OJSC NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

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

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

CONTENTS

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of OJSC Novolipetsk Steel

We have audited the accompanying consolidated balance sheets of OJSC Novolipetsk Steel and its subsidiaries (the "Group") as at December 31, 2006, 2005 and 2004, and the related consolidated statements of income, cash flows and stockholders' equity and comprehensive income for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As discussed in Note 10 to the consolidated financial statements, the cost of certain property, plant and equipment was determined with the assistance of an independent appraiser, who provided US dollar estimates of the fair value of the Group's property, plant and equipment, the effect of which is no longer material for the year ended December 31, 2006.

In our opinion, except for the effects of using the appraisal to determine the carrying value for certain property, plant and equipment on the financial position of the Group as at December 31, 2005 and 2004 and the consolidated results of its operations and its cash flows for the years then ended, as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as at December 31, 2006, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

April 16, 2007

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

	Note	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
ASSETS			see Note 24(a)	
Current assets				
Cash and cash equivalents	4	665,213	1,924,148	1,348,615
Short-term investments	6	37,261	27,040	21,153
Accounts receivable, net	7	1,150,492	708,515	588,562
Inventories, net	8	856,940	559,250	475,303
Other current assets, net	9	331,322	208,920	148,748
Restricted cash	5	8,372	7,979	5,094
		3,049,600	**3,435,852**	**2,587,475**
Non-current assets				
Long-term investments, net	6	810,350	31,470	51,425
Property, plant and equipment, net	10	3,988,128	2,415,001	2,257,628
Intangible assets, net	11(b)	199,030	21,086	21,594
Goodwill	11(a)	559,703	173,357	179,815
Other non-current assets	9	110,179	133,747	67,984
		5,667,390	**2,774,661**	**2,578,446**
Total assets		**8,716,990**	**6,210,513**	**5,165,921**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	12	664,319	565,983	449,962
Short-term borrowings	13(a)	248,782	5,282	5,312
Current income tax liability		80,350	40,639	78,638
		993,451	**611,904**	**533,912**
Non-current liabilities				
Deferred income tax liability	19	537,647	300,712	305,472
Long-term borrowings	13(b)	48,153	45,341	3,796
Other long-term liabilities	14	194,872	45,505	16,463
		780,672	**391,558**	**325,731**
Total liabilities		**1,774,123**	**1,003,462**	**859,643**
Commitments and contingencies	28	-	-	-
Minority interest	16	**133,425**	**92,576**	**85,787**
Stockholders' equity				
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2006, 2005 and 2004	17(a)	221,173	221,173	221,173
Statutory reserve	17(a)	10,267	10,267	10,267
Additional paid-in capital		1,812	1,812	680
Accumulated other comprehensive income		589,986	72,129	242,387
Retained earnings		5,986,204	4,809,094	3,745,984
		6,809,442	**5,114,475**	**4,220,491**
Total liabilities and stockholders' equity		**8,716,990**	**6,210,513**	**5,165,921**

The consolidated financial statements as set out on pages 4 to 47 were approved on April 12, 2007.

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

Chief Accountant
Sokolov A.A.

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

	Note	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
			see Note 24(a)	
Sales revenue	25	**6,045,625**	**4,375,806**	**4,460,056**
Cost of sales				
Production cost		(2,716,434)	(2,048,828)	(1,838,927)
Depreciation and amortization		(357,941)	(282,876)	(241,229)
		(3,074,375)	**(2,331,704)**	**(2,080,156)**
Gross profit		**2,971,250**	**2,044,102**	**2,379,900**
General and administrative expenses		(188,648)	(101,351)	(92,784)
Selling expenses	3(s)	(325,361)	(62,371)	(57,006)
Taxes other than income tax		(57,215)	(36,356)	(32,985)
Impairment losses	29(b)	(136,916)	-	-
Accretion expense on asset retirement obligations	15	(19,765)	-	-
Operating income		**2,243,345**	**1,844,024**	**2,197,125**
Loss on disposals of property, plant and equipment		(3,582)	(11,579)	(12,168)
Gains on investments, net	20(a)	400,696	2,771	165,955
Interest income		111,789	98,708	49,971
Interest expense		(29,692)	(15,377)	(12,878)
Foreign currency exchange loss, net		(74,975)	(9,805)	(39,101)
Other expenses, net		(26,526)	(16,468)	(10,614)
Income from continuing operations before income tax and minority interest		**2,621,055**	**1,892,274**	**2,338,290**
Income tax	19	(706,605)	(497,273)	(566,532)
Income from continuing operations before minority interest		**1,914,450**	**1,395,001**	**1,771,758**
Minority interest	16	(25,773)	(21,080)	(9,449)
Equity in net earnings of associate		501	3,701	-
Income from continuing operations		**1,889,178**	**1,377,622**	**1,762,309**
Discontinued operations				
Gain from operations of discontinued subsidiary and assets held for sale (including gain on disposal of $227,524 in 2006)	20(b), 29(a)	228,499	3,773	10,192
Income tax		(51,714)	-	-
Income from discontinued operations		**176,785**	**3,773**	**10,192**
Net income		**2,065,963**	**1,381,395**	**1,772,501**
Income from continuing operations per share (US dollars)				
basic and diluted		0.3152	0.2299	0.2941
Income from discontinued operations per share (US dollars)				
basic and diluted		0.0295	0.0006	0.0017
Net income per share (US dollars)				
basic and diluted	18	0.3447	0.2305	0.2958

(thousands of US dollars)

	Note	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
			see Note 24(a)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		**2,065,963**	**1,381,395**	**1,772,501**
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest	16	25,773	21,080	9,449
Depreciation and amortization		357,941	282,876	241,229
Loss on disposals of property, plant and equipment		3,582	11,579	12,168
Gains on investments, net	20(a)	(400,696)	(2,771)	(165,955)
Gain on disposal of discontinued subsidiary	20(b)	(227,524)	-	-
Equity in net earnings of associate		(501)	(3,701)	-
Deferred income tax benefit	19	(38,732)	(3,677)	(35,945)
Stock-based compensation	27(e)	-	1,132	-
Impairment losses	29(b)	136,916	-	-
Accretion expense on asset retirement obligations	15	19,765	-	-
Other movements		21,386	(3,984)	15,198
Changes in operating assets and liabilities				
Increase in accounts receivable		(141,359)	(91,585)	(158,628)
Increase in inventories		(159,995)	(53,270)	(132,375)
(Increase) / decrease in other current assets		(16,905)	(33,208)	331
Increase in loans provided by the subsidiary bank		(69,776)	(69,142)	(86,501)
(Decrease) / increase in accounts payable and other liabilities		(23,125)	121,031	146,731
Increase / (decrease) in current income tax payable		32,376	(33,990)	51,140
Net cash provided by operating activities		**1,585,089**	**1,523,765**	**1,669,343**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash acquired of $14,127 in 2006 and $38,109 in 2004	24(b)-(d)	(1,347,545)	-	(173,856)
Purchases of equity investments	6(c)	(805,503)	-	-
Proceeds from disposal of discontinued operations	20(b)	302,526	-	-
Proceeds from sale of property, plant and equipment		15,565	10,706	8,352
Purchases and construction of property, plant and equipment		(618,677)	(580,198)	(269,459)
Proceeds from sale of investments		465,274	72,872	518,866
Purchase of investments		(54,758)	(42,722)	(185,594)
Movement of restricted cash	5	339	(3,122)	3,378
Net cash used in investing activities		**(2,042,779)**	**(542,464)**	**(98,313)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		224,870	20,143	2,545
Repayment of borrowings and notes payable		(183,305)	(13,866)	(22,161)
Capital lease payments		(379)	-	(40,818)
Contributions from controlling shareholders		-	33,185	-
Payments to controlling shareholders for common control transfer of interests in new subsidiaries, net of cash of $1,070 received in transferred subsidiary in 2004	24(a), 24(e)	(104,000)	-	(635,383)
Payments to controlling shareholders for common control transfers of interests in existing subsidiaries		-	-	(2,617)
Proceeds from controlling shareholders for sale of investments		-	-	5,554
Dividends paid to previous shareholder of acquired subsidiary		(83,547)	-	-

(thousands of US dollars)

	Note	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
			see Note 24(a)	
Dividends paid to minority shareholder of existing subsidiaries		(20,228)	(1,390)	-
Dividends to shareholders		(766,646)	(384,973)	(332,817)
Net cash used in financing activities		**(933,235)**	**(346,901)**	**(1,025,697)**
Net (decrease) / increase in cash and cash equivalents		**(1,390,925)**	**634,400**	**545,333**
Effect of exchange rate changes on cash and cash equivalents		131,990	(58,867)	73,641
Cash and cash equivalents at the beginning of the period	4	1,924,148	1,348,615	729,641
Cash and cash equivalents at the end of the period	4	**665,213**	**1,924,148**	**1,348,615**
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income tax		611,408	434,885	479,732
Interest		28,781	13,623	12,002
Non cash operating activities:				
Offset of income tax payable with VAT receivable		99,115	96,427	76,251
Non cash investing activities:				
Capital lease liabilities incurred	21	8,460	-	19,920
Reclassification of restricted cash to long-term investments		-	-	15,000
Non cash investing and financing activities as a result of:				
Transfers of subsidiary interests from common control parties reflected as capital contribution, net of cash received of $33,185 in 2005 and $1,070 in 2004	24	-	30,797	597,665
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of $14,127 in 2006 and $38,109 in 2004	24	1,347,545	-	173,856

(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, 2003		**14,440**	**32**	**680**	**27,672**	**2,567,084**	**2,609,908**
Comprehensive income:							
Net income		-	-	-	-	1,772,501	1,772,501
Other comprehensive income:							
Net unrealized gain on a change in valuation of investments		-	-	-	66	-	66
Cumulative translation adjustment	2(b)	-	-	-	214,649	-	214,649
Comprehensive income							**1,987,216**
Stock split	17(a)	206,733	-	-	-	(206,733)	-
Increase in statutory reserve		-	10,235	-	-	(10,235)	-
Dividends to shareholders	17(b)	-	-	-	-	(338,915)	(338,915)
Transfers of subsidiary interests from controlling shareholders	24(e)	-	-	-	-	598,735	598,735
Payments to controlling shareholders for common control transfer of subsidiary interests	24(e)	-	-	-	-	(636,453)	(636,453)
Balance at December 31, 2004		**221,173**	**10,267**	**680**	**242,387**	**3,745,984**	**4,220,491**
Comprehensive income:							
Net income (see Note 24(a))		-	-	-	-	1,381,395	1,381,395
Other comprehensive income:							
Net unrealized gain on a change in valuation of investments		-	-	-	7	-	7
Cumulative translation adjustment	2(b)	-	-	-	(170,265)	-	(170,265)
Comprehensive income							**1,211,137**
Stock-based compensation	27(e)	-	-	1,132	-	-	1,132
Dividends to shareholders	17(b)	-	-	-	-	(382,267)	(382,267)
Transfers of subsidiary interests from controlling shareholders	24(a)	-	-	-	-	63,982	63,982
Balance at December 31, 2005 (see Note 24(a))		**221,173**	**10,267**	**1,812**	**72,129**	**4,809,094**	**5,114,475**
Comprehensive income:							
Net income		-	-	-	-	2,065,963	2,065,963
Other comprehensive income:							
Net unrealized loss on a change in valuation of investments		-	-	-	(1,177)	-	(1,177)
Cumulative translation adjustment	2(b)	-	-	-	519,034	-	519,034
Comprehensive income							**2,583,820**
Dividends to shareholders	17(b)	-	-	-	-	(784,853)	(784,853)
Payments to controlling shareholders for common control transfer of subsidiary interests	24(a)	-	-	-	-	(104,000)	(104,000)
Balance at December 31, 2006		**221,173**	**10,267**	**1,812**	**589,986**	**5,986,204**	**6,809,442**

1 BACKGROUND

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

The Group's principal activity is the production and sale of ferrous metals, primarily consisting of pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings and also electrotechnical steel. These products are sold both in the Russian Federation and abroad. The Group also operates in the mining and coke-chemical segments and has relatively insignificant interests in coal-mining and refinement and also in the financial and seaport operating segments (Note 25).

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

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

- Mining companies OJSC Stoilensky GOK (acquired in 2004), OJSC StAGDoK and OJSC Dolomite. The principal business activity of these companies is mining and processing of iron-ore raw concentrate, fluxing limestone and metallurgical dolomite.
- Coke-chemical company OJSC Altai-koks and its subsidiaries (acquired in 2006). The principal business activity of these companies is the production of blastfurnace coke, cupola coke, nut coke and small-sized coke.
- Steel rolling company LLC VIZ-Stahl (acquired in 2006). The principal business activity of this company is the production of cold rolled grain oriented and non-oriented steel.
- Transport company OJSC Tuapse Commercial Sea Port ("OJSC TMTP") and its subsidiaries (acquired in 2004). The principal business activity of OJSC TMTP is cargo loading and unloading, transshipment of cargo to sea transport and vice versa.
- The commercial bank OJSC Lipetskcombank and its subsidiary. The bank possesses a general banking license issued by the Central Bank of the Russian Federation, a license for foreign currency operations and a license for brokerage activity. The bank provides banking services to commercial and retail customers and to other Group companies.

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

- Joint Venture with Duferco Group – established in 2006 on the basis of Steel Invest & Finance (Luxembourg) S.A. ("SIF") in which both parties hold a 50% interest. SIF holds 100% interests or majority votes in 23 companies located in Europe and USA which include one steel making plant and five steel rolling facilities as well as a network of steel service centers (Note 6(c)).
- Danish steel rolling company DanSteel A/S (acquired in 2006). The principal business activities of this company is production of hot rolled plates.

2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

(a) Statement of compliance

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

(b) Functional and reporting currency

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

The Group's principal functional currency is considered to be the Russian ruble. The accompanying consolidated financial statements have been prepared using the US dollar as the Group's reporting currency, utilizing period-end exchange rates for assets and liabilities, period weighted average exchange rates for consolidated income statement accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*. As a result of these translation procedures, a cumulative translation adjustment of $519,034, ($170,495) and $214,649 as at December 31, 2006, 2005 and 2004, respectively, which accounts for such translation gains and losses, was recorded directly in stockholders' equity.

The Central Bank of the Russian Federation's closing rates of exchange at December 31, 2006, 2005 and 2004 were 1 US dollar to 26.3311, 28.7825 and 27.7487 Russian rubles, respectively. The annual weighted average exchange rates were 27.1852, 28.2864 and 28.8150 Russian rubles to 1 US dollar for the years ended December 31, 2006, 2005 and 2004, respectively.

(c) Consolidation principles

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Use of estimates

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

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

(b) Cash and cash equivalents

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Restricted cash

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

(d) Accounts receivable

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

(e) Value added tax (VAT)

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

(f) Inventories

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

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

(g) Investments in marketable debt and equity securities

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

Trading securities

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

Held-to-maturity securities

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

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

Available-for-sale securities

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investments in associates and non-marketable securities

Investments in associates

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

Investments in non-marketable securities

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

(i) Property, plant and equipment

Owned assets

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

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

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

Subsequent expenditures

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

Capitalized interest

Interest is capitalized in connection with the construction of major production facilities. The capitalized interest is recorded as part of the asset to which it relates, and is depreciated over the asset's useful life.

Mineral rights

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation and amortization

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

Buildings and land and buildings improvements	20 – 45 years
Machinery and equipment	2 – 40 years
Vehicles	5 – 25 years

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

(j) Goodwill and intangible assets

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

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

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

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

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

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

(k) Impairment of long-lived assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

(m) Asset retirement obligations

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

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

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

(n) Long-term borrowings

Long-term borrowings are recognized initially at cost. Subsequent to the initial recognition, long-term borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of income over the period of the borrowings, using effective interest method.

When borrowings are repurchased or settled before maturity, any difference between the amount received and the carrying amount is recognized immediately in the consolidated statement of income.

(o) Commitments and contingencies

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax

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

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

(q) Dividends

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

(r) Revenue recognition

Goods sold

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

Interest income

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

(s) Shipping and handling

Starting the second quarter of 2006 the Group bills its customers for the shipped steel products with product delivery to the place of destination in accordance with delivery terms agreed with customers. Actual shipping and handling expense is reported in selling expenses.

(t) Expenses

Operating lease payments

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

Interest expense

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

(u) Non-cash transactions

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Recent accounting pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, *Share-Based Payment,* ("SFAS No. 123R"), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation,* and supersedes APB 25, *Accounting for Stock Issued to Employees*. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R eliminates the use of the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the fair value of those awards. Compensation expense related to stock options that are subject to continued vesting upon retirement will be recognized over the period of employment up to the retirement-eligible date.

The Group adopted SFAS No. 123R effective January 1, 2006. SFAS No. 123R permits companies to adopt its requirements using either a "modified prospective" method or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the consolidated financial statements beginning with the effective date, based on the requirements of SFAS No. 123R for all share-based payments granted after that date, and based on the requirements of SFAS No. 123R for all unvested awards granted prior to the effective date of SFAS No. 123R. For transition purposes, the Group applied the modified prospective method upon adoption of SFAS No. 123R. Adoption of this Standard did not have any material impact on Group's consolidated financial statements. There were no new or modified awards after January 1, 2006.

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 expected effect of adoption of SFAS No. 155 in 2007 will not have a material impact on its consolidated financial statements.

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

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

(thousands of US dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective in fiscal years beginning after December 15, 2006. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption, with the cumulative effect adjustment reported as an adjustment to the opening balance of retained earnings. The Group is currently evaluating the potential impact, if any, that the adoption of FIN 48 will have on its consolidated financial statements.

(w) Segment reporting

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

- Steel segment, comprising production and sales of steel products, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings and also electrotechnical steel;
- Mining segment, comprising mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, which supplies raw materials to the steel segment and third parties;
- Coke-chemical segment, comprising production and sales primary blastfurnace coke, cupola coke, nut coke and small-sized coke supplying steel segment and third parties with raw materials;

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

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

4 CASH AND CASH EQUIVALENTS

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Cash – Russian rubles	113,380	124,003	269,860
Cash – other currency	44,852	420,194	2,437
Deposits – Russian rubles	466,254	247,724	39,822
Deposits – US dollars	1,612	917,670	709,457
Deposits – Euro	37,227	214,378	310,782
Other cash equivalents	1,888	179	16,257
	665,213	**1,924,148**	**1,348,615**

Other cash equivalents as at December 31, 2004 include a deposit of $16,217 made as a mandatory condition of participation in a privatization tender and recovered by the Group on its completion in February 2005.

(thousands of US dollars)

5 RESTRICTED CASH

Restricted cash balances as at December 31, 2006, 2005 and 2004 totaled $8,372, $7,979 and $5,094, respectively, represent cash reserves, placed with the Central Bank of the Russian Federation by the subsidiary bank in accordance with statutory requirements applicable to credit institutions.

6 INVESTMENTS

Balance sheet classification of investments:

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Short-term investments and current portion of long-term investments	37,261	27,040	21,153
Long-term investments, net	810,350	31,470	51,425
Total investments, net	**847,611**	**58,510**	**72,578**

(a) Trading securities

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Investments in shares	10,098	3,990	1,190
Corporate bonds	13,575	7,971	264
Eurobonds	-	7,759	-
Government bonds	4,767	6,401	-
Subfederal bonds	7,134	220	-
Other	1,398	699	15
	36,972	**27,040**	**1,469**

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

The income generated from trading securities for the years ended December 31, 2006, 2005 and 2004 amounts to $1,628, $439 and $162,874, respectively. The Group's future return on such investments is affected by the operating environment of the Group (Note 26(a)).

(b) Available-for-sale securities

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Russian government and other bonds with annual coupon rates ranging from 3% to 9.4%			
Acquisition cost	295	590	2,216
Gross unrealized gains / (losses)	(6)	(31)	1,784
Deposit certificates with interest rates ranging from 5.2% p.a. to 20% p.a.	-	-	35,817
Fair value	**289**	**559**	**39,817**

The maturities of debt securities classified as available-for-sale as at December 31, 2006, 2005 and 2004 are presented below.

(thousands of US dollars)

6 INVESTMENTS (continued)

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Due within one year	289	-	19,684
Due in one to five years	-	559	18,619
Due after five years	-	-	1,514
	289	**559**	**39,817**

Russian Government bonds with a face value $2,908 as at December 31, 2004 were pledged to secure the redemption of the Parent Company's promissory notes issued in 2000, subsequently bought out and settled by the Parent Company in 2005.

(c) Investments in associates

	As at December 31, 2006 Ownership	As at December 31, 2005 Ownership	As at December 31, 2004 Ownership	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Steel Invest & Finance (Luxembourg) S.A.	50.00%	-	-	805,463	-	-
OJSC Lipetsky Gipromez	43.44%	43.44%	43.44%	9	8	8
OJSC Combinat KMAruda	-	32.89%	-	-	16,034	-
				805,472	**16,042**	**8**

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

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

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

The purchase price paid by the Group in December 2006 for its interest in SIF was $805 million. According to the share purchase agreement, the purchase price is subject to subsequent adjustment, which could be material to the purchase price, but cannot be reasonably estimated as at the date of these consolidated financial statements. Accordingly, as at the date of these consolidated financial statements the difference, if any, between the carrying value of the Group's investment and the corresponding share in SIF's net assets could not be reasonably estimated. All settlements between the parties related to the purchase price adjustment are planned to be agreed in the second quarter of 2007.

The underlying investments held by SIF are accounted for by the Group under the equity method (Note 3(h)), from the date of obtaining the significant influence on SIF operating activities by the Group, which management considers to be December 18, 2006.

The transaction agreements provide for put option arrangements for each party of its share in the event of future major corporate events, including future disagreements at fair value.

(thousands of US dollars)

6 INVESTMENTS (continued)

Acquisition and subsequent disposal of OJSC Combinat KMAruda shares

During the year ended December 31, 2005 the Group sold a 18.00% share in OJSC Combinat KMAruda to a third party for $1,966, thereby reducing its stake to 32.89%. In the first half of 2006 the Group acquired 59.15% of this company shares increasing its stake to a controlling interest (Note 24(b)). In August 2006 the Group sold the entire interest in OJSC Combinat KMAruda (Note 20(b)).

(d) Non-marketable securities

	As at December 31, 2006 Ownership	As at December 31, 2005 Ownership	As at December 31, 2004 Ownership	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Non-marketable securities, net of current portion:						
OJSC Lebedinsky GOK	-	11.96%	11.96%	-	9,456	9,808
OJSC Lipetskenergo	14.11%	14.11%	14.11%	162	148	3,388
OJSC Lipetsk power generating company	-	14.11%	-	-	2,719	-
OJSC Lipetsk energy management company	-	14.11%	-	-	0.2	-
OJSC TGK-4	2.68%	-	-	2,972	-	-
OJSC Lipetsk energy sales company	14.11%	14.11%	-	36	33	-
OJSC Lipetsk mains systems	14.11%	14.11%	-	400	366	-
OJSC Lipetskoblgaz	19.40%	19.40%	19.40%	778	712	738
Other				919	788	1,686
				5,267	14,222	15,620
Provision for other than temporary diminution in value				(389)	(353)	(336)
				4,878	**13,869**	**15,284**

In 2006 the Group sold a 11.96% share in OJSC Lebedinsky GOK to a third party for $400 million (Note 20(a)).

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

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

In December 2006 the Group concluded an agreement for the sale of its energy assets to a related party (Note 29(a)).

(thousands of US dollars)

6 INVESTMENTS (continued)

(e) Long-term bank deposits

Long-term bank deposits amounted to nil, $1,000 and $16,000 as at December 31, 2006, 2005 and 2004, respectively.

7 ACCOUNTS RECEIVABLE

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Trade accounts receivable	667,369	443,978	357,948
Advances given to suppliers	97,458	55,589	57,260
Taxes receivable	311,993	198,917	157,736
Accounts receivable from employees	2,838	1,646	1,192
Other accounts receivable	84,287	21,880	22,765
	1,163,945	722,010	596,901
Allowance for doubtful debts	(13 453)	(13,495)	(8,339)
	1,150,492	**708,515**	**588,562**

As at December 31, 2006, 2005 and 2004, the Group had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK) and Moorfield Commodities Company, UK, each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors totaled $159,826, $104,155 and $236,514 at December 31, 2006, $155,798, $108,670 and $65,748 at December 31, 2005, $140,265, $102,908 and $50,342 at December 31, 2004, respectively.

As at December 31, 2006 the Group had accounts receivable of $37,089 from the sellers of coal and coke-chemical assets due to the adjustment of the original purchase price, which is included in other accounts receivable (Note 24(c)).

8 INVENTORIES

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Raw materials	554,126	383,832	333,414
Work in process	199,243	109,679	102,692
Finished goods and goods for resale	129,421	81,232	47,054
	882,790	574,743	483,160
Provision for obsolescence	(25,850)	(15,493)	(7,857)
	856,940	**559,250**	**475,303**

(thousands of US dollars)

9 OTHER CURRENT AND NON-CURRENT ASSETS

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Other current assets			
Short-term loans provided by the subsidiary bank	254,544	163,055	131,267
Other current assets	90,292	51,875	20,047
	344,836	214,930	151,314
Allowance for doubtful loans	(13,514)	(6,010)	(2,566)
Total other current assets, net	**331,322**	**208,920**	**148,748**
Other non-current assets			
Long-term loans provided by the subsidiary bank	80,435	71,138	37,500
Other non-current assets	29,744	62,609	30,484
Total other non-current assets	**110,179**	**133,747**	**67,984**

10 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Land	77,191	56,070	46,466
Mineral rights	583,962	522,802	500,996
Asset retirement cost	24,277	-	-
Buildings	1,201,439	715,066	715,759
Land and buildings improvements	1,204,403	757,066	798,892
Machinery and equipment	5,030,473	4,246,584	4,320,088
Vehicles	278,711	219,431	205,297
Construction in progress and advances for construction and acquisition of property, plant and equipment	773,388	467,354	254,271
Leased assets	8,460	-	862
Other	76,763	37,229	38,787
	9,259,067	7,021,602	6,881,418
Accumulated depreciation	(5,270,939)	(4,606,601)	(4,623,790)
	3,988,128	**2,415,001**	**2,257,628**

According to US GAAP, the Group's property, plant and equipment should be reported at their actual historical depreciated cost. However, due to the absence of reliable US GAAP accounting records and impairment calculations, the book value of certain property, plant and equipment was determined with the assistance of an independent appraiser, which management considers provided the best basis for the recognition and depreciation of such items. The appraiser provided US dollar estimates of the fair value, determined on the basis of depreciated replacement cost, which the Group has recorded as its property, plant and equipment balance as at January 1, 2000. As at December 31, 2006, 2005 and 2004, the net book value of these items amounted to 12%, 21% and 28% of total net book value of property, plant and equipment, respectively. During 2006 the Group considered that as a result of significant additions to property, plant and equipment since the date of the appraisal, in combination with the cumulative effect of depreciation of the appraised assets, any possible effect on the consolidated financial statements as at and for the year ended December 31, 2006 is no longer material.

(thousands of US dollars)

10 PROPERTY, PLANT AND EQUIPMENT (continued)

In August 2005, the Group acquired a license for exploration and mining of Zhernovsky coal deposit, expiring in 2025. The carrying value of this license as at December 31, 2006 is $41,832.

Other major part of mineral rights was acquired by the Group in 2004 through a business combination (Note 24). They expire January 1, 2016 and management believes that they will be extended at the initiative of the Group.

11 GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Goodwill

Balance as at December 31, 2003	**-**
Acquired in new subsidiaries (Note 24)	173,677
Cumulative translation adjustment	6,138
Balance as at December 31, 2004	**179,815**
Cumulative translation adjustment	(6,458)
Balance as at December 31, 2005	**173,357**
Acquired in new subsidiaries (Note 24)	370,020
Disposal in subsidiary	(17,749)
Cumulative translation adjustment	34,075
Balance as at December 31, 2006	**559,703**

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition of a controlling and minority interests in OJSC Altai-koks and its subsidiaries in 2006 amounted to $295,110 and was allocated to the coke-chemical segment. Goodwill arising from the acquisition of a controlling interest in LLC VIZ-Stahl and its subsidiaries in 2006 amounted to $58,112 and was allocated to the steel segment. Goodwill arising from the acquisition of a controlling interest in OJSC Combinat KMAruda in 2006 amounted to $16,798 and was allocated to the mining segment. Goodwill arising from the acquisition of a controlling interest in OJSC Stoilensky GOK in 2004 amounted to $95,501 and was allocated to the mining segment. Goodwill arising from the acquisition of a controlling interest in OJSC TMTP and its subsidiaries in 2004 amounted to $78,176 and was allocated to other non-reportable segments (Note 25).

The Group performed a test for impairment of goodwill at December 31, 2006, 2005 and 2004 which indicated no impairments at such dates.

(thousands of US dollars)

11 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

(b) Other intangible assets

	Subsidiary	Total useful life, months	Gross book value as at December 31, 2006	Gross book value as at December 31, 2005	Gross book value as at December 31, 2004
	Note 24				
Intellectual industrial property	LLC VIZ-Stahl	149	64,895	-	-
Customer base	LLC VIZ-Stahl	125	123,575	-	-
Customers relationships (oil)	OJSC TMTP	66	11,876	10,865	11,270
Customers relationships (dry cargo)	OJSC TMTP	66	13,156	12,036	12,484
Customers relationships	DanSteel A/S	72	4,988	4,563	-
			218,490	27,464	23,754
Accumulated amortization			(19,460)	(6,378)	(2,160)
			199,030	**21,086**	**21,594**

The intangible assets were acquired in a business combinations (Note 24) and met the criteria for separate recognition outlined in SFAS No. 141. They were recorded under provisions of SFAS No. 141 at fair values at the date of acquisition, based on their appraised value.

	Amortization expense
Aggregate amortization expense	
For the year ended December 31, 2006	(13,082)
Estimated amortization expense	
For the year ended December 31, 2007	(22,436)
For the year ended December 31, 2008	(22,436)
For the year ended December 31, 2009	(22,436)
For the year ended December 31, 2010	(17,884)
For the year ended December 31, 2011	(17,740)

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Trade accounts payable	130,396	128,180	78,651
Advances received	121,654	130,347	127,776
Customers' deposits and accounts in the subsidiary bank	201,638	188,265	156,176
Taxes payable other than income tax	66,297	25,728	19,044
Accounts payable and accrued liabilities to employees	104,591	59,592	51,628
Dividends payable	4,602	2,572	6,332
Short-term capital lease liability	1,379	-	232
Other accounts payable	33,762	31,299	10,123
	664,319	**565,983**	**449,962**

(thousands of US dollars)

13 SHORT-TERM AND LONG-TERM BORROWINGS

(a) Short-term borrowings

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Loans, US$ denominated, 5.35% - 6.9% per annum	155,026	-	-
Loans, RUR denominated, 6.3% - 9% per annum	83,970	-	-
Notes payable	5,454	5,281	5,052
Other loans	4,332	1	260
	248,782	**5,282**	**5,312**

Unused lines of credit for short-term RUR denominated bank loans comprise $75,000 at December 31, 2006.

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

(b) Long-term borrowings

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Loan, US$ denominated, 5% per annum	13,829	10,276	-
Loan, Euro denominated, 5.25% per annum	15,805	5,937	-
Notes payable	18,519	5,631	599
Other loans	-	23,497	3,197
	48,153	**45,341**	**3,796**

The Group's long-term borrowings at December 31, 2006 mature between 2 to 5 years.

14 OTHER LONG-TERM LIABILITIES

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Customers' deposits in the subsidiary bank	53,547	45,377	16,150
Long-term capital lease liability	6,690	-	313
Asset retirement obligations (Note 15)	134,635	-	-
Other long-term liabilities	-	128	-
	194,872	**45,505**	**16,463**

(thousands of US dollars)

15 ASSET RETIREMENT OBLIGATIONS

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

Balance as at December 31, 2005	**-**
Liabilities recognized on acquisition	114,229
Accretion expense on asset retirement obligations	19,765
Cumulative translation adjustment	641
Balance as at December 31, 2006	**134,635**

Credit-adjusted risk-free rate for the purposes of calculation was set at 17.9%, based on expert assessment.

16 MINORITY INTEREST

Balance as at December 31, 2003	**16,652**
Minority's share in subsidiaries' income from continuing operations	9,449
Minority interest in discontinued operations	9,831
Acquisitions of new subsidiaries (Note 24)	49,147
Purchase of the minority interest in existing subsidiaries	(2,289)
Cumulative translation adjustment	2,997
Balance as at December 31, 2004	**85,787**
Minority's share in subsidiaries' income from continuing operations	21,080
Minority interest in discontinued operations	7,845
Disposal of a stake in a non-wholly owned subsidiary (Note 6(c))	(19,147)
Dividends paid to minority shareholder of existing subsidiaries	(1,390)
Cumulative translation adjustment	(1,599)
Balance as at December 31, 2005	**92,576**
Minority's share in subsidiaries' income from continuing operations	25,773
Acquisitions of new subsidiaries (Note 24)	41,765
Purchase of the minority interest in existing subsidiaries	(20,339)
Dividends paid to minority shareholder of existing subsidiaries	(20,228)
Minority interest due to dilution of interest in existing subsidiary	3,037
Minority interest in discontinued operations	938
Disposal of a stake in a non-wholly owned subsidiary (Note 6(c))	(777)
Cumulative translation adjustment	10,680
Balance as at December 31, 2006	**133,425**

17 STOCKHOLDERS' EQUITY

(a) Stock

In May 2004, the Parent Company made a stock split through an additional issue of 5,987,240,000 common stock with a par value of 1 Russian ruble each. These shares were distributed to all existing shareholders of the Parent Company in proportion to their interest held at the date of additional shares distribution. Shareholders are eligible for 1,000 additional shares per share held. In accordance with legal requirements the stock split was followed by a transfer from cumulative retained earnings to capital stock at par value totaling to $206,733.

In August 2004 the Group increased the statutory reserve of the Parent Company up to the amount of $10,267 following the change in common stock value.

As at December 31, 2006, 2005 and 2004, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the annual stockholders' meeting.

(b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at a General Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. At December 31, 2006, 2005 and 2004 the retained earnings of the Parent Company, in accordance with the legislative requirements of the Russian Federation, available for distribution amounted to $5,645,329, $4,137,791 and $3,411,114, converted into US dollars using exchange rates at December 31, 2006, 2005 and 2004, respectively.

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

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. In September 2006 the Parent Company declared interim dividends for six months ended June 30, 2006 of 1.5 Russian ruble per share for the total of $336,072. Dividends payable amount to $4,602 at December 31, 2006 (Note 12).

In May 2005 the Parent Company declared dividends for the year ended December 31, 2004 of 1.8 Russian ruble per share for the total of $385,556, including interim dividends for the nine months ended September 30, 2004 of 1 Russian ruble per share ($214,081). In September 2005 the Parent Company declared interim dividends for the six months ended June 30, 2005 of 1 Russian ruble per share for the total of $210,792. Dividends payable amount to $2,572 at December 31, 2005 (Note 12).

In 2004 the Parent Company declared dividends of 0.6 Russian rubles per share based on the results of 2003 for a total of $124,834.

18 EARNINGS PER SHARE

	Year ended December 31, 2006	**Year ended December 31, 2005**	**Year ended December 31, 2004**
Average number of shares			
before restatement	5,993,227,240	5,993,227,240	3,948,404,836
after restatement	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	2,065,963	1,381,395	1,772,501
Basic and diluted net income per share (US dollars)	**0.3447**	**0.2305**	**0.2958**

(thousands of US dollars)

18 EARNINGS PER SHARE (continued)

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.

In May 2004, the Parent Company made a stock split through an additional issue of 5,987,240,000 common stock with a par value of 1 Russian ruble each (Note 17(a)). Earnings per share data for 2004 has been restated to reflect this share distribution.

The average shares outstanding for purposes of basic and diluted earnings per share information were 5,993,227,240 for the years ended December 31, 2006, 2005 and 2004.

The Parent Company does not have potentially dilutive shares outstanding.

19 INCOME TAX

	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
Current income tax expense	745,337	500,950	602,477
Deferred income tax benefit:			
origination and reversal of temporary differences	(38,732)	(3,677)	(35,945)
Total income tax expense	**706,605**	**497,273**	**566,532**

The corporate income tax rate dominantly applicable to the Group was 24% in 2006, 2005 and 2004.

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

	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
Income from continuing operations before income tax	2,621,055	1,892,274	2,338,290
Income tax at applicable tax rate	629,053	454,146	561,190
Increase in income tax resulting from:			
non-deductible expenses	77,552	43,127	5,342
Total income tax expense	**706,605**	**497,273**	**566,532**

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

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Deferred tax assets			
Accounts payable and other liabilities	17,922	8,486	6,948
Non-current liabilities	16,779	88	222
Accounts receivable	1,250	1,066	1,129
Other	1,821	381	-
Allowance	-	-	(28)
	37,772	10,021	8,271

(thousands of US dollars)

19 INCOME TAX (continued)

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
Deferred tax liabilities			
Property, plant and equipment	(470,630)	(274,927)	(302,529)
Intangible assets	(51,579)	(7,806)	(5,183)
Inventories	(20,159)	(12,906)	(6,031)
Other	(33,051)	(15,094)	-
	(575,419)	(310,733)	(313,743)
Total deferred tax liability	**(537,647)**	**(300,712)**	**(305,472)**

An allowance for deferred tax assets is recognized in respect of the temporary differences, where it is not probable that future taxable profit will be available and therefore realization of these tax assets is doubtful.

20 GAINS ON INVESTMENTS

(a) Disposal of OJSC Lebedinsky GOK shares

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

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

(b) Disposal of OJSC Combinat KMAruda shares

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

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

(thousands of US dollars)

20 GAINS ON INVESTMENTS (continued)

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

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

21 CAPITAL AND OPERATIONAL LEASES

	Capital leases
Future minimum lease payments	
2007	2,396
2008	2,201
2009	2,006
2010	1,810
2011	1,615
Remainder	1,582
Total minimum lease payments	**11,610**
Less: amount representing estimated executory costs (including taxed payable by the lessor) and profit thereon, included in total minimum lease payments	(567)
Net lease payments	**11,043**
Less: amount representing interest	(2,974)
Present value of minimum lease payments	**8,069**
Less: short-term capital lease liability	(1,379)
Long-term capital lease liability	**6,690**

The discount rate used for calculation of the present value of net minimum lease payments was 10.5% for assets received in 2006 and 14% for the assets received in 2003.

Capital lease charges of $860 and $3,155 were recorded in the consolidated statement of income for the years ended December 31, 2006 and 2004, respectively.

At December 31, 2006 and 2004, net book value of the machinery, equipment and vehicles held under the capital lease arrangements (with a related party in 2004 – Note 27(b)) was:

	As at December 31, 2006	**As at December 31, 2005**	**As at December 31, 2004**
Machinery and equipment	-	-	198
Vehicles	8,460	-	664
	8,460	-	862
Accumulated depreciation	(690)	-	(87)
Net value of property, plant and equipment obtained under capital lease arrangements	**7,770**	**-**	**775**

21 CAPITAL AND OPERATIONAL LEASES (continued)

In September 2004, the Group cancelled the majority of its capital lease arrangements concluded in 2002-2004 and bought out leased assets. The capital lease liability in the amount of $30,625 at the date of cancellation was settled. The difference of $6,656 between the carrying amount of the capital lease liability settled and purchase price was accounted as an adjustment of the carrying value of the assets.

The Group incurred expenses in respect of operational leases of $10,538, $9,363 and $6,595 in 2006, 2005 and 2004, respectively.

22 NON-CASH TRANSACTIONS

Approximately $16,900, $7,300 and $4,400 of the Group's 2006, 2005 and 2004 revenues, respectively, were settled in the form of mutual offset against the liability to pay for raw materials supplied.

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

In 2006 and 2004 the Group acquired equipment and vehicles under capital lease arrangements with the right to buy out leased assets upon completion of the underlying agreements. The amount of capital lease liabilities incurred during the year ended December 31, 2006 and 2004, were $8,460 and $19,920 (Note 21).

In 2006 and 2004 the Group acquired assets and liabilities as a result of acquisitions of new subsidiaries (Note 24).

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Management believes, that the carrying amounts of financial assets and liabilities approximate to a reasonable estimate of their fair value.

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

24 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS

(a) Acquisition of DanSteel A/S shares

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

The acquisition of DanSteel A/S by the common control party was accounted for using the purchase method of accounting. The entity was consolidated by the Group for the first time as at the effective date of obtaining control by the common control party, which management considers to be November 30, 2005. The results of operations of the acquired entity were included in the Group's consolidated statement of income starting from December 1, 2005. The Group's consolidated balance sheet as at December 31, 2005 has been adjusted accordingly, compared to that previously reported, as follows:

(thousands of US dollars)

24 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

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

Negative goodwill of $41,851, generated on the acquisition by the common control party, was allocated to the acquired assets other than current assets in accordance with SFAS No. 141.

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

(b) Acquisition of OJSC Combinat KMAruda shares

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

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

(thousands of US dollars)

24 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

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

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

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

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

As discussed in Note 20(b) in August 2006 the Parent Company signed agreements with third parties for the disposal of the full stake of shares in OJSC Combinat KMAruda, and accordingly it was disposed of in August 2006.

(c) Acquisition of coal and coke-chemical assets

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

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

(thousands of US dollars)

24 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

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

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

These acquisitions were made in line with the Group's vertical integration strategy, aiming for additional competitive advantages through the stable supply of key raw materials. The acquisition of the Prokopievskugol group was carried out concurrently as a condition for the acquisition of OJSC Altai-koks. The acquired companies are consolidated by the Group for the first time as at the effective date of obtaining control which management considers to be April 2006. Subsequently, after further evaluation of future perspective considerations of the Prokopievskugol group, the Group has made a decision to dispose of this investment (Note 29).

Acquisition of OJSC Altai-koks shares

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

The Group has completed the process of the purchase price allocation and goodwill allocation to reporting units. The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraiser. Resulting goodwill primarily reflects the control premium paid for the acquisitions:

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

The major differences between the final and preliminary purchase price allocations on assets and liabilities are primarily due to the accomplishment of independent appraisal of OJSC Altai-koks property, plant and equipment ($167,187 increase) and adjustment of the fair value of assets acquired and liabilities assumed as a consequence of the completion of the detailed purchase price adjustment.

(thousands of US dollars)

24 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

Acquisition of Prokopievskugol – group of coal companies

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

The Group has completed the process of the purchase price allocation and the following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraiser:

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

The major differences between final and preliminary purchase price allocations on assets and liabilities are primarily due to the adjustment of the fair value of assets acquired and liabilities assumed total amount as a consequence of the completion of the detailed purchase price adjustment.

(d) Acquisition of LLC VIZ-Stahl

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

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

(thousands of US dollars)

24 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

The Group has completed the process of the purchase price allocation and the following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraiser (in relation to 100% stake acquired):

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

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

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

(e) OJSC Stoilensky GOK

In March 2004 the companies under common control of the controlling shareholders of the Parent Company ("the Companies under common control") transferred to the Parent Company 59.8% and in November 2004 – 31.1% of the outstanding common shares of OJSC Stoilensky GOK. In these consolidated financial statements, the Group accounted for these transfers retrospectively, in a manner similar to pooling by reflecting the controlling shareholders' book value of their acquisition cost in such transfers of $598,735 as capital contributions. The Group transferred cash consideration to such control parties of $636,453 which is reflected as distributions to controlling shareholders.

A part of the primary acquisition cost in the amount of $60,761 represents transaction related fees paid for by the Companies under common control. The acquisition agreements contain no material future contingent payments or commitments. The acquisitions resulted in the Group's ownership of 91.4% of the voting shares of the company. Prior to March 2004 the Group's 0.5% interest in OJSC Stoilensky GOK was accounted for at cost.

This transaction was consummated to acquire one of the largest iron-ore concentrate and agglomerated ore producers in Russia in order to secure long-term supplies of raw materials for the Group.

The acquisition of OJSC Stoilensky GOK by the 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 control party which management considers to be March 31, 2004. The results of operations of the acquired entity were included in the consolidated statement of income starting from April 1, 2004.

(thousands of US dollars)

24 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

In October and November 2004 the Group acquired, at an auction for sale of a state-owned shareholding and from other minority shareholders, an additional 5.6% of the common stock of OJSC Stoilensky GOK for a consideration of $22,793 paid in cash.

The Group recorded positive goodwill of $95,501 on acquisition of the controlling stock (59.8%) and negative goodwill $110,837 on subsequent acquisitions. 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 the business combinations, determined in accordance with SFAS No. 141 provisions. The fair values of property, plant and equipment, including mineral extraction rights, and intangible assets were established by independent appraiser:

Current assets	29,197
Mineral rights	486,880
Property, plant and equipment	223,307
Other non-current assets	616
Goodwill (Note 11(a))	95,501
Total assets acquired	**835,501**
Current liabilities	(49,577)
Non-current liabilities	(4,139)
Deferred income tax liability	(154,280)
Total liabilities assumed	**(207,996)**
Minority interest	(5,977)
Net assets acquired	**621,528**
Less: cash acquired	(1,070)
Net assets acquired, net of cash acquired	**620,458**
Transfers of subsidiary interests from common control parties reflected as capital contribution, net of cash received of $1,070	597,665
Net assets acquired from third parties	22,793
Net assets acquired, net of cash acquired	**620,458**

The transfers of subsidiary interests were recorded in the statement of stockholders' equity as capital contributions of $598,735, comprising $597,665 of non-cash contributions and $1,070 of cash owned by the subsidiary at the dates of contributions. The payments to the common control parties for the transfer of the shares in OJSC Stoilensky GOK of $636,453 were recorded as a reduction in stockholders' equity.

(f) OJSC TMTP

In June 2004 the Group acquired 69.4% of the common stock of OJSC TMTP for a consideration of $189,172 paid in cash to unrelated parties. The Group also obtained control over its subsidiaries OJSC Tuapse Dockyard, OJSC Tuapsegrazhdanstroi, LLC Nafta (T) and LLC Karavella. The agreement contains no future contingent payments or commitments.

(thousands of US dollars)

24 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

This transaction was consummated to provide smooth transportation of the Group's products within the respective area of export sales.

The acquisition of OJSC TMTP and its subsidiaries was accounted for using the purchase method of accounting. OJSC TMTP and its subsidiaries were consolidated for the first time as at the effective date of obtaining control which management considers to be June 30, 2004. The results of operations of the acquired entities were included in the consolidated statement of income starting from July 1, 2004.

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

Current assets	56,270
Property, plant and equipment	95,545
Intangible assets	22,712
Other non-current assets	1,000
Goodwill (Note 11(a))	78,176
Total assets acquired	**253,703**
Current liabilities	(5,969)
Non-current liabilities	(1,208)
Deferred income tax liability	(14,184)
Total liabilities assumed	**(21,361)**
Minority interest	(43,170)
Net assets acquired	**189,172**
Less: cash acquired	(38,109)
Net assets acquired, net of cash acquired	**151,063**

(g) Other acquisitions

In 2004 the Group made a number of immaterial acquisitions of stock in other Group's subsidiaries and an immaterial acquisition of the controlling stock in LLC Independent Transport Company from related parties for the total consideration of $2,617 (Note 27).

(h) Proforma financial statements

Unaudited proforma income statement data for the year ended December 31, 2006 and 2005 are as follows:

	For the year ended December 31, 2006 (unaudited)	For the year ended December 31, 2005 (unaudited)
Sales revenue	6,484,401	5,484,866
Operating income	2,521,064	1,939,124
Income from continuing operations before income tax and minority interest	2,906,500	1,930,749
Income from continuing operations before minority interest	2,167,513	1,402,508
Net income	2,141,973	1,383,422
Net income per share (US dollars)	0.3574	0.2308

(thousands of US dollars)

24 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

The above statements give effect to the following proforma adjustments necessary to reflect the acquisitions of DanSteel A/S, OJSC Altai-koks, Prokopievskugol group (except for 2005 – Group's management believes that it is not practicable to disclose corresponding information for this period, because information suitable for reporting under US GAAP purposes for this period is not available) and LLC VIZ-Stahl:

(a) A depreciation charge and respective deferred tax effect for the periods preceding business combinations was calculated on the basis of appraised fair value of property and equipment, including mineral rights, acquired in new subsidiaries.

(b) An amortization charge and respective deferred tax effect for the periods preceding business combination was calculated on the basis of appraised fair value of intangible assets identified and separated from goodwill in the process of purchase price allocation.

(c) Minority interest in net income of acquired subsidiaries for the periods preceding business combinations was calculated on the basis of interest owned by the Group at December 31, 2006.

The unaudited proforma amounts are provided for informational purposes only and do not purport to present the results of operations of the Group had the transactions assumed therein occurred on or as of the date indicated, nor is it necessarily indicative of the results of operations which may be achieved in the future.

25 SEGMENTAL INFORMATION

Following the acquisition of OJSC Altai-koks (Note 24(c)), the Group has three reportable business segments: steel, mining and coke-chemical. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above three segments meet criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

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

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

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

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

(thousands of US dollars)

25 SEGMENTAL INFORMATION (continued)

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

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

Segmental information for the year ended December 31, 2004 is as follows:

	Steel	Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	4,399,606	18,977	-	41,473	4,460,056	-	4,460,056
Intersegment revenue	3,365	337,344	-	204	340,913	(340,913)	-
Depreciation and amortization	(174,646)	(57,545)	-	(9,038)	(241,229)	-	(241,229)
Gross profit	**2,182,293**	**184,028**	**-**	**18,222**	**2,384,543**	**(4,643)**	**2,379,900**
Operating income	**2,037,325**	**162,900**	**-**	**15,550**	**2,215,775**	**(18,650)**	**2,197,125**
Interest income	31,110	2,285	-	17,235	50,630	(659)	49,971
Interest expense	(3,326)	(245)	-	(9,966)	(13,537)	659	(12,878)
Income tax	(530,694)	(35,879)	-	(3,488)	(570,061)	3,529	(566,532)
Income from continuing operations before minority interest	**1,639,276**	**122,545**	**-**	**15,567**	**1,777,388**	**(5,630)**	**1,771,758**
Segment assets, including goodwill	3,767,196	984,495	-	654,131	5,405,822	(239,901)	5,165,921
Capital expenditures	(219,673)	(44,541)	-	(5,245)	(269,459)	-	(269,459)

(thousands of US dollars)

25 SEGMENTAL INFORMATION (continued)

The allocation of total revenue by territory is based on the location of end customers who purchased the Group's products from international traders (Note 26(c)) and the Group, and also based on the country of customers' registration. It does not reflect the geographical location of the international traders. The Group's total revenue from external customers by geographical area for the years ended December 31, 2006, 2005 and 2004, is as follows:

	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
Russia	2,473,645	1,769,399	1,549,611
European Union	1,083,585	646,326	783,014
Middle East, including Turkey	798,862	571,331	636,044
North America	647,712	306,996	657,427
Asia and Oceania	440,331	847,605	628,238
Other regions	601,490	234,149	205,722
	6,045,625	**4,375,806**	**4,460,056**

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

As disclosed in Note 26(c), the Group sells to three international traders that accounted for a majority of the Group's sales outside Russian Federation in 2006, 2005 and 2004.

26 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

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

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

(b) Convertibility of Russian ruble

Future movements in the exchange rate between the Russian ruble and the US dollar will affect the reported US dollar amounts related to the Russian ruble carrying values of the Group's assets and liabilities. Such movements may also affect the Group's ability to realize assets presented in US dollars in these 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.

(thousands of US dollars)

26 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 years ended December 31, 2006, 2005 and 2004 were 59%, 60% and 65% of the total sales, respectively.

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

Due to its foreign currency denominated assets and liabilities, the Group is subject to the risk arising from foreign exchange rate fluctuations. The Group's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes. The net foreign currency position as at December 31, 2006 is as follows:

	US Dollar	EURO	Other currencies
Cash and cash equivalents	19,930	59,639	4,142
Accounts receivable	340,881	226,416	112
Other current assets	24,135	-	79
Investments and long-term deposit	1,289	-	-
Other non-current assets	6,950	1,455	43
Accounts payable and other liabilities	(23,829)	(41,590)	(707)
Other long-term liabilities	-	-	(16)

The Group sells to three international traders that account for the majority of its sales outside of Russia. In 2006, Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK), and Moorfield Commodities Company, UK, purchased 28%, 19% and 27% of the Group's sales outside Russia, respectively (2005: 41%, 26% and 17%; 2004: 43%, 30% and 17%). 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 December 31, 2006 and 2005, 1.02% and 1.19% of the share capital of the Parent Company, respectively, is held by a company beneficially owned by the shareholders of these traders.

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.

27 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to SFAS No. 57, *Related Party Disclosures*. Balances as at December 31, 2006, 2005 and 2004 and transactions for the years ended December 31, 2006, 2005 and 2004 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to related parties, either the Companies under common control or companies under control or significant influence of the Group's management, were $20,094, $38,436 and $45,715 for the years ended December 31, 2006, 2005 and 2004, respectively, which accounts for 0.3%, 0.9% and 1% of the total sales revenue.

Related accounts receivable equaled $1,539, $33,178 and $6,501 as at December 31, 2006, 2005 and 2004, respectively.

27 RELATED PARTY TRANSACTIONS (continued)

Purchases and services

Purchases of raw materials, technological equipment and management services from the Companies under common control, were $16,272, $22,247 and $114,255 for the years ended December 31, 2006, 2005 and 2004, respectively. Purchases of energy from the companies under significant influence of the Group's management (OJSC Lipetsk energy sales company and other companies, which originated from reorganization of OJSC Lipetskenergo (Note 6(d)), in 2006 and 2005, and OJSC Lipetskenergo in 2004), were $162,826, $140,005 and $106,377 for the years ended December 31, 2006, 2005 and 2004, respectively.

In 2004, the Group made payments to one of the Companies under common control, acting as an agent between the Group and railroad companies, for the transportation of raw materials and the Group's products. The payments include both railroad tariff (transferred to railroad companies), and agent fee, retained by the agent. The agent fee and purchases of other materials from this Company under common control amounted to $8,452 for the year ended December 31, 2004.

Accounts payable to the related parties were $2,666, $16,726 and $2,044 as at December 31, 2006, 2005 and 2004, respectively.

(b) Financial transactions

The subsidiary bank of the Group had loans receivable from related parties, either associates or companies under control or significant influence of the Group's management, of $8,864, $10,633 and $7,538 as at December 31, 2006, 2005 and 2004, respectively.

Deposits and current accounts of related parties, either the Companies under common control or companies under control or significant influence of the Group's management, in the subsidiary bank amounted to $22,811, $88,090 and $28,642 as at December 31, 2006, 2005 and 2004, respectively.

Deposits and current accounts of the Group companies in a bank under significant influence of the Group's management (OJSC Bank Zenit) amounted to $76,114 and $70,967 as at December 31, 2006 and 2005, respectively (nil at December 31, 2004). Related interest income from these deposits and current accounts for the years ended December 31, 2006 and 2005 amounted to $6,310 and $10,235, respectively.

The Group granted interest free loans to management in the total amount of $386, $817 and $71 for the years ended December 31, 2006, 2005 and 2004, respectively. The aggregate amount of such loans outstanding as at December 31, 2006, 2005 and 2004 was $467, $514 and $60, respectively.

Agent fee for the purchase of the shares in existing subsidiaries (Note 24) from the Company under significant influence of the Group's management for the year ended December 31, 2006 amounted to $867.

The Group leased property, plant and equipment under capital lease arrangements with one of the Companies under common control. The amount of capital lease liabilities incurred during the year ended December 31, 2004, was $19,920. The capital lease liabilities to this related party as at December 31, 2004 amounted to $545.

(c) Acquisitions and investments

In January 2006, the Parent Company received from a company under common control outside the Group 100% of the outstanding common shares of DanSteel A/S (Note 24(a)).

In 2004 the Companies under common control transferred to the Parent Company 91.4% of the outstanding common shares of OJSC Stoilensky GOK. Such transfers of $598,735 were recorded as capital contributions. The Group transferred cash consideration to such control parties of $636,453 which is reflected as distributions to controlling shareholders (Note 24(e)).

27 RELATED PARTY TRANSACTIONS (continued)

In the second half of 2004 the Group made a number of immaterial acquisitions of stock in the Group's companies OJSC Dolomite, OJSC StAGDoK, and an immaterial acquisition of the controlling stock in LLC Independent Transport Company from the Companies under common control in the total amount of $2,617 (Note 24(g)); acquired non-marketable securities, shares in OJSC Lipetskenergo, for $944 from one of the Companies under common control, and sold non-marketable securities, shares in OJSC Moscow Pipe Plant Filit, OJSC Almetyevsky Pipe Plant and CJSC Engels Pipe Plant, for the total consideration of $2,430 to the Companies under common control (Note 6(d)). The Group sold an investment in associate CJSC Korpus to one of the Companies under common control for the consideration of $3,124 (Note 6(c)).

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

Total contributions to a non-governmental pension fund amounted to $2,736, $2,729 and $2,607 in 2006, 2005 and 2004, 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.

Contributions to the charity fund controlled by the Parent Company's management were $6,941 in 2004. There were no such contributions in 2006 and 2005.

(e) Stock-based compensation

In August 2005, the controlling shareholder of the Parent Company effectively sold 200,100,000 of NLMK shares to companies beneficially owned by certain members of its Board of Directors and management of the Group. The purchase price of these shares was based on the Russian Trade System ("RTS") trading price at the date of the transaction. This purchase price is payable by December 31, 2006 with no interest charged on the outstanding debt. The respective shares were pledged to secure the payment. There were no shares under such arrangements as at and for the years ended December 31, 2006 and 2004. The only movements which took place in the year ended December 31, 2005 were as described above.

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

The Group applied SFAS No. 123, *Accounting for Stock-Based Compensation*, ("SFAS No. 123") for the purposes of accounting for this transaction, and estimated the fair value of the options at $31,463. Management of the Group estimated that $1,132 of this value related to the services provided by the individuals to the Group, and accordingly recorded an expense in general and administrative expenses in the year ended December 31, 2005, with a corresponding increase in stockholders' equity. The arrangement effectively represents the granting of options, at zero consideration, to buy shares at the RTS trading price of the shares on the grant date (in August 2005), the option expiring on December 31, 2006.

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

28 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.

28 COMMITMENTS AND CONTINGENCIES (continued)

(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.

(c) Environmental matters

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

(d) Insurance

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

The Group has 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 $396,801, $264,903 and $52,230 as at December 31, 2006, 2005 and 2004, respectively.

(f) Social commitments

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

(g) Tax contingencies

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

As at December 31, 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 December 31, 2006, 2005 and 2004, the Group has issued guarantees to third parties amounting to $1,667, $540 and $1,365. 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)

29 SUBSEQUENT EVENTS

(a) Disposal of energy assets

In February 2007, the Parent Company completed sales, to a common control company, of its full controlling interest in LLC Lipetskaya municipal energy company (51.00%) and minority interests (Note 6(d)) 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 year ended December 31, 2006 the operations of the subsidiary LLC Lipetskaya municipal energy company were recognized within discontinuing operations, including revenue of $113,052 and income before tax of $2,992 ($88,606 and $6,606 in 2005 and $22,642 and $2,505 in 2004, respectively).

The carrying amounts of the major classes of assets and liabilities of LLC Lipetskaya municipal energy company at December 31, 2006 are as follows (in relation to 100% stake):

Current assets	14,373
Non-current assets	7,088
Total assets	**21,461**
Current liabilities	(12,269)
Total liabilities	**(12,269)**
Net assets	**9,192**

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

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

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

(b) Disposal of coal assets

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

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

(thousands of US dollars)

29 SUBSEQUENT EVENTS (continued)

In the period to December 2006 in relation to Prokopyevskugol group the Group recognized impairment losses on property, plant and equipment totaling $124,870, calculated on the discounted cash-flows basis allocated to the other non-reportable segments.

During 2006, the Parent Company granted an interest-free loan to Prokopyevskugol group companies in the total amount of approximately $140,000. In February 2007, the Parent Company assigned its rights under the loan to a third party for a total amount of $30,000.

During the period of December 2006 through January 2007 the Group entered into supply agreements of coal concentrate by Prokopyevskugol group companies for the period up to the end of 2007.

As at December 31, 2006, Prokopyevskugol group companies' assets and liabilities are recorded within continued operations of the Group in the following amounts:

Current assets	55,651
Non-current assets	117,023
Total assets	**172,674**
Current liabilities	(169,321)
Non-current liabilities	(134,635)
Total liabilities	**(303,956)**
Negative net assets	**(131,282)**