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, 2008 AND DECEMBER 31, 2007 AND FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

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, 2008, 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, 2008 and March 31, 2007. 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 at December 31, 2007, 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 18, 2008, we expressed an unqualified opinion on such consolidated financial statements.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

May 30, 2008

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

	Note	As at March 31, 2008	As at December 31, 2007
ASSETS			
Current assets			
Cash and cash equivalents	2	1,181,374	1,154,641
Short-term investments		176,863	153,462
Accounts receivable and advances given, net	3	2,039,857	1,696,451
Inventories, net	4	1,527,368	1,236,433
Other current assets	5	168,823	147,191
		5,094,285	**4,388,178**
Non-current assets			
Long-term investments, net		863,541	818,590
Property, plant and equipment, net	6	6,969,404	6,449,877
Intangible assets, net		191,090	189,084
Goodwill		1,241,588	1,189,459
Other non-current assets		52,726	40,754
		9,318,349	**8,687,764**
Total assets		**14,412,634**	**13,075,942**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	7	1,220,492	1,394,934
Short-term borrowings	8	1,933,609	1,536,570
Current income tax liability		93,564	70,686
		3,247,665	**3,002,190**
Non-current liabilities			
Deferred income tax liability		538,457	585,567
Long-term borrowings	8	170,148	73,225
Other long-term liabilities		316,516	316,616
		1,025,121	**975,408**
Total liabilities		**4,272,786**	**3,977,598**
Commitments and contingencies	16	-	-
Minority interest		**94,094**	**106,813**
Stockholders' equity			
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at March 31, 2008 and December 31, 2007		221,173	221,173
Statutory reserve		10,267	10,267
Additional paid-in capital		52,395	52,395
Accumulated other comprehensive income		1,618,045	1,181,546
Retained earnings		8,143,874	7,526,150
		10,045,754	**8,991,531**
Total liabilities and stockholders' equity		**14,412,634**	**13,075,942**

The interim condensed consolidated financial statements as set out on pages 4 to 20 were approved on May 29, 2008.

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

Chief Accountant
Sokolov A.A.

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

	Note	For the three months ended March 31, 2008	For the three months ended March 31, 2007
Sales revenue	13	**2,353,260**	**1,750,166**
Cost of sales			
Production cost		(1,194,925)	(830,451)
Depreciation and amortization		(119,354)	(102,342)
		(1,314,279)	**(932,793)**
Gross profit		**1,038,981**	**817,373**
General and administrative expenses		(79,923)	(63,191)
Selling expenses		(151,416)	(93,699)
Taxes other than income tax		(31,230)	(14,318)
Accretion expense on asset retirement obligations		-	(6,019)
Operating income		**776,412**	**640,146**
Gain / (loss) on disposals of property, plant and equipment		6,097	(12,609)
Gains / (losses) on investments, net		6,421	(1,492)
Interest income		32,578	25,029
Interest expense		(55,466)	(8,404)
Foreign currency exchange, net		28,958	11,832
Other (expenses) / gains, net		(32,059)	13,261
Income from continuing operations before income tax and minority interest		**762,941**	**667,763**
Income tax	11	(128,282)	(216,892)
Income from continuing operations before minority interest		**634,659**	**450,871**
Minority interest		(9,094)	(5,660)
Equity in net (losses) / earnings of associate		(7,841)	10,180
Income from continuing operations		**617,724**	**455,391**
Discontinued operations			
Gain from operations of discontinued subsidiary		-	1,226
Income from discontinued operations		**-**	**1,226**
Net income		**617,724**	**456,617**
Income from continuing operations per share (US dollars)			
basic and diluted		0.1031	0.0760
Income from discontinued operations per share (US dollars)			
basic and diluted		-	0.0002
Net income per share (US dollars)			
basic and diluted	10	0.1031	0.0762

(thousands of US dollars)

	Note	For the three months ended March 31, 2008	For the three months ended March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		**617,724**	**456,617**
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest		9,094	6,838
Depreciation and amortization		119,354	102,342
(Gain) / loss on disposals of property, plant and equipment		(6,097)	12,609
(Gains) / losses on investments, net		(6,421)	1,492
Equity in net losses / (earnings) of associate		7,841	(10,180)
Deferred income tax (benefit) / expense		(70,379)	40,613
Gain on loan restructuring		-	(30,028)
Accretion expense on asset retirement obligations		-	6,019
Other		4,600	(2,591)
Changes in operating assets and liabilities			
Increase in accounts receivable		(260,800)	(135,520)
Increase in inventories		(229,482)	(24,596)
Increase in other current assets		(14,716)	(28,776)
Increase in loans provided by the subsidiary bank		-	(1,277)
Increase in accounts payable and other liabilities		60,175	79,082
Increase / (decrease) in current income tax payable		19,173	(13,334)
Net cash provided by operating activities		**250,066**	**459,310**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		4,178	1,690
Purchases and construction of property, plant and equipment		(355,244)	(173,196)
Proceeds from sale of investments		21,238	3,719
Purchases of investments		(19,255)	(35,079)
Acquisitions of stake in existing subsidiaries		(28,169)	-
Payment for acquisition of interests in new subsidiaries	12	(299,928)	-
Proceeds from adjustment of the original purchase price of subsidiaries		-	37,124
Movement of restricted cash		-	(766)
Net cash used in investing activities		**(677,180)**	**(166,508)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and notes payable		853,254	22,689
Repayment of borrowings and notes payable		(438,492)	(170,343)
Capital lease payments		(8,980)	(739)
Proceeds from disposal of assets to the company under common control	9	-	78,469
Dividends paid to minority shareholders of existing subsidiaries		(21)	-
Dividends to shareholders		(252)	(346)
Net cash provided by / (used in) financing activities		**405,509**	**(70,270)**
Cash included in assets, held for sale		-	(136)
Net (decrease) / increase in cash and cash equivalents		**(21,605)**	**222,396**
Effect of exchange rate changes on cash and cash equivalents		48,338	10,700
Cash and cash equivalents at the beginning of the period	2	1,154,641	665,213
Cash and cash equivalents at the end of the period	2	**1,181,374**	**898,309**

(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, 2006		**221,173**	**10,267**	**1,812**	**589,986**	**5,986,204**	**6,809,442**
Comprehensive income:							
Net income		-	-	-	-	456,617	456,617
Other comprehensive income:							
Cumulative translation adjustment		-	-	-	89,702	-	89,702
Comprehensive income							**546,319**
Earnings from disposal of assets to the company under common control	9	-	-	50,583	-	-	50,583
Balance at March 31, 2007		**221,173**	**10,267**	**52,395**	**679,688**	**6,442,821**	**7,406,344**
Balance at December 31, 2007		**221,173**	**10,267**	**52,395**	**1,181,546**	**7,526,150**	**8,991,531**
Comprehensive income:							
Net income		-	-	-	-	617,724	617,724
Other comprehensive income:							
Cumulative translation adjustment, attributable to associate		-	-	-	33,045	-	33,045
Cumulative translation adjustment		-	-	-	403,454	-	403,454
Comprehensive income							**1,054,223**
Balance at March 31, 2008		**221,173**	**10,267**	**52,395**	**1,618,045**	**8,143,874**	**10,045,754**

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, 2007. The December 31, 2007 condensed consolidated balance sheet information has been derived from audited consolidated financial statements, however, since it is presented on a condensed basis it does not include all disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

In the opinion of the Group’s management, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the periods 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 functional currency of the Parent Company and the major subsidiaries of the Group is considered to be Russian ruble. The functional currency of the foreign subsidiaries is their local currency. The accompanying interim condensed consolidated financial statements have been prepared using the US dollar as the Group’s reporting currency, utilizing period-end exchange rates for assets and liabilities, period weighted average exchange rates for interim condensed consolidated statement of income accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*.

The Central Bank of the Russian Federation’s closing rates of exchange ruling at March 31, 2008, December 31, 2007, March 31, 2007 and December 31, 2006 were 1 US dollar to 23.5156, 24.5462, 26.0113 and 26.3311 Russian rubles, respectively. The period weighted average exchange rates were 24.2601 and 26.3062 Russian rubles to 1 US dollar for the three months ended March 31, 2008 and March 31, 2007, respectively.

Recent accounting pronouncements

Accounting changes

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS No. 157”). This Statement defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. SFAS No. 157 was initially effective as of January 1, 2008, but in February 2008, the FASB delayed the effectiveness date for applying this standard to nonfinancial assets and nonfinancial liabilities that are not currently recognized or disclosed at fair value in the financial statements. The effectiveness date of January 1, 2008 applies to all other assets and liabilities within the scope of this Statement. The adoption of SFAS No. 157 in 2008 did not have a material impact on the Group’s interim condensed consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (“SFAS No. 159”). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings, and is effective for the Group from January 1, 2008. The adoption of SFAS No. 159 in 2008 did not have a material impact on the Group’s interim condensed consolidated financial statements.

In April 2007, the FASB issued FSP FIN 39-1, *Amendment of FASB Interpretation No. 39* (“FSP FIN 39-1”). FSP FIN 39-1 modifies FIN 39, *Offsetting of Amounts Related to Certain Contracts* and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The adoption of FSP FIN 39-1 in 2008 did not have a material impact on the Group’s interim condensed consolidated financial statements.

(thousands of US dollars)

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

New pronouncements

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

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

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS No. 161"), which enhances the current disclosure framework contained in SFAS No. 133. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Group is currently evaluating the potential impact, if any, that the adoption of SFAS No. 161 will have on its interim condensed consolidated financial statements.

2 CASH AND CASH EQUIVALENTS

	As at March 31, 2008	**As at December 31, 2007**
Cash – Russian rubles	161,443	124,773
Cash – other currencies	45,447	23,165
Deposits – Russian rubles	929,098	947,322
Deposits – US dollars	700	20,486
Deposits – Euros	40,147	38,656
Other cash equivalents	4,539	239
	1,181,374	**1,154,641**

(thousands of US dollars)

3 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at March 31, 2008	As at December 31, 2007
Trade accounts receivable	1,221,739	996,669
Advances given to suppliers	322,357	313,550
Taxes receivable	482,100	416,696
Accounts receivable from employees	5,439	5,968
Other accounts receivable	252,962	207,181
	2,284,597	1,940,064
Allowance for doubtful debts	(244,740)	(243,613)
	2,039,857	**1,696,451**

As at March 31, 2008 the Group had accounts receivable from Novex Trading (Swiss) S.A. and Novexco (Cyprus) Limited (Note 17(a)) each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors at March 31, 2008 totaled $532,309 and $174,807, respectively. As at December 31, 2007, the Group also had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus and Moorfield Commodities Company, UK, each of which exceeded 10% of the gross trade accounts receivable balances and amounts to $194,648 and $473,841, respectively.

As at March 31, 2008 and December 31, 2007 the Group had other accounts receivable of $81,005 and $73,051, respectively, from companies for which a 100% allowance was recorded. These accounts receivable were acquired by the Group through a business combination (Note 12).

4 INVENTORIES

	As at March 31, 2008	As at December 31, 2007
Raw materials	822,423	756,983
Work in process	364,629	310,832
Finished goods and goods for resale	388,808	209,878
	1,575,860	1,277,693
Provision for obsolescence	(48,492)	(41,260)
	1,527,368	**1,236,433**

As at March 31, 2008 and December 31, 2007, inventories of $90,705 and $82,920, respectively, were pledged against borrowings (Note 8).

(thousands of US dollars)

5 FORWARD CONTRACTS

Fair values of unrealized forward exchange and option contracts, amounting to $71,020 and $68,392, respectively, are included in other current assets as at March 31, 2008 and December 31, 2007. The table below summarizes by major currency the contractual amounts and fair values of the Group's unrealized forward exchange and option contracts in US dollars. Fair value is determined as the sum of the differences between the discounted market forward rate for the appropriate months prevailing at March 31, 2008 and the appropriate contract settlement rate, multiplied by the respective notional amount of the contract. The amounts recorded represent the US dollar equivalent of the commitments to sell foreign currencies during the next twelve months. There were no commitments to purchase foreign currencies in 2008 and 2007.

	As at March 31, 2008		**As at December 31, 2007**	
	Notional amount	Fair value	Notional amount	Fair value
US dollars	1,399,198	86,084	1,767,295	63,247
Euros	692,152	(15,064)	707,389	5,145
	2,091,350	**71,020**	**2,474,684**	**68,392**

During the three months, ended March 31, 2008 and March 31, 2007, gains from realized forward exchange and option contracts amounted to $31,910 and $37,911, respectively, these gains were included in "Foreign currency exchange, net" line.

6 PROPERTY, PLANT AND EQUIPMENT

	As at March 31, 2008	**As at December 31, 2007**
Land	92,315	88,353
Mineral rights	643,223	616,620
Buildings	1,507,423	1,428,223
Land and buildings improvements	1,414,834	1,339,274
Machinery and equipment	6,119,681	5,841,034
Vehicles	354,322	333,209
Construction in progress and advances for construction and acquisition of property, plant and equipment	2,570,329	2,197,131
Leased assets	476,433	457,191
Other	89,304	79,393
	13,267,864	12,380,428
Accumulated depreciation	(6,298,460)	(5,930,551)
	6,969,404	**6,449,877**

As at March 31, 2008 and December 31, 2007, property, plant and equipment of $412,447 and $390,816, respectively, were pledged against borrowings (Note 8).

7 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at March 31, 2008	**As at December 31, 2007**
Trade accounts payable	337,243	266,640
Advances received	207,993	165,624
Taxes payable other than income tax	98,290	65,322
Accounts payable and accrued liabilities to employees	172,985	159,578
Dividends payable	4,810	4,877
Short-term capital lease liability	48,013	32,273
Other accounts payable	351,158	700,620
	1,220,492	**1,394,934**

(thousands of US dollars)

8 SHORT-TERM AND LONG-TERM BORROWINGS

In 2007, the Group acquired a controlling stake in OJSC Maxi-Group. The Maxi-Group companies had certain debts which were in breach of restrictive covenants.

	As at March 31, 2008	As at December 31, 2007
Parent Company		
Loans, RUR denominated, with interest rates of 8.5% - 12% per annum	473,016	203,933
Loan, US$ denominated, with interest rate of LIBOR +1.3% per annum	42,103	-
Maxi-Group		
Russian rubles		
Loans with interest rates of 10.3% - 16.5% per annum	738,496	602,456
Bonds with interest rates of 11.25% - 12.3% per annum	63,962	93,656
Other borrowings (Note 15(e))	225,971	122,358
US dollars		
Loans with interest rates of LIBOR (1 m) +3.75% - 13.5% per annum	260,387	282,394
Other borrowings	4,000	10,250
Euros		
Loans with interest rates of EURIBOR (6 m) +1.3% - EURIBOR (6 m) +5.0% per annum	255,045	256,701
Other borrowings	4,140	4,094
	2,067,120	**1,575,842**
Other companies		
Loans, RUR denominated, with interest rates of 8.5% - 9.55% per annum	15,761	14,124
Loan, US$ denominated, with interest rate of 5% per annum	19,903	19,677
Other borrowings	973	152
	2,103,757	**1,609,795**
Less: short-term loans and current maturities of long-term loans	(1,933,609)	(1,536,570)
Long-term borrowings	**170,148**	**73,225**

The Group's long-term borrowings at March 31, 2008 mature between 2 to 8 years.

As at March 31, 2008 and December 31, 2007 more than 74% and 85%, respectively, of total short-term and long-term borrowings of the Group are payable by Maxi-Group.

As at March 31, 2008 and December 31, 2007 loans of $354,726 and $339,469, respectively, were collateralized with guarantee letters and other guarantees issued by companies which are the related parties of OJSC Maxi-Group's minority shareholder and OJSC Maxi-Group (Note 15(e)). As at March 31, 2008 and December 31, 2007 loans of $171,740 and $281,081, respectively, were collateralized with the shares of Maxi-Group companies.

(thousands of US dollars)

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

New borrowings, received in the reporting period

The amount of loans, received by the Group in the first quarter of 2008, outstanding as at March 31, 2008, is $467,479.

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

Loans covenants and restructuring of Maxi-Group's borrowings

Loans covenants

Due to the breach of certain restrictive covenants and terms of the pledge agreements long-term loans of $206,918 were reclassified to short-term loans. As a result of this breach the lenders can request payment of $906,679 of short-term loans upon notice, including loans with original short-term maturities of $699,761.

None of the bank loans where the breach of loan's covenants existed at March 31, 2008 has been called by the lenders either at March 31, 2008 or during the subsequent period through the date of these interim condensed consolidated financial statements.

The Group's management believes that measures undertaken and preliminary agreements achieved will allow the Group to avoid further breaches of covenants and ensure the compliance with the terms of the loan agreements.

Restructuring of borrowings

Immediately following the acquisition of the Maxi-Group (Note 12) the Parent Company commenced the restructuring of the borrowings of the Maxi-Group entities which is presently continuing.

It is expected by management that the restructuring will be finished in the second half of 2008 and result in the changing of the present covenants and loans maturities in terms of increasing long-term part of the debts in Maxi-Group's credit portfolio and the decreasing of a number of creditors.

9 DISPOSALS OF ASSETS

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

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

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

9 DISPOSALS OF ASSETS (continued)

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

Sales revenue	28,860
Net income (less income tax of $486)	2,403

These transactions were carried out in line with the Group's strategic development planned for 2007 to 2011. In accordance with a resolution passed by the Board of Directors in February 2006, the interests in the energy companies were classified as none-core assets.

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

Prior to the conclusion of the sales agreements, an independent appraisal of market value of the Parent Company's interests in the regional energy companies was conducted, most of which displayed low liquidity and were not marketable. All the abovementioned assets were sold with a 10% premium to their appraised values.

10 EARNINGS PER SHARE

	For the three months ended March 31, 2008	For the three months ended March 31, 2007
Weighted average number of shares	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	617,724	456,617
Basic and diluted net income per share (US dollars)	**0.1031**	**0.0762**

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 April 2008, the Board of Directors of the Parent Company proposed dividends for the year ended December 31, 2007 of 3 Russian rubles per share in the total amount of Russian rubles 17,979,682 thousand ($764,585 at the exchange rate as at March 31, 2008, including interim dividends for the six months ended June 30, 2007 of 1.5 Russian ruble per share for the total of $360,142, translated at the historical rate). The final amount of dividends is subject to the approval by the Annual General Stockholders' Meeting.

11 INCOME TAX

The corporate income tax rate dominantly applicable to the Group is 24%.

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

(thousands of US dollars)

11 INCOME TAX (continued)

	For the three months ended March 31, 2008	For the three months ended March 31, 2007
Income from continuing operations before income tax	762,941	667,763
Income tax at applicable tax rate	183,106	160,263
Decrease in income tax resulting from:		
changing from 9% to 0% of the tax rate applicable to income received in form of dividends since January 1, 2008	(80,600)	-
Increase in income tax resulting from:		
non-deductible expenses	25,776	56,629
Total income tax expense	**128,282**	**216,892**

12 BUSINESS COMBINATIONS

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

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

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

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

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

(thousands of US dollars)

13 SEGMENTAL INFORMATION

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

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to three operating segments of the Group. Those segments include the trade seaport services business, finance business, comprising banking and insurance services, and coal mining and refining. None of these segments has met any of the quantitative thresholds for determining reportable segment. Rendering banking services and operations on coal mining and refining were ceased in the first half of 2007.

The Group's management accounts for intersegmental sales and transfers, for the purpose of determining intersegmental operations, as if the sales or transfers were to third parties. The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income before minority interest.

Information on segmental transactions for the three months ended March 31, 2008 and their assets as at March 31, 2008 is as follows:

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	1,779,491	348,460	20,889	184,280	20,140	2,353,260	-	2,353,260
Intersegment revenue	85,047	35,768	245,010	75,240	984	442,049	(442,049)	-
Gross profit	**703,535**	**76,094**	**175,188**	**68,513**	**10,275**	**1,033,605**	**5,376**	**1,038,981**
Operating income	**529,196**	**36,977**	**156,390**	**39,130**	**11,163**	**772,856**	**3,556**	**776,412**
Income / (loss) from continuing operations before minority interest	**423,380**	**(25,468)**	**128,524**	**23,901**	**6,963**	**557,300**	**77,359**	**634,659**
Segment assets, including goodwill	8,834,062	3,182,830	2,160,932	1,110,326	348,948	15,637,098	(1,224,464)	14,412,634

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

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	1,598,702	-	23,170	105,439	22,855	1,750,166	-	1,750,166
Intersegment revenue	6,336	-	192,178	26,571	37,364	262,449	(262,449)	-
Gross profit	**633,488**	**-**	**134,760**	**23,462**	**13,802**	**805,512**	**11,861**	**817,373**
Operating income	**519,858**	**-**	**124,231**	**3,169**	**(17,580)**	**629,678**	**10,468**	**640,146**
Income / (loss) from continuing operations before minority interest	**279,263**	**-**	**103,757**	**(1,970)**	**78,884**	**459,934**	**(9,063)**	**450,871**
Segment assets, including goodwill	7,904,615	2,898,515	1,953,223	1,034,930	328,219	14,119,502	(1,043,560)	13,075,942

14 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

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

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal and political developments.

(b) Convertibility of Russian ruble

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

(c) Commercial risks

The Group minimizes its sales risks by having a wide range of geographical zones for sales, which allows the Group to respond quickly to 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, 2008 and March 31, 2007 were 58% and 67% of the Group's total sales, respectively.

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

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

In the first quarter of 2007 the Group was selling to three international traders that account for the majority of its sales outside Russia. During the three months ended March 31, 2007 Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK), and Moorfield Commodities Company, UK, purchased 32%, 18% and 23% of the Group's sales outside Russia, respectively.

In 2007, Novexco (Cyprus) Limited and Novex Trading (Swiss) S.A. acquired the trading business of Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK) and Moorfield Commodities Company, UK, the international traders that were major export traders of the Group's products for several years. All business operations related to these trading companies and the client base of the abovementioned companies were transferred to the acquirers (Note 17(a)).

In the first quarter of 2008 the Group was selling to two international traders that account for the majority of its sales outside Russia. During the three months ended March 31, 2008 Novex Trading (Swiss) S.A., and Novexco (Cyprus) Limited, purchased 43% and 17% of the Group's sales outside Russia, respectively.

Price fluctuations of sales to these companies are in line with general trends in global price fluctuations. The Group's prices for sales outside Russia are comparable to the prices of Russian competitors.

15 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to SFAS No. 57, *Related Party Disclosures*. Balances as at March 31, 2008 and December 31, 2007 and transactions for the three months ended March 31, 2008 and March 31, 2007 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to an associate (SIF S.A.) and its subsidiary were $68,149 for the three months ended March 31, 2008. Sales to other related parties were $1,372 and $827 for the three months ended March 31, 2008 and March 31, 2007, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equaled $62,250 and $18,953 as at March 31, 2008 and December 31, 2007, respectively. Accounts receivable from other related parties equaled $2,159 and $1,993 as at March 31, 2008 and December 31, 2007, respectively.

Purchases and services

Purchases of raw materials, technological equipment and management services from the Companies under common control, were $886 and $2,716 for the three months ended March 31, 2008 and March 31, 2007, respectively. Purchases of energy from the companies under significant influence of the Group's management (OJSC Lipetsk energy sales company and other companies, which originated from reorganization of OJSC Lipetskenergo), were $20,391 and $14,761 for the three months ended March 31, 2008 and March 31, 2007, respectively.

Accounts payable to the related parties were $34,272 and $27,958 as at March 31, 2008 and December 31, 2007, respectively.

(b) Financial transactions

In May 2007 the Parent Company issued a loan of 100 million euro to its associate (SIF S.A.) for the purpose of financing the acquisition of its new subsidiary Winner Steel LLC. The carrying amount of the loan is $165,650 and $151,473 as at March 31, 2008 and December 31, 2007, respectively.

Deposits and current accounts of the Group companies in banks under significant influence of the Group's management (OJSC Bank Zenit and OJSC Lipetskcombank in the first quarter of 2008 and OJSC Bank Zenit in the first quarter of 2007) amounted to $308,675 and $257,615 as at March 31, 2008 and December 31, 2007, respectively. Related interest income from these deposits and current accounts for the three months ended March 31, 2008 and March 31, 2007 amounted to $2,579 and $1,656, respectively.

The aggregate amount of interest free loans granted to management outstanding as at March 31, 2008 and December 31, 2007 was $60 and $151, respectively.

Agent fees paid to a company under significant influence of the Group's management for services connected with the purchase of shares in subsidiaries during the three months ended March 31, 2008 and March 31, 2007 amounted to $563 and nil, respectively.

(c) Common control transfers and disposal of investments

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

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

Total contributions to a non-governmental pension fund and charity fund amounted to $1,342 and $12,363 for the three months ended March 31, 2008 and March 31, 2007, respectively. The Group has the right to appoint and dismiss top management of the non-governmental pension fund as the major contributor to its capital. The Group has no long-term commitments to provide funding, guarantees, or other support to the abovementioned funds.

15 RELATED PARTY TRANSACTIONS (continued)

(e) Maxi-Group transactions with its related parties

Sales

Maxi-Group sales to related parties of OJSC Maxi-Group's minority shareholder and OJSC Maxi-Group (together – the "Related parties of OJSC Maxi-Group") were $4,707 for the three months ended March 31, 2008

Related accounts receivable less provision, including accounts receivable from the Related parties of OJSC Maxi-Group acquired in a business combination, equaled $36,584 and $37,116 as at March 31, 2008 and December 31, 2007 respectively.

Purchases and services

Purchases of raw materials, technological equipment and services from the Related parties of OJSC Maxi-Group were $36,041 for the three months ended March 31, 2008.

Accounts payable to the Related parties of OJSC Maxi-Group, including accounts receivable from the Related parties of OJSC Maxi-Group acquired in a business combination, were $50,437 and $64,808 as at March 31, 2008 and December 31, 2007, respectively.

Financial transactions

Short-term loans issued to the Related parties of OJSC Maxi-Group amount to $16,899 and $4,093 as at March 31, 2008 and December 31, 2007, respectively.

Short-term and long-term loans received from the Related parties of OJSC Maxi-Group amount to $73,129 and $23,406 as at March 31, 2008 and December 31, 2007, respectively.

As at March 31, 2008 and December 31, 2007 loans of $354,726 and $339,469, respectively, were collateralized with guarantee letters and other guarantees issued by the Related parties of OJSC Maxi-Group.

16 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

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

(b) Litigation

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

(c) Environmental matters

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

16 COMMITMENTS AND CONTINGENCIES (continued)

(d) Insurance

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

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

(e) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $1,541,908 and $1,635,623 as at March 31, 2008 and December 31, 2007, respectively.

(f) Social commitments

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

(g) Tax contingencies

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

As at March 31, 2008 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these interim condensed consolidated financial statements.

(h) Financial guarantees issued

As at March 31, 2008 and December 31, 2007 the Group has issued guarantees to third parties amounting to $25,402 and $118,619, respectively. No amount has been accrued in these interim condensed consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

17 SUBSEQUENT EVENTS

(a) Acquisition of international traders

In December 2007 the Group has reached an agreement to acquire 100% of the shares in trading companies Novexco (Cyprus) Limited and Novex Trading (Swiss) S.A., which from December 2007 conduct the business previously operated by Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus, and Tuscany Intertrade (UK) (Note 14(c)). The Purchase price of $119 million was paid and transfer of ownership occurred in May 2008.

(b) Acquisition of minority stake in OJSC Stoilensky GOK

In May 2008 the Parent Company completed the acquisition of 3.02% ordinary shares in OJSC Stoilensky GOK for a total amount of $96,839, thus increasing its share to 100%.