OJSC NOVOLIPETSK STEEL

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

AS AT MARCH 31, 2006 AND DECEMBER 31, 2005 AND FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

CONTENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of OJSC Novolipetsk Steel

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

As discussed in Note 7 to the interim condensed consolidated financial statements, the carrying value 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.

Based on our review, except for the effects of using the appraisal to determine the carrying value for certain property, plant and equipment as discussed in the preceding paragraph, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group as of December 31, 2005, and the related consolidated statements of income and cash flows and stockholders' equity and comprehensive income for the year then ended (not presented herein); and in our report dated April 17, 2006, we expressed an unqualified opinion on such financial statements, except for the same matter discussed in the third paragraph of this report. 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
June 9, 2006

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

	Note	As at March 31, 2006	As at December 31, 2005
ASSETS			see Note 11(a)
Current assets			
Cash and cash equivalents	2	2,271,264	1,924,148
Short-term investments		22,892	27,040
Accounts receivable, net	3	763,653	708,515
Inventories, net	4	560,685	559,250
Other current assets, net	5	237,941	208,920
Restricted cash		8,174	7,979
		3,864,609	**3,435,852**
Non-current assets			
Long-term investments		33,775	31,470
Property, plant and equipment, net	7	2,586,216	2,415,001
Intangible assets, net		20,370	21,086
Goodwill		196,804	173,357
Other non-current assets, net	5	123,265	133,747
		2,960,430	**2,774,661**
Total assets		**6,825,039**	**6,210,513**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	8	510,777	571,265
Current income tax liability		29,087	40,639
		539,864	**611,904**
Non-current liabilities			
Deferred income tax liability		311,969	300,712
Other long-term liabilities	9	110,572	90,846
		422,541	**391,558**
Total liabilities		**962,405**	**1,003,462**
Commitments and contingencies	15	-	-
Minority interest		**113,111**	**92,576**
Stockholders' equity			
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at March 31, 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		265,274	72,129
Retained earnings		5,250,997	4,809,094
		5,749,523	**5,114,475**
Total liabilities and stockholders' equity		**6,825,039**	**6,210,513**

The interim condensed consolidated financial statements as set out on pages 4 to 20 were approved on June 9, 2006.

President
Lapshin A.A.

Chief Accountant
Sokolov A.A.

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

	Note	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Sales revenue	12	**1,122,987**	**1,270,938**
Cost of sales			
Production cost		(605,060)	(542,421)
Depreciation and amortization		(73,762)	(74,264)
		(678,822)	**(616,685)**
Gross profit		**444,165**	**654,253**
General and administrative expenses		(37,794)	(25,010)
Selling expenses		(16,155)	(14,204)
Taxes other than income tax		(10,418)	(5,098)
Operating income		**379,798**	**609,941**
Loss on disposals of property, plant and equipment		(1,492)	(904)
Gains / (losses) on investments, net	6	383,759	(5,273)
Interest income		29,300	21,445
Interest expense		(4,541)	(3,299)
Foreign currency exchange loss, net		(56,619)	(20,622)
Other (expense) / income, net		(2,728)	1,867
Income before income tax and minority interest		**727,477**	**603,155**
Income tax		(177,238)	(163,835)
Income before minority interest		**550,239**	**439,320**
Equity in net earnings of associate		483	-
Minority interest		(4,819)	(13,818)
Net income		**545,903**	**425,502**
Income from continuing operations per share (US dollars)			
basic and diluted		0.0911	0.0710
Net income per share (US dollars)			
basic and diluted	10	0.0911	0.0710

(thousands of US dollars)

	Note	For the three months ended March 31, 2006	For the three months ended March 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		**545,903**	**425,502**
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest		4,819	13,818
Depreciation and amortization		73,762	74,264
Loss on disposals of property, plant and equipment		1,492	904
(Gains) / losses on investments		(383,759)	5,273
Equity in net earnings of associate		(483)	-
Deferred income tax (benefit) / expense		(6,857)	7,976
Other movements		14,806	(19,568)
Changes in operating assets and liabilities			
Increase in accounts receivable		(24,790)	(231,784)
Decrease / (increase) in inventories		22,158	(13,941)
Decrease / (increase) in other current assets		4,317	(3,302)
(Increase) / decrease in loans provided by the subsidiary bank		(19,673)	4,045
(Decrease) / increase in accounts payable and other liabilities		(59,742)	36,030
Decrease in current income tax payable		(12,862)	(24,258)
Net cash provided by operating activities		**159,091**	**274,959**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of subsidiaries, net of cash acquired of $1,264	11(b)	(59,365)	-
Proceeds from sale of property, plant and equipment		2,744	1,796
Purchases and construction of property, plant and equipment		(91,193)	(99,517)
Proceeds from sale of investments		402,728	4,233
Purchase of investments		(27,948)	(3,270)
Movement of restricted cash		96	(2,134)
Net cash provided / (used in) investing activities		**227,062**	**(98,892)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and notes payable		8,096	6,403
Repayment of borrowings and notes payable		(14,870)	(1,685)
Payments to controlling shareholders for common control transfer of interests in a new subsidiary	11(a)	(104,000)	-
Dividends to shareholders		(398)	(2,170)
Net cash (used in) / provided by financing activities		**(111,172)**	**2,548**
Net increase in cash and cash equivalents		**274,981**	**178,615**
Effect of exchange rate changes on cash and cash equivalents		72,135	(3,652)
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	**2,271,264**	**1,523,578**

(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		-	-	-	-	425,502	425,502
Other comprehensive income:							
Net unrealized gain on a change in valuation of investments		-	-	-	(39)	-	(39)
Translation adjustment		-	-	-	(11,465)	-	(11,465)
Comprehensive income							**413,998**
Balance at March 31, 2005		**221,173**	**10,267**	**680**	**230,883**	**4,171,486**	**4,634,489**
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		-	-	-	-	545,903	545,903
Other comprehensive income:							
Net unrealized gain on a change in valuation of investments		-	-	-	(1,201)	-	(1,201)
Translation adjustment		-	-	-	194,346	-	194,346
Comprehensive income							**739,048**
Payments to controlling shareholders for common control transfer of subsidiary interests	11(a)	-	-	-	-	(104,000)	(104,000)
Balance at March 31, 2006		**221,173**	**10,267**	**1 812**	**265,274**	**5,250,997**	**5,749,523**

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 March 31, 2006, December 31, 2005, March 31, 2005 and December 31, 2004 were 1 US dollar to 27.7626, 28.7825, 27.8256 and 27.7487 Russian rubles, respectively. The period weighted average exchange rates were 28.1590 and 27.8375 Russian rubles to 1 US dollar for the three months ended March 31, 2006 and March 31, 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 is not expected to 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 is not expected to 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.

2 CASH AND CASH EQUIVALENTS

	As at March 31, 2006	**As at December 31, 2005**
Cash – Russian rubles	659,685	124,003
Cash – other currency	157,737	420,194
Deposits – Russian rubles	284,831	247,724
Deposits – US dollars	755,134	917,670
Deposits – Euro	413,073	214,378
Other cash equivalents	804	179
	2,271,264	**1,924,148**

3 ACCOUNTS RECEIVABLE

	As at March 31, 2006	**As at December 31, 2005**
Trade accounts receivable	438,368	443,978
Advances given to suppliers	84,099	55,589
Taxes receivable	222,174	198,917
Accounts receivable from employees	1,699	1,646
Other accounts receivable	32,438	21,880
	778,778	722,010
Allowance for doubtful debts	(15,125)	(13,495)
	763,653	**708,515**

As at March 31, 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 $152,782, $115,290 and $44,475 at March 31, 2006, $155,798, $108,670 and $65,748 at December 31, 2005.

(thousands of US dollars)

4 INVENTORIES

	As at March 31, 2006	As at December 31, 2005
Raw materials	361,414	383,832
Work in process	108,049	109,679
Finished goods and goods for resale	107,232	81,232
	576,695	574,743
Provision for obsolescence	(16,010)	(15,493)
	560,685	**559,250**

5 OTHER CURRENT AND NON-CURRENT ASSETS

	As at March 31, 2006	As at December 31, 2005
Other current assets		
Short-term loans provided by the subsidiary bank	185,525	163,055
Other current assets	60,098	51,875
	245,623	214,930
Allowance for doubtful loans	(7,682)	(6,010)
Total other current assets	**237,941**	**208,920**
Other non-current assets		
Long-term loans provided by the subsidiary bank	78,675	71,138
Other non-current assets	44,590	62,609
Total other non-current assets	**123,265**	**133,747**

Weighted average interest rates on loans, provided to companies (including other banks) and individuals for the three months, ended March 31, 2006 by the subsidiary bank of the Group were 6.7% p.a. for loans denominated in Russian rubles and 4.1% 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 $391,907 included within gains / (losses) on investments, net (totaling $383,759) in the interim condensed consolidated statement of income for the three months ended March 31, 2006.

(thousands of US dollars)

7 PROPERTY, PLANT AND EQUIPMENT

	As at March 31, 2006	As at December 31, 2005
Land	58,138	56,070
Mineral rights	568,178	522,802
Buildings	755,114	715,066
Land and buildings improvements	804,615	757,066
Machinery and equipment	4,408,058	4,246,584
Vehicles	238,394	219,431
Construction in progress and advances for construction and acquisition of property, plant and equipment	533,476	467,354
Other	38,881	37,229
	7,404,854	7,021,602
Accumulated depreciation	(4,818,638)	(4,606,601)
Net book value	**2,586,216**	**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. As at March 31, 2006 and December 31, 2005, the net book value of these items amounted to 18% and 21% of total net book value of property, plant and equipment, respectively.

8 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at March 31, 2006	As at December 31, 2005
Trade accounts payable	113,609	128,180
Advances received	121,764	130,347
Customers' deposits and accounts in the subsidiary bank	130,246	188,265
Taxes payable other than income tax	34,552	25,728
Accounts payable and accrued liabilities to employees	76,853	59,592
Dividends payable	2,263	2,572
Notes payable	4,066	5,282
Other accounts payable	27,424	31,299
	510,777	**571,265**

9 OTHER LONG-TERM LIABILITIES

	As at March 31, 2006	As at December 31, 2005
Customers' deposits in the subsidiary bank	68,894	45,377
Loans payable	41,627	45,077
Notes payable	51	392
	110,572	**90,846**

10 EARNINGS PER SHARE

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Average number of shares outstanding	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	545,903	425,502
Basic and diluted net income per share (US dollars)	**0.0911**	**0.0710**

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. Dividends payable amount to $2,263 at March 31, 2006 (Note 8).

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.

(thousands of US dollars)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

	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 for the three months ended March 31, 2006 increased by $70,804 and $7,592, respectively.

(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. The acquisition resulted in the Group's ownership of 76.26%. These transactions were consummated to improve the upstream integration of the Group.

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.

(thousands of US dollars)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

The Group generated positive goodwill of $16,798 on 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 43.37% stake acquired):

Current assets	8,239
Mineral rights	18,661
Other 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)**
Fair value of net assets acquired	**60,629**
Less: cash acquired	(1,264)
Fair value of net assets acquired, net of cash acquired	**59,365**

In April 2006 the Parent Company acquired another 8.59% of the outstanding common shares from minority shareholders, thus increasing the Group's ownership to 84.85% (Note 16(b)).

12 SEGMENTAL INFORMATION

The Group has two reportable business segments: steel and mining. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above two 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 two operating segments of the Group. Those segments include the trade seaport services business, represented by OJSC TMTP and its subsidiaries, and finance business, comprising banking and insurance services to commercial and retail customers. None of these segments has met any of the quantitative thresholds for determining reportable segments.

The Group accounts for intersegmental sales and transfers as if the sales or transfers were to third parties.

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

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

(thousands of US dollars)

12 SEGMENTAL INFORMATION (continued)

	Steel	Mining	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	1,047,519	16,389	59,079	1,122,987	-	1,122,987
Intersegment revenue	1,376	93,179	375	94,930	(94,930)	-
Gross profit	**378,597**	**40,665**	**21,643**	**440,905**	**3,260**	**444,165**
Operating income	**336,348**	**29,848**	**13,330**	**379,526**	**272**	**379,798**
Income before minority interest	**510,798**	**24,269**	**13,444**	**548,511**	**1,728**	**550,239**
Segment assets, including goodwill	5,036,517	1,243,590	743,226	7,023,333	(198,294)	6,825,039

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

	Steel	Mining	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	1,188,247	31,649	51,042	1,270,938	-	1,270,938
Intersegment revenue	2,796	151,615	292	154,703	(154,703)	-
Gross profit	**521,633**	**108,125**	**18,378**	**648,136**	**6,117**	**654,253**
Operating income	**490,328**	**101,097**	**13,928**	**605,353**	**4,588**	**609,941**
Income before minority interest	**348,096**	**78,369**	**16,412**	**442,877**	**(3,557)**	**439,320**
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.

13 RISKS AND UNCERTAINTIES (continued)

(c) Commercial risks

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

The Group's sales outside Russian Federation in monetary terms for the three months ended March 31, 2006 and March 31, 2005 were 58% and 66% 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 three months ended March 31, 2006 Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK), and Moorfield Commodities Company, UK, purchased 38%, 27% and 11% of the Group's sales outside of Russia, respectively (43%, 28% and 18% during the three months ended March 31, 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 March 31, 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 March 31, 2006 and December 31, 2005 and transactions for the three months ended March 31, 2006 and March 31, 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 $6,553 and $6,814 for the three months ended March 31, 2006 and March 31, 2005, respectively, which accounts for 0.6% and 0.5% of the total sales revenue. Related accounts receivable equaled $14,458 and $33,178 as at March 31, 2006 and December 31, 2005, respectively.

Purchases and services

Purchases of raw materials, technological equipment and management services from companies under common control, were $2,399 and $2,971 for the three months ended March 31, 2006 and March 31, 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 three months ended March 31, 2006, and OJSC Lipetskenergo during the three months ended March 31, 2005), were $51,931 and $30,396, respectively.

Accounts payable to the related parties were $2,606 and $4,152 as at March 31, 2006 and December 31, 2005, respectively.

14 RELATED PARTY TRANSACTIONS (continued)

(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 $8,063 and $10,633 as at March 31, 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 $45,871 and $88,090 as at March 31, 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 $115,804 and $70,967 as at March 31, 2006 and December 31, 2005, respectively. Related interest income from these deposits and current accounts for the three months ended March 31, 2006 amounted to $1,383.

The aggregate amount of interest free loans granted to management outstanding as at March 31, 2006 and December 31, 2005 was $409 and $514, respectively. The Group did not grant interest free loans to management during the three months ended March 31, 2006 and March 31, 2005.

Agent fee for the purchase of the shares in existing (Note 16(b)) and acquired after the reporting date subsidiaries (Note 16(a)) from the Company under significant influence of the Group's management for the three months ended March 31, 2006 amounted to $478.

(c) Contributions to non-governmental pension fund

Total contributions to a non-governmental pension fund under defined contribution plan amounted to $677 and $684 during the three months ended March 31, 2006 and March 31, 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 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.

15 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 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 $269,034 and $264,903 as at March 31, 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.

(g) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at March 31, 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 March 31, 2006 and December 31, 2005, the Group has issued guarantees to third parties amounting to $701 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.

(thousands of US dollars)

16 SUBSEQUENT EVENTS

(a) Acquisition of coal and coke-chemical assets

In April 2006, the Parent Company acquired from third parties 82.23% of the outstanding common shares of OJSC Altai-koks, coke-chemical plant, 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 752 million. The purchase consideration is subject to certain adjustments which are expected to be finalized in the third quarter of 2006, following an audit of the acquired subsidiaries. These acquisitions were made in line with Group's vertical integration strategy, aiming for additional competitive advantages through the stable supply of key raw materials. The acquired companies will be 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 leading coke-chemical plants in Russia. It produces high-quality coke and chemical products. In January – May 2006, the Parent Company acquired additional stake of approximately 6.3% in OJSC Altai-koks from other minority shareholders for consideration of approximately $34,300. As a result, the Group's ownership exceeded 88.5% of the voting shares of the company in April 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, including mineral extraction rights, and intangible assets were based on estimates of independent appraisers (in relation to 88.5% stake acquired):

Current assets	69,678
Non-current assets, including goodwill	727,507
Total assets acquired	**797,185**
Current liabilities	(88,081)
Non-current liabilities	(44,163)
Deferred income tax liability	(66,854)
Total liabilities assumed	**(199,098)**
Fair value of net assets acquired	**598,087**

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 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 extraction rights, and intangible assets were based on estimates of independent appraisers:

(thousands of US dollars)

16 SUBSEQUENT EVENTS (continued)

Current assets	42,373
Non-current assets and goodwill	269,309
Total assets acquired	**311,682**
Current liabilities	(81,145)
Non-current liabilities	(933)
Deferred income tax liability	(42,104)
Total liabilities assumed	**(124,182)**
Fair value of net assets acquired	**187,500**

(b) Acquisition of OJSC Combinat KMAruda shares

In April 2006 the Parent Company acquired additional 8.59% of the outstanding common shares of OJSC Combinat KMAruda from minority shareholders, for consideration of $8,064, thus increasing the Group's ownership to 84.85%.

(c) Dividend declared

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.

(d) Acquisition of LLC VIZ-Stal

In June 2006, management of the Parent Company agreed to acquire a 100% stake in LLC VIZ-Stal, the second-largest Russian producer of electrical steel, for a consideration of $550 million.

This acquisition is aimed at the development of production of high value-added products, and establishing the Group as the largest producer of electrical steel in Russia, and one of the leading manufacturers in the world.