OJSC NOVOLIPETSK STEEL

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

AS AT JUNE 30, 2006 AND DECEMBER 31, 2005
AND FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

CONTENTS

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 ACCOUNTANTS

To the Board of Directors of OJSC Novolipetsk Steel

We have reviewed the accompanying interim condensed consolidated balance sheet of OJSC Novolipetsk Steel and its subsidiaries ("the Group") as at June 30, 2006, and the related interim condensed consolidated statements of income, cash flows and stockholders' equity and comprehensive income for each of the six-month periods ended June 30, 2006 and June 30, 2005. These interim condensed consolidated financial statements are the responsibility of the Group's management.

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

Based on our review we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group as of December 31, 2005, and the related consolidated statements of income, cash flows and stockholders' equity and comprehensive income for the year then ended (not presented herein); and in our report dated April 17, 2006, we expressed an unqualified opinion on such financial statements, except for the effects of using appraised values for certain property, plant and equipment as explained in Note 7. As discussed in Note 11(a) to the accompanying interim condensed consolidated financial statements, the Group consummated a common control transfer of DanSteel A/S, a steel-rolling company acquired by the common control party in November 2005, which is accounted for retroactively at book value of the common control party, in a manner similar to a pooling. The accompanying December 31, 2005 condensed consolidated balance sheet reflects this retroactive accounting. We have not audited the accompanying December 31, 2005 condensed consolidated balance sheet.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
September 8, 2006

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

	Note	As at June 30, 2006	As at December 31, 2005
ASSETS			see Note 11(a)
Current assets			
Cash and cash equivalents	2	1,385,593	1,924,148
Short-term investments		20,786	27,040
Accounts receivable, net	3	966,059	708,515
Inventories, net	4	643,027	559,250
Other current assets, net	5	263,037	208,920
Restricted cash		8,907	7,979
		3,287,409	**3,435,852**
Non-current assets			
Long-term investments		6,799	31,470
Property, plant and equipment, net	7	3,340,863	2,415,001
Intangible assets, net		19,796	21,086
Goodwill		588,640	173,357
Other non-current assets, net	5	130,660	133,747
		4,086,758	**2,774,661**
Total assets		**7,374,167**	**6,210,513**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	8	692,556	565,983
Short-term borrowings	9	141,800	5,282
Current income tax liability		58,226	40,639
		892,582	**611,904**
Non-current liabilities			
Deferred income tax liability		421,755	300,712
Long-term borrowings	9	16,796	45,341
Other long-term liabilities		69,666	45,505
		508,217	**391,558**
Total liabilities		**1,400,799**	**1,003,462**
Commitments and contingencies	15	-	-
Minority interest		**125,764**	**92,576**
Stockholders' equity			
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at June 30, 2006 and December 31, 2005		221,173	221,173
Statutory reserve		10,267	10,267
Additional paid-in capital		1,812	1,812
Accumulated other comprehensive income		414,254	72,129
Retained earnings		5,200,098	4,809,094
		5,847,604	**5,114,475**
Total liabilities and stockholders' equity		**7,374,167**	**6,210,513**

The interim condensed consolidated financial statements as set out on pages 4 to 22 were approved on September 8, 2006.

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

Chief Accountant
Sokolov A.A.

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

	Note	For the six months ended June 30, 2006	For the six months ended June 30, 2005
Sales revenue	12	**2,601,736**	**2,377,146**
Cost of sales			
Production cost		(1,290,476)	(1,027,940)
Depreciation and amortization		(158,449)	(140,284)
		(1,448,925)	**(1,168,224)**
Gross profit		**1,152,811**	**1,208,922**
General and administrative expenses		(88,145)	(44,539)
Selling expenses		(117,642)	(32,106)
Taxes other than income tax		(21,690)	(25,411)
Operating income		**925,334**	**1,106,866**
Loss on disposals of property, plant and equipment		(2,719)	(6,639)
Gains / (losses) on investments, net	6	390,463	(4,143)
Interest income		58,673	46,813
Interest expense		(10,637)	(6,903)
Foreign currency exchange loss, net		(69,791)	(11,466)
Other (expense) / income, net		(9,288)	4,877
Income before income tax and minority interest		**1,282,035**	**1,129,405**
Income tax		(326,842)	(281,614)
Income before minority interest		**955,193**	**847,791**
Equity in net earnings of associate		492	2,800
Minority interest		(11,900)	(12,200)
Net income		**943,785**	**838,391**
Income from continuing operations per share (US dollars)			
basic and diluted		0.1575	0.1399
Net income per share (US dollars)			
basic and diluted	10	0.1575	0.1399

(thousands of US dollars)

	Note	For the six months ended June 30, 2006	For the six months ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		**943,785**	**838,391**
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest		11,900	12,200
Depreciation and amortization		158,449	140,284
Loss on disposals of property, plant and equipment		2,719	6,639
(Gains) / losses on investments		(390,463)	4,143
Equity in net earnings of associate		(492)	(2,800)
Deferred income tax benefit		(7,343)	(2,232)
Other movements		21,414	(16,700)
Changes in operating assets and liabilities			
Increase in accounts receivable		(137,577)	(130,622)
Increase in inventories		(4,357)	(84,348)
Increase in other current assets		(1,276)	(849)
Increase in loans provided by the subsidiary bank		(42,000)	(36,115)
(Decrease) / increase in accounts payable and other liabilities		(41,369)	66,891
Increase / (decrease) in current income tax payable		14,387	(56,804)
Net cash provided by operating activities		**527,777**	**738,078**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of subsidiaries, net of cash acquired of $1,836	11(b)(c)	(809,655)	-
Proceeds from sale of property, plant and equipment		2,926	7,561
Purchases and construction of property, plant and equipment		(239,845)	(265,437)
Proceeds from sale of investments		419,647	24,415
Purchase of investments		(12,416)	(20,852)
Movement of restricted cash		(417)	(2,707)
Net cash used in investing activities		**(639,760)**	**(257,020)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and notes payable		8,391	8,218
Repayment of borrowings and notes payable		(93,156)	(2,226)
Payments to controlling shareholders for common control transfer of interests in a new subsidiary	11(a)	(104,000)	-
Dividends to shareholders		(336,114)	(7,661)
Net cash used in financing activities		**(524,879)**	**(1,669)**
Net (decrease) / increase in cash and cash equivalents		**(636,862)**	**479,389**
Effect of exchange rate changes on cash and cash equivalents		98,307	(55,347)
Cash and cash equivalents at the beginning of the period	2	1,924,148	1,348,615
Cash and cash equivalents at the end of the period	2	**1,385,593**	**1,772,657**

(thousands of US dollars)

	Note	Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balance at December 31, 2004		**221,173**	**10,267**	**680**	**242,387**	**3,745,984**	**4,220,491**
Comprehensive income:							
Net income		-	-	-	-	838,391	838,391
Other comprehensive income:							
Translation adjustment		-	-	-	(153,677)	-	(153,677)
Comprehensive income							**684,714**
Dividends to shareholders		-	-	-	-	(172,086)	(172,086)
Balance at June 30, 2005		**221,173**	**10,267**	**680**	**88,710**	**4,412,289**	**4,733,119**
Balance at December 31, 2005 (see Note 11(a))		**221,173**	**10,267**	**1,812**	**72,129**	**4,809,094**	**5,114,475**
Comprehensive income:							
Net income		-	-	-	-	943,785	943,785
Other comprehensive income:							
Net unrealized gain on a change in valuation of investments		-	-	-	(1,196)	-	(1,196)
Translation adjustment		-	-	-	343,321	-	343,321
Comprehensive income							**1,285,910**
Dividends to shareholders		-	-	-	-	(448,781)	(448,781)
Payments to controlling shareholders for common control transfer of subsidiary interests	11(a)	-	-	-	-	(104,000)	(104,000)
Balance at June 30, 2006		**221,173**	**10,267**	**1,812**	**414,254**	**5,200,098**	**5,847,604**

1 BASIS OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Open Joint Stock Company Novolipetsk Steel (the "Parent Company", or NLMK) and its subsidiaries (together – the "Group") audited consolidated financial statements as at and for the year ended December 31, 2005. The December 31, 2005 condensed consolidated balance sheet information has been derived from audited consolidated financial statements subject to unaudited retroactive accounting adjustments described in Note 11(a), however, since it is presented on a condensed basis it does not include all disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

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

Functional and reporting currency

The Group's functional currency, which is considered to be the Russian ruble for all Group entities, except DanSteel A/S (Note 11(a)), was translated into the reporting currency (US dollars) utilizing period-end exchange rates for assets and liabilities, period average exchange rates for consolidated income statement accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*.

The Central Bank of the Russian Federation's closing rates of exchange ruling at June 30, 2006, December 31, 2005, June 30, 2005 and December 31, 2004 were 1 US dollar to 27.0789, 28.7825, 28.6721 and 27.7487 Russian rubles, respectively. The period weighted average exchange rates were 27.6799 and 27.9595 Russian rubles to 1 US dollar for the six months ended June 30, 2006 and June 30, 2005, respectively.

Recent accounting pronouncements

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

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

(thousands of US dollars)

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

In April 2006, the FASB issued FSP FIN 46(R)–6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)* ("FSP FIN 46(R)–6"). FSP FIN 46(R)–6 addresses whether certain arrangements associated with variable interest entities should be treated as variable interests or considered as creators of variability, and indicates that the variability to be considered shall be based on an analysis of the design of the entity. FSP FIN 46(R)–6 is required to be applied prospectively to all entities with which the Group first becomes involved and to all entities previously required to be analyzed under FIN 46(R) upon the occurrence of certain events, beginning the first day of the first reporting period after June 15, 2006. Early application is permitted for periods for which financial statements have not yet been issued. Retroactive application to the date of the initial application of FIN 46(R) is permitted but not required, however, if elected, it must be completed no later than the end of the first annual reporting period after July 15, 2006. The Group is currently evaluating the potential impact, if any, that the adoption of FSP FIN 46(R)–6 will have on its 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. FIN 48 is effective in fiscal years beginning after December 15, 2006. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption, with the cumulative effect adjustment reported as an adjustment to the opening balance of retained earnings. The Group is currently evaluating the potential impact, if any, that the adoption of FIN 48 will have on our consolidated financial statements.

2 CASH AND CASH EQUIVALENTS

	As at June 30, 2006	As at December 31, 2005
Cash – Russian rubles	105,974	124,003
Cash – other currency	38,945	420,194
Deposits – Russian rubles	785,060	247,724
Deposits – US dollars	90,022	917,670
Deposits – Euro	360,552	214,378
Other cash equivalents	5,040	179
	1,385,593	**1,924,148**

3 ACCOUNTS RECEIVABLE

	As at June 30, 2006	As at December 31, 2005
Trade accounts receivable	624,759	443,978
Advances given to suppliers	103,088	55,589
Taxes receivable	236,765	198,917
Accounts receivable from employees	2,229	1,646
Other accounts receivable	20,926	21,880
	987,767	722,010
Allowance for doubtful debts	(21,708)	(13,495)
	966,059	**708,515**

As at June 30, 2006 and December 31, 2005, the Group had accounts receivable from Steelco Mediterranian Trading Ltd., Cyprus, Tuscany Intertrade (UK) and Moorfield Commodities Company, UK, each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors totaled \$217,037, \$124,663 and \$96,852 at June 30, 2006, \$155,798, \$108,670 and \$65,748 at December 31, 2005.

(thousands of US dollars)

4 INVENTORIES

	As at June 30, 2006	As at December 31, 2005
Raw materials	423,173	383,832
Work in process	143,055	109,679
Finished goods and goods for resale	94,703	81,232
	660,931	574,743
Provision for obsolescence	(17,904)	(15,493)
	643,027	**559,250**

Raw materials and finished goods of $4,371 were pledged against borrowings (Note 9).

5 OTHER CURRENT AND NON-CURRENT ASSETS

	As at June 30, 2006	As at December 31, 2005
Other current assets		
Short-term loans provided by the subsidiary bank	200,521	163,055
Other current assets	71,911	51,875
	272,432	214,930
Allowance for doubtful loans	(9,395)	(6,010)
Total other current assets	**263,037**	**208,920**
Other non-current assets		
Long-term loans provided by the subsidiary bank	94,344	71,138
Other non-current assets	36,316	62,609
Total other non-current assets	**130,660**	**133,747**

Weighted average interest rates on loans, provided to companies (including other banks) and individuals for the six months, ended June 30, 2006 by the subsidiary bank of the Group were 10% p.a. for loans denominated in Russian rubles and 8.5% p.a. for foreign currency loans.

6 GAINS / (LOSSES) ON INVESTMENTS

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

The Group recognized an income on this transaction calculated as the difference between consideration received and carrying value of these shares in the amount of $398,691 included within gains / (losses) on investments, net (totaling $390,463) in the interim condensed consolidated statement of income for the six months ended June 30, 2006.

(thousands of US dollars)

7 PROPERTY, PLANT AND EQUIPMENT

	As at June 30, 2006	As at December 31, 2005
Land	60,004	56,070
Mineral rights	599,025	522,802
Buildings	886,278	715,066
Land and buildings improvements	1,037,883	757,066
Machinery and equipment	4,654,717	4,246,584
Vehicles	262,783	219,431
Construction in progress and advances for construction and acquisition of property, plant and equipment	771,642	467,354
Other	71,351	37,229
	8,343,683	7,021,602
Accumulated depreciation	(5,002,820)	(4,606,601)
Net book value	**3,340,863**	**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 of January 1, 2000. During the six month ended June 30, 2006 the Group considered that following the additions of subsidiaries and investments in the existing plants on one hand and depreciation of the appraised assets on the other hand the effect on the interim condensed consolidated financial statements for the six June 30, 2006 is no longer material.

Property, plant and equipment of $100,131 (net book value) were pledged as collateral for certain borrowings (Note 9).

8 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at June 30, 2006	As at December 31, 2005
Trade accounts payable	111,202	128,180
Advances received	178,786	130,347
Customers' deposits and accounts in the subsidiary bank	130,154	188,265
Taxes payable other than income tax	43,895	25,728
Accounts payable and accrued liabilities to employees	90,052	59,592
Dividends payable	101,809	2,572
Other accounts payable	36,658	31,299
	692,556	**565,983**

9 SHORT-TERM AND LONG-TERM BORROWINGS

Short-term borrowings

	As at June 30, 2006	As at December 31, 2005
Bank of Moscow, RR denominated, 8.5% per annum	58,662	-
Alfa bank, RR denominated, 8.5% - 12% per annum	28,824	-
Alfa bank, USD denominated, 10% per annum	18,500	-
Notes payable	25,724	5,281
Other loans	10,090	1
	141,800	**5,282**

The details of the significant loan balances are summarized below.

Bank of Moscow: Under the terms of the agreement there is a number of obligation, default provisions and maintenance of certain revenue flows. The loan balance was collateralized by property, plant and equipment (Note 7) and inventories (Note 4).

Alfa bank: The loan balance was collateralized by property, plant and equipment (Note 7). Under the terms of the agreement there is a number of obligations including limitation of the indebtedness of the borrower.

Unused lines of credit for short-term bank loans in Bank of Moscow comprise $11,503 at June 30, 2006.

Long-term borrowings

	As at June 30, 2006	As at December 31, 2005
Triport Credit B.V., USD denominated, 5% per annum, not collateralized	10,524	10,276
Other loans	6,272	29,434
Notes payable	-	5,631
	16,796	**45,341**

The Group's long-term borrowings at June 30, 2006 mature between 2 to 5 years.

10 EARNINGS PER SHARE

	For the six months ended June 30, 2006	For the six months ended June 30, 2005
Average number of shares outstanding	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	943,785	838,391
Basic and diluted net income per share (US dollars)	**0.1575**	**0.1399**

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

In June 2006 the Parent Company declared dividends for the year ended December 31, 2005 of 3 Russian ruble per share for the total of $659,573, including interim dividends for the six months ended June 30, 2005 of 1 Russian ruble per share for the total of $210,792. Dividends payable amount to $101,809 at June 30, 2006 (Note 8).

(thousands of US dollars)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS

(a) Acquisition of DanSteel A/S shares

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

	Previously reported and audited	Retroactive adjustment, unaudited	As adjusted, unaudited
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	507,637	63,628	571,265
		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 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 consolidation of DanSteel A/S, revenues and net income of the Group, before recording of the consolidation adjustments, for the six months ended June 30, 2006 increased by $179,414 and $28,844, respectively.

(thousands of US dollars)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

(b) 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 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.

The Group generated positive goodwill of $16,798 on the acquisition of the stake that gives control (25.37%) and negative goodwill of $3,588 on the subsequent acquisition (18%). 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 provisions. The fair values of property, plant and equipment, including mineral rights, and intangible assets were established by independent appraisers (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	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 Group further acquired from minority shareholders additional stakes 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 Group's ownership of 92.04%.

As further discussed in Note 16 in August 2006 the Parent Company signed agreements with third parties for the disposal of the full stake of shares in OJSC Combinat KMAruda. At June 30, 2006 the sale of the asset was not probable in accordance with the criteria established by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, accordingly this investment was accounted as the asset held and used in the interim condensed consolidated balance sheet at June 30, 2006.

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

(c) 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 holding company Kuzbass Asset Holdings Limited, Gibraltar, which owns 100% of Prokopievskugol – group of coal companies, for a consideration of approximately USD 564 million and USD 188 million respectively out of which USD 564 million and USD 99 million were paid as of the date of these financial statements. In accordance with the purchase agreement the Parent Company owes USD 88 million which will be off-set against any purchase price adjustments which are expected to be finalized in the third quarter of 2006. The Parent Company is in the process of negotiating purchase price adjustments which are expected to be significant relative to the purchase price but can not be reasonably determined at the date of these financial statements.

In this respect the Group believes that the $88 million due will be off-set by the purchase price adjustments related to each of the companies and has not therefore recorded this as a part of purchase price with a corresponding increase in the liability and has not accounted for any purchase price adjustments in excess of this amount.

During the six months ended June 30, 2006 the Parent Company acquired additional stakes of 6.3% and 5.12% in OJSC Altai-koks from minority shareholders for consideration of $34,355 and $37,936, respectively. As a result, the Group's ownership equals 93.64% of the voting shares. Acquired stake of 6.3% was included (taking into account the acquisition date) in the purchase price allocation presented below. The Group recorded goodwill of $25,529 on 5.12% stake acquired.

These acquisitions were made consistent with the Group's vertical integration strategy, aiming for additional competitive advantages through the stable supply of key raw materials. The acquired companies are consolidated by the Group for the first time as at the effective date of obtaining control which management considers to be April 2006.

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 Group is in the process of completing the purchase price allocation and goodwill allocation to reporting units. The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141 provisions. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraisers (in relation to the 88.5% stake acquired); resulting goodwill primarily reflects the control premium paid for the acquisitions:

(thousands of US dollars)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

Current assets	62,497
Property, plant and equipment	323,171
Other non-current assets	349
Goodwill	351,284
Total assets acquired	**737,301**
Current liabilities	(132,104)
Deferred income tax liability	(47,209)
Total liabilities assumed	**(179,313)**
Net assets acquired	**557,988**
Less: cash acquired	(113)
Net assets acquired, net of cash acquired	**557,875**

The revenues and net income of OJSC Altai-koks, including the effects of purchase price adjustments, for the six months ended June 30, 2006 were $162,049 and $4,314, respectively ($274,935 and $4,111 accordingly for the six months ended June 30, 2005 on historical cost basis).

Acquisition of Prokopievskugol – group of coal companies shares

Prokopievskugol – group of coal companies is the leader in high-grade coking coal production and processing in the Kemerovo region of Russia. It owns seven mines and three processing plants.

The Group is in the process of completing the purchase price allocation and the following table summarizes the preliminary fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141 provisions. The fair values of property, plant and equipment, including mineral rights, and intangible assets were based on estimates of independent appraisers:

Current assets	40,826
Mineral rights	24,493
Property, plant and equipment	209,803
Other non-current assets	2
Total assets acquired	**275,124**
Current liabilities	(89,923)
Non-current liabilities	(18)
Deferred income tax liability	(45,649)
Total liabilities assumed	**(135,590)**
Net assets acquired	**139,534**
Less: cash acquired	(459)
Net assets acquired, net of cash acquired	**139,075**

(thousands of US dollars)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

The revenues and net loss of Prokopievskugol, including the effects of purchase price adjustments, for the six months ended June 30, 2006 were $104,861 and $29,975, respectively. Group's management believes that it is not practicable to disclose corresponding information for the six months ended June 30, 2005 because information suitable for reporting under US GAAP purposes for this period is not available.

12 SEGMENTAL INFORMATION

Following the acquisition of OJSC Altai-koks (Note 11(c)), the Group has three reportable business segments: steel, mining and coke-chemical. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above three segments meet criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to the three operating segments of the Group. Those segments include the trade seaport services business, represented by OJSC TMTP and its subsidiaries, finance business, comprising banking and insurance services to commercial and retail customers, and coal mining and refinement. None of these segments has met any of the quantitative thresholds for determining reportable segments.

The Group's management accounts for intersegmental sales and transfers, for the purpose of determining intersegmental operations, as if the sales or transfers were to third parties.

The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income before minority interest.

Information on segmental transactions for the six months ended June 30, 2006 and their assets as at June 30, 2006 is as follows:

	Steel	Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	2,393,553	43,096	51,598	113,489	2,601,736	-	2,601,736
Intersegment revenue	7,370	207,351	31,144	34,652	280,517	(280,517)	-
Gross profit	**998,780**	**109,901**	**9,069**	**31,721**	**1,149,471**	**3,340**	**1,152,811**
Operating income	**833,854**	**89,048**	**3,685**	**837**	**927,424**	**(2,090)**	**925,334**
Income before minority interest	**909,261**	**73,245**	**1,844**	**7,151**	**991,501**	**(36,308)**	**955,193**
Segment assets, including goodwill	4,529,402	1,337,604	827,921	1,057,276	7,752,203	(378,036)	7,374,167

Information on segmental transactions for the six months ended June 30, 2005 and their assets as at December 31, 2005 is as follows:

	Steel	Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	2,227,903	58,865	-	90,378	2,377,146	-	2,377,146
Intersegment revenue	2,032	275,067	-	1,279	278,378	(278,378)	-
Gross profit	**978,557**	**196,906**	**-**	**26,837**	**1,202,300**	**6,622**	**1,208,922**
Operating income	**898,835**	**184,089**	**-**	**22,037**	**1,104,961**	**1,905**	**1,106,866**
Income before minority interest	**692,258**	**147,555**	**-**	**20,266**	**860,079**	**(12,288)**	**847,791**
Segment assets, including goodwill	4,582,317	1,071,717	-	706,761	6,360,795	(150,282)	6,210,513

13 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

The Russian Federation economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, 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

Exchange restrictions and controls exist relating to converting Russian rubles into other currencies. At present, the Russian ruble is not a convertible currency outside of the Russian Federation and, further, the Group was required to convert 10% of its foreign currency earnings into Russian rubles until May 6, 2006 (from May 7, 2006 this requirement was cancelled). 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 Russian Federation in monetary terms for the six months ended June 30, 2006 and June 30, 2005 were 58% and 65% of the total sales, respectively.

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

The Group sells to three international traders that account for the majority of its sales outside of Russia. During the six months ended June 30, 2006 Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK), and Moorfield Commodities Company, UK, purchased 35%, 25% and 13% of the Group's sales outside of Russia, respectively (44%, 24% and 16% during the six months ended June 30, 2005, respectively). Price fluctuations of sales to these companies are in line with general trends in global price fluctuations. The Group's prices for sales outside of Russia are comparable to the prices of Russian competitors. As at June 30, 2006 and December 31, 2005, 1.199% of the share capital of the Parent Company is held by a company beneficially owned by the shareholders of these traders.

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

14 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to SFAS No. 57, *Related Party Disclosures*. Balances as at June 30, 2006 and December 31, 2005 and transactions for the six months ended June 30, 2006 and June 30, 2005 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to related parties, either companies under common control or companies under control or significant influence of the Group's management, were $14,573 and $13,717 for the six months ended June 30, 2006 and June 30, 2005, respectively, which accounts for 0.6% and 0.5% of the total sales revenue. Related accounts receivable equaled $2,967 and $33,178 as at June 30, 2006 and December 31, 2005, respectively.

Purchases and services

Purchases of raw materials, technological equipment and management services from companies under common control, were $5,344 and $7,596 for the six months ended June 30, 2006 and June 30, 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, during the six months ended June 30, 2006, and OJSC Lipetskenergo during the six months ended June 30, 2005), were $106,721 and $60,624, respectively.

Accounts payable to the related parties were $1,567 and $4,152 as at June 30, 2006 and December 31, 2005, respectively.

(b) Financial transactions

The subsidiary bank of the Group had loans receivable from related parties, either associates or companies under control or significant influence of the Group's management, of $6,404 and $10,633 as at June 30, 2006 and December 31, 2005, respectively.

Deposits and current accounts of related parties, either companies under common control or companies under control or significant influence of the Group's management, in the subsidiary bank amounted to $40,178 and $88,090 as at June 30, 2006 and December 31, 2005, respectively.

Deposits and current accounts of Group companies in a bank under significant influence of the Group's management (OJSC Bank Zenit) amounted to $73,535 and $70,967 as at June 31, 2006 and December 31, 2005, respectively. Related interest income from these deposits and current accounts for the six months ended June 30, 2006 amounted to $2,895.

The Group granted interest free loans to management in the total amount of $108 and $197 for the six months ended June 30, 2006 and June 30, 2005, respectively. The aggregate amount of such loans outstanding as at June 30, 2006 and December 31, 2005 was $254 and $514, respectively.

Agent fee for the purchase of the shares in existing subsidiaries (Note 11) from the Company under significant influence of the Group's management for the six months ended June 30, 2006 amounted to $867.

(c) Contributions to non-governmental pension fund

Total contributions to a non-governmental pension fund under defined contribution plan amounted to $1,356 and $1,375 during the six months ended June 30, 2006 and June 30, 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.

15 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

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

(b) Litigation

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

(c) Environmental matters

The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised 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 entered into insurance contracts to insure property, plant and equipment, land transport, and aircraft and purchased accident and health insurance, inter-city motor vehicle passenger insurance and medical insurance for employees, and directors and officers liability insurance (D&O). Furthermore, the Group has purchased operating entities civil liability coverage for dangerous production units.

(e) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $219,310 and $264,903 as at June 30, 2006 and December 31, 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.

(thousands of US dollars)

15 COMMITMENTS AND CONTINGENCIES (continued)

(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 June 30, 2006 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 June 30, 2006 and December 31, 2005, the Group has issued guarantees to third parties amounting to $100 million and $540 thousand, respectively. 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.

16 SUBSEQUENT EVENTS

(a) 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 million. This acquisition was made consistent with Group's vertical integration strategy, aiming for increasing production volumes of high-value-added products. The acquired company will be consolidated by the Group for the first time as at the effective date of obtaining control which management considers to be August 2006.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141 provisions. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraisers (in relation to 100% stake acquired):

Current assets	159,442
Non-current assets, including goodwill	574,029
Total assets acquired	**733,471**
Current liabilities	(106,099)
Non-current liabilities	(1,795)
Deferred income tax liability	(75,577)
Total liabilities assumed	**(183,471)**
Fair value of net assets acquired	**550,000**
Less: cash acquired	(12,162)
Fair value of net assets acquired, net of cash acquired	**537,838**

(thousands of US dollars)

16 SUBSEQUENT EVENTS (continued)

(b) Acquisition of additional stake in LLC NTK

In July 2006, the Parent Company completed an acquisition of a 30% interest in the share capital of LLC Independent Transport Company (LLC NTK). After the completion of this transaction its interest in the share capital hit 100%.

LLC NTK is a key logistics asset of the Group which ensures timely delivery of raw materials for metals production and delivery of finished goods to consumers both in Russia and abroad. LLC NTK coordinates cooperation with both OJSC Russian Railways and ports' administration with respect to export-destined supplies.

The increase of ownership interest in the share capital of LLC NTK to 100% was carried out in accordance with an earlier announced plan of the Group's in-house restructuring. Consolidated of non-core assets is a key element of this plan.

(c) Disposal of OJSC Combinat KMAruda shares

In August 2006 the Parent Company signed agreement for the disposal of 92.04% of the outstanding common shares of OJSC Combinat KMAruda to third party, for a consideration of approximately $300 million. This transaction was carried out in accordance with the Group's corporate restructuring plan. The purchase consideration is subject to certain adjustments which are expected to be finalized in the fourth quarter of 2006. The carrying amounts of the major classes of assets and liabilities of OJSC Combinat KMAruda at June 30, 2006 were as follows:

Current assets	41,037
Non-current assets, including goodwill	65,967
Total assets	**107,004**
Current liabilities	(4,236)
Non-current liabilities	-
Deferred income tax liability	(9,128)
Total liabilities	**(13,364)**
Net assets	**93,640**

(d) Dividend declared

In August 2006, the Board of Directors of the Parent Company proposed interim dividends for the six-month period ended June 30, 2006 of 1.5 Russian ruble per share in the total amount of Russian rubles 8,989,841 thousand ($331,987 at the exchange rate as at June 30, 2006). The final amount of dividends is subject to the approval by an extraordinary General Stockholders' Meeting.