**OJSC**
**NOVOLIPETSK STEEL**

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

**AS AT JUNE 30, 2011 AND DECEMBER 31, 2010**
**AND FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010**

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## *Report of Independent Accountants*

To the Board of Directors and Shareholders of OJSC Novolipetsk Steel:

We have reviewed the accompanying interim condensed consolidated balance sheet of OJSC Novolipetsk Steel and its subsidiaries ("the Group") as at June 30, 2011, and the related interim condensed consolidated statements of income, of cash flows, and of stockholders' equity and comprehensive income for each of the six-month periods ended June 30, 2011 and June 30, 2010. These interim condensed consolidated financial statements are the responsibility of the Group's management.

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

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

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group as at December 31, 2010, the related consolidated statements of income, of cash flows, and of stockholders' equity and comprehensive income for the year then ended (not presented herein), and in our report dated March 30, 2011, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as at December 31, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

ZAO PricewaterhouseCoopers Audit

August 22, 2011

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

| | Note | As at June 30, 2011 | As at December 31, 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 2 | 911,435 | 747,979 |
| Short-term investments | 3 | 202,048 | 422,643 |
| Accounts receivable and advances given, net | 4 | 1,668,670 | 1,259,596 |
| Inventories, net | 5 | 1,923,015 | 1,580,068 |
| Other current assets | | 61,597 | 51,994 |
| Deferred income tax assets | | 44,143 | 43,069 |
| | | **4,810,908** | **4,105,349** |
| **Non-current assets** | | | |
| Long-term investments | 3 | 932,375 | 687,665 |
| Property, plant and equipment, net | 6 | 9,436,150 | 8,382,478 |
| Intangible assets, net | | 176,777 | 181,136 |
| Goodwill | | 533,954 | 494,654 |
| Deferred income tax assets | | 37,885 | 21,387 |
| Other non-current assets | | 22,486 | 26,356 |
| | | **11,139,627** | **9,793,676** |
| **Total assets** | | **15,950,535** | **13,899,025** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and other liabilities | 7 | 1,535,014 | 1,107,434 |
| Short-term borrowings | 8 | 543,755 | 525,559 |
| Current income tax payable | | 62,075 | 18,803 |
| | | **2,140,844** | **1,651,796** |
| **Non-current liabilities** | | | |
| Deferred income tax liability | | 454,778 | 400,601 |
| Long-term borrowings | 8 | 2,070,177 | 2,098,863 |
| Other long-term liabilities | | 14,309 | 193,951 |
| | | **2,539,264** | **2,693,415** |
| **Total liabilities** | | **4,680,108** | **4,345,211** |
| **Commitments and contingencies** | 15 | - | - |
| **Stockholders' equity** | | | |
| **NLMK stockholders' equity** | | | |
| Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at June 30, 2011 and December 31, 2010 | | 221,173 | 221,173 |
| Statutory reserve | | 10,267 | 10,267 |
| Additional paid-in capital | 9 | 306,391 | 98,752 |
| Accumulated other comprehensive loss | | (107,837) | (916,901) |
| Retained earnings | | 10,984,150 | 10,261,214 |
| | | **11,414,144** | **9,674,505** |
| **Non-controlling interest** | | **(143,717)** | **(120,691)** |
| **Total stockholders' equity** | | **11,270,427** | **9,553,814** |
| **Total liabilities and stockholders' equity** | | **15,950,535** | **13,899,025** |

| | Note | For the six months ended June 30, 2011 | For the six months ended June 30, 2010 |
|---|---|---|---|
| **Revenue** | 12 | **5,341,145** | **3,853,128** |
| **Cost of sales** | | | |
| Production cost | | (3,250,461) | (2,196,645) |
| Depreciation and amortization | | (258,638) | (245,892) |
| | | **(3,509,099)** | **(2,442,537)** |
| **Gross profit** | | **1,832,046** | **1,410,591** |
| General and administrative expenses | | (181,094) | (128,343) |
| Selling expenses | | (427,248) | (330,492) |
| Taxes other than income tax | | (71,188) | (60,607) |
| **Operating income** | | **1,152,516** | **891,149** |
| Loss on disposals of property, plant and equipment | | (22,239) | (13,609) |
| Losses on investments, net | | (13,288) | (7,888) |
| Interest income | | 18,836 | 21,218 |
| Interest expense | | - | (9,147) |
| Foreign currency exchange gain / (loss), net | | 31,044 | (134,002) |
| Other income / (expenses), net | | 3,229 | (6,063) |
| **Income before income tax** | | **1,170,098** | **741,658** |
| Income tax expense | | (251,564) | (175,601) |
| **Income, net of income tax** | | **918,534** | **566,057** |
| Equity in net earnings / (net losses) of associates | 3 | 53,260 | (5,582) |
| **Net income** | | **971,794** | **560,475** |
| **Add: Net loss attributable to the non-controlling interest** | | **7,611** | **29,590** |
| **Net income attributable to NLMK stockholders** | | **979,405** | **590,065** |
| **Income per share – basic and diluted:** | | | |
| Net income attributable to NLMK stockholders per share (US dollars) | | 0.1634 | 0.0985 |
| Weighted-average shares outstanding, basic and diluted (in thousands) | 10 | 5,993,227 | 5,993,227 |

*(thousands of US dollars)*

| | Note | For the six months ended June 30, 2011 | For the six months ended June 30, 2010 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Net income** | | **971,794** | **560,475** |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | | |
| Depreciation and amortization | | 258,638 | 245,892 |
| Loss on disposals of property, plant and equipment | | 22,239 | 13,609 |
| Losses on investments, net | | 13,288 | 7,888 |
| Equity in (net earnings) / net losses of associates | 3 | (53,260) | 5,582 |
| Deferred income tax expense | | 5,968 | 18,444 |
| Losses / (gains) on unrealized forward contracts | | 4,819 | (920) |
| Other, net | | (1,840) | 35,015 |
| **Changes in operating assets and liabilities** | | | |
| Increase in accounts receivable | | (389,384) | (339,896) |
| Increase in inventories | | (205,709) | (313,130) |
| Increase in other current assets | | (5,160) | (2,945) |
| Increase in accounts payable and other liabilities | | 161,958 | 193,299 |
| Increase in current income tax payable | | 43,173 | 25,384 |
| **Net cash provided by operating activities** | | **826,524** | **448,697** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases and construction of property, plant and equipment | | (921,615) | (612,276) |
| Proceeds from sale of property, plant and equipment | | 7,274 | 5,764 |
| Purchases of investments and placement of bank deposits | | (257,846) | (118,143) |
| Withdrawal of bank deposits, proceeds from sale of other investments and loans settled | | 517,435 | 47,595 |
| Prepayment for acquisition of interests in new subsidiaries | 16(a) | (150 000) | - |
| **Net cash used in investing activities** | | **(804,752)** | **(677,060)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings and notes payable | | 249,839 | 538,594 |
| Repayment of borrowings and notes payable | | (354,093) | (610,307) |
| Capital lease payments | | (25,458) | (26,251) |
| Proceeds from disposal of assets to the company under common control | 9 | 313,246 | - |
| Dividends to shareholders | | (3,748) | (257) |
| **Net cash provided by / (used in) financing activities** | | **179,786** | **(98,221)** |
| **Net increase / (decrease) in cash and cash equivalents** | | **201,558** | **(326,584)** |
| Effect of exchange rate changes on cash and cash equivalents | | (38,102) | 32,721 |
| Cash and cash equivalents at the beginning of the year | 2 | 747,979 | 1,247,048 |
| **Cash and cash equivalents at the end of the period** | 2 | **911,435** | **953,185** |

*(thousands of US dollars)*

| | | NLMK stockholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Common stock | Statutory reserve | Additional paid-in capital | Accumulated other compre-hensive loss | Retained earnings | Non-controlling interest | Compre-hensive income / (loss) | Total stockholders' equity |
| **Balance at December 31, 2009** | | **221,173** | **10,267** | **112,450** | **(796,756)** | **9,171,068** | **(108,334)** | **-** | **8,609,868** |
| **Comprehensive income:** | | | | | | | | | |
| Net income / (loss) | | - | - | - | - | 590,065 | (29,590) | 560,475 | 560,475 |
| Other comprehensive income: | | | | | | | | | |
| Cumulative translation adjustment | | - | - | - | (337,287) | - | 6,093 | (331,194) | (331,194) |
| **Comprehensive income** | | | | | | | | 229,281 | **229,281** |
| Change in non-controlling interest | 11 | - | - | (13,698) | - | - | 13,698 | - | - |
| Dividends to shareholders | 10 | - | - | - | - | (42,679) | - | - | (42,679) |
| **Balance at June 30, 2010** | | **221,173** | **10,267** | **98,752** | **(1,134,043)** | **9,718,454** | **(118,133)** | **-** | **8,796,470** |
| **Balance at December 31, 2010** | | **221,173** | **10,267** | **98,752** | **(916,901)** | **10,261,214** | **(120,691)** | **-** | **9,553,814** |
| **Comprehensive income:** | | | | | | | | | |
| Net income / (loss) | | - | - | - | - | 979,405 | (7,611) | 971,794 | 971,794 |
| Other comprehensive income: | | | | | | | | | |
| Cumulative translation adjustment | | - | - | - | 809,064 | - | (15,415) | 793,649 | 793,649 |
| **Comprehensive income** | | | | | | | | 1,765,443 | **1,765,443** |
| Disposal of assets to an entity under common control | 9 | - | - | 207,639 | - | - | - | - | 207,639 |
| Dividends to shareholders | 10 | - | - | - | - | (256,469) | - | - | (256,469) |
| **Balance at June 30, 2011** | | **221,173** | **10,267** | **306,391** | **(107,837)** | **10,984,150** | **(143,717)** | **-** | **11,270,427** |

## 1 BASIS OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Open Joint Stock Company Novolipetsk Steel (the "Parent Company", or "NLMK") and its subsidiaries (together – the "Group") as at and for the year ended December 31, 2010. The December 31, 2010 condensed consolidated balance sheet information has been derived from the audited consolidated financial statements, however, since it is presented on a condensed basis it does not include all disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

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

### Functional and reporting currency

The Group's principal functional currency is considered to be the Russian ruble. The functional currency of the foreign subsidiaries is their local currency. The accompanying interim condensed consolidated financial statements have been prepared using the US dollar as the Group's reporting currency, utilizing period-end exchange rates for assets and liabilities, corresponding period quarterly weighted average exchange rates for interim condensed consolidated statement of income accounts and historic rates for equity accounts.

The Central Bank of the Russian Federation's closing rates of exchange as at June 30, 2011, December 31, 2010, June 30, 2010 and December 31, 2009 were 1 US dollar to 28.0758, 30.4769, 31.1954 and 30.2442 Russian rubles, respectively. The period weighted average exchange rates were: 29.2695 and 29.8903 Russian rubles to 1 US dollar for the 1 quarter 2011 and 2010, respectively, and 27.9857 and 30.2430 Russian rubles to 1 US dollar, for the 2 quarter 2011 and 2010, respectively.

### Recent accounting pronouncements

In December 2010, the FASB issued ASU 2010-28, *Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (ASU 2010-28). For the reporting units with zero or negative carrying value, an entity is required to perform the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider any adverse qualitative factors indicating that an impairment may exist. The Group adopted ASU 2010-28 from January 1, 2011. The adoption of ASU 2010-28 did not have an impact on the Group's consolidated financial position and results of operations.

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29). ASU 2010-29 specifies that an entity should disclose revenue and earnings of the combined entity in comparative period as though the business combination had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 also expands the supplemental pro forma disclosures. The Group adopted ASU 2010-29 for business combinations occurred from January 1, 2011. The adoption of ASU 2010-29 did not have an impact on the Group's consolidated financial position and results of operations.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 modifies the fair value measurement requirements and updates the wording to converge with IFRS. ASU 2011-04 becomes effective for the Group on January 1, 2012. Management is currently evaluating the potential impact of these changes on the Group's consolidated financial position and results of operations.

*(thousands of US dollars)*

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

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). Under these amendments an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. These amendments eliminate the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 becomes effective for the Group on January 1, 2012. The Group believes the adoption of ASU 2011-05 will impact only the presentation of comprehensive income.

## 2 CASH AND CASH EQUIVALENTS

| | As at June 30, 2011 | As at December 31, 2010 |
|---|---|---|
| Cash – Russian rubles | 100,191 | 131,555 |
| Cash – US dollars | 175,242 | 117,343 |
| Cash – other currencies | 111,465 | 45,353 |
| Deposits – Russian rubles | 121,025 | 151,426 |
| Deposits – US dollars | 26,848 | 210,743 |
| Deposits – Euros | 352,287 | 91,147 |
| Deposits – other currencies | 7 | 3 |
| Other cash equivalents | 24,370 | 409 |
| | **911,435** | **747,979** |

## 3 INVESTMENTS

Balance sheet classification of investments:

| | As at June 30, 2011 | As at December 31, 2010 |
|---|---|---|
| **Short-term investments and current portion of long-term investments** | | |
| Bank deposits | 171,940 | 405,784 |
| Other | 30,108 | 16,859 |
| | **202,048** | **422,643** |
| **Long-term investments** | | |
| Loans to related parties (Note 14(b)) | 592,238 | 515,264 |
| Prepayment for acquisition of interests in new subsidiaries (Note 16(a)) | 150,000 | - |
| Investments in associates | 189,979 | 170,192 |
| Other | 158 | 2,209 |
| | **932,375** | **687,665** |
| **Total investments** | **1,134,423** | **1,110,308** |

*(thousands of US dollars)*

## 3 INVESTMENTS (continued)

***Investments in associates***

| | As at June 30, 2011 Ownership | As at December 31, 2010 Ownership | As at June 30, 2011 | As at December 31, 2010 |
|---|---|---|---|---|
| Steel Invest & Finance (Luxembourg) S.A. | 50.00% | 50.00% | 183,267 | 164,009 |
| TBEA & NLMK (Shenyang) Metal Product Co., Ltd. | 50.00% | 50.00% | 6,712 | 6,183 |
| | | | **189,979** | **170,192** |

In December 2006, the Group acquired 50% of the issued shares of SIF S.A. for $805 million accounted for by the Group under the equity method in these interim condensed consolidated financial statements (within the steel segment) in line with a strategic partnership with the Duferco Group.

The transaction agreements provided for the following call options for the Group and put and call options for Duferco in the event of major corporate events, including disagreements between shareholders:

- the Group had a perpetual option to acquire one share of SIF S.A. at the per share price of the Original Transaction and thus to increase its participation in SIF S.A. to a controlling (50% plus one share) position;
- effective from December 18, 2010 the Group has a perpetual option to buy, and Duferco has a perpetual option to sell all of Duferco's interest in SIF S.A. at a price based on the change in the consolidated shareholders equity of SIF S.A. between December 2006 and the exercise date;
- on June 30, 2011 the options agreement was amended and the price was revised to $600 million payable in four equal annual installments; also, the composition of assets within the options agreement perimeter has been changed.

In July 2011 the Group exercised its option to acquire the remaining 50% of SIF S.A. shares (Note 16(a)). Prepayment for this acquisition of $150,000 was made in June 2011.

Except the above prepayment for this acquisition there were no material assets and liabilities in relation to these options as of June 30, 2011, and accordingly no adjustments were recorded in these interim condensed consolidated financial statements.

## 4 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

| | As at June 30, 2011 | As at December 31, 2010 |
|---|---|---|
| Trade accounts receivable | 1,162,922 | 728,153 |
| Advances given to suppliers | 174,626 | 201,745 |
| VAT and other taxes receivable | 408,603 | 416,833 |
| Accounts receivable from employees | 4,973 | 4,035 |
| Other accounts receivable | 181,561 | 148,964 |
| | 1,932,685 | 1,499,730 |
| Allowance for doubtful debts | (264,015) | (240,134) |
| | **1,668,670** | **1,259,596** |

*(thousands of US dollars)*

## 4 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN (continued)

As at June 30, 2011 and December 31, 2010 accounts receivable of $27,690 and $15,373 served as collateral for certain borrowings (Note 8).

As at June 30, 2011 and December 31, 2010, the Group had other accounts receivable of $98,760 and $88,951, respectively, from companies for which a 100% allowance was recorded. These accounts receivable were mostly acquired by the Group through a business combination in 2007.

## 5 INVENTORIES

| | As at June 30, 2011 | As at December 31, 2010 |
|---|---|---|
| Raw materials | 1,043,251 | 870,160 |
| Work in process | 427,621 | 332,284 |
| Finished goods and goods for resale | 529,584 | 445,961 |
| | 2,000,456 | 1,648,405 |
| Provision for obsolescence | (77,441) | (68,337) |
| | **1,923,015** | **1,580,068** |

As at June 30, 2011 and December 31, 2010, inventories of $29,594 and $27,898, respectively, served as collateral for certain borrowings (Note 8).

## 6 PROPERTY, PLANT AND EQUIPMENT

| | As at June 30, 2011 | As at December 31, 2010 |
|---|---|---|
| Land | 176,271 | 154,225 |
| Mineral rights | 580,164 | 534,445 |
| Buildings | 1,669,874 | 1,532,788 |
| Land and buildings improvements | 1,426,178 | 1,322,321 |
| Machinery and equipment | 6,875,328 | 6,150,022 |
| Vehicles | 369,124 | 364,107 |
| Construction in progress and advances for construction and acquisition of property, plant and equipment | 4,417,330 | 3,519,758 |
| Leased assets | 110,767 | 372,405 |
| Other | 77,665 | 72,168 |
| | 15,702,701 | 14,022,239 |
| Accumulated depreciation | (6,266,551) | (5,639,761) |
| | **9,436,150** | **8,382,478** |

As at June 30, 2011 and December 31, 2010, property, plant and equipment of $10,056 and $19,654 (net book value), respectively, served as collateral for certain borrowings (Note 8).

The amounts of interest capitalized are $81,300 and $75,567 for the six months ended June 30, 2011 and June 30, 2010, respectively.

*(thousands of US dollars)*

## 7 ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | As at June 30, 2011 | As at December 31, 2010 |
|---|---|---|
| Trade accounts payable | 624,618 | 466,988 |
| Advances received | 168,336 | 199,407 |
| Taxes payable other than income tax | 161,762 | 120,287 |
| Accounts payable and accrued liabilities to employees | 180,843 | 149,827 |
| Dividends payable | 254,699 | 2,102 |
| Short-term capital lease liability | 8,996 | 38,430 |
| Other accounts payable | 135,760 | 130,393 |
| | **1,535,014** | **1,107,434** |

## 8 SHORT-TERM AND LONG-TERM BORROWINGS

| | As at June 30, 2011 | As at December 31, 2010 |
|---|---|---|
| ***Parent Company*** | | |
| Loans, EURO denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2011-2019 | 668,979 | 582,192 |
| Bonds, RUR denominated, with interest rates from 7.75% to 10.75% per annum | 906,247 | 835,059 |
| Loans, US$ denominated, with interest rates from LIBOR +1.2% to 3.86% per annum, mature 2011-2013 | 903,781 | 1,104,707 |
| ***Companies of the Long products segment*** | | |
| **Russian rubles** | | |
| Other borrowings | 1,954 | 1,844 |
| **Euros** | | |
| Loans with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +3.2% per annum, mature 2011-2020 | 70,927 | 23,585 |
| Other borrowings | 2,305 | 4,416 |
| | **2,554,193** | **2,551,803** |
| ***Other companies*** | | |
| Loan, RUR denominated, with interest rate 10% per annum | 32,704 | 29,019 |
| Loan, US$ denominated, with interest rate 5% per annum | 10,964 | 28,819 |
| Loan, EURO denominated, with interest rate EURIBOR (6 m) +5% per annum | 2,495 | 2,910 |
| Other borrowings | 13,576 | 11,871 |
| | **2,613,932** | **2,624,422** |
| Less: short-term loans and current maturities of long-term loans | (543,755) | (525,559) |
| **Long-term borrowings** | **2,070,177** | **2,098,863** |

The Group’s long-term borrowings as at June 30, 2011 mature between 2 to 9 years.

*(thousands of US dollars)*

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

### Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies are in compliance with debt covenants as of the date these interim condensed consolidated financial statements were available to be issued.

## 9 DISPOSAL OF ASSETS

In June 2011, the Parent Company has completed disposal of 100% of its interest in NTK LLC and its subsidiaries (hereinafter, NTK) to an entity under common control for a cash consideration of $325 million (as at the date of payment). An after-tax gain on this transaction of $207,639 was recognized by the Group, and included within the "Disposal of assets to an entity under common control" line in the interim condensed consolidated statements of stockholders' equity and comprehensive income for the six months ended June 30, 2011.

The carrying amounts of the major classes of assets and liabilities of NTK as at the date of disposal are as follows:

| | |
|---|---|
| Current assets | 105,861 |
| Non-current assets | 264,069 |
| **Total assets** | **369,930** |
| Current liabilities | (131,281) |
| Non-current liabilities | (181,350) |
| **Total liabilities** | **(312,631)** |
| **Net assets** | **57,299** |

Information on NTK's transactions up to the date of disposal is as follows:

| | |
|---|---|
| Sales revenue | 243,685 |
| Net income | 31,346 |

This transaction was carried out in line with the earlier announced strategy of the Group's further development. In accordance with a resolution passed by the Board of Directors Strategic Planning Committee in April 2010, the interest in NTK was classified as a non-core asset.

The Group continues using the transportation services provided by NTK after the disposal. Accordingly, operations of NTK in these interim condensed consolidated financial statements are reflected within continuing operations of the Group within the steel segment.

## 10 EARNINGS PER SHARE

| | For the six months ended June 30, 2011 | For the six months ended June 30, 2010 |
|---|---|---|
| Weighted average number of shares | 5,993,227,240 | 5,993,227,240 |
| Net income (thousands of US dollars) | 979,405 | 590,065 |
| **Basic and diluted net income per share (US dollars)** | **0.1634** | **0.0985** |

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. The Parent Company does not have potentially dilutive shares outstanding.

In June 2011, the Parent Company declared dividends for the year ended December 31, 2010 of 1.82 Russian rubles per share for the total of $378,687, including interim dividends for the six months ended June 30, 2010 of 0.62 Russian ruble per share for the total of $122,218 (at the historical rate).

In June 2010, the Parent Company declared dividends for the year ended December 31, 2009 of 0.22 Russian rubles per share for the total of $42,679 (at the historical rate).

Dividends payable amounted to $254,699 and $2,102 as at June 30, 2011 and December 31, 2010, respectively.

## 11 CHANGE IN NON-CONTROLLING INTEREST IN A COMPANY OF LONG PRODUCTS SEGMENT

In May 2010, the Parent Company acquired through a public auction for $20,246 an interest of 100% in a company included in the long products segment. As a result of this transaction between Group companies, there was an increase of non-controlling interest by $13,698 with a corresponding decrease in the additional paid-in capital.

In accordance with the Russian legislation concerning pledges and pledge contracts terms, the auction was conducted by an independent organizer in order to discharge OJSC Maxi-Group subsidiaries' pledge obligations under its loans taken prior to the date of acquisition. The auction's starting price was determined by an independent appraiser.

The above acquisitions were carried out for the purpose of more efficient management of the assets.

## 12 SEGMENT INFORMATION

The Group has four reportable business segments: steel, long products, mining and coke-chemical. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above four segments meet the 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 two operating segments of the Group. Those segments include insurance and other services. None of these segments has met any of the quantitative thresholds for determining a reportable segment. The amount of investments in equity method investee and equity in net losses of associates are included in the steel segment (Note 3).

The Group's management determines intersegmental sales and transfers, as if the sales or transfers were to third parties. The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income, net of income tax.

*(thousands of US dollars)*

## 12 SEGMENT INFORMATION (continued)

Segmental information for the six months ended June 30, 2011 and their assets as at June 30, 2011 is as follows:

| | Steel | Long products | Mining | Coke-chemical | All other | Totals | Inter-segmental operations and balances | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 4,528,656 | 595,783 | 55,845 | 160,390 | 471 | 5,341,145 | - | 5,341,145 |
| Intersegment revenue | 95,436 | 310,493 | 638,164 | 514,028 | - | 1,558,121 | (1,558,121) | - |
| **Gross profit** | **1,058,738** | **124,075** | **516,478** | **145,244** | **192** | **1,844,727** | **(12,681)** | **1,832,046** |
| **Operating income / (loss)** | **578,280** | **10,573** | **478,444** | **101,006** | **(575)** | **1,167,728** | **(15,212)** | **1,152,516** |
| **Income / (loss), net of income tax** | **586,668** | **(97,070)** | **383,422** | **77,951** | **464** | **951,435** | **(32,901)** | **918,534** |
| Segment assets, including goodwill | 14,311,385 | 2,594,359 | 1,670,770 | 971,045 | 53,984 | 19,601,543 | (3,651,008) | 15,950,535 |

Segmental information for the six months ended June 30, 2010 and their assets as at December 31, 2010 is as follows:

| | Steel | Long products | Mining | Coke-chemical | All other | Totals | Inter-segmental operations and balances | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 3,338,067 | 370,566 | 37,504 | 106,136 | 855 | 3,853,128 | - | 3,853,128 |
| Intersegment revenue | 53,407 | 183,634 | 377,106 | 370,416 | - | 984,563 | (984,563) | - |
| **Gross profit** | **965,122** | **68,992** | **253,953** | **141,657** | **341** | **1,430,065** | **(19,474)** | **1,410,591** |
| **Operating income / (loss)** | **573,894** | **(11,234)** | **225,893** | **122,253** | **(294)** | **910,512** | **(19,363)** | **891,149** |
| **Income / (loss), net of income tax** | **584,288** | **(133,450)** | **179,967** | **92,099** | **935** | **723,839** | **(157,782)** | **566,057** |
| Segment assets, including goodwill | 12,432,542 | 2,276,364 | 1,195,472 | 824,216 | 43,092 | 16,771,686 | (2,872,661) | 13,899,025 |

## 13 RISKS AND UNCERTAINTIES

### (a) Operating environment of the Group

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries outside the Russian Federation and relatively high inflation.

The 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, regulatory, and political developments.

Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

### (b) Commercial risks

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

The Group's sales outside the Russian Federation in monetary terms for the six months ended June 30, 2011 and June 30, 2010 were 58% and 61% of the total sales, respectively.

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

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

## 14 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850. Balances as at June 30, 2011 and December 31, 2010 and transactions for the six months ended June 30, 2011 and June 30, 2010 with related parties of the Group consist of the following:

### (a) Sales to and purchases from related parties

***Sales***

Sales to an associate (SIF S.A.) and one of its subsidiaries were $726,627 and $410,223 for the six months ended June 30, 2011 and June 30, 2010, respectively. Sales to other related parties were $7,553 and $3,894 for the six months ended June 30, 2011 and June 30, 2010, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equaled $541,876 and $215,649 as at June 30, 2011 and December 31, 2010, respectively. Accounts receivable from other related parties equaled $30,879 and $5,559 as at June 30, 2011 and December 31, 2010 respectively.

***Purchases and services***

Purchases from subsidiary of an associate (SIF S.A.) were $978 and nil for the six months ended June 30, 2011 and June 30, 2010, respectively. Purchases from the companies under common control were $147,576 and $786 for the six months ended June 30, 2011 and June 30, 2010, respectively.

Accounts payable to subsidiary of an associate (SIF S.A.) were nil and $7,500 as at June 30, 2011 and December 31, 2010, respectively. Accounts payable to the related parties were $3,164 and $72,072 as at June 30, 2011 and December 31, 2010, respectively.

## 14 RELATED PARTY TRANSACTIONS (continued)

### (b) Financial transactions

The carrying amount of loans issued to SIF S.A. and its subsidiary, including interest accrued, is $592,238 and $515,264 as at June 30, 2011 and December 31, 2010, respectively.

As at June 30, 2011 and December 31, 2010, the Group issued guarantees for SIF S.A. and its subsidiaries amounting to $238,553 and $217,496, respectively. These guarantees are mostly issued in favor of banks.

Deposits and current accounts of the Group companies in banks under significant influence of the Group's controlling shareholder (OJSC Bank ZENIT and OJSC Lipetskcombank) amounted to $108,357 and $94,147 as at June 30, 2011 and December 31, 2010, respectively. Related interest income from these deposits and current accounts for the six months ended June 30, 2011 and June 30, 2010 amounted to $552 and $524, respectively.

During the six months ended June 30, 2010, the company under significant influence of the Group's controlling shareholder (OJSC Bank ZENIT) purchased bonds issued by the Parent Company of $11,731 (as at the date of issue).

## 15 COMMITMENTS AND CONTINGENCIES

### (a) Anti-dumping investigations

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

### (b) Litigation

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

In January 2010, the Parent Company received a claim from the non-controlling shareholder of OJSC Maxi-Group filed with the International Commercial Arbitration Court at the Russian Federation Chamber of Commerce and Industry (hereinafter, ICA Court) to enforce the additional payment by the Parent Company for the shares of OJSC Maxi-Group in accordance with the binding agreement. This claim is based on the non-controlling shareholder's interpretation of the binding agreement. In February 2010, as a result of due diligence of Maxi-Group entities, the Parent Company filed a counter-claim to ICA Court seeking collection from the non-controlling shareholder of OJSC Maxi-Group of excessively paid amounts for the acquired shares.

In March 2011, the ICA Court partially (in the amount of about $340 million, at the exchange rate as of June 30, 2011) satisfied the claims of the Maxi-Group's non-controlling shareholder against the Parent Company. In April 2011, the Group's management initiated proceedings to challenge the resolution of the ICA Court, sending an application to the Arbitration Court of Moscow (the court of the first instance). In June 2011 the Arbitration Court of Moscow cancelled the respective resolution of the ICA Court. In August 2011, the Federal Arbitration Court of the Moscow Circuit initiated proceedings regarding cassation appeal filed by the non-controlling shareholder of OJSC Maxi-Group on revocation of the ICA Court decision and appointed the court hearing for September 2011. Management believes that it is less than probable that the Group will have to pay a material amount as a result of this claim, and therefore no adjustments in relation to this claim were made in these interim condensed consolidated financial statements.

## 15 COMMITMENTS AND CONTINGENCIES (continued)

### (c) Environmental matters

The enforcement of environmental regulation in the 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

To minimize its risks the Group has voluntary insurance contracts to insure property, plant and equipment, land transport and aircraft as well as certain type of cargo and purchased accident and health insurance, and medical insurance for employees, and directors and officers liability insurance (D&O). The Group also purchases operating entities civil liability coverage for dangerous production units.

### (e) Capital commitments

The outstanding agreements in connection with equipment supply and construction works amounted to $1,210,899 and $1,973,043 as at June 30, 2011 and December 31, 2010, respectively.

### (f) Social commitments

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

### (g) Tax contingencies

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

As at June 30, 2011, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these interim condensed consolidated financial statements.

### (h) Financial guarantees issued

As at June 30, 2011 and December 31, 2010, the Group has issued guarantees amounting to $239,699 and $218,553, respectively, which equals to their maximum potential amount of future payments. Most of these guarantees were issued for related parties (Note 14(b)). No amount has been accrued in these interim condensed consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

## 16 SUBSEQUENT EVENTS

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

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco Group. The purchase price is $600 million, payable in four equal annual installments. This acquisition is aimed to enhance the Group's competitive strengths on the global market though expansion of vertical integration of assets, optimization of a product portfolio and geographical diversification.

SIF S.A. holds 100% interests or majority votes in 7 production assets with total capacity of 5.5 million tons per year, located in Europe and USA as well as a network of steel service centers in Europe.

### (b) Dividends

In August 2011, the Board of Directors of the Parent Company proposed interim dividends for the six-month period ended June 30, 2011 of 1.4 Russian rubles per share in the total amount of Russian rubles 8,390,518 thousand ($298,852 at the exchange rate as at June 30, 2011). The final amount of dividends is subject to the approval by an extraordinary General Stockholders' Meeting.

The Group's management has performed an evaluation of subsequent events through the period from July 1, 2011 to August 22, 2011, which is the date when these interim condensed consolidated financial statements were available to be issued.