zhilevskaya Metallobasa as a part of it.

The goodwill which arose on acquisition relates primarily to synergy effects from extension of the distribution network which the Group intends to obtain.

UTS

On 27 December 2007, the Group acquired from a related party a 99% interest in UTS for a consideration of RR 3.02 million. The acquired subsidiary did not contribute any significant revenue or profit to the Group for the period from the acquisition date through 31 December 2007.

If the acquisition had occurred on 1 January 2007, consolidated revenue and consolidated profit of the Group for 2007 would have increased by RR 1,651 million and RR 52 million, respectively.

In thousands of Russian Roubles	Note	Acquiree's carrying amount	Attributed fair value
Accounts receivable		9,145,715	8,997,323
Cash and cash equivalents		112,473	112,474
Property, plant and equipment	8	48,065	49,007
Intangible assets	9	-	44,749
Deferred tax asset	23	807	29,127
Other assets		224,055	195,373
Borrowings		(118,108)	(118,108)
Trade and other payables		(9,231,676)	(9,231,676)
Deferred tax liability	23	-	(1,926)
Fair value of net assets of subsidiary			**73,843**
Minority interest acquired			(738)
Fair value of acquired interest in net assets of subsidiary			**73,105**
Excess of share in net assets acquired over purchase consideration	21		(70,085)
Total purchase consideration			**3,020**
Less cash and cash equivalents of subsidiary acquired			(112,473)
Net outflow of cash and cash equivalents on acquisition			**(109,453)**

28 Business Combinations (continued)

UTS (continued)

Consideration of RR 3.02 million was paid during 2007.

Excess of share in net assets acquired over purchase consideration arising on the acquisition in the amount of RR 62,252 thousand was recognized in profit and loss statement as gain (Note 21).

A preliminary allocation of Uraltrubostal's purchase price was performed, and the Group is planning to finalize it within 12 months of the acquisition date.

Fair value of assets acquired and liabilities assumed are based on a discounted cash flow model. The valuation of identifiable assets, liabilities and contingent liabilities was performed by an independent professional appraiser.

29 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is an active quoted market price of a financial instrument.

The estimated fair values of financial instruments have been determined by the Group using appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value.

Financial assets carried at amortized cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate their fair values. Cash and cash equivalents are carried at amortized cost which approximates their current fair value.

Liabilities carried at amortized cost. Fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Note 15 for the estimated fair values of borrowings.

30 Post Balance Sheet Events

In January 2008, the Group signed 2 loan agreements with Vneshtorgbank in the total amount of US$ 50 million at an interest rate of LIBOR + 4.2% with maturity in 2008.

Under the overdraft agreement signed in December 2007 with Gazprombank, the Group in January 2008 starts to draw funds with a maximum one-off limit of RR 500 million at an interest rate of 10% p.a.

In January 2008, the Group signed 2 loan agreements with EurofinanceMosnarbank in the total amount of US$ 40 million at interest rates varying in the range of 8.3% to 10.75% p.a. with maturity in 2008.

In March 2008, the Group signed a loan agreement with RF Sberbank in the amount of RR 800 million at an interest rate of 9.25% p.a. with maturity in 2008.

In April 2008, the Group signed a loan agreement with RF Sberbank in the amount of RR 699.5 million at an interest rate of 10% p.a. with maturity in 2009.

In January 2008, the Group issued a RR-denominated loan to ZAO Rimera, a company acquired by the Group in May 2008, in the amount of RR 2,958.5 million at interest rates varying in the range of 11% to 13% p.a. Loan is unsecured and matures in 2008.

In May 2008, the Group signed 2 loan agreements with Bank of Moscow in the total amount of RR 3 billion with a maximum one-off limit of RR 2,5 billion with maturity in May 2010. Gearing of RR 2,5 billion took place in May 2008 at an interest rate of 9% p.a. with maturity in 2008.

In May 2008, the Group signed a loan agreement with Unicredit in the amount of RR 660 million at an interest rate of 10.35% p.a. with maturity in 2008.

The Group issued a loan to ZAO UralTrubi in the amount of RR 7.5 billion at 10,5% p.a. The loan is to be repaid in June 2008.

30 Post Balance Sheet Events (continued)

In December 2007, the Federal Securities Commission of Russia registered the bond issuance prospectus of 15 million non-convertible interest-bearing bonds with the par value of each bond is RR 1,000 for total amount of RR 15 billion. The maturity of the issue is 5-7 years. The coupon payments are to be made semi-annually. ZAO Raiffeisenbank and Bank of Moscow were appointed as Lead Managers for the bond issue program. The initial placement of the bond issue series 03 was conducted on April, 2008 in the form of a public subscription in amount of RR 8 billion. The first coupon yield was set up at 10%.

In January 2008 the Group acquired a 100% stake in UNP Vtorchermet (a company engaged in procuring ferrous and non-ferrous metal scrap) for RR 223 million. Management plans to perform purchase price allocation within 12 months from the acquisition date.

In March 2008 the Group acquired from a related party a 100% stake in metals trading company Arkley UK Limited for US$ 5.5 million. Management plans to perform purchase price allocation within 12 months from the acquisition date.

In May 2008 the Group acquired a 68% stake in ZAO Rimera (a holding company of the group engaged in pipeline service activities) for RR 1.36 million.

In May 2008 the Company acquired 23% of PNTZ shares for RR 3.9 billion.

From February till April the Group repurchase 14,954,105 treasury shares that comprise 3,17% of its share capital for total consideration of RR 1.5 billion.

In May 2008 the Group acquired controlling interests in OOO Uganskheftegazgeologia and OOO Tomskheftegazgeophisika, companies engaged in pipeline service activities.