OJSC NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

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

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

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PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bldg. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

REPORT OF INDEPENDENT AUDITORS

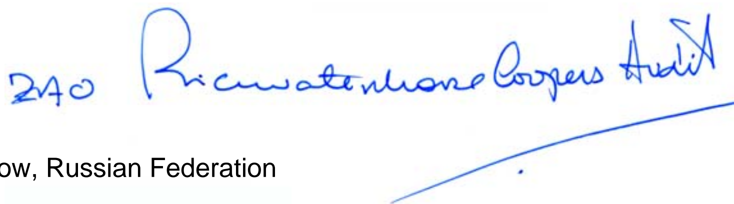
To the Board of Directors of OJSC Novolipetsk Steel:

We have audited the accompanying consolidated balance sheets of OJSC Novolipetsk Steel and its subsidiaries (the "Group") as at December 31, 2007, 2006 and 2005, and the related consolidated statements of income, cash flows and stockholders' equity and comprehensive income for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 10 to the 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 years ended December 31, 2007 and 2006.

In our opinion, except for the effects of using the appraisal to determine the carrying value for certain property, plant and equipment on the financial position of the Group as at December 31, 2005 and the consolidated results of its operations and its cash flows for the year then ended, as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as at December 31, 2007, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Moscow, Russian Federation

April 18, 2008

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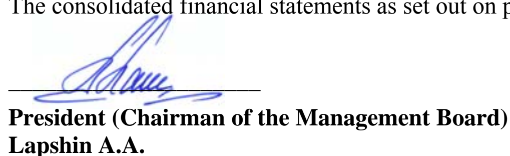
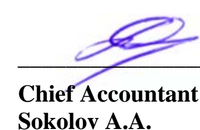
	Note	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
ASSETS				see Note 25(b)
Current assets				
Cash and cash equivalents	4	1,154,641	665,213	1,924,148
Short-term investments	6	153,462	37,261	27,040
Accounts receivable and advances given, net	7	1,696,451	1,150,492	708,515
Inventories, net	8	1,236,433	856,940	559,250
Other current assets, net	9(a)	147,191	331,322	208,920
Restricted cash	5	-	8,372	7,979
		4,388,178	**3,049,600**	**3,435,852**
Non-current assets				
Long-term investments, net	6	818,590	810,350	31,470
Property, plant and equipment, net	10	6,449,877	3,988,128	2,415,001
Intangible assets, net	11(b)	189,084	199,030	21,086
Goodwill	11(a)	1,189,459	559,703	173,357
Other non-current assets	9(c)	40,754	110,179	133,747
		8,687,764	**5,667,390**	**2,774,661**
Total assets		**13,075,942**	**8,716,990**	**6,210,513**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	12	1,394,934	664,319	565,983
Short-term borrowings	13(a)	1,536,570	248,782	5,282
Current income tax liability		70,686	80,350	40,639
		3,002,190	**993,451**	**611,904**
Non-current liabilities				
Deferred income tax liability	20	585,567	537,647	300,712
Long-term borrowings	13(a)	73,225	48,153	45,341
Other long-term liabilities	14	316,616	194,872	45,505
		975,408	**780,672**	**391,558**
Total liabilities		**3,977,598**	**1,774,123**	**1,003,462**
Commitments and contingencies	29	-	-	-
Minority interest	16	**106,813**	**133,425**	**92,576**
Stockholders' equity				
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2007, 2006 and 2005	17(a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		52,395	1,812	1,812
Accumulated other comprehensive income		1,181,546	589,986	72,129
Retained earnings		7,526,150	5,986,204	4,809,094
		8,991,531	**6,809,442**	**5,114,475**
Total liabilities and stockholders' equity		**13,075,942**	**8,716,990**	**6,210,513**

The consolidated financial statements as set out on pages 4 to 51 were approved on April 18, 2008.



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



Chief Accountant
Sokolov A.A.

	Note	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
				see Note 25(b)
Sales revenue	26	**7,719,061**	**6,045,625**	**4,375,806**
Cost of sales				
Production cost		(3,569,331)	(2,716,434)	(2,048,828)
Depreciation and amortization		(407,699)	(357,941)	(282,876)
		(3,977,030)	**(3,074,375)**	**(2,331,704)**
Gross profit		**3,742,031**	**2,971,250**	**2,044,102**
General and administrative expenses		(214,836)	(188,648)	(101,351)
Selling expenses	3(u)	(442,657)	(325,361)	(62,371)
Taxes other than income tax		(79,977)	(57,215)	(36,356)
Accretion expense on asset retirement obligations	15	(6,190)	(19,765)	-
Impairment losses		-	(136,916)	-
Operating income		**2,998,371**	**2,243,345**	**1,844,024**
Loss on disposals of property, plant and equipment		(27,285)	(3,582)	(11,579)
(Losses) / gains on investments, net	21(a)	(23,522)	400,696	2,771
Interest income		99,751	111,789	98,708
Interest expense		(31,417)	(29,692)	(15,377)
Foreign currency exchange, net		80,495	(74,975)	(9,805)
Gain from disposal of subsidiaries	18	83,122	-	-
Other expenses, net		(22,688)	(26,526)	(16,468)
Income from continuing operations before income tax and minority interest		**3,156,827**	**2,621,055**	**1,892,274**
Income tax	20	(837,003)	(706,605)	(497,273)
Income from continuing operations before minority interest		**2,319,824**	**1,914,450**	**1,395,001**
Minority interest	16	(23,490)	(25,773)	(21,080)
Equity in net earnings / (net losses) of associate		(50,312)	501	3,701
Income from continuing operations		**2,246,022**	**1,889,178**	**1,377,622**
Discontinued operations				
Gain from operations of discontinued subsidiary (including gain on disposal of $227,524 in 2006)	18(a), 21(b)	1,261	228,499	3,773
Income tax		-	(51,714)	-
Income from discontinued operations		**1,261**	**176,785**	**3,773**
Net income		**2,247,283**	**2,065,963**	**1,381,395**
Income from continuing operations per share (US dollars)				
basic and diluted		0.3748	0.3152	0.2299
Income from discontinued operations per share (US dollars)				
basic and diluted		0.0002	0.0295	0.0006
Net income per share (US dollars)				
basic and diluted	19	0.3750	0.3447	0.2305

	Note	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
				see Note 25(b)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		**2,247,283**	**2,065,963**	**1,381,395**
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest	16	24,592	25,773	21,080
Depreciation and amortization		407,699	357,941	282,876
Loss on disposals of property, plant and equipment		27,285	3,582	11,579
Losses / (gains) on investments, net	21(a)	23,522	(400,696)	(2,771)
Gain on disposal of discontinued subsidiary	21(b)	(83,122)	(227,524)	-
Gain from operations of discontinued subsidiary		(1,261)	-	-
Equity in (net earnings) / net losses of associate		50,312	(501)	(3,701)
Deferred income tax expense / (benefit)	20	37,925	(38,732)	(3,677)
Stock-based compensation	28(f)	-	-	1,132
Impairment losses		-	136,916	-
Accretion expense on asset retirement obligations	15	6,190	19,765	-
Other		16,348	21,386	(3,984)
Changes in operating assets and liabilities				
Increase in accounts receivable		(92,033)	(141,359)	(91,585)
Increase in inventories		(200,074)	(159,995)	(53,270)
Increase in other current assets		(43,633)	(16,905)	(33,208)
Increase in loans provided by the subsidiary bank		(106,260)	(69,776)	(69,142)
Increase / (decrease) in accounts payable and other liabilities		242,830	(23,125)	121,031
(Decrease) / increase in current income tax payable		(33,700)	32,376	(33,990)
Net cash provided by operating activities		**2,523,903**	**1,585,089**	**1,523,765**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash acquired of $14,127	25	-	(1,347,545)	-
Purchases of equity investments	6(c)	-	(805,503)	-
Cash acquired in business combination	25(a)	24,038	-	-
Proceeds from adjustment of the original purchase price of subsidiaries		37,089	-	-
Proceeds from disposal of discontinued operations	21(b)	-	302,526	-
Proceeds from sale of property, plant and equipment		12,278	15,565	10,706
Purchases and construction of property, plant and equipment		(957,719)	(618,677)	(580,198)
Proceeds from sale of investments		11,606	465,274	72,872
Purchase of investments	25(a)	(199,469)	(54,758)	(42,722)
Loan issued		(134,300)	-	-
Disposal of subsidiaries, net of cash disposed of $106,800		(60,063)	-	-
Movement of restricted cash	5	(1,020)	339	(3,122)
Net cash used in investing activities		**(1,267,560)**	**(2,042,779)**	**(542,464)**

	Note	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
				see Note 25(b)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		268,844	224,870	20,143
Repayment of borrowings and notes payable		(451,802)	(183,305)	(13,866)
Capital lease payments		(3,066)	(379)	-
Proceeds from disposal of assets to the company under common control		78,469	-	-
Contributions from controlling shareholders		-	-	33,185
Payments to controlling shareholders for common control transfer of interests in new subsidiaries	25(b)	-	(104,000)	-
Dividends paid to previous shareholder of acquired subsidiary		-	(83,547)	-
Dividends paid to minority shareholders of existing subsidiaries		(19,146)	(20,228)	(1,390)
Dividends to shareholders		(702,983)	(766,646)	(384,973)
Net cash used in financing activities		**(829,684)**	**(933,235)**	**(346,901)**
Net increase / (decrease) in cash and cash equivalents		**426,659**	**(1,390,925)**	**634,400**
Effect of exchange rate changes on cash and cash equivalents		62,769	131,990	(58,867)
Cash and cash equivalents at the beginning of the period	4	665,213	1,924,148	1,348,615
Cash and cash equivalents at the end of the period	4	**1,154,641**	**665,213**	**1,924,148**
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income tax		702,688	611,408	434,885
Interest		26,318	28,781	13,623
Non cash operating activities:				
Offset of income tax payable with VAT receivable		111,271	99,115	96,427
Non cash investing activities:				
Capital lease liabilities incurred	22	448,731	8,460	-
Non cash investing and financing activities as a result of:				
Transfers of subsidiary interests from common control parties reflected as capital contribution, net of cash received of $33,185 in 2005	25	-	-	30,797
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of $25,047 in 2007 and $14,127 in 2006	25	533,468	1,347,545	-

	Note	Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balance at December 31, 2004		**221,173**	**10,267**	**680**	**242,387**	**3,745,984**	**4,220,491**
Comprehensive income:							
Net income (see Note 25(b))		-	-	-	-	1,381,395	1,381,395
Other comprehensive income:							
Net unrealized gain on a change in valuation of investments		-	-	-	7	-	7
Cumulative translation adjustment	2(b)	-	-	-	(170,265)	-	(170,265)
Comprehensive income							**1,211,137**
Stock-based compensation	28(f)	-	-	1,132	-	-	1,132
Dividends to shareholders	17(b)	-	-	-	-	(382,267)	(382,267)
Transfers of subsidiary interests from controlling shareholders	25(b)	-	-	-	-	63,982	63,982
Balance at December 31, 2005 (see Note 25(b))		**221,173**	**10,267**	**1,812**	**72,129**	**4,809,094**	**5,114,475**
Comprehensive income:							
Net income		-	-	-	-	2,065,963	2,065,963
Other comprehensive income:							
Net unrealized loss on a change in valuation of investments		-	-	-	(1,177)	-	(1,177)
Cumulative translation adjustment	2(b)	-	-	-	519,034	-	519,034
Comprehensive income							**2,583,820**
Dividends to shareholders	17(b)	-	-	-	-	(784,853)	(784,853)
Payments to controlling shareholders for common control transfer of subsidiary interests	25(b)	-	-	-	-	(104,000)	(104,000)
Balance at December 31, 2006		**221,173**	**10,267**	**1,812**	**589,986**	**5,986,204**	**6,809,442**
Comprehensive income:							
Net income		-	-	-	-	2,247,283	2,247,283
Other comprehensive income:							
Cumulative translation adjustment, attributable to associate		-	-	-	15,562	-	15,562
Cumulative translation adjustment	2(b)	-	-	-	575,998	-	575,998
Comprehensive income							**2,838,843**
Dividends to shareholders	17(b)	-	-	-	-	(707,337)	(707,337)
Earnings from disposal of assets to the company under common control	18(a), 28(d)	-	-	50,583	-	-	50,583
Balance at December 31, 2007		**221,173**	**10,267**	**52,395**	**1,181,546**	**7,526,150**	**8,991,531**

1 BACKGROUND

OJSC Novolipetsk Steel (the "Parent Company") and its subsidiaries (together – the "Group") is one of the largest iron and steel groups in the Russian Federation with facilities that allow it to operate an integrated steel production cycle. The Parent Company is a Russian Federation open joint stock company in accordance with the Civil Code of the Russian Federation. The Parent Company was originally established as a State owned enterprise in 1934 and was privatized in the form of an open joint stock company on January 28, 1993. On August 12, 1998 the Parent Company's name was re-registered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The Group's principal activity is the production and sale of ferrous metals, primarily consisting of pig iron, steel slabs, long products, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel. These products are sold both in the Russian Federation and abroad. The Group also operates in the mining and coke-chemical segments and has a less significant seaport operating segment (Note 26).

The Group's main operations are in the Lipetsk region of the Russian Federation and are subject to the legislative requirements of both the Russian Federation and the subsidiaries' regional authorities.

The Group's primary subsidiaries, located in Lipetsk and other regions of the Russian Federation, comprise:

- Mining companies OJSC Stoilensky GOK (acquired in 2004), OJSC StAGDoK and OJSC Dolomite. The principal business activity of these companies is mining and processing of iron-ore raw concentrate, fluxing limestone and metallurgical dolomite.
- Coke-chemical company OJSC Altai-Koks and its subsidiaries (acquired in 2006). The principal business activity of these companies is the production of blast furnace coke, cupola coke, nut coke and small-sized coke.
- Steel rolling company LLC VIZ-Stahl (acquired in 2006). The principal business activity of this company is the production of cold rolled grain oriented and non-oriented steel.
- OJSC Maxi-Group and its subsidiaries (acquired in 2007). The principal business activities of these companies are the collection and recycling of iron scrap, steel-making and production of long products.
- Transport company OJSC Tuapse Commercial Sea Port ("OJSC TMTP") and its subsidiaries (acquired in 2004). The principal business activity of OJSC TMTP is cargo loading and unloading, shipment of cargo to sea transport and vice versa.

The Group's major subsidiaries and equity investments, located outside the Russian Federation, comprise:

- Joint Venture with Duferco Group – established in 2006 on the basis of Steel Invest & Finance (Luxembourg) S.A. ("SIF S.A.") in which both parties hold a 50% interest. SIF S.A. holds 100% interests or majority votes in 24 companies located in Europe and USA which include one steel making plant and five steel rolling facilities as well as a network of steel service centers (Note 6(c)).
- Danish steel rolling company DanSteel A/S (acquired in 2006). The principal business activity of this company is production of hot rolled plates.

2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

(a) Statement of compliance

The Group maintains its accounting records in accordance with the legislative requirements of the country of incorporation of each of the Group's company. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America ("US GAAP").

(b) Functional and reporting currency

In accordance with the laws of the Russian Federation the accounting records of the Parent Company are maintained, and the Parent Company's statutory financial statements for its stockholders are prepared, in Russian rubles.

The Group's principal functional currency is considered to be the Russian ruble. The functional currency of the foreign subsidiaries is their local currency. The accompanying 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 consolidated statement of income accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*. As a result of these translation procedures, a cumulative translation adjustment of $575,998, $519,034 and ($170,265) as at December 31, 2007, 2006 and 2005, respectively, which accounts for such translation gains and losses, was recorded directly in stockholders' equity.

The Central Bank of the Russian Federation's closing rates of exchange at December 31, 2007, 2006 and 2005 were 1 US dollar to 24.5462, 26.3311 and 28.7825 Russian rubles, respectively. The annual weighted average exchange rates were 25.5770, 27.1852 and 28.2864 Russian rubles to 1 US dollar for the years ended December 31, 2007, 2006 and 2005, respectively.

(c) Consolidation principles

These consolidated financial statements include all majority-owned and controlled subsidiaries of the Group. All significant intercompany accounts and transactions have been eliminated.

3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied by the Group from one reporting period to another with the exception of newly adopted accounting pronouncements.

(a) Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported.

Estimates are used when accounting for certain items such as allowances for doubtful accounts; employee compensation programs; depreciation and amortization lives; asset retirement obligations; legal and tax contingencies; inventory values; valuations of investments and determining when investment impairments are other than temporary; goodwill; assets and liabilities assumed in a purchase business combinations and deferred tax assets, including valuation allowances. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash on current accounts with banks, bank deposits and other highly liquid short-term investments with original maturities of less than three months.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Restricted cash

Restricted cash comprise funds legally or contractually restricted as to withdrawal.

(d) Accounts receivable

Receivables are stated at cost less an allowance for doubtful debts. Management quantifies this allowance based on current information regarding the customers' ability to repay their obligations. Amounts previously written off which are subsequently collected are recognized as income.

(e) Value added tax (VAT)

Output value added tax related to sales of goods (work performance, services provision) is payable to the tax authorities upon delivery of the goods (work, services) or property rights to customers. Input VAT on goods and services purchased (received) is generally recoverable against output VAT. VAT related to sales / purchases and services provision / receipt which has not been settled at the balance sheet date (VAT deferred) is recognized in the balance sheet on a gross basis and disclosed separately within current assets and current liabilities. Where a doubtful debt provision has been made, a loss is recorded for the gross amount of the debt, including VAT.

(f) Inventories

Inventories are stated at the lower of acquisition cost inclusive of completion expenses or market value. Inventories are released to production or written-off otherwise at average cost. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads.

The provision for obsolescence is calculated on the basis of slow-moving and obsolete inventories analysis. Such items are provided for in full.

(g) Investments in marketable debt and equity securities

Marketable debt and equity securities consist of investments in corporate debt and equity securities where the Group does not exert control or significant influence over the investee. The Group classifies marketable debt and equity securities using three categories: trading, held-to-maturity and available-for-sale. The specific identification method is used for determining the cost basis of all such securities.

Trading securities

Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are carried in the consolidated balance sheet at their fair value. Unrealized holding gains and losses on trading securities are included in the consolidated statement of income.

Held-to-maturity securities

Held-to-maturity securities are those securities which the Group has the ability and intent to hold until maturity. Such securities are recorded at amortized cost.

Premiums and discounts are amortized and recorded in the consolidated statement of income over the life of the related security held-to-maturity, as an adjustment to yield using the effective interest method.

Available-for-sale securities

All marketable securities not included in trading or held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at their fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and reported as a separate component of accumulated other comprehensive income in the stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities, less tax, are determined on a specific identification basis. Dividend and interest income are recognized when earned.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investments in associates and non-marketable securities

Investments in associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Investments in non-marketable securities

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investee are carried at cost less provisions for any other than temporary diminution in value. Provisions are calculated for the investments in companies which are experiencing significant financial difficulties for which recovery is not expected within a reasonable period in the future, or under bankruptcy proceedings.

(i) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and adjustments for impairment losses (Note 3(l)). The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate portion of production overheads directly related to construction of assets.

Property, plant and equipment also include assets under construction and plant and equipment awaiting installation.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent expenditures

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, are capitalized with the carrying amount of the component subject to depreciation. Other subsequent expenditures are capitalized only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized as expenses in the consolidated statement of income as incurred.

Capitalized interest

Interest costs are capitalized against qualifying assets as part of property, plant and equipment.

Such interest costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction is interrupted for an extended period or when the asset is substantially complete. Further interest costs are charged to the statement of income.

Where funds are borrowed specifically for the purpose of acquiring or constructing a qualifying asset, the amount of interest costs eligible for capitalization on that asset is the actual interest cost incurred on the borrowing during the period.

Where funds are made available from general borrowings and used for the purpose of acquiring or constructing qualifying assets, the amount of interest costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on these assets.

Mineral rights

Mineral rights acquired in business combinations are recorded in accordance with provisions of SFAS No. 141, *Business Combinations*, ("SFAS No. 141") at their fair values at the date of acquisition, based on their appraised fair value. The Group reports mineral rights as a separate component of property, plant and equipment in accordance with the consensus reached by Emerging Issues Task Force ("EITF") on Issue No. 04-2, *Whether Mineral Rights Are Tangible or Intangible Assets*.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation and amortization

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets. Plant and equipment under capital leases and subsequent capitalized expenses are depreciated on a straight-line basis over the estimated remaining useful life of the individual assets. Depreciation commences from the time an asset is put into operation. Depreciation is not charged on assets to be disposed of and land. The range of the estimated useful lives is as follows:

Buildings and constructions	20 – 45 years
Machinery and equipment	2 – 40 years
Vehicles	5 – 25 years

Mineral rights are amortized using the straight-line basis over the license term given approximately even production during the period of license.

(j) Leasing

Leasing transactions are classified according to the lease agreements which specify the rewards and risks associated with the leased property. Leasing transactions in which the Group is the lessee are classified into capital leases and operating leases. In a capital lease, the Group receives the major portion of economic benefit of the leased property and recognizes the asset and associated liability on its balance sheet. All other transactions in which the Group is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

(k) Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. Under SFAS No. 142, *Goodwill and Other Intangible Assets*, (“SFAS No. 142”) goodwill and intangible assets with indefinite useful lives are subject to impairment test at least annually and on an interim basis when an event occurs or circumstances change between annual tests that would more-likely-than-not result in impairment.

Under SFAS No. 142, goodwill is assessed for impairment by using the fair value based method. The impairment test required by SFAS No. 142 includes a two-step approach. Under the first step, companies must compare fair value of a “reporting unit” to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, step two is required to determine if goodwill is impaired.

Under step two, the amount of goodwill impairment is measured by the amount, if any, that the reporting unit’s goodwill carrying value exceeds its “implied” fair value of goodwill. The implied fair value of goodwill is determined by deducting the fair value of all tangible and intangible net assets of the reporting unit (both recognized and unrecognized) from the fair value of the reporting unit (as determined in the first step).

The Group performs the required annual goodwill impairment test at the end of each calendar year.

The excess of the fair value of net assets acquired over purchase cost is determined as negative goodwill, and is allocated to the acquired non-current assets, except for deferred taxes, if any, until they are reduced to zero.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

(l) Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment, mineral rights and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset, generally determined by reference to the discounted future cash flows. Assets held for sale that meet certain criteria are measured at the lower of their carrying amount or fair value less cost to sell.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Derivative instruments

The Group uses foreign currency derivative instruments to manage its exposure to foriegn exchange risk. Forwards and options are used to reduce the effects of fluctuations in the foreign exchange rates and corresponding effects on business transactions denominated in foreign currencies. The Group has not elected to designate derivative instruments as qualifying for hedge accounting treatment. As a result, the changes in fair value of all derivatives are recognized immediately in results of operations in "Foreign currency exchange, net" line.

(n) Pension and post-retirement benefits other than pensions

The Group follows the Pension and Social Insurance legislation of the Russian Federation and other countries where the Group operates. Contributions to the Russian Federation Pension Fund by the employer are calculated as a percentage of current gross salaries. Such contributions are expensed as incurred.

The Parent Company and some other Group companies have an agreement with a non-Government pension fund (the "Fund") in accordance with which contributions are made on a monthly basis. Contributions are calculated as a certain fixed percentage of the employees' salaries. These pension benefits are accumulated in the Fund during the employment period and distributed by the Fund subsequently. As such, all these benefits are considered as made under a defined contribution plan and are expensed as incurred. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

In addition, lump sum benefits are paid to employees of a number of the Group's companies on retirement depending on the employment period and the salary level of the individual employee. The scheme is considered as a defined benefit plan. The expected future obligations to the employees are assessed by the Group's management and accrued in the consolidated financial statements, however these are not material.

(o) Asset retirement obligations

The Group's land, buildings and equipment are subject to the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*. This Standard addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Group's asset retirement obligation (ARO) liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mining permit.

The Group estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit-adjusted risk-free rate. The Group records an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset are recognized in the period in which the liability is incurred.

The liability is accreted to its present value each period and the capitalized cost is depreciated in accordance with the Group's depreciation policies for property, plant and equipment. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate credit-adjusted risk-free rate.

(p) Borrowing activities

The Group's general-purpose funding is principally obtained from commercial paper and short-term and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums.

(q) Commitments and contingencies

Contingent liabilities, including environmental remediation costs, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability can be assessed and the amount of the assessment and / or remediation can be reasonably estimated.

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue expenses associated with environmental remediation obligations when such expenses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when a different tax rate is enacted.

Pursuant to the provisions of SFAS No. 109, *Accounting for Income Taxes*, the Group provides valuation allowances for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

(s) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(t) Revenue recognition

Goods sold

Revenue from the sale of goods is recognized in the consolidated statement of income when there is a firm arrangement, the price is fixed and determinable, delivery has occurred, and collectibility is reasonably assured.

Interest income

Interest income is recognized in the consolidated statement of income as it is earned.

(u) Shipping and handling

Starting in the second quarter of 2006 the Group bills its customers for the shipped steel products with product delivery to the place of destination in accordance with revised delivery terms agreed with customers. The related shipping and handling expense is reported in selling expenses. Previously, arrangements for product delivery were entirely the responsibility of customers.

(v) Expenses

Operating lease payments

Operating leases are recognized as an expense in the consolidated statement of income as incurred.

Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of interest expense, except for interest which is incurred on construction projects and capitalized (Note 3(i)).

(w) Non-cash transactions

Non-cash settlements represent offset transactions between customers and suppliers, when exchange equivalents are defined and goods are shipped between the parties without exchange of cash.

The related sales and purchases are recorded in the same manner as cash transactions. The fair market value for such transactions is based on the value of similar transactions in which monetary consideration is exchanged with a third party.

Purchases of property, plant and equipment under capital lease arrangements are also recognized as non-cash transactions.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Recent accounting pronouncements

Accounting changes

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 for 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 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 for 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 consolidated financial statements.

In April 2006, the FASB issued FASB Staff Position 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 consolidated financial statements.

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 consolidated financial statements. The Group adopted FIN 48 as at January 1, 2007. As a result of the implementation of FIN 48, no uncertain tax positions were identified. The applicable tax law does not require interest to be paid on an underpayment of income taxes. Group records any related penalties as a part of taxes other than income tax in the consolidated statement of income. The Group currently does not have a liability for tax penalties.

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 was initially effective as of January 1, 2008, but in February 2008, the FASB delayed the effectiveness date for applying this standard to nonfinancial assets and nonfinancial liabilities that are not currently recognized or disclosed at fair value in the financial statements. The effectiveness date of January 1, 2008 applies to all other assets and liabilities within the scope of this Statement. The Group is currently evaluating the potential impact, if any, that the adoption of SFAS No. 157 will have on its consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

In September 2006, the FASB issued FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"). The Group has adopted the recognition provisions of SFAS No. 158 as at December 31, 2006, which require that the funded status of defined benefit pension and other benefit plans be fully recognized on the balance sheet. The adoption of SFAS No. 158 had no effect on the recognition of pension related costs in the income statement. Overfunded plans are recognized as an asset and underfunded plans are recognized as a liability. The initial impact of the standard due to unrecognized prior service costs or credits and net actuarial gains or losses as well as subsequent changes in the funded status are recognized as changes to accumulated other comprehensive income in shareholders' equity. Adoption of SFAS No. 158 had no effect on the accrued liabilities to employees.

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 and report unrealized gains and losses on these instruments in earnings. SFAS No. 159 will become effective for the Group on January 1, 2008. The Group is currently evaluating the potential impact, if any, that the adoption of SFAS No. 159 will have on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51* ("SFAS No. 160"). SFAS No. 160 requires all entities to report noncontrolling interests in subsidiaries (also known as minority interests) as a separate component of equity in the consolidated statement of financial position, to clearly identify consolidated net income attributable to the parent and to the noncontrolling interest on the face of the consolidated statement of income and to provide sufficient disclosure that clearly identifies and distinguishes between the interest of the parent and the interests of noncontrolling owners. SFAS No. 160 also establishes accounting and reporting standards for changes in a parents ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. This Statement is effective as of January 1, 2009. The Group is currently evaluating the potential impact, if any, that the adoption of SFAS No. 160 will have on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* ("SFAS No. 141(R)"), which replaces SFAS No. 141. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed and requires the acquirer to disclose certain information related to the nature and financial effect of the business combination. SFAS No. 141(R) also establishes principles and requirements for how an acquirer recognizes any noncontrolling interest in the acquiree and the goodwill acquired in a business combination. SFAS No. 141(R) is effective on a prospective basis for business combinations for which the acquisition date is on or after January 1, 2009. Depending on the terms, conditions and details of the business combination, if any, that take place subsequent to January 1, 2009, SFAS No. 141(R) may have a material impact on the Group's consolidated financial statements. FAS 141(R) also amends SFAS No. 109, *Accounting for Income Taxes*, such that adjustments made to deferred taxes and acquired tax contingencies after January 1, 2009, even for business combinations completed before this date, will impact net income. This provision of SFAS No. 141(R) may have a material impact on the Group's consolidated financial statements. The Group is currently evaluating the potential impact, if any, that the adoption of SFAS No. 141(R) will have on its consolidated financial statements.

In April 2007, the FASB issued FSP FIN 39-1, *Amendment of FASB Interpretation No. 39* ("FSP FIN 39-1"). FSP FIN 39-1 modifies FIN 39, *Offsetting of Amounts Related to Certain Contracts* and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Group believes that the adoption of FSP FIN 39-1 will not have material effect on its consolidated financial statements.

On May 2, 2007, the FASB issued FSP No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* ("FSP FIN 48-1"), which amends FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), to provide guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under the FSP FIN 48-1, a tax position is considered to be effectively settled if the taxing authority completed its examination, the enterprise does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future. FSP FIN 48-1 is effective retroactively to January 1, 2007. The adoption of FSP FIN 48-1 did not have a material impact on the Group's consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Segment reporting

According to SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, segment reporting follows the internal organizational and reporting structure of the Group. The Group's organization comprises four reportable segments:

- steel segment, comprising production and sales of steel products, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- long products segment, comprising a number of steel-production facilities combined in a single production system beginning from iron scrap collection and recycling to steel-making, production of long products, reinforcing rebar, and metalware;
- mining segment, comprising mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, which supplies raw materials to the steel segment and third parties;
- coke-chemical segment, comprising production and sales primary blast furnace coke, cupola coke, nut coke and small-sized coke supplying steel segment and third parties with raw materials;

and other segments, not reported separately in the consolidated financial statements.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

4 CASH AND CASH EQUIVALENTS

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Cash – Russian rubles	124,773	113,380	124,003
Cash – other currency	23,165	44,852	420,194
Deposits – Russian rubles	947,322	466,254	247,724
Deposits – US dollars	20,486	1,612	917,670
Deposits – Euro	38,656	37,227	214,378
Other cash equivalents	239	1,888	179
	1,154,641	**665,213**	**1,924,148**

5 RESTRICTED CASH

Restricted cash balances as at December 31, 2007, 2006 and 2005 totaled nil, $8,372 and $7,979, respectively, and represented obligatory cash reserves, placed with the Central Bank of the Russian Federation by the subsidiary bank (Note 18(c)) in accordance with statutory requirements applicable to credit institutions.

6 INVESTMENTS

Balance sheet classification of investments:

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Short-term investments and current portion of long-term investments	153,462	37,261	27,040
Long-term investments, net	818,590	810,350	31,470
Total investments, net	**972,052**	**847,611**	**58,510**

6 INVESTMENTS (continued)

(a) Trading securities

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Investments in shares	-	10,098	3,990
Corporate bonds	-	13,575	7,971
Eurobonds	-	-	7,759
Government bonds	-	4,767	6,401
Subfederal bonds	-	7,134	220
Other	-	1,398	699
	-	**36,972**	**27,040**

Short-term investments are represented by a loan issued to SIF S.A. (Note 28(b)) and other loans issued for third parties.

Investments in shares are represented by the securities of companies which are listed on the Russian Trade System. These shares and bonds were held by the Group's subsidiary bank.

The income generated from trading securities for the years ended December 31, 2006 and 2005 amounted to $1,628 and $439, respectively.

(b) Available-for-sale securities

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Russian government and other bonds with annual coupon rates ranging from 3% to 9.4%			
Acquisition cost	-	295	590
Gross unrealized losses	-	(6)	(31)
Deposit certificates with interest rates ranging from 5.2% p.a. to 20% p.a.	-	-	-
Fair value	**-**	**289**	**559**

The maturities of debt securities classified as available-for-sale as at December 31, 2006 and 2005 are presented below.

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Due within one year	-	289	-
Due in one to five years	-	-	559
Due after five years	-	-	-
	-	**289**	**559**

6 INVESTMENTS (continued)

(c) Investments in associates

	As at December 31, 2007 Ownership	As at December 31, 2006 Ownership	As at December 31, 2005 Ownership	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Steel Invest & Finance (Luxembourg) S.A.	50.00%	50.00%	-	817,942	805,463	-
OJSC Lipetsky Gipromez	-	43.44%	43.44%	-	9	8
OJSC Combinat KMAruda	-	-	32.89%	-	-	16,034
				817,942	**805,472**	**16,042**

Acquisition of Steel Invest & Finance (Luxembourg) S.A. shares

In December 2006 the Group acquired 50% of the issued shares of SIF S.A. in line with a strategic partnership with the Duferco Group who holds an equal participation in SIF S.A.'s share capital.

SIF S.A. controls a number of steel-making and steel-rolling facilities as well as distribution facilities in Europe and USA previously controlled by Duferco Group.

The purchase price paid by the Group in December 2006 for its interest in SIF S.A. was $805 million.

As at December 31, 2007 the difference between the cost of the Group's investment and the amount of acquired equity in SIF S.A.'s net assets, appraised at fair value, amounted to $24,181 and was accounted for as if SIF S.A. was a consolidated subsidiary.

The investments in SIF S.A. are accounted for by the Group under the equity method (Note 3(h)), from the date of obtaining significant influence over the operating activities of SIF S.A. by the Group, which management considers to be December 2006.

The transaction agreements provide for put option arrangements for each party of its share in the event of future major corporate events, including future disagreements at fair value. In addition, in February 2008 the Group entered into a call option agreement, under which it may acquire one additional share in SIF S.A. and thus increase its stake to that of a controlling shareholding, as discussed in Note 30(b).

Because SIF S.A.'s fiscal year end is September 30, 2007, the Group records its share of the earnings of SIF S.A. from its most recent consolidated financial statements as at September 30, 2007 adjusted for the effect of material intervening transactions up to December 31, 2007. Starting January 1, 2009 fiscal year will be the calendar year.

Summarized financial information for equity-method investment in SIF S.A., is as follows:

	As at September 30, 2007
Current assets	1,766,295
Non-current assets	1,104,397
Total assets	**2,870,692**
Current liabilities	1,285,679
Non-current liabilities	747,225
Total liabilities	**2,032,904**
Equity	**837,788**

6 INVESTMENTS (continued)

The revenues and net income of SIF S.A. for the twelve months, ended September 30, 2007 amount to $3,532,612 and $102,282, respectively.

At December 31, 2007 Group's retained earnings included a loss of $(50,312) related to SIF S.A.

In 2007 the Group's sales to SIF S.A. and its subsidiary were $185,009 (Note 28(a)).

Acquisition and subsequent disposal of OJSC Combinat KMAruda shares

During the year ended December 31, 2005 the Group sold a 18.00% share in OJSC Combinat KMAruda to a third party for $1,966, thereby reducing its stake to 32.89%. In the first half of 2006 the Group acquired 59.15% of this company's shares increasing its stake to a controlling interest (Note 25(c)). In August 2006 the Group sold the entire interest in OJSC Combinat KMAruda (Note 21(b)).

(d) Non-marketable securities

	As at December 31, 2007 Ownership	As at December 31, 2006 Ownership	As at December 31, 2005 Ownership	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Non-marketable securities, net of current portion:						
OJSC Lebedinsky GOK	-	-	11.96%	-	-	9,456
OJSC Lipetskenergo	-	14.11%	14.11%	-	162	148
OJSC Lipetsk power generating company	-	-	14.11%	-	-	2,719
OJSC Lipetsk energy management company	-	-	14.11%	-	-	0.2
OJSC TGK-4	-	2.68%	-	-	2,972	-
OJSC Lipetsk energy sales company	-	14.11%	14.11%	-	36	33
OJSC Lipetsk mains systems	-	14.11%	14.11%	-	400	366
OJSC Lipetskoblgaz	-	19.40%	19.40%	-	778	712
Other				687	919	788
				687	5,267	14,222
Provision for other than temporary diminution in value				(39)	(389)	(353)
				648	**4,878**	**13,869**

In 2006 the Group sold a 11.96% share in OJSC Lebedinsky GOK to a third party for $400 million (Note 21(a)).

The interest in OJSC TGK-4 was acquired by the Parent Company as a result of a stock conversion of OJSC Lipetsk power generating company in 2006. There was no cash outflow from the Group as a result of this transaction.

Shares in OJSC Lipetsk power generating company, OJSC Lipetsk energy management company, OJSC Lipetsk energy sales company and OJSC Lipetsk mains systems were acquired by the Parent Company following a reorganization of OJSC Lipetskenergo in 2005. There was no cash outflow from the Group as a result of this transaction.

In December 2006 the Group concluded an agreement for the sale of its energy assets to a related party and subsequently sold them in February 2007 (Note 18(a)).

6 INVESTMENTS (continued)

(e) Long-term bank deposits

Long-term bank deposits amounted to $1,000 as at December 31, 2005.

7 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Trade accounts receivable	996,669	667,369	443,978
Advances given to suppliers	313,550	97,458	55,589
Taxes receivable	416,696	311,993	198,917
Accounts receivable from employees	5,968	2,838	1,646
Other accounts receivable	207,181	84,287	21,880
	1,940,064	1,163,945	722,010
Allowance for doubtful debts	(243,613)	(13,453)	(13,495)
	1,696,451	**1,150,492**	**708,515**

As at December 31, 2007, 2006 and 2005, the Group had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus 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 $194,648 and $473,841 at December 31, 2007, $159,826 and $236,514 at December 31, 2006, $155,798 and $65,748 at December 31, 2005, respectively.

As at December 31, 2006 and 2005, the Group also had accounts receivable from Tuscany Intertrade (UK) which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by this debtor totaled $104,155 and $108,670 at December 31, 2006 and 2005, respectively.

As at December 31, 2007 the Group had other accounts receivable of $73,051 from companies for which a 100% allowance was recorded. These accounts receivable were acquired by the Group through a business combination (Note 25(a)).

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 (Note 25(d)), which is included in other accounts receivable.

8 INVENTORIES

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Raw materials	756,983	554,126	383,832
Work in process	310,832	199,243	109,679
Finished goods and goods for resale	209,878	129,421	81,232
	1,277,693	882,790	574,743
Provision for obsolescence	(41,260)	(25,850)	(15,493)
	1,236,433	**856,940**	**559,250**

As at December 31, 2007, inventories of $82,920 were pledged against borrowings (Note 13(b)).

9 OTHER CURRENT AND NON-CURRENT ASSETS

(a) Other current assets

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Short-term loans provided by the subsidiary bank	-	254,544	163,055
Other current assets	147,191	90,292	51,875
	147,191	344,836	214,930
Allowance for doubtful loans	-	(13,514)	(6,010)
	147,191	**331,322**	**208,920**

(b) Forward contracts

Included in other current assets as at December 31, 2007 and 2006 are fair values of unrealized forward exchange and option contracts, amounting to $68,392 and $6,323, respectively. The table below summarizes by major currency the contractual amounts and fair values of the Group's unrealized forward exchange and option contracts in US dollars. Fair value is determined as the sum of the differences between discounted market forward rate for appropriate month, prevailing at December 31, 2007 and appropriate contract settlement rate, multiplied by respective notional amount of the contract. The amounts represent the US dollar equivalent of commitments to sell foreign currencies during the next twelve months. There were no commitments to purchase foreign currencies in 2007 and 2006.

	As at December 31, 2007		As at December 31, 2006		As at December 31, 2005	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	1,767,295	63,247	1,451,076	6,075	-	-
Euro	707,389	5,145	191,315	248	-	-
	2,474,684	**68,392**	**1,642,391**	**6,323**	**-**	**-**

During 2007 and 2006, gain / (loss) from realized forward exchange and option contracts amounted to $37,911 and $(107), respectively, included in "Foreign currency exchange, net" line.

(c) Other non-current assets

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Long-term loans provided by the subsidiary bank	-	80,435	71,138
Other non-current assets	40,754	29,744	62,609
	40,754	**110,179**	**133,747**

10 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Land	88,353	77,191	56,070
Mineral rights	616,620	583,962	522,802
Asset retirement cost	-	24,277	-
Buildings	1,428,223	1,201,439	715,066
Land and buildings improvements	1,339,274	1,204,403	757,066
Machinery and equipment	5,841,034	5,030,473	4,246,584
Vehicles	333,209	278,711	219,431
Construction in progress and advances for construction and acquisition of property, plant and equipment	2,197,131	773,388	467,354
Leased assets (Note 22)	457,191	8,460	-
Other	79,393	76,763	37,229
	12,380,428	9,259,067	7,021,602
Accumulated depreciation	(5,930,551)	(5,270,939)	(4,606,601)
	6,449,877	**3,988,128**	**2,415,001**

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 December 31, 2007, 2006 and 2005, the net book value of these items amounted to 6%, 12% and 21% of the total net book value of property, plant and equipment, respectively. During 2006 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 consolidated financial statements as at December 31, 2007 and 2006 is no longer material.

In August 2005, the Group acquired a license for exploration and mining of Zhernovsky coal deposit, expiring in 2025. The carrying value of this license as at December 31, 2007 is $39,639.

The other major part of mineral rights relate to mining segment, and was acquired by the Group in 2004 through a business combination. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2007, property, plant and equipment of $390,816 were pledged against borrowings (Note 13).

11 GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Goodwill

Balance as at December 31, 2004	**179,815**
Cumulative translation adjustment	(6,458)
Balance as at December 31, 2005	**173,357**
Acquired in new subsidiaries (Note 25)	370,020
Disposal of subsidiary	(17,749)
Cumulative translation adjustment	34,075

11 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Balance as at December 31, 2006	**559,703**
Acquired in new subsidiaries (Note 25)	592,171
Cumulative translation adjustment	37,585
Balance as at December 31, 2007	**1,189,459**

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Preliminary estimated goodwill arising from the acquisition of a controlling interest in OJSC Maxi-Group and its subsidiaries in 2007 amounted to $592,171 and was allocated to the long products segment. Goodwill arising from the acquisition of a controlling and minority interests in OJSC Altai-Koks and its subsidiaries in 2006 amounted to $295,110 and was allocated to the coke-chemical segment. Goodwill arising from the acquisition of a controlling interest in LLC VIZ-Stahl and its subsidiaries in 2006 amounted to $58,112 and was allocated to the steel segment. Goodwill arising from the acquisition of a controlling interest in OJSC Combinat KMAruda in 2006 amounted to $16,798 and was allocated to the mining segment (Note 26).

The Group performed a test for impairment of goodwill at December 31, 2007, 2006 and 2005 which indicated no impairment at such dates.

(b) Other intangible assets

	Subsidiary	Total useful life, months	Gross book value as at December 31, 2007	Gross book value as at December 31, 2006	Gross book value as at December 31, 2005
	Note 25				
Industrial intellectual property	LLC VIZ-Stahl	149	69,614	64,895	-
Customer base	LLC VIZ-Stahl	125	132,207	123,575	-
Customers relationships (oil)	OJSC TMTP	66	12,740	11,876	10,865
Customers relationships (dry cargo)	OJSC TMTP	66	14,113	13,156	12,036
Customers relationships	DanSteel A/S	72	5,351	4,988	4,563
			234,025	218,490	27,464
Accumulated amortization			(44,941)	(19,460)	(6,378)
			189,084	**199,030**	**21,086**

The intangible assets were acquired in business combinations (Note 25) and met the criteria for separate recognition outlined in SFAS No. 141. They were recorded under the provisions of SFAS No. 141 at fair values at the date of acquisition, based on their appraised value.

	Amortization expense
Aggregate amortization expense	
For the year ended December 31, 2007	(25,481)
Estimated amortization expense in the subsequent periods	
2008	(24,067)
2009	(24,067)
2010	(19,185)
2011	(19,030)
2012	(18,293)

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Trade accounts payable	266,640	130,396	128,180
Advances received	165,624	121,654	130,347
Customers' deposits and accounts in the subsidiary bank	-	201,638	188,265
Taxes payable other than income tax	65,322	66,297	25,728
Accounts payable and accrued liabilities to employees	159,578	104,591	59,592
Dividends payable	4,877	4,602	2,572
Short-term capital lease liability (Note 22)	32,273	1,379	-
Other accounts payable	700,620	33,762	31,299
	1,394,934	**664,319**	**565,983**

As at December 31, 2007 the Group had accounts payable of $555,578 to Mr. Maximov (minority shareholder of OJSC Maxi-Group) in respect of the purchase from him of his shares in OJSC Maxi-Group, which is included in other accounts payable (Note 25(a)).

13 SHORT-TERM AND LONG-TERM BORROWINGS

In 2007, the Group acquired controlling stake in OJSC Maxi-Group (Note 25(a)). Maxi-Group companies had certain debt which was in breach of restrictive covenants (Note 13(b)).

(a) Short-term and long-term borrowings

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Maxi-Group			
Russian rubles			
Loans with interest rates of 10.3% - 16.5% per annum, mature 2008-2014	545,420	-	-
Loans with interest rates of 13.2% - 14.5% per annum, mature 2008	57,035	-	-
Bonds with interest rates of 11.25% - 12.3% per annum, mature 2008	81,743	-	-
Bonds with interest rates of 11.25% per annum, mature 2009	11,913	-	-
Other borrowings	122,359		
US dollars			
Loans with interest rates of 9.1% - 13.5% per annum, mature 2009-2010	110,498	-	-
Loans with interest rates of LIBOR (1 m) +3.75% per annum, mature 2009-2010	85,652	-	-
Loans with interest rates of LIBOR (1 m) +3.75% per annum - LIBOR (6 m) +5.5% per annum, mature 2008	86,244	-	-
Other borrowings	10,250	-	-
Euro			
Loans with interest rates of EURIBOR (6 m) +1.3% - EURIBOR (6 m) +5.0% per annum, mature 2008-2017	244,511	-	-
Loans with interest rates of 3.4% per annum, mature 2011	11,702	-	-
Loans with interest rates of LIBOR (3 m) +6% per annum, mature 2008	488	-	-
Other borrowings	4,094	-	-
	1,371,909	-	-

13 SHORT-TERM AND LONG-TERM BORROWINGS (continued)

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Other companies			
Loans, RUR denominated, 5.6% - 9.6% per annum	218,057	83,970	10,276
Loans, US$ denominated, 5% - 6.9% per annum	19,677	168,855	5,937
Loans, Euro denominated, 5.25% per annum	-	15,805	-
Other borrowings	152	28,305	34,410
	1,609,795	**296,935**	**50,623**
Less: short-term loans and current maturities of long-term loans	(1,536,570)	(248,782)	(5,282)
Long-term borrowings	**73,225**	**48,153**	**45,341**

Included in short-term loans and current maturities of long-term loans of $1,536,570 above are loans with breaches of certain covenants of $874,457 (Note 13(b)).

The Group's long-term borrowings at December 31, 2007 mature between 2 to 8 years.

The payment scheduled for long-term loans is as follows:

2009	52,580
2010	14,113
2011	1,359
2012	733
2013	733
Remainder	3,707
	73,225

(b) Loans' covenants and restructuring of Maxi-Group borrowings

Loans' covenants

As at December 31, 2007 more than 85% of total short-term and long-term borrowings of the Group are payable by Maxi-Group.

Loan agreements of approximately $840 million contain certain debt covenants, that impose restrictions as to the purposes for which the loans may be utilized, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain subjective acceleration clauses in relation to unfavorable economic conditions and performance of the borrowers, as well as covenants triggered by borrower's failure to fulfill the contractual obligations.

Approximately $570 million of these loans contain additional restrictive covenants, including commencement of court proceedings in respect of borrowers or their management, default or cross-default provisions. Also, these covenants permit the respective banks to direct debit the accounts opened by the debtors with the banks for the purpose of repayment of the borrowing.

Loan agreements of approximately $370 million contain covenants which restrict future assets pledges, and contain certain requirements as to execution of trade contracts, compliance with tax and legal obligations, and maintenance of the required level of cash inflows through the accounts opened with the lending banks. Approximately $212 million of the loans impose restrictions in relation to dividends payments. Approximately $210 million of the loan agreements contain restrictive covenants relating to interest coverage and net value of tangible assets, minimum equity and consolidated total debt/EBITDA ratio.

As at December 31, 2007 loans of $339,469 were collateralized with guarantee letters and other guarantees issued by companies which are the related parties of OJSC Maxi-Group's minority shareholder and OJSC Maxi-Group (Note 28(g)). As at December 31, 2007 loans of $281,081 were collateralized with the shares of Maxi-Group companies.

13 SHORT-TERM AND LONG-TERM BORROWINGS (continued)

Breach of covenants

Due to the breach of certain terms of the pledge agreements underlying these bank loans long-term loans of $148,241 were reclassified to short-term loans. In addition due to the breach of certain restrictive covenants long-term loans of $132,030 were also reclassified to short-term loans. As a result of this breach the lenders can request payment of $874,457 of short-term loans upon notice, including loans with original short-term maturities of $594,186.

None of the bank loans where the breach of loan's covenants existed at December 31, 2007 has been called by the lenders either at December 31, 2007 or during the subsequent period through the date of these consolidated financial statements.

The Group's management believes that measures undertaken and preliminary agreements achieved will allow the Group to avoid subsequent breaches of covenants and to restore to original terms of payment.

Restructuring of borrowings

Immediately following the acquisition of Maxi-Group the Parent Company commenced the restructuring of the borrowings of the Maxi-Group entities. That process of restructuring is not completed as at the date of these consolidated financial statements. From the date of the binding agreement up to the reporting date the following major arrangements were carried out:

- stabilization loans of $400 million were granted by the Parent Company to Maxi-Group entities for repayment of overdue borrowings and increase of working capital;
- with the Parent Company's assistance and guarantees, loans of approximately $32 million as at December 31, 2007 and of approximately $182 million during the first quarter 2008 were restructured.

After the balance sheet date, the Group has reached preliminary agreements with major Russian banks for the purpose of further optimization of the Maxi-Group loan portfolio on a market basis by:

- increasing of long-term borrowings share in loan portfolio;
- decrease in the number of creditors.

It is expected by management that the restructuring will be finished in the second half of 2008 and result in changing of present covenants and loans maturities.

14 OTHER LONG-TERM LIABILITIES

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Customers' deposits in subsidiary bank	-	53,547	45,377
Long-term capital lease liability (Note 22)	316,558	6,690	-
Asset retirement obligations (Note 15)	-	134,635	-
Other long-term liabilities	58	-	128
	316,616	**194,872**	**45,505**

15 ASSET RETIREMENT OBLIGATIONS

A reconciliation of the Group's liability for asset retirement obligations, related to Prokopievskugol group, for the year ended December 31, 2006 is as follows:

Balance as at December 31, 2005	**-**
Liabilities recognized on acquisition	114,229
Accretion expense on asset retirement obligations	19,765
Cumulative translation adjustment	641
Balance as at December 31, 2006	**134,635**
Accretion expense on asset retirement obligations	6,190
Disposal of asset retirement obligations (Note 18(b))	(142,378)
Cumulative translation adjustment	1,553
Balance as at December 31, 2007	**-**

For the purposes of calculation a discount rate of 17.9% was applied to future cash flows.

16 MINORITY INTEREST

Balance as at December 31, 2004	**85,787**
Minority's share in subsidiaries' net income	21,080
Minority interest in discontinued operations	7,845
Disposal of a stake in a non-wholly owned subsidiary (Note 6(c))	(19,147)
Dividends paid to minority shareholder of existing subsidiaries	(1,390)
Cumulative translation adjustment	(1,599)
Balance as at December 31, 2005	**92,576**
Minority's share in subsidiaries' net income	25,773
Acquisitions of new subsidiaries (Note 25)	41,765
Purchase of the minority interest in existing subsidiaries	(20,339)
Dividends paid to minority shareholder of existing subsidiaries	(20,228)
Minority interest due to dilution of interest in existing subsidiary	3,037
Minority interest in discontinued operations	938
Disposal of a stake in a non-wholly owned subsidiary (Note 6(c))	(777)
Cumulative translation adjustment	10,680

16 MINORITY INTEREST (continued)

Balance as at December 31, 2006	**133,425**
Minority's share in subsidiaries' net income	23,490
Acquisitions of new subsidiaries (Note 25)	(17,144)
Purchase of the minority interest in existing subsidiaries	(2,686)
Dividends paid to minority shareholder of existing subsidiaries	(12,906)
Disposal of a stake in non-wholly owned subsidiaries (Note 18(a),(c))	(26,424)
Cumulative translation adjustment	9,058
Balance as at December 31, 2007	**106,813**

17 STOCKHOLDERS' EQUITY

(a) Stock

As at December 31, 2007, 2006 and 2005, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the annual stockholders' meeting.

(b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at a General Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. At December 31, 2007, 2006 and 2005 the retained earnings of the Parent Company, in accordance with the legislative requirements of the Russian Federation, available for distribution amounted to $6,972,850, $5,645,329 and $4,137,791, converted into US dollars using exchange rates at December 31, 2007, 2006 and 2005, respectively.

The dividend policy, which was approved by the General Shareholders' Meeting on June 6, 2006, provides for a minimum annual dividend payment of at least 20% of annual net income and sets an objective of reaching an average rate of dividend payments during the five-year cycle of at least 30% of net income, both determined in accordance with US GAAP.

In September 2007 the Parent Company declared interim dividends for the six months ended June 30, 2007 of 1.5 Russian ruble per share for the total of $360,142. Dividends payable amount to $4,877 at December 31, 2007 (Note 12).

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.

In June 2006 the Parent Company declared dividends for the year ended December 31, 2005 of 3 Russian rubles per share for the total of $659,573, including interim dividends for the six months ended June 30, 2005 of one Russian ruble per share for the total of $210,792. Dividends payable amount to $4,602 at December 31, 2006 (Note 12).

In May 2005 the Parent Company declared dividends for the year ended December 31, 2004 of 1.8 Russian ruble per share for the total of $385,556, including interim dividends for the nine months ended September 30, 2004 of one Russian ruble per share ($214,081). In September 2005 the Parent Company declared interim dividends for the six months ended June 30, 2005 of one Russian ruble per share for the total of $210,792. Dividends payable amount to $2,572 at December 31, 2005 (Note 12).

18 DISPOSALS OF ASSETS

(a) Disposal of energy assets

In February 2007, the Parent Company completed sales to a company under common control (Note 28(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 were 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**

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 (less income tax of $486)	2,403

These transactions were carried out in line with the Group's strategic development planned for 2007 to 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 transaction date):
- 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 the sales agreements, an independent appraisal of market value of the Parent Company's interests in the regional energy companies was conducted, most of which displayed low liquidity and were not marketable. All the abovementioned assets were sold with a 10% premium to their appraised values.

18 DISPOSALS OF ASSETS (continued)

(b) Disposal of Prokopyevskugol group

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, the total consideration for the assets transferred was one US dollar. The closing of the transaction was completed in the beginning of April 2007. A pre-tax gain on this transaction of $57,577 was recognized by the Group, and included within the "Gain from disposal of subsidiaries" line in the consolidated statement of income for the year ended December 31, 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 the Prokopyevskugol group. Given the fact that proper attention to social aspects is a key issue of such restructuring, the Group management accepted the offer referred to above.

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 the third party waived its right to claim the loan from Prokopyevskugol group entirely (a related income tax effect of $33,413 was accrued by the Group and included in the "Income tax" line). A net pre-tax gain on this operation of $30,028 was recognized by the Group, and included within the "Other expenses, net" line in the consolidated statement of income for the year ended December 31, 2007.

During December 2006 and January 2007 the Group entered into supply agreements for coal concentrate with the 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, the operations of Prokopyevskugol group companies in these consolidated financial statements are recognized within continuing operations of the Group within other segments.

The carrying amounts of the major classes of assets and liabilities of Prokopyevskugol group companies at April 2, 2007 were as follows (in relation to 100% stake):

Current assets	44,364
Non-current assets	114,401
Total assets	**158,765**
Current liabilities	(40,947)
Non-current liabilities	(175,395)
Total liabilities	**(216,342)**
Negative net assets	**(57,577)**

Information on the Prokopyevskugol group companies' transactions, before intercompany eliminations, for the period from January 1, 2007 to April 2, 2007 is as follows:

Sales revenue	37,865
Net income (including gain, less tax, on entire waiving by a third party of the right to claim the loan totaled $106,400)	74,412

18 DISPOSALS OF ASSETS (continued)

(c) Disposal of subsidiary bank

In June 2007, the Group completed the sale, to a related party (OJSC Bank Zenit) (Note 28(d)), of its full share in OJSC Lipetskcombank (54.88%) for a total consideration of $47,662. A pre-tax gain on this transaction of $24,097 was recognized by the Group, and included within the "Gain from disposal of subsidiaries" line in the consolidated statement of income for the year ended December 31, 2007.

Due to the fact that a significant part of the Group's cash transactions is carried out through OJSC Lipetskcombank, including employees' payroll bank accounts servicing for several Group companies, the Group's management assumes operations with this bank might be continued in the future. Accordingly, operations of OJSC Lipetskcombank in these consolidated financial statements are recognized within continuing operations of the Group within other segments.

The carrying amounts of the major classes of assets and liabilities of OJSC Lipetskcombank at June 29, 2007 are as follows (in relation to the 100% stake):

Current assets	509,508
Non-current assets	86,031
Total assets	**595,539**
Current liabilities	(507,642)
Non-current liabilities	(44,759)
Total liabilities	**(552,401)**
Net assets	**43,138**

Information on OJSC Lipetskcombank transactions, for the period from January 1, 2007 to June 29, 2007 is as follows:

Income	33,823
Net loss	(237)

This transaction was carried out 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 interest in OJSC Lipetskcombank was classified as a none-core asset.

19 EARNINGS PER SHARE

	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	2,247,283	2,065,963	1,381,395
Basic and diluted net income per share (US dollars)	**0.3750**	**0.3447**	**0.2305**

The 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.

19 EARNINGS PER SHARE (continued)

The average shares outstanding for the purposes of basic and diluted earnings per share information were 5,993,227,240 for the years ended December 31, 2007, 2006 and 2005.

The Parent Company does not have potentially dilutive shares outstanding.

20 INCOME TAX

	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Current income tax expense	799,078	745,337	500,950
Deferred income tax expense / (benefit):			
origination and reversal of temporary differences	37,925	(38,732)	(3,677)
Total income tax expense	**837,003**	**706,605**	**497,273**

The corporate income tax rate dominantly applicable to the Group was 24% in 2007, 2006 and 2005.

Income before income tax is reconciled to the income tax expense as follows:

	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Income from continuing operations before income tax	3,156,827	2,621,055	1,892,274
Income tax at applicable tax rate	757,638	629,053	454,146
Increase in income tax resulting from:			
non-deductible expenses	79,365	77,552	43,127
Total income tax expense	**837,003**	**706,605**	**497,273**

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are presented below:

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Deferred tax assets			
Accounts payable and other liabilities	23,160	17,922	8,486
Non-current liabilities	64,367	16,779	88
Accounts receivable	5,349	1,250	1,066
Other	2,881	1,821	381
	95,757	37,772	10,021
Deferred tax liabilities			
Property, plant and equipment	(507,459)	(470,630)	(274,927)
Intangible assets	(46,788)	(51,579)	(7,806)
Inventories	(21,338)	(20,159)	(12,906)
Other	(105,739)	(33,051)	(15,094)
	(681,324)	(575,419)	(310,733)
Total deferred tax liability	**(585,567)**	**(537,647)**	**(300,712)**

21 GAINS ON INVESTMENTS

(a) Disposal of OJSC Lebedinsky GOK shares

In January 2006, the Parent Company sold to third parties 11.96% of the outstanding common shares of OJSC Lebedinsky GOK for a consideration of $400,000; the carrying value of these shares at December 31, 2005 was $9,456 (Note 6(d)). This transaction was consummated in line with the Group's strategy.

The Group recognized a gain on this transaction calculated as the difference between the consideration received and carrying value of these shares as at the date of disposal in the amount of $390,373, as at the transaction date, (included within the "(Losses) / gains on investments, net" line (totaling $400,696)) in the consolidated statement of income for the year ended December 31, 2006.

(b) Disposal of OJSC Combinat KMAruda shares

In August 2006 the Parent Company signed an agreement for the disposal of 92.04% of the outstanding common shares of OJSC Combinat KMAruda to a third party, for a consideration of $302.5 million. Part of the consideration was settled by an interest bearing promissory note of $25 million which was due and settled in December 2006. This transaction was carried out in accordance with the Group's corporate restructuring plan. The carrying amounts of the major classes of assets and liabilities of OJSC Combinat KMAruda at August 31, 2006 were as follows (in relation to 100% stake):

Current assets	9,277
Non-current assets	67,590
Total assets	**76,867**
Current liabilities	(8,451)
Deferred income tax liability	(10,628)
Total liabilities	**(19,079)**
Net assets	**57,788**

The Group recognized a gain on this transaction calculated as the difference between the consideration received and net assets as at the date of disposal and goodwill disposed of, in the amount of $231,605, as at the transaction date.

The revenues and net income of OJSC Combinat KMAruda, previously related to the mining segment, for the eight months ended August 31, 2006 were $49,394 and $11,171, respectively ($85,398 and $28,683 accordingly for the year ended December 31, 2005 on historical cost basis). The carrying amount of goodwill, related to OJSC Combinat KMAruda at August 31, 2006 was $17,733.

22 CAPITAL AND OPERATIONAL LEASES

	Capital leases
Future minimum lease payments	
2008	74,875
2009	115,313
2010	89,948
2011	78,483
2012	72,231
Remainder	78,508
Total minimum lease payments	**509,358**
Less: amount representing estimated executory costs (including taxed payable by the lessor) and profit thereon, included in total minimum lease payments	(24,383)
Net lease payments	**484,975**
Less: amount representing interest	(136,144)
Present value of minimum lease payments	**348,831**
Less: short-term capital lease liability	(32,273)
Long-term capital lease liability	**316,558**

The average capital lease contracts term is 5 years.

The discount rate used for calculation of the present value of the minimum lease payments was 10.5% for assets received in 2007 and 2006.

Capital lease charges of $6,333 and $860 were recorded in the consolidated statement of income for the years ended December 31, 2007 and 2006, respectively.

The majority of the fixed assets held under the capital lease arrangements as at December 31, 2007 were acquired by the Group through a business combination (Note 25(a)).

At December 31, 2007 and 2006, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Machinery and equipment	323,126	-	-
Vehicles	134,065	8,460	-
	457,191	8,460	-
Accumulated depreciation	(39,432)	(690)	-
Net value of property, plant and equipment obtained under capital lease arrangements	**417,759**	**7,770**	**-**

The Group incurred expenses in respect of operational leases of $11,251, $10,538 and $9,363 in 2007, 2006 and 2005, respectively.

23 NON-CASH TRANSACTIONS

Approximately $74,000, $16,900 and $7,300 of the Group's 2007, 2006 and 2005 revenues, respectively, were settled in the form of mutual offset against the liability to pay for goods supplied.

Prices for goods sold and purchased through non-cash settlement arrangements are fixed in the respective contracts and generally reflect current market prices.

In 2007 and 2006 the Group acquired equipment and vehicles under capital lease arrangements with the right to buy out leased assets upon completion of the underlying agreements. The amount of capital lease liabilities incurred during the years ended December 31, 2007 and 2006, were $448,731 and $8,460, respectively (Note 22).

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties.

The Group's management believes that the carrying values of cash, trade and other receivables, trade and other payables, and loans approximate to a reasonable estimate of their fair value due to their short-term maturities. Carrying values of bonds were estimated based on current market rates.

The fair values of trading and available-for-sale securities are based on quoted market prices for these or similar instruments.

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS

(a) Acquisition of OJSC Maxi-Group shares

In November 2007 the Parent Company entered into a binding agreement and a shareholder agreement in relation to the acquisition of a controlling stake in OJSC Maxi-Group as well as agreements granting short-term loans (secured by a pledge of shares in companies of Maxi-Group) of $398,152, half of which was granted before the acquisition date.

In December 2007 in accordance with the terms of the agreement the Parent Company acquired a 50% plus one share interest in OJSC Maxi-Group. In accordance with the formula defined in the share purchase agreement, the Group has estimated a preliminary purchase price of $558,515 as at the date of obtaining control and accrued the corresponding liability in these consolidated financial statements. The Parent Company is in the process of negotiating purchase price adjustments which are expected to be significant relative to the purchase price, but which cannot be reasonably determined at the date of these consolidated financial statements. In January 2008, the Parent Company paid $299,928 of the purchase price (translated at the exchange rate at the date of payment). The final payment will be transferred after completion of the Maxi-Group due diligence process and finalization of the corresponding price adjustments. The acquired companies were consolidated for the first time as at the transfer of the ownership date of OJSC Maxi-Group's shares, which management considers to be December 2007.

This acquisition is in line with the Group's strategy to expand its operations in the Russian market. The acquisition will give the Group a significant share of the domestic long products market and lead to full self-sufficiency in steel scrap.

The Group is in the process of completing the purchase price allocation including assessment of fair value of tax, legal, environmental and other contingencies. The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed in this business combination. The resulting goodwill primarily reflects the control premium paid for the acquisition:

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

Current assets	648,687
Property, plant and equipment	1,717,073
Other non-current assets	530
Preliminary goodwill (Note 11(a))	592,171
Total assets acquired	**2,958,461**
Current liabilities	(1,095,333)
Non-current liabilities	(1,334,052)
Deferred income tax liability	(4,217)
Total liabilities assumed	**(2,433,602)**
Minority interest	33,656
Net assets acquired	**558,515**
Less: cash acquired	(25,047)
Net assets acquired, net of cash acquired	**533,468**

The Group's management believes that it is not practicable to disclose information about revenues and net results for the eleven months ended November 30, 2007 and 2006, respectively, because information suitable for reporting under US GAAP purposes for these periods is not available.

(b) Acquisition of DanSteel A/S shares

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 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. The Group's consolidated balance sheet as at December 31, 2005 has been adjusted accordingly, compared to that previously reported, as follows:

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

	Previously reported	Retroactive adjustment	As adjusted
ASSETS			
Current assets			
Cash and cash equivalents	1,896,741	27,407	1,924,148
Accounts receivable, net	660,054	48,461	708,515
Inventories, net	501,556	57,694	559,250
		133,562	
Non-current assets			
Property, plant and equipment, net	2,393,549	21,452	2,415,001
Intangible assets, net	16,655	4,431	21,086
		25,883	
Total assets		**159,445**	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	502,355	63,628	565,983
		63,628	
Non-current liabilities			
Deferred income tax liability	294,337	6,375	300,712
Other long-term liabilities	61,675	29,171	90,846
		35,546	
Total liabilities		**99,174**	
Stockholders' equity			
Other comprehensive income	71,899	230	72,129
Retained earnings	4,749,053	60,041	4,809,094
		60,271	
Total liabilities and stockholders' equity		**159,445**	

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.

As a result of the consolidation of DanSteel A/S, revenues and net income of the Group, before the recording of consolidation adjustments, for the year ended December 31, 2006 increased by $365,247 and $44,939, respectively.

(c) Acquisition of OJSC Combinat KMAruda shares

In February-March 2006, the Parent Company purchased from third parties 43.37% of the outstanding common shares of OJSC Combinat KMAruda, an iron ore producer, for a consideration of $60,629 which resulted in the Group's ownership of 76.26%.

The acquisition of OJSC Combinat KMAruda was accounted for using the purchase method of accounting. OJSC Combinat KMAruda was consolidated for the first time as of the effective date of obtaining control which management considers to be February 28, 2006. The results of operations of the acquired entity were included in the consolidated statement of income starting from March 1, 2006.

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

The Group generated positive goodwill of $16,798 on the acquisition of the stake in OJSC Combinat KMAruda that gives control (25.37%) and negative goodwill of $3,588 on the subsequent acquisition (18.00%). Negative goodwill was allocated to the acquired assets other than current assets in accordance with SFAS No. 141.

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment, including mineral rights, and intangible assets were established by an independent appraiser (in relation to the 43.37% stake acquired):

Current assets	8,239
Mineral rights	18,661
Property, plant and equipment	15,107
Other non-current assets	8,974
Goodwill (Note 11(a))	16,798
Total assets acquired	**67,779**
Current liabilities	(1,187)
Deferred income tax liability	(5,963)
Total liabilities assumed	**(7,150)**
Net assets acquired	**60,629**
Less: cash acquired	(1,264)
Net assets acquired, net of cash acquired	**59,365**

In April and June 2006 the Parent Company acquired from minority shareholders additional stakes in OJSC Combinat KMAruda of 8.59% and 7.19% for a consideration of $8,071 and $6,831, respectively, recording negative goodwill of $1,686 and $1,385 respectively, for each acquisition. The acquisitions resulted in the Parent Company's ownership of 92.04%.

As discussed in Note 21(b) in August 2006 the Parent Company signed agreements with third parties for the disposal of the full stake of shares in OJSC Combinat KMAruda, and accordingly it was disposed of in August 2006.

(d) Acquisition of coal and coke-chemical assets

In April 2006, the Parent Company concurrently acquired 82.23% of the outstanding common shares of OJSC Altai-Koks and 100% of the outstanding common shares of a holding company Kuzbass Asset Holdings Limited, Gibraltar, which owns 100% of the Prokopievskugol group of coal companies, for a consideration of $564.1 million and $187.5 million respectively out of which $564.1 million and $99 million had been paid. In accordance with the provisions of the purchase agreement and the purchase price adjustment agreement finalized in December 2006 the Parent Company reduced the Prokopievskugol purchase price by a total amount of $125.4 million whereof:

- $88.5 million was offset against the last tranche of the purchase price as defined in the share purchase agreement; and
- $36.9 million was recorded as receivables, subsequently fully paid off by the sellers in the first quarter 2007.

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

As a result, the total consideration paid for the purchase of coal assets amounted to $62.1 million.

During the year ended December 31, 2006 the Parent Company acquired additional stakes of 6.29% and 5.12% in OJSC Altai-Koks from minority shareholders for a consideration of $34,355 and $37,936, respectively. As a result, the Group's ownership equals 93.64% of the voting shares. The acquired stake of 6.29% was included (taking into account the acquisition date) in the purchase price allocation presented below, with goodwill of $12,300. The Group recorded goodwill of $18,762 on the 5.12% stake acquired.

During the year ended December 31, 2007 the Parent Company acquired additional stakes of 0.51% in OJSC Altai-Koks from minority shareholders for a consideration of $1,829.

These acquisitions were made in line with the Group's vertical integration strategy, aiming for additional competitive advantages through the stable supply of key raw materials. The acquisition of the Prokopievskugol group was carried out concurrently as a condition for the acquisition of OJSC Altai-Koks. The acquired companies were consolidated by the Group for the first time from the effective date of obtaining control which management considers to be April 2006. Subsequently, after further evaluation of the future perspectives of the Prokopievskugol group, the Group made a decision to dispose of this investment (Note 18(b)).

Acquisition of OJSC Altai-Koks shares

OJSC Altai-Koks is among the leading coke-chemical plants in Russia. It produces high-quality coke and chemical products.

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were established by an independent appraiser. Resulting goodwill primarily reflects the control premium paid for the acquisitions:

Current assets	78,009
Property, plant and equipment	532,252
Other non-current assets	395
Goodwill (Note 11(a))	276,348
Total assets acquired	**887,004**
Current liabilities	(151,588)
Deferred income tax liability	(95,129)
Total liabilities assumed	**(246,717)**
Minority interest	(41,765)
Net assets acquired	**598,522**
Less: cash acquired	(113)
Net assets acquired, net of cash acquired	**598,409**

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

Acquisition of Prokopievskugol – group of coal companies

Prokopievskugol – group of coal companies owns seven mines and three processing plants.

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were established by an independent appraiser:

Current assets	40,429
Mineral rights	18,151
Property, plant and equipment	202,971
Other non-current assets	2
Total assets acquired	**261,553**
Current liabilities	(80,411)
Non-current liabilities	(99,909)
Deferred income tax liability	(19,090)
Total liabilities assumed	**(199,410)**
Net assets acquired	**62,143**
Less: cash acquired	(459)
Net assets acquired, net of cash acquired	**61,684**

(e) Acquisition of LLC VIZ-Stahl

In August 2006, the Parent Company acquired from a third party a 100% stake in LLC VIZ-Stahl, a steel-rolling company, for a consideration of $550.7 million, including consulting costs in the amount of $0.7 million. This acquisition was made consistent with the Group's vertical integration strategy, aiming for increasing production volumes of high-value-added products. The acquired company was consolidated by the Group for the first time as at the effective date of obtaining control, which management considers to be August 2006.

Prior to acquisition, the Parent Company was a supplier of different steel products for LLC VIZ-Stahl with total sales of $78,681 for the reporting period in 2006 (nil in 2005).

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were established by independent appraiser:

Current assets	159,443
Property, plant and equipment and other non-current assets	380,017
Intangible assets	185,190
Goodwill (Note 11(a))	58,112
Total assets acquired	**782,762**
Current liabilities	(106,098)
Non-current liabilities	(1,795)
Deferred income tax liability	(124,170)
Total liabilities assumed	**(232,063)**
Net assets acquired	**550,699**
Less: cash acquired	(12,291)
Net assets acquired, net of cash acquired	**538,408**

Useful lives of the acquired intangible assets are as follows: 125 months for the customer base and 149 months for industrial intellectual property. Carrying value of the acquired intangible assets are $121,312 and $63,878 as at acquisition date, respectively.

Under the purchase agreement the Group has certain rights to make claims against the vendor in respect of additional tax claims relating to any period prior to the acquisition of the company by the Group.

26 SEGMENTAL INFORMATION

Following the acquisition of Maxi-Group (Note 25(a)), the Group has four reportable business segments: steel, long products, mining and coke-chemical. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above four 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 three operating segments of the Group. Those segments include the trade seaport services business, finance business, comprising banking and insurance services, and coal mining and refining (Note 18). 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.

26 SEGMENTAL INFORMATION (continued)

Segmental information for the year ended December 31, 2007 is as follows:

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	6,946,050	62,262	105,442	517,308	87,999	7,719,061	-	7,719,061
Intersegment revenue	24,432	-	783,422	167,408	41,904	1,017,166	(1,017,166)	-
Depreciation and amortization	(265,335)	(4,177)	(80,306)	(40,460)	(17,421)	(407,699)	-	(407,699)
Gross profit	**2,891,787**	**8,792**	**588,204**	**205,744**	**48,583**	**3,743,110**	**(1,079)**	**3,742,031**
Operating income	**2,362,820**	**1,555**	**523,245**	**113,563**	**4,744**	**3,005,927**	**(7,556)**	**2,998,371**
Interest income	30,173	6,914	51,292	-	18,530	106,909	(7,158)	99,751
Interest expense	(11,177)	(16,023)	(378)	(4,270)	(6,727)	(38,575)	7,158	(31,417)
Income tax	(585,917)	(492)	(131,643)	(25,573)	(40,748)	(784,373)	(52,630)	(837,003)
Income / (loss) from continuing operations before minority interest	**1,772,543**	**(31,752)**	**443,108**	**78,769**	**155,582**	**2,418,250**	**(98,426)**	**2,319,824**
Segment assets, including goodwill	7,904,615	2,898,515	1,953,223	1,034,930	328,219	14,119,502	(1,043,560)	13,075,942
Capital expenditures	(794,160)	(37,858)	(98,876)	(8,860)	(17,965)	(957,719)	-	(957,719)

Segmental information for the year ended December 31, 2006 is as follows:

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	5,586,725	-	90,998	252,699	115,203	6,045,625	-	6,045,625
Intersegment revenue	26,065	-	523,558	83,707	107,384	740,714	(740,714)	-
Depreciation and amortization	(224,056)	-	(71,795)	(19,603)	(42,487)	(357,941)	-	(357,941)
Gross profit	**2,513,544**	**-**	**349,329**	**76,377**	**36,707**	**2,975,957**	**(4,707)**	**2,971,250**
Operating income	**2,108,437**	**-**	**297,286**	**23,883**	**(174,713)**	**2,254,893**	**(11,548)**	**2,243,345**
Interest income	45,394	-	22,541	4	44,555	112,494	(705)	111,789
Interest expense	(2,028)	-	-	(5,461)	(22,908)	(30,397)	705	(29,692)
Income tax	(622,962)	-	(72,499)	(6,641)	7,135	(694,967)	(11,638)	(706,605)
Income / (loss) from continuing operations before minority interest	**1,934,234**	**-**	**242,549**	**7,962**	**(149,063)**	**2,035,682**	**(121,232)**	**1,914,450**
Segment assets, including goodwill	5,913,356	-	1,417,926	968,412	1,003,230	9,302,924	(585,934)	8,716,990
Capital expenditures	(476,650)	-	(80,456)	(25,936)	(35,635)	(618,677)	-	(618,677)

26 SEGMENTAL INFORMATION (continued)

Segmental information for the year ended December 31, 2005 is as follows:

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	4,195,236	-	94,661	-	85,909	4,375,806	-	4,375,806
Intersegment revenue	4,402	-	460,579	-	5,154	470,135	(470,135)	-
Depreciation and amortization	(197,423)	-	(68,359)	-	(17,094)	(282,876)	-	(282,876)
Gross profit	**1,672,599**	**-**	**303,682**	**-**	**52,874**	**2,029,155**	**14,947**	**2,044,102**
Operating income	**1,523,572**	**-**	**277,479**	**-**	**32,440**	**1,833,491**	**10,533**	**1,844,024**
Interest income	58,863	-	10,464	-	30,235	99,562	(854)	98,708
Interest expense	(287)	-	(28)	-	(15,916)	(16,231)	854	(15,377)
Income tax	(401,156)	-	(64,581)	-	(12,831)	(478,568)	(18,705)	(497,273)
Income from continuing operations before minority interest	**1,161,179**	**-**	**218,056**	**-**	**39,628**	**1,418,863**	**(23,862)**	**1,395,001**
Segment assets, including goodwill	4,582,317	-	1,071,717	-	706,761	6,360,795	(150,282)	6,210,513
Capital expenditures	(499,962)	-	(67,467)	-	(12,769)	(580,198)	-	(580,198)

The allocation of total revenue by territory is based on the location of end customers who purchased the Group's products from international traders (Note 27(c)) and the Group, for goods sold, and also based on the country of the customers' registration for services provided. It does not reflect the geographical location of the international traders. The Group's total revenue from external customers by geographical area for the years ended December 31, 2007, 2006 and 2005, is as follows:

	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Russia	2,903,267	2,473,645	1,769,399
European Union	1,542,051	1,083,585	646,326
Middle East, including Turkey	1,122,438	798,862	571,331
North America	304,871	647,712	306,996
Asia and Oceania	995,709	440,331	847,605
Other regions	850,725	601,490	234,149
	7,719,061	**6,045,625**	**4,375,806**

Geographically, all significant assets, production and administrative facilities of the Group are substantially located in Russia and the remaining part in Denmark.

As disclosed in Note 27(c), the Group sells to three international traders that accounted for a majority of the Group's sales outside the Russian Federation in 2007, 2006 and 2005.

27 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries outside 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 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 the Russian Federation in monetary terms for the years ended December 31, 2007, 2006 and 2005 were 62%, 59% and 60% of the total sales, respectively.

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

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.

The Group sells to three international traders that account for the majority of its sales outside Russia. In 2007, Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus and Tuscany Intertrade (UK), purchased 40%, 23%, and 6% of the Group's sales outside Russia, respectively (2006: 27%, 28% and 19%; 2005: 17%, 41% and 26%). 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 December 31, 2007, 2006 and 2005, 1.02%, 1.02% and 1.19% of the share capital of the Parent Company, respectively, is held by a company beneficially owned by the shareholders of these traders.

In 2007, Novexco (Cyprus) Limited and Novex Trading (Swiss) S.A. acquired the trading business of Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus and Tuscany Intertrade (UK), the international traders that were major export traders of Group's products for several years. All business operations related to these trading companies and the client base of the abovementioned companies were transferred to the acquirers (Note 30(a)).

27 RISKS AND UNCERTAINTIES (continued)

Due to its foreign currency denominated assets and liabilities, the Group is subject to the risk arising from foreign exchange rate fluctuations. The Group's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes. The net foreign currency position as at December 31, 2007 is as follows:

	US dollar	Euro	Other currencies
Cash and cash equivalents	30,545	42,217	9,545
Accounts receivable and advances given	557,996	536,055	155
Short-term investments	-	146,390	-
Other current assets	-	-	125
Other non-current assets	20	4,582	58
Accounts payable and other liabilities	(8,992)	(48,396)	(764)
Short-term and long-term borrowings	(292,644)	(260,795)	-
Other long-term liabilities	-	-	(7)

28 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to SFAS No. 57, *Related Party Disclosures*. Balances as at December 31, 2007, 2006 and 2005 and transactions for the years ended December 31, 2007, 2006 and 2005 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to associate (SIF S.A.) and its subsidiary were $185,009 for the year ended December 31, 2007. Sales to other related parties were $7,358, $20,094 and $38,436 for the years ended December 31, 2007, 2006 and 2005, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equaled $18,953 as at December 31, 2007. Accounts receivable from other related parties equaled $1,993, $1,539 and $33,178 as at December 31, 2007, 2006 and 2005, respectively.

Purchases and services

Purchases of raw materials, technological equipment and management services from the Companies under common control, were $7,151, $16,272 and $22,247 for the years ended December 31, 2007, 2006 and 2005, 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 (Note 6(d))), were $61,213, $162,826 and $140,005 for the years ended December 31, 2007, 2006 and 2005, respectively.

Accounts payable to the related parties were $27,958, $2,666 and $16,726 as at December 31, 2007, 2006 and 2005, respectively.

(b) Financial transactions

In May 2007 the Parent Company issued a loan of 100 million euro to its associate (SIF S.A.) for the purpose of financing the acquisition of its new subsidiary Winner Steel LLC. The carrying amount of the loan is $151,473 as at December 31, 2007.

The subsidiary bank of the Group (which was disposed of in June 2007 (Note 18(c))) had loans receivable from related parties, either associates or companies under control or significant influence of the Group's management, of $8,864 and $10,633 as at December 31, 2006 and 2005, respectively.

28 RELATED PARTY TRANSACTIONS (continued)

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 $22,811 and $88,090 as at December 31, 2006 and 2005, respectively (Note 18(c)).

Deposits and current accounts of the Group companies in a banks under significant influence of the Group's management (OJSC Bank Zenit and OJSC Lipetskcombank) amounted to $257,615, $76,114 and $70,967 as at December 31, 2007, 2006 and 2005, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2007, 2006 and 2005 amounted to $9,341, $6,310 and $10,235, respectively.

The Group granted interest free loans to management in the total amount of $386 and $817 for the years ended December 31, 2006 and 2005, respectively. The aggregate amount of such loans outstanding as at December 31, 2007, 2006 and 2005 was $151, $467 and $514, respectively.

Agent fee for the purchase of the shares in subsidiaries (Note 25) from the Company under significant influence of the Group's management for the years ended December 31, 2007 and 2006 amounted to $42 and $867.

(c) Acquisitions and investments

In January 2006, the Parent Company received from a company under common control outside the Group 100% of the outstanding common shares of DanSteel A/S (Note 25(b)).

(d) Common control transfers and transfers to related parties and disposal of investments

In June 2007, the Parent Company sold, to a related party (OJSC Bank Zenit), its shares in a subsidiary bank for $47,662 and recorded income, less related tax, of $15,895 on this transaction in the consolidated statement of income (Note 18(c)).

In February 2007, the Parent Company sold, to a common control company, its full interests in various energy companies for $78,683 and recorded net income of $50,583 on this transaction in additional paid-in capital (Note 18(a)).

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 25(b)).

(e) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund amounted to $12,363, $2,736 and $2,729 in 2007, 2006 and 2005, 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.

(f) Stock-based compensation

In August 2005, the controlling shareholder of the Parent Company effectively sold 200,100,000 of NLMK shares to companies beneficially owned by certain members of its Board of Directors and management of the Group. The purchase price of these shares was based on the Russian Trade System ("RTS") trading price at the date of the transaction. The respective shares were pledged to secure the payment. This purchase price was initially payable by December 31, 2006 with no interest charged on the outstanding debt. Subsequently, the due date was prolonged until December 31, 2007. The payment was done and revenue from the sale of a part of the shares by companies beneficially owned by certain members of its Board of Directors and management of the Group was a source of liability settlement back to the controlling shareholder. As a result the controlling shareholder acquired back previously sold 86,816,000 shares. There were no new shares sold under such arrangements during 2007 and 2006.

This transaction was achieved through contractual arrangements between companies owned by the controlling shareholder of the Parent Company and companies beneficially owned by certain members of NLMK's Board of Directors and management of the Group, and therefore there was no cash outflow from the Group as a result of this transaction.

28 RELATED PARTY TRANSACTIONS (continued)

The Group applied SFAS No. 123, *Accounting for Stock-Based Compensation*, ("SFAS No. 123") for the purposes of accounting for this transaction, and estimated the fair value of the options at $31,463. Management of the Group estimated that $1,132 of this value related to the services provided by the individuals to the Group, and accordingly recorded an expense in general and administrative expenses in the year ended December 31, 2005, with a corresponding increase in stockholders' equity.

The following assumptions were made in applying the Black-Scholes model in estimating the fair values of the options for the purposes of applying SFAS No. 123: risk-free interest rate on Russian dollar-denominated bonds of 4.5%, expected life of 1.33 years, expected volatility of 25.91%, and expected dividend yield of 4.24%.

(g) Maxi-Group transactions with its related parties

Sales

Maxi-Group sales to related parties of OJSC Maxi-Group's minority shareholder and OJSC Maxi-Group (together – the "Related parties of OJSC Maxi-Group") were $17,419 for the one month ended December 31, 2007.

Related accounts receivable less provision, including accounts receivable from the Related parties of OJSC Maxi-Group acquired in a business combination, equaled $37,116 as at December 31, 2007.

Purchases and services

Purchases of raw materials, technological equipment and services from the Related parties of OJSC Maxi-Group were $5,257 for the one month ended December 31, 2007.

Accounts payable to the Related parties of OJSC Maxi-Group, including accounts receivable from the Related parties of OJSC Maxi-Group acquired in a business combination, were $64,808 as at December 31, 2007.

Financial transactions

Short-term loans issued to the Related parties of OJSC Maxi-Group amount to $4,093 as at December 31, 2007.

Short-term and long-term loans received from the Related parties of OJSC Maxi-Group amount to $23,406 as at December 31, 2007.

As at December 31, 2007 loans of $339,469 were collateralized with guarantee letters and other guarantees issued by the Related parties of OJSC Maxi-Group.

29 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 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 consolidated financial statements.

29 COMMITMENTS AND CONTINGENCIES (continued)

(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 the Russian Federation.

The Group has 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 $1,635,623, $396,801 and $264,903 as at December 31, 2007, 2006 and 2005, 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 year 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 December 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 consolidated financial statements.

(h) Financial guarantees issued

As at December 31, 2007, 2006 and 2005, the Group has issued guarantees to third parties amounting to $118,619, $1,667 and $540. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

30 SUBSEQUENT EVENTS

(a) Acquisition of international traders

In December 2007 the Group has reached an agreement to acquire 100% of the shares in trading companies Novexco (Cyprus) Limited and Novex Trading (Swiss) S.A., which from December 2007 conduct the business previously operated by Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus, and Tuscany Intertrade (UK) (Note 27(c)). The Purchase price is approximately 77 million euro (about $113 million as at December 31, 2007). The closing is expected to be after regulatory approval in 2008.

(b) SIF S.A. put and call option

In February 2008 the Parent Company has agreed to modify the terms of its put and call option agreement with Duferco Group established in December 2006 (Note 6(c)) in accordance to which the Group:

- has a perpetual option to acquire one share of SIF S.A. at the per share price of the Original Transaction and thus increase its participation in SIF S.A. to a controlling (50% plus one share);
- effective from December 18, 2010 the Group will have a perpetual option to buy, and Duferco will have a perpetual option to sell, all of Duferco's interest in SIF S.A. at a price based on the change in the consolidated shareholders equity of SIF S.A. starting October 2006 to the exercise date.

The option agreement is in line with Group's strategy to better control strategic assets in its portfolio. Presently the Group has no current intention to increase its stake in the joint venture which is 50% as at December 31, 2007.

(c) Subsequent payments for the acquired assets

In January 2008 the Parent Company made a first payment to Mr. Maximov totaling $299,928, as at the transaction date, for the assets acquired in December 2007 (Note 25(a)).

(d) Dividends

In April 2008, the Board of Directors of the Parent Company proposed dividends for the year ended December 31, 2007 of 3 Russian rubles per share in the total amount of Russian rubles 17,979,682 thousand ($732,483 at the exchange rate as at December 31, 2007, including interim dividends for the six months ended June 30, 2007 of 1.5 Russian ruble per share for the total of $360,142, translated at the historical date). The final amount of dividends is subject to the approval by the Annual General Stockholders' Meeting.