OJSC NOVOLIPETSK STEEL

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

AS AT MARCH 31, 2007 AND DECEMBER 31, 2006
AND FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

CONTENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of OJSC Novolipetsk Steel

We have reviewed the accompanying interim condensed consolidated balance sheet of OJSC Novolipetsk Steel and its subsidiaries ("the Group") as at March 31, 2007, the related interim condensed consolidated statements of income and cash flows and stockholders' equity and comprehensive income for each of the three-month periods ended March 31, 2007 and March 31, 2006. These interim condensed consolidated financial statements are the responsibility of the Group's management.

We conducted our review in accordance with the standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 6 to the interim condensed consolidated financial statements, the cost of certain property, plant and equipment was determined with the assistance of an independent appraiser, who provided US dollar estimates of the fair value of the Group's property, plant and equipment, the effect of which is no longer material for the three-month period ended March 31, 2007.

Based on our review, except for the effects of using the appraisal to determine the carrying value for certain property, plant and equipment on the consolidated results of the Group's operations and its cash flows for the three-month period ended March 31, 2006, as discussed in the preceding paragraph, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group as at December 31, 2006, the related consolidated statements of income and cash flows and stockholders' equity and comprehensive income for the year then ended (not presented herein), and in our report dated April 16, 2007, we expressed an unqualified opinion on such consolidated financial statements.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

June 9, 2007

(All amounts in thousands of US dollars, except for share data)

	Note	As at March 31, 2007	As at December 31, 2006
ASSETS			
Current assets			
Cash and cash equivalents	2	898,309	665,213
Short-term investments		36,672	37,261
Accounts receivable, net	3	1,251,869	1,150,492
Inventories, net	4	873,728	856,940
Other current assets, net	5	369,780	331,322
Restricted cash		9,249	8,372
Current assets, held for sale	7	44,364	-
		3,483,971	**3,049,600**
Non-current assets			
Long-term investments, net		855,667	810,350
Property, plant and equipment, net	6	3,984,585	3,988,128
Intangible assets, net		195,467	199,030
Goodwill		566,584	559,703
Other non-current assets	5	103,872	110,179
Non-current assets, held for sale	7	114,401	-
		5,820,576	**5,667,390**
Total assets		**9,304,547**	**8,716,990**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	8	718,289	664,319
Short-term borrowings	9(a)	99,333	248,782
Current income tax liability		84,382	80,350
Current liabilities, held for sale	7	41,012	-
		943,016	**993,451**
Non-current liabilities			
Deferred income tax liability		552,396	537,647
Long-term borrowings	9(b)	50,523	48,153
Other long-term liabilities		40,609	194,872
Non-current liabilities, held for sale	7	175,395	-
		818,923	**780,672**
Total liabilities		**1,761,939**	**1,774,123**
Commitments and contingencies	17	-	-
Minority interest		**136,264**	**133,425**
Stockholders' equity			
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at March 31, 2007 and December 31, 2006		221,173	221,173
Statutory reserve		10,267	10,267
Additional paid-in capital		52,395	1,812
Accumulated other comprehensive income		679,688	589,986
Retained earnings		6,442,821	5,986,204
		7,406,344	**6,809,442**
Total liabilities and stockholders' equity		**9,304,547**	**8,716,990**

The interim condensed consolidated financial statements as set out on pages 4 to 19 were approved on June 9, 2007.

President (Chairman of the Management Board)
Lapshin A.A.

Chief Accountant
Sokolov A.A.

(All amounts in thousands of US dollars, except for earnings per share amounts)

	Note	For the three months ended March 31, 2007	For the three months ended March 31, 2006
Sales revenue	14	**1,750,166**	**1,086,809**
Cost of sales			
Production cost		(830,451)	(574,969)
Depreciation and amortization		(102,342)	(73,701)
		(932,793)	**(648,670)**
Gross profit		**817,373**	**438,139**
General and administrative expenses		(63,191)	(35,177)
Selling expenses		(93,699)	(16,155)
Taxes other than income tax		(14,318)	(10,398)
Accretion expense on asset retirement obligations		(6,019)	-
Operating income		**640,146**	**376,409**
Loss on disposals of property, plant and equipment		(12,609)	(1,492)
(Losses) / gains on investments, net	12	(1,492)	383,759
Interest income		25,029	29,300
Interest expense		(8,404)	(4,541)
Foreign currency exchange, net		11,832	(56,605)
Other income / (expenses), net	7	13,261	(2,466)
Income from continuing operations before income tax and minority interest		**667,763**	**724,364**
Income tax		(216,892)	(176,424)
Income from continuing operations before minority interest		**450,871**	**547,940**
Minority interest		(5,660)	(3,692)
Equity in net earnings of associate		10,180	483
Income from continuing operations		**455,391**	**544,731**
Discontinued operations			
Gain from operations of discontinued subsidiary	10	1,226	1,172
Income from discontinued operations		**1,226**	**1,172**
Net income		**456,617**	**545,903**
Income from continuing operations per share (US dollars)			
basic and diluted		0.0760	0.0909
Income from discontinued operations per share (US dollars)			
basic and diluted		0.0002	0.0002
Net income per share (US dollars)			
basic and diluted	11	0.0762	0.0911

(thousands of US dollars)

	Note	For the three months ended March 31, 2007	For the three months ended March 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		**456,617**	**545,903**
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest		6,838	4,819
Depreciation and amortization		102,342	73,701
Loss on disposals of property, plant and equipment		12,609	1,492
Losses / (gains) on investments, net	12	1,492	(383,759)
Equity in net earnings of associate		(10,180)	(483)
Deferred income tax expense / (benefit)		40,613	(6,857)
Gain on loan restructuring	7	(30,028)	-
Accretion expense on asset retirement obligations		6,019	-
Other movements		(2,591)	14,867
Changes in operating assets and liabilities			
Increase in accounts receivable		(135,520)	(24,790)
(Increase) / decrease in inventories		(24,596)	22,158
(Increase) / decrease in other current assets		(28,776)	4,317
Increase in loans provided by the subsidiary bank		(1,277)	(19,673)
Increase / (decrease) in accounts payable and other liabilities		79,082	(59,742)
Decrease in current income tax payable		(13,334)	(12,862)
Net cash provided by operating activities		**459,310**	**159,091**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiary, net of cash acquired of $1,264		-	(59,365)
Proceeds from adjustment of the original purchase price of subsidiaries		37,124	-
Proceeds from sale of property, plant and equipment		1,690	2,744
Purchases and construction of property, plant and equipment		(173,196)	(91,193)
Proceeds from sale of investments		3,719	402,728
Purchases of investments		(35,079)	(27,948)
Movement of restricted cash		(766)	96
Net cash (used in) / received from investing activities		**(166,508)**	**227,062**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and notes payable		22,689	8,096
Repayment of borrowings and notes payable		(170,343)	(14,870)
Capital lease payments		(739)	-
Proceeds from disposal of assets to the company under common control	10	78,469	-
Payments to controlling shareholders for common control transfer of interests in subsidiary	13	-	(104,000)
Dividends to shareholders		(346)	(398)
Net cash used in financing activities		**(70,270)**	**(111,172)**
Cash included in assets, held for sale		(136)	-
Net increase in cash and cash equivalents		**222,396**	**274,981**
Effect of exchange rate changes on cash and cash equivalents		10,700	72,135
Cash and cash equivalents at the beginning of the period	2	665,213	1,924,148
Cash and cash equivalents at the end of the period	2	**898,309**	**2,271,264**

(thousands of US dollars)

	Note	Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balance at December 31, 2005		**221,173**	**10,267**	**1,812**	**72,129**	**4,809,094**	**5,114,475**
Comprehensive income:							
Net income		-	-	-	-	545,903	545,903
Other comprehensive income:							
Net unrealized gain on a change in valuation of investments		-	-	-	(1,201)	-	(1,201)
Cumulative translation adjustment		-	-	-	194,346	-	194,346
Comprehensive income							**739,048**
Payments to controlling shareholders for common control transfer of interests in subsidiary	13	-	-	-	-	(104,000)	(104,000)
Balance at March 31, 2006		**221,173**	**10,267**	**1,812**	**265,274**	**5,250,997**	**5,749,523**
Balance at December 31, 2006		**221,173**	**10,267**	**1,812**	**589,986**	**5,986,204**	**6,809,442**
Comprehensive income:							
Net income		-	-	-	-	456,617	456,617
Other comprehensive income:							
Cumulative translation adjustment		-	-	-	89,702	-	89,702
Comprehensive income							**546,319**
Earnings from disposal of assets to the company under common control	10	-	-	50,583	-	-	50,583
Balance at March 31, 2007		**221,173**	**10,267**	**52,395**	**679,688**	**6,442,821**	**7,406,344**

1 BASIS OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Open Joint Stock Company Novolipetsk Steel (the "Parent Company", or NLMK) and its subsidiaries (together – the "Group") audited consolidated financial statements as at and for the year ended December 31, 2006. The December 31, 2006 condensed consolidated balance sheet information has been derived from audited consolidated financial statements, however, since it is presented on a condensed basis it does not include all disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

In the opinion of the Group's management, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the period reported herein. All such adjustments are of a normal recurring nature. The financial results of the period reported herein are not necessarily indicative of future financial results.

Functional and reporting currency

The Group's principal functional currency is considered to be the Russian ruble. The accompanying interim condensed consolidated financial statements have been prepared using the US dollar as the Group's reporting currency, utilizing period-end exchange rates for assets and liabilities, period weighted average exchange rates for interim condensed consolidated statement of income accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*.

The Central Bank of the Russian Federation's closing rates of exchange ruling at March 31, 2007, December 31, 2006, March 31, 2006, December 31, 2005 were 1 US dollar to 26.0113, 26.3311, 27.7626 and 28.7825 Russian rubles, respectively. The period weighted average exchange rates were 26.3062 and 28.1590 Russian rubles to 1 US dollar for the three months ended March 31, 2007 and March 31, 2006, respectively.

Recent accounting pronouncements

Accounting changes

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Group adopted FIN 48 as at January 1, 2007. The adoption of this new pronouncement did not have any material impact on the Group's interim condensed consolidated financial statements.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments*, ("SFAS No. 155") which amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 155 allows any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133 to be carried at fair value in its entirety, with changes in fair value recognized in earnings. In addition, SFAS No. 155 requires that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or contain an embedded derivative. This Statement also eliminates a prior restriction on the types of passive derivatives that a qualifying special purpose entity is permitted to hold. The Statement is applicable to new or modified financial instruments in fiscal years beginning after September 15, 2006, though the provisions related to fair value accounting for hybrid financial instruments can also be applied to existing instruments. The adoption of SFAS No. 155 in 2007 did not have a material impact on the Group's interim condensed consolidated financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets* ("SFAS No. 156") which amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This Statement addresses the accounting for recognized servicing assets and servicing liabilities related to certain transfers of the servicer's financial assets and for acquisitions or assumptions of obligations to service financial assets that do not relate to the financial assets of the servicer and its related parties. It requires that all recognized servicing assets and servicing liabilities are initially measured at fair value, and subsequently measured at either fair value or by applying an amortization method for each class of recognized servicing assets and servicing liabilities. The Statement is effective in fiscal years beginning after September 15, 2006. The adoption of SFAS No. 156 in 2007 did not have a material impact on the Group's interim condensed consolidated financial statements.

(thousands of US dollars)

1 BASIS OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARATION (continued)

In April 2006, the FASB issued FSP FIN 46(R)−6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)* ("FSP FIN 46(R)−6"). FSP FIN 46(R)−6 addresses whether certain arrangements associated with variable interest entities should be treated as variable interests or considered as creators of variability, and indicates that the variability to be considered shall be based on an analysis of the design of the entity. FSP FIN 46(R)−6 is required to be applied prospectively to all entities with which the Group first becomes involved and to all entities previously required to be analyzed under FIN 46(R) upon the occurrence of certain events, beginning the first day of the first reporting period after June 15, 2006. Early application is permitted for periods for which financial statements have not yet been issued. Retroactive application to the date of the initial application of FIN 46(R) is permitted but not required, however, if elected, it must be completed no later than the end of the first annual reporting period after July 15, 2006. The adoption of FSP FIN 46(R)−6 in 2007 did not have a material impact on the Group's interim condensed consolidated financial statements.

New pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Group is currently evaluating the potential impact, if any, that the adoption of SFAS No. 157 will have on its interim condensed consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* ("SFAS No. 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 will become effective for the Group on January 1, 2008.

2 CASH AND CASH EQUIVALENTS

	As at March 31, 2007	As at December 31, 2006
Cash – Russian rubles	70,966	113,380
Cash – other currency	73,268	44,852
Deposits – Russian rubles	668,127	466,254
Deposits – US dollars	5,551	1,612
Deposits – Euros	80,235	37,227
Other cash equivalents	162	1,888
	898,309	**665,213**

3 ACCOUNTS RECEIVABLE

	As at March 31, 2007	As at December 31, 2006
Trade accounts receivable	797,791	667,369
Advances given to suppliers	115,000	97,458
Taxes receivable	286,306	311,993
Accounts receivable from employees	4,857	2,838
Other accounts receivable	58,999	84,287
	1,262,953	1,163,945
Allowance for doubtful debts	(11,084)	(13,453)
	1,251,869	**1,150,492**

(thousands of US dollars)

3 ACCOUNTS RECEIVABLE (continued)

As at March 31, 2007 and December 31, 2006, the Group had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK) and Moorfield Commodities Company, UK, each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors totaled $240,310, $135,360 and $227,790 at March 31, 2007, $159,826, $104,155 and $236,514 at December 31, 2006, respectively.

As at December 31, 2006 the Group had accounts receivable of $37,089 from the sellers of coal and coke-chemical assets due to the adjustment of the original purchase price, which is included in other accounts receivable.

4 INVENTORIES

	As at March 31, 2007	As at December 31, 2006
Raw materials	540,493	554,126
Work in process	220,065	199,243
Finished goods and goods for resale	140,648	129,421
	901,206	882,790
Provision for obsolescence	(27,478)	(25,850)
	873,728	**856,940**

5 OTHER CURRENT AND NON-CURRENT ASSETS

	As at March 31, 2007	As at December 31, 2006
Other current assets		
Short-term loans provided by the subsidiary bank	272,229	254,544
Other current assets	114,983	90,292
	387,212	344,836
Allowance for doubtful loans	(17,432)	(13,514)
Total other current assets, net	**369,780**	**331,322**
Other non-current assets		
Long-term loans provided by the subsidiary bank	71,912	80,435
Other non-current assets	31,960	29,744
Total other non-current assets	**103,872**	**110,179**

(thousands of US dollars)

6 PROPERTY, PLANT AND EQUIPMENT

	As at March 31, 2007	As at December 31, 2006
Land	78,132	77,191
Mineral rights	580,618	583,962
Asset retirement cost	-	24,277
Buildings	1,205,432	1,201,439
Land and buildings improvements	1,161,362	1,204,403
Machinery and equipment	5,074,206	5,030,473
Vehicles	277,317	278,711
Construction in progress and advances for construction and acquisition of property, plant and equipment	887,541	773,388
Leased assets	11,819	8,460
Other	75,556	76,763
	9,351,983	9,259,067
Accumulated depreciation	(5,367,398)	(5,270,939)
	3,984,585	**3,988,128**

According to US GAAP, the Group's property, plant and equipment should be reported at their actual historical depreciated cost. However, due to the absence of reliable US GAAP accounting records and impairment calculations, the book value of certain property, plant and equipment was determined with the assistance of an independent appraiser, which management considers provided the best basis for the recognition and depreciation of such items. The appraiser provided US dollar estimates of the fair value, determined on the basis of depreciated replacement cost, which the Group has recorded as its property, plant and equipment balance as at January 1, 2000. As at March 31, 2007 and December 31, 2006, the net book value of these items amounted to 11% and 12% of total net book value of property, plant and equipment, respectively. The Group considered that as a result of significant additions to property, plant and equipment since the date of the appraisal, in combination with the cumulative effect of depreciation of the appraised assets, any possible effect on the interim condensed consolidated financial statements as at and for the three months ended March 31, 2007 is no longer material.

7 ASSETS AND LIABILITIES, HELD FOR SALE

In March 2007, a subsidiary of the Parent Company – Kuzbass Asset Holdings Limited – entered into an agreement with the MUE Municipal Sustenance Department, owned by the Administration of Prokopyevsk (Kemerovo Region), for the sales of the Group's coal producing companies, the Prokopyevskugol group. Under the agreement between the parties, the total consideration for the assets transferred was $1 (one dollar). The closing of the transaction was completed in the beginning of April 2007.

Due to the high level of production cost at those companies and the inability of the Group to significantly cut costs without closing down loss-making mines and operations and, hence, implement personnel lay offs the Group took a decision to sell Prokopyevskugol group. Given the fact that proper attention to social aspects is a key issue of such restructuring, the Group management accepted an offer in March 2007 from Administration of the Kemerovo Region for the sale of Prokopyevskugol group.

(thousands of US dollars)

7 ASSETS AND LIABILITIES, HELD FOR SALE (continued)

During 2006, the Parent Company granted an interest-free loan to Prokopyevskugol group companies in the total amount of approximately $140,000. In February 2007, the Parent Company assigned its rights under the loan to a third party for a total amount of $30,000. In March 2007 third party waived its right to claim the loan from Prokopyevskugol group entirely (related income tax effect of $33,413 was accrued by the Group and included in Income tax line). Pre-tax gain on this operation of $30,028 was recognized by the Group, and included within Other income / (expenses), net line in the interim condensed consolidated statement of income for the three months ended March 31, 2007.

During the period of December 2006 through January 2007 the Group entered into supply agreements of coal concentrate by Prokopyevskugol group companies for the period up to the end of 2007, the Group's management assumes that similar relations might be continued in the future. Accordingly, operations of Prokopyevskugol group companies in this interim condensed consolidated financial statements are recognized within continuing operations of the Group.

As at March 31, 2007, Prokopyevskugol group companies' assets and liabilities are recorded within assets and liabilities of the Group, held for sale in the following amounts:

Current assets	44,364
Non-current assets	114,401
Total assets	**158,765**
Current liabilities	(41,012)
Non-current liabilities	(175,395)
Total liabilities	**(216,407)**
Negative net assets	**(57,642)**

Information on Prokopyevskugol group companies' transactions, before intercompany eliminations, for the three months ended March 31, 2007 is as follows:

Sales revenue	37,865
Net income	74,412

8 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at March 31, 2007	**As at December 31, 2006**
Trade accounts payable	126,108	130,396
Advances received	137,655	121,654
Customers' deposits and accounts in the subsidiary bank	268,290	201,638
Taxes payable other than income tax	48,637	66,297
Accounts payable and accrued liabilities to employees	111,963	104,591
Dividends payable	4,308	4,602
Short-term capital lease liability	2,836	1,379
Other accounts payable	18,492	33,762
	718,289	**664,319**

(thousands of US dollars)

9 SHORT-TERM AND LONG-TERM BORROWINGS

(a) Short-term borrowings

	As at March 31, 2007	As at December 31, 2006
Loans, US$ denominated, 5.35% - 6.9% per annum	-	155,026
Loans, RUR denominated, 6.3% - 9% per annum	98,868	86,247
Notes payable	25	5,454
Other loans	440	2,055
	99,333	**248,782**

Unused lines of credit for short-term RUR denominated bank loans comprise $32,678 at March 31, 2007.

Under the terms of the short-term credit agreements there are number of obligations as regards default provisions and maintenance of certain financial ratios, financial position and maintenance of certain revenue flows.

(b) Long-term borrowings

	As at March 31, 2007	As at December 31, 2006
Loan, US$ denominated, 5% per annum	19,001	13,829
Loan, Euro denominated, 5.25% per annum	16,010	15,805
Notes payable	15,512	18,519
	50,523	**48,153**

The Group's long-term borrowings as at March 31, 2007 mature between 2 to 5 years.

10 DISPOSAL OF ENERGY ASSETS

In February 2007, the Parent Company completed sales, to a common control company (Note 16(d)), of its full controlling interest in LLC Lipetskaya municipal energy company (51.00%) and minority interests in OJSC Lipetskenergo (14.11%), OJSC Lipetsk energy sales company (14.11%), OJSC Lipetsk mains systems (14.11%), OJSC TGK-4 (2.68%) and OJSC Lipetskoblgaz (19.39%). Share purchase agreements for the aforementioned assets were entered into in December 2006. Accordingly, for the two months ended February 28, 2007 the operations of LLC Lipetskaya municipal energy company and its subsidiary were recognized within discontinuing operations.

The carrying amounts of the major classes of assets and liabilities of LLC Lipetskaya municipal energy company and its subsidiary at February 28, 2007 are as follows (in relation to 100% stake):

Current assets	22,663
Non-current assets	7,067
Total assets	**29,730**
Current liabilities	(18,058)
Total liabilities	**(18,058)**
Net assets	**11,672**

10 DISPOSAL OF ENERGY ASSETS (continued)

Information on LLC Lipetskaya municipal energy company and its subsidiary transactions, for the two months ended February 28, 2007 is as follows:

Sales revenue	28,860
Net income	2,403

These transactions were made in line with the earlier announced strategy of the Group's further development in 2007-2011. In accordance with a resolution passed by the Board of Directors in February 2006, the interests in the energy companies were classified as none-core assets.

The aforementioned assets were disposed of at the following prices (as at the date of payment):
- LLC Lipetskaya municipal energy company, a share of 51.00% in stake – $3.76 million;
- OJSC Lipetskenergo, an interest of 14.11%, ordinary shares – $15.85 million;
- OJSC Lipetsk energy sales company, an interest of 14.11%, ordinary shares – $0.42 million;
- OJSC TGK-4, an interest of 2.68%, ordinary shares – $39.23 million;
- OJSC Lipetsk mains systems, an interest of 14.11%, ordinary shares – $3.63 million;
- OJSC Lipetskoblgaz, an interest of 19.39%, ordinary shares – $15.79 million.

Prior to the conclusion of agreements, an independent appraisal of market value of the Parent Company's interests in the regional energy companies was conducted, most of which display feature of low liquidity and are non-marketable. All the abovementioned assets were sold with a 10% premium to their appraised values.

11 EARNINGS PER SHARE

	For the three months ended March 31, 2007	**For the three months ended March 31, 2006**
Weighted average number of shares	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	456,617	545,903
Basic and diluted net income per share (US dollars)	**0.0762**	**0.0911**

Basic net income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period, after giving retroactive effect to any stock splits. The Parent Company does not have potentially dilutive shares outstanding.

12 GAINS ON INVESTMENTS

In January 2006, the Parent Company sold to third parties 11.96% of the outstanding common shares of OJSC Lebedinsky GOK for consideration of $400,000 (four hundred million); carrying value of these shares at December 31, 2005 was $9,456. This transaction was consummated in line with the Group's strategy for investment management.

The Group recognized an income on this transaction calculated as the difference between consideration received and carrying value of these shares in the amount of $391,907 included within (Losses) / gains on investments, net line (totaling $383,759) in the interim condensed consolidated statement of income for the three months ended March 31, 2006.

(thousands of US dollars)

13 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS

In January 2006, a company under common control outside the Group transferred to the Parent Company 100% of the outstanding common shares of DanSteel A/S, a steel-rolling company acquired by the common control party in November 2005. In these interim condensed consolidated financial statements, the Group accounted for this transfer retroactively, in a manner similar to pooling, by reflecting the controlling shareholders' book value of the acquisition cost on such transfer of $63,982 as capital contributions. In January 2006, the Group transferred cash consideration to the common control party of $104,000 which is reflected as distributions to the controlling shareholders. The transaction value was determined based on an independent appraisal.

The acquisition of DanSteel A/S by the common control party was accounted for using the purchase method of accounting. The entity was consolidated by the Group for the first time as at the effective date of obtaining control by the common control party, which management considers to be November 30, 2005. The results of operations of the acquired entity were included in the Group's consolidated statement of income starting from December 1, 2005. Negative goodwill of $41,851, generated on the acquisition by the common control party, was allocated to the acquired assets other than current assets in accordance with SFAS No. 141.

14 SEGMENTAL INFORMATION

The Group has three reportable business segments: steel, mining and coke-chemical. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above three segments meet criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to the three operating segments of the Group. Those segments include the trade seaport services business, finance business, comprising banking and insurance services to commercial and retail customers. None of these segments has met any of the quantitative thresholds for determining reportable segments. The Group's management accounts for intersegmental sales and transfers, for the purpose of determining intersegmental operations, as if the sales or transfers were to third parties. The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income before minority interest.

Information on segmental transactions for the three months ended March 31, 2007 and their assets as at March 31, 2007 is as follows:

	Steel	**Mining**	**Coke-chemical**	**All other**	**Totals**	**Intersegmental operations and balances**	**Consolidated**
Revenue from external customers	1,598,702	23,170	105,439	22,855	1,750,166	-	1,750,166
Intersegment revenue	6,336	192,178	26,571	37,364	262,449	(262,449)	-
Gross profit	**633,488**	**134,760**	**23,462**	**13,802**	**805,512**	**11,861**	**817,373**
Operating income / (loss)	**519,858**	**124,231**	**3,169**	**(17,580)**	**629,678**	**10,468**	**640,146**
Income / (loss) from continuing operations before minority interest	**279,263**	**103,757**	**(1,970)**	**78,884**	**459,934**	**(9,063)**	**450,871**
Segment assets, including goodwill	6,144,793	1,536,961	976,191	995,539	9,653,484	(348,937)	9,304,547

(thousands of US dollars)

14 SEGMENTAL INFORMATION (continued)

Information on segmental transactions for the three months ended March 31, 2006 and their assets as at December 31, 2006 is as follows:

	Steel	Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	1,048,643	16,389	-	21,777	1,086,809	-	1,086,809
Intersegment revenue	251	93,179	-	2	93,432	(93,432)	-
Gross profit	**378,597**	**40,665**	**-**	**15,618**	**434,880**	**3,259**	**438,139**
Operating income	**336,348**	**29,847**	**-**	**9,935**	**376,130**	**279**	**376,409**
Income from continuing operations before minority interest	**510,798**	**24,269**	**-**	**11,145**	**546,212**	**1,728**	**547,940**
Segment assets, including goodwill	5,913,356	1,417,926	968,412	1,003,230	9,302,924	(585,934)	8,716,990

15 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

The Russian Federation economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, 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 and political developments.

(b) Convertibility of Russian ruble

Future movements in the exchange rate between the Russian ruble and the US dollar will affect the reported US dollar amounts related to the Russian ruble carrying values of the Group's assets and liabilities. Such movements may also affect the Group's ability to realize assets presented in US dollars in these interim condensed consolidated financial statements. Accordingly, any translation of ruble amounts to US dollars should not be construed as a representation that such ruble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

(c) Commercial risks

The Group minimizes its sales risks by having a wide range of geographical zones for sales, which allows the Group to respond quickly to unexpected changes in the situation on one or more sales markets on the basis of an analysis of the existing and prospective markets.

The Group's sales outside Russian Federation in monetary terms for the three months ended March 31, 2007 and March 31, 2006 were 67% and 58% of the total sales, respectively.

The Group relies on export sales to generate foreign currency earnings. As the Group sales outside Russian Federation a significant portion of its production, it is exposed to foreign currency risk as well as global economic and political risks.

15 RISKS AND UNCERTAINTIES (continued)

The Group sells to three international traders that account for the majority of its sales outside Russia. During the three months ended March 31, 2007 Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK), and Moorfield Commodities Company, UK, purchased 32%, 18% and 23% of the Group's sales outside Russia, respectively (38%, 27% and 11% during the three months ended March 31, 2006, respectively). Price fluctuations of sales to these companies are in line with general trends in global price fluctuations. The Group's prices for sales outside Russia are comparable to the prices of Russian competitors. As at March 31, 2007 and December 31, 2006 1.02% of the share capital of the Parent Company is held by a company beneficially owned by the shareholders of these traders.

The Group's future profitability and overall performance is strongly affected by the prices of ferrous metal products set in the international metal trading market that are subject to significant fluctuations.

16 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to SFAS No. 57, *Related Party Disclosures*. Balances as at March 31, 2007 and December 31, 2006 and transactions for the three months ended March 31, 2007 and March 31, 2006 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to related parties, either the companies under common control or companies under control or significant influence of the Group's management, were $827 and $6,553 for the three months ended March 31, 2007 and March 31, 2006, respectively.

Related accounts receivable equaled $2,323 and $1,539 as at March 31, 2007 and December 31, 2006, respectively.

Purchases and services

Purchases of raw materials, technological equipment and management services from the companies under common control, were $2,716 and $2,399 for the three months ended March 31, 2007 and March 31, 2006, respectively. Purchases of energy from the companies under significant influence of the Group's management (OJSC Lipetsk energy sales company and other companies, which originated from reorganization of OJSC Lipetskenergo), were $14,761 and $51,931 for the three months ended March 31, 2007 and March 31, 2006, respectively.

Accounts payable to the related parties were $28,927 and $2,666 as at March 31, 2007 and December 31, 2006, respectively.

(b) Financial transactions

The subsidiary bank of the Group had loans receivable from related parties, either associates or companies under control or significant influence of the Group's management, of $4,649 and $8,864 as at March 31, 2007 and December 31, 2006, respectively.

Deposits and current accounts of related parties, either the companies under common control or companies under control or significant influence of the Group's management, in the subsidiary bank amounted to $47,280 and $22,811 as at March 31, 2007 and December 31, 2006, respectively.

Deposits and current accounts of the Group companies in a bank under significant influence of the Group's management (OJSC Bank Zenit) amounted to $126,711 and $76,114 as at March 31, 2007 and December 31, 2006, respectively. Related interest income from these deposits and current accounts for the three months ended March 31, 2007 and March 31, 2006 amounted to $1,656 and $1,383, respectively.

16 RELATED PARTY TRANSACTIONS (continued)

The aggregate amount of interest free loans granted to management as at March 31, 2007 and December 31, 2006 was $420 and $467, respectively. The Group did not grant interest free loans to management during the three months ended March 31, 2007 and March 31, 2006.

Agent fee for the purchase of the shares in subsidiaries from the company under significant influence of the Group's management for the three months ended March 31, 2006 amounted to $478.

(c) Contributions to non-governmental pension fund

Total contributions to a non-governmental pension fund amounted to $790 and $677 for the three months ended March 31, 2007 and March 31, 2006, respectively. The Group has the right to appoint and dismiss top management of the fund as the major contributor to its capital. The Group has no long-term commitments to provide funding, guarantees, or other support to the fund.

(d) Common control transfers and disposal of investments

In February 2007, the Parent Company sold, to a common control company, of its full interests in energy companies for $78,683 and recorded net income of $50,583 on this transaction in additional paid-in capital (Note 10).

In January 2006, the Group transferred cash consideration to the common control party outside the Group of $104,000 for the transfer of 100% of the outstanding common shares of DanSteel A/S to the Parent Company, which is reflected as distributions to the controlling shareholders (Note 13).

17 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

The Group's export trading activities are subject to from time to time compliance reviews of importers' regulatory authorities. The Group's export sales were considered within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities. No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying interim condensed consolidated financial statements.

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Group believes that any ultimate liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the interim condensed consolidated financial statements.

(c) Environmental matters

The enforcement of environmental regulation in 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 estimated but could be material. In the current enforcement climate under existing legislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage or remediation.

(d) Insurance

The Russian insurance market is in a developing stage and some forms of insurance protection common in other parts of the world are not yet generally available in Russian Federation.

17 COMMITMENTS AND CONTINGENCIES (continued)

The Group has entered into insurance contracts to insure property, plant and equipment, land transport, and aircraft and purchased accident and health insurance, inter-city motor vehicle passenger insurance and medical insurance for employees, and directors and officers liability insurance (D&O). Furthermore, the Group has purchased operating entities civil liability coverage for dangerous production units.

(e) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $576,891 and $396,801 as at March 31, 2007 and December 31, 2006, respectively.

(f) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group’s social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group’s employees. The Group has transferred certain social operations and assets to local authorities, however, management expects that the Group will continue to fund certain social programs through the foreseeable future. These costs are recorded in the period they are incurred.

(g) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities 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. 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 at March 31, 2007 management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these interim condensed consolidated financial statements.

(h) Financial guarantees issued

As at March 31, 2007 and December 31, 2006, the Group has issued guarantees to third parties amounting to $3,075 and $1,667. No amount has been accrued in the interim condensed consolidated financial statements for the Group’s obligation under these guarantees as the projected outflows from such guarantees are immaterial.

18 SUBSEQUENT EVENTS

In June 2007 the Parent Company declared dividends for the year ended December 31, 2006 of 3 Russian rubles per share for the total of $683,267, including interim dividends for the six months ended June 30, 2006 of 1.5 Russian ruble per share for the total of $336,072.