NLMK

ANNUAL REPORT 2006

CONTENTS

STEEL PRODUCTION

GROWTH OF

8%

in 2006

COMPANY AT-A-GLANCE

NLMK GROUP PROFILE

Novolipetsk Steel (NLMK) is one of the largest steelmaking companies in Russia. Our main types of products are: semi-finished steel products (slabs), hot-rolled, cold-rolled and galvanized products, pre-painted steel, non-grain-oriented steel and grain-oriented steel.

In 2006, we produced 9.1 m tonnes of steel. Sales reached USD 6,046m, with an EBITDA margin of 44%.

NLMK is a vertically integrated group of over 60 companies as of the end of 2006.

NLMK STRUCTURE

At December 31, 2006, the NLMK Group consisted of the following major companies:

STEELMAKING AND ROLLING

- OJSC NLMK (parent company, Lipetsk, Russia)
- LLC VIZ-Stal (Ekaterinburg, Russia)
- DanSteel A/S (Frederiksvaerk, Denmark)

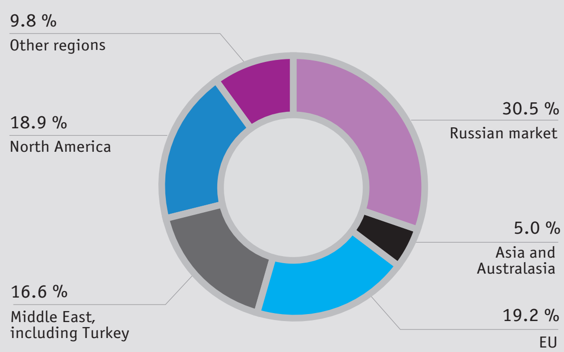
RAW MATERIALS PRODUCTION

- OJSC Stoilensky GOK (Stary Oskol, Belgorod Region, Russia)
- OJSC Altai-koks (Zarinsk, Altai Region, Russia)
- Prokopievskugol Group of Companies (Prokopievsk, Kemerovo Region, Russia)

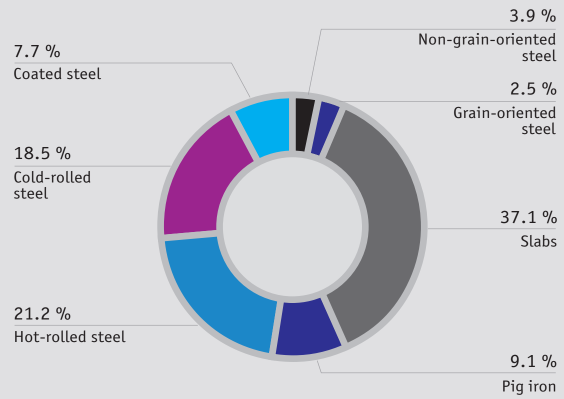
LOGISTICS ASSETS

- LLC Independent Transport Company (NTK) (Moscow, Russia)
- OJSC Tuapse Commercial Sea Port (TMTP) (Tuapse, Krasnodar Region, Russia)

Structure of NLMK Group sales by region in 2006



Structure of NLMK Group sales by product in 2006



The structure is based on physical units of measurement

The Group also comprises flux materials mining and processing companies, a trading house, a commercial bank, an insurance company and other assets.

The core production facilities of the Group are located in the center of the European part of Russia, 350 km from its major supplier of iron ore, Stoilensky GOK, and within 1,500 km of its major domestic consumers, in relative proximity to transportation routes.

JOINT VENTURES

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NLMK holds a 50% share in a joint venture with the Duferco Group, comprising six production facilities located in Belgium, France, Italy and the USA, with an aggregated output of finished products of 4.5 m tonnes in 2006, plus nine distribution and service centers located in the European Union.

MAIN RESULTS OF 2006

Production Results

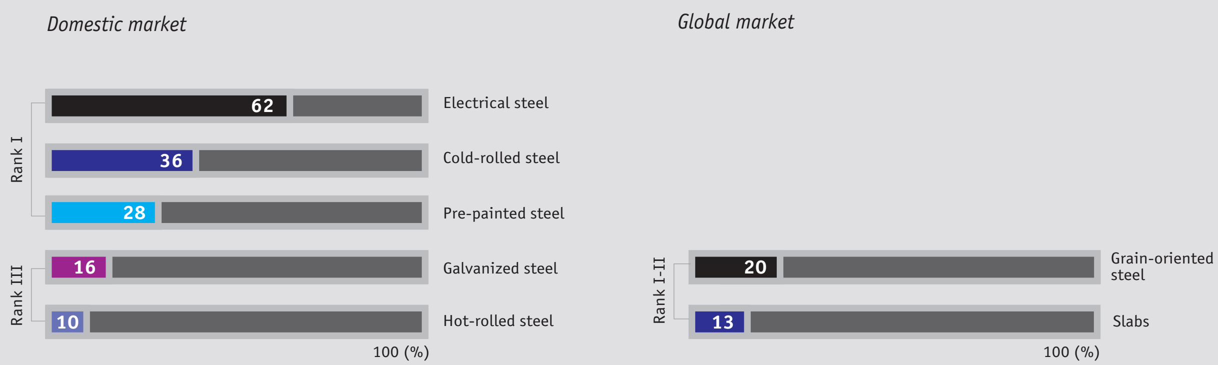
After major planned repairs in 2005, NLMK increased its steel products output during the reporting year.

NLMK Group output of main steel products in 2005-2006

Note: Excluding the output of products consumed within the steel segment

(tonnes'000)	2006	2005	Change	
			+ , -	%
Pig iron	845	399	446	111.8%
Slabs	3,463	3,203	260	8.1%
Hot-rolled steel	2,051	2,029	22	1.1%
Cold-rolled steel	1,752	1,744	8	0.5%
Galvanized steel	430	266	164	61.7%
Pre-painted steel	341	265	76	28.7%
Grain-oriented steel	218	133	85	63.9%
Non-grain-oriented steel	348	339	9	2.7%

2006 NLMK Group domestic and global market share



The structure is based on physical units of measurement

Market Position

The year 2006 was characterized by a favourable situation in steel markets. NLMK's Group sales of steel products reached 9.3m tonnes, with exports accounting for 70% of this figure.

Based on the 2006 results, NLMK is Russia's largest supplier of both cold-rolled steel products and pre-painted steel. NLMK is also one of the largest global suppliers of both semi-finished steel products and grain-oriented steel.

Financial Performance

NLMK achieved results in 2006 through a balanced sales policy, enabling us to promptly respond to any changes in the market, stringent cost management, a dynamic asset acquisition policy and a large-scale Technical Upgrading Programme. By following these principles, NLMK maintained its position as one of the most efficient steelmaking companies both in Russia and globally over recent years.

For further information see p. 67

The major factors that NLMK's influenced financial performance are as follows: considerable growth in both production volume and year-on-year sales, the effects of consolidating newly acquired steel and raw material assets as well as higher prices of Group products in 2006.

(USD m)	2006	2005	Change	
			+ , -	%
Sales	6,046	4,376	1,670	38.2%
Operating income	2,243	1,844	399	21.6%
Net income	2,066	1,381	685	49.6%
EBITDA	2,631	2,083	548	26.3%
EBITDA margin	44%	48%		
Operating cash flows	1,585	1,524	61	4.0%
Cash and cash equivalents at December 31, 2006	665	1,924	-1,259	-65.4%
EPS (earnings per share)	0.3447	0.2305	0.1142	49.6%

REVENUE

GROWTH OF

38%

to USD 6,046m

Outlook

In 2007, NLMK plans to make maximum use of its competitive advantages, which include low-cost steel production base, increase its share of high value-added products and develop a wider presence in company's core markets, and to show a robust performance while retaining our leadership in terms of profitability among Russia's leading steel producers.

Credit Ratings

NLMK has the highest credit ratings among Russia's major steel producers.

NLMK's ratings as of March 30, 2007

Rating agency	Rating	Forecast
Standard and Poor’s	«BB+»	Stable
Moody’s Investors Service	«Ba1»	Stable
FitchRatings	«BB+»	Stable

DEVELOPMENT PROGRAMME

In 2006, NLMK continued its strategy of vertical integration through the acquisition of both raw-materials and steel rolling assets.

In addition during 2006 NLMK was highly active in the area of technical upgrading and raising the efficiency of existing assets. With First phase of the Technical Upgrading Programme completed, last year we started preparations for Second phase, and 2006 capex amounted to USD 619m.

As a result of M&A activity, the Group increased its self-sufficiency in the major types of raw materials, strengthened its position in strategic markets and raised the share of high value-added products.

Within the framework of the Sustainable Growth Strategy for 2007-2011, announced in September 2006, we seek to ensure further business growth through the organic increase of our production volumes and acquisition of steel-rolling assets in NLMK's core markets.

CORPORATE GOVERNANCE

The company is committed to achieving corporate governance best practice, with a view to ensuring shareholder rights and protecting shareholder interests.

The General Shareholders Meeting is the highest decision-making body of the company. The Board of Directors is responsible for operations and for defining the company's long-term strategy. The board committees are responsible for supervising our audit, strategic planning and remuneration, nominations and social policy respectively. Management Board is our collective executive body and is responsible for the day-to-day management of our business. It is chaired by the President (Chairman of the Management Board) and comprised of Vice Presidents for specific areas of activities.

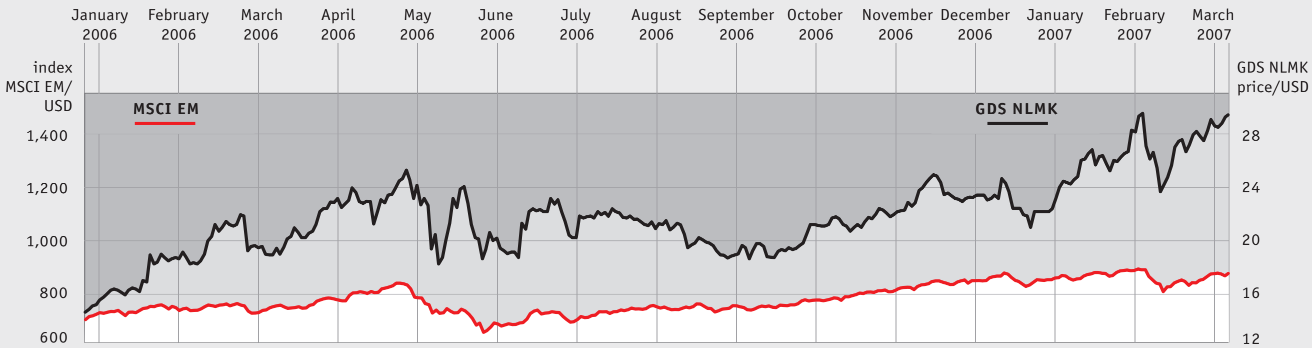
Board of Directors as of December 31, 2006

Chairman of the Board of Directors	
Vladimir Lisin	Chairman of the Strategic Planning Committee
Deputy Chairman of the Board of Directors	
Vladimir Skorokhodov	Member of the Strategic Planning Committee
Members of the Board of Directors	
Oleg Bagrin	Member of the Audit Committee Member of the Strategic Planning Committee
Nikolai Gagarin	Member of the Strategic Planning Committee
Dmitriy Gindin	Chairman of the Personnel, Remunerations and Social Policy Committee
Karl Doering	Member of the Strategic Planning Committee Member of the Personnel, Remunerations and Social Policy Committee
Randolph Reynolds	Chairman of the Audit Committee
Igor Fyodorov	Member of the Audit Committee

Management Board as of December 31, 2006

Chairman of the Management Board	
Alexey Lapshin	President
Board Members	
Vladimir Nastich	Senior Vice President, Head of Steel Division
Galina Aglyamova	Vice President, Chief Financial Officer
Igor Anisimov	Vice President, Purchasing
Dmitry Baranov	Vice President, Sales
Alexander Zarapin	Vice President, Head of Coal Division
Yuri Larin	Vice President, Technology and Environment
Alexander Saprykin	Vice President, Head of Iron Ore Division
Stanislav Tsyrlin	Vice President, Human Resources and Management System

NLMK`s GDS at the London Stock Exchange and MSCI EM index



The MSCI Emerging Markets Index is a stock index reflecting the trends of financial asset movements and their overflow into emerging markets.
In 2006, the Global Depositary Shares of OJSC NLMK (LSE: NLMK) were included in the MSCI Emerging Markets Index.

CORPORATE SOCIAL RESPONSIBILITY

Environment

As a socially responsible company, NLMK pursues a consistent policy of controlling and reducing the impact of its operation on the environment. NLMK's environmental management system complies with applicable international standards, as confirmed by certification audits performed on a regular basis. The Technical Upgrading Programme pays significant attention to environmental projects with a view to improving our environmental performance.

Personnel

We consider our employees to be one of the most important assets of the organization and we strive to further increase the attractiveness of NLMK as an employer. The company seeks to constantly improve its safety performance and ensure safe operating processes at our facilities. Our remuneration system is designed to both boost employees' motivation to attain higher performance and retain skilled personnel. Our personnel policy aim to attract young workers, ensure professional development and the systematic improvement of employees' welfare, as well as a stable growth of operations performance.

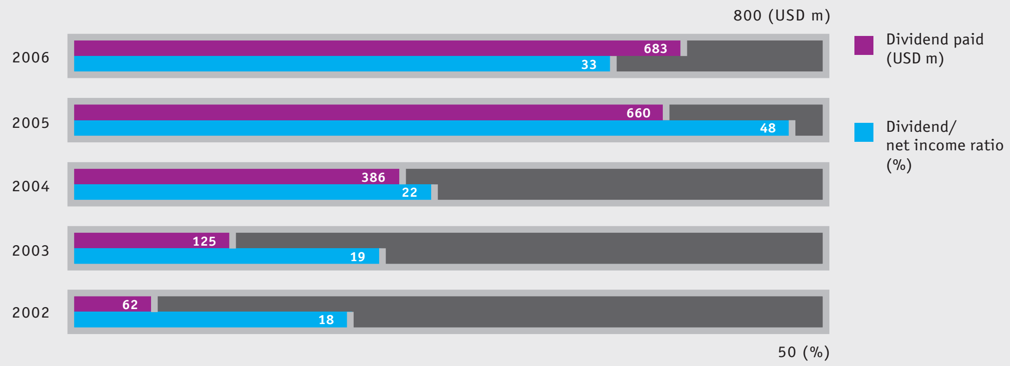
Corporate citizenship

Our company seeks to make an even more significant contribution to the well-being of the society where we operate than is required by legislation and industry standards. NLMK plays an important role in the social and economic life and sustainable development of the regions where it operates through a series of initiatives that include, among others, support of higher education institutes, development of sports and culture.

SHARE CAPITAL

The company's share capital consists of 5,993,227,240 ordinary shares with a par value of RUR 1.0. NLMK's shares are traded on Russian exchanges (RTS and MICEX) and in the form of Global Depositary Shares (GDS) (1 GDS = 10 ordinary shares) on the London Stock Exchange. Approximately 8% of the company's shares are traded on the London Stock Exchange. At March 30, 2007, NLMK's GDS were quoted at USD 29.41, which is consistent with a capitalization of USD 17.6 bn.

Dividend paid by NLMK in 2002-2006



The AGM held on June 5, 2007 approved the final dividend for 2006 of RUR 3.0 per ordinary share. The total amount allocated for dividend payments in 2006 is RUR 17,980m (USD 683m)

In the light of this robust financial performance and greater transparency in business operations, NLMK's capitalization for 2006 increased by nearly 60% reaching USD 13.9 bn as of the end of 2006.

Share capital structure as of December 31, 2006

Beneficiaries	Interest, %
Controlling shareholder	83.16
GDS freely traded on LSE	8.13
Other shareholders	8.71

Dividends

The Annual General Meeting (AGM) held on June 6, 2006 approved the company's dividend policy, providing for a minimum annual dividend payments of 20% of US GAAP net income and targets an average dividend payment during five-year period of 30% of US GAAP net income. The ratio of dividend to net income (payout ratio) over the period of 2002-2006 was 31%.

Investor Relations

The company has a well developed investor relations programme aimed at developing its communications with shareholders, investors and analysts supplying, prompt, reliable, complete and regular flow of information about the company, its strategy, performance and competitive position in accordance with disclosure requirements and investor relations best practice.

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NLMK's maintains a corporate website, www.nlmksteel.com, dedicated to promptly providing information about the latest events, development plans and financial/production performance of the company.

CHAIRMAN`S STATEMENT

Vladimir Lisin

Chairman of the Board of Directors

Dear Shareholders,

The year 2006 was marked by the unprecedented growth of our company. We have achieved significant success in strengthening our position in the market for high value-added products as well as in the implementation of projects aimed at the developing our company and raising its efficiency. Furthermore, NLMK's major strategic priority remains continuously focused on achieving robust financial performance rather than simply on increasing production volumes.

Currently NLMK's market capitalization stands at USD 17.6 bn, which is double the level at which trading in our shares on the London Stock Exchange began on December 15, 2005. Such a positive movement in our share price gives vivid evidence that the company not only generates steady cash flows at present, but also has good prospects of consistently increasing shareholders' income in future.

We have every confidence that the company possesses great potential for further development, which will enable us to play a leading role in meeting the increasing demand for steel products both in the domestic and international markets.

In September 2006, we formally approved major areas of our “Sustainable Growth Strategy for 2007-2011”.

The company's major objectives during that period are to ensure a 40% growth in crude steel production (to 12.4m tonnes) and a 90% increase in rolled steel production. Our plans for the development of both the raw materials and energy production segments of the company are linked to the planned growth in steel production volumes.

A major component of the Sustainable Growth Strategy is expanding the spectrum of high value-added products by building up steel rolling capacity in our core markets. Within the framework of this strategy, in 2006 NLMK acquired VIZ-Stal, one of the largest producers of grain-oriented electrical steel. As a result of that acquisition, NLMK's share in the domestic and international markets for grain-oriented steel reached 100% and 20%, respectively. We believe that the acquisition was one of the most significant events of the year 2006. Also, last year NLMK acquired Danish steel-rolling company DanSteel A/S, thereby obtaining a significant share of the European hot-rolled plate market.

In line with our strategy, NLMK set up a joint venture (JV) with the Duferco Group at the end of last year, with NLMK holding a 50% ownership interest. The establishment of the JV enables us to make maximum use of NLMK's basic competitive advantage-namely, low-cost steel production-through further processing of slabs into high value-added products under our control. We strongly believe that will also foster the strengthening of NLMK's position in core sales markets, in particular with respect to such significant niche products as hot-rolled plates, pre-painted and galvanized steel.

Development of the company through new acquisitions is one of the major areas of our activities. However, our M&A policy envisions a balanced approach based on strict financial discipline and synergy maximization.

We are convinced that in order to manage costs and mitigate price fluctuation risks it is essential to have a high level of integration between our steelmaking capacity and assets for the production of major raw materials. The acquisition in 2006 of Russia's largest independent coke producer, Altai-koks, enabled us to fully ensure a supply of high quality raw materials for the further development of our steelmaking capacity.

Optimization of the company's asset portfolio and building an efficient management structure were also high priorities in our strategy for 2006. We managed to consolidate the company's assets throughout the value chain and unlock value by selling non-core assets.

The company's dynamic development as a vertically integrated group triggered the need to change its management structure. The existing management structure has been shaped with due regard for the specifics of NLMK's development as a group of companies and meets high standards of corporate governance. Given the ever evolving nature of corporate governance standards and practices, we will be further seeking to streamline our activities and improve the company's reputation in this domain.

In 2006 NLMK demonstrated record-setting financial performance. Revenue went up by 38% while income from operations (EBITDA) increased by 26%. We are pleased to inform our shareholders that NLMK, with its EBITDA margin of 44%, remains one of the most profitable companies within the global steel sector. Net incomes in 2006 hit USD 2,066m, which is also a record-setting level for the company. These results testify to the soundness of our strategy and its successful implementation.

The company's financial performance enables us to distribute dividends in strict compliance with the adopted dividend policies, whereby NLMK will, within a 5-year cycle, be seeking to bring the average dividend distribution to no less than 30% of net incomes. The General Shareholders Meeting approved the final dividend for 2006 of RUR 3.0 (USD 0.11) per ordinary share. Total dividends for the year 2006 will stand at approximately USD 684m.

We believe that during 2007 favorable market conditions in the core areas of the company's activities will persist and the demand for steel will remain at a high level. These trends will be supported by, among other things, the projected rapid growth of the Russian economy. The consolidation of the global steel industry also contributes to keeping the prices at a steady level. We expect global steel prices to remain at a reasonably high level during 2007, which along with the major advantages of the company (low-cost production and efficient distribution policy), will enable us to generate considerable operating income and maintain high margins during the year.

Finally, I would like to thank our employees for their invaluable contribution to the successful development of our company. Their labor, experience and knowledge help to raise NLMK's reputation and put in place a unique platform for generating value. In 2006 NLMK has achieved new heights, and we will be pleased to keep our shareholders, colleagues and business partners informed of further developments during the current year and onward, as NLMK follows through on its strategy of being a leader in the global steel industry.

Sincerely yours,

Vladimir Lisin

PRESIDENT'S REVIEW

Alexey Lapshin

President, Chairman of the Management Board

Dear Shareholders,

In 2006 NLMK demonstrated robust production performance and record financial results. The company increased steel production at its main manufacturing facilities in Lipetsk and demonstrated high growth rates in revenue and operating income. The high performance indicators achieved by the company were, to a considerable extent, driven by steps we undertook in implementing our strategy of sustainable development, notably the acquisition of new entities and sale of non-core assets of NLMK.

In 2006 NLMK reached a qualitatively new level of development. The company acquired interests in overseas companies, thereby laying the foundation for further expansion of our international activities. Within the framework of developing our steel-rolling assets we have acquired the hot-rolled plate manufacturer DanSteel A/S, which processes NLMK's slabs and occupies a growing niche in the North European market for rolled products for shipbuilding and construction.

At the end of 2006 we acquired a 50% interest in a joint venture with the Duferco Group, based on European and North American assets of that company. The joint venture comprises a steelmaking factory and five steel-rolling entities, with an aggregated output of finished goods of about 4.5m tonnes plus a chain of service centers. Participation in this project will enable us to considerably strengthen NLMK's position in major markets and to gain wider access to high-quality rolling assets with a view to developing our portfolio of high value-added products.

Last year we completed a major acquisition of one of the world's major producers of transformer steel, VIZ-Stal, which enables us to claim a leadership position in the global market for electrical steel.

In 2006, we made another important step in ensuring self-sufficiency in major raw materials. After the acquisition of Russia's largest independent coke manufacturer, Altai-koks, NLMK has reached 100% self-sufficiency in quality raw coke, which allows us to implement our programme of further development.

Under the terms of the OJSC Altai-koks acquisition, NLMK also acquired the Prokopievskugol Group of Companies, which is engaged in coking coal extraction and processing. At the date of the acquisition, Prokopievskugol demonstrated negative financial results caused by volatility in the raw coal market and high production costs due to the complexity of underground extraction techniques. To reach a profitable level of operations, it was not enough just to make new capital investments; the task also called for a restructuring of Prokopievskugol's assets, which would adversely affect the social situation in Prokopievsk. Given these factors, we accepted a proposal to transfer that asset to a Municipal State company representing the City Administration of Prokopievsk.

2006 was a significant year in terms of further technical upgrade of NLMK assets and an increase in our production capacities. For these purposes, the company invested a record-setting amount of USD 619m.

Upon completion of capital repairs to manufacturing equipment at the main manufacturing facilities of NLMK in Lipetsk, steel manufacturing hit 9.1m tonnes (+8% year on year). Greater production volumes of the parent company, as well as consolidation of production indicators of new steel-rolling assets, enabled us to increase flat product output to 5.1m tonnes (+8% year on year). Output of high value-added products went up by over 12%, driven, among other things, by an increase in the manufacture of both coated rolled products (+45% year on year) and grain-oriented steel (+64% year on year).

Favourable global and domestic market conditions, growth in production volumes and the acquisition of new assets provided the impetus for a significant increase in NLMK Group sales. In 2006 the company sold 9.3m tonnes of steel products (+13% year on year) of which exports made up the major part. The trend toward sustainable growth of domestic supplies for the company has persisted. In 2006, the major export markets for NLMK`s steel products were the EU, North America, Turkey and the Middle East, and Asia.

In 2006 NLMK demonstrated a record-setting financial performance. Revenue rose to USD 6,046m up 38% year on year. The growth of self-sufficiency in major types of raw materials boosted our competitive advantage as a low-cost steel manufacturer at a time of growing prices of energy and raw materials. Production cost per tonne of sold slabs on a consolidated basis was USD 169.

Stringent control of production costs drove EBITDA growth to USD 2,631m an increase of 26% year on year. Our EBITDA margin reached 44%. In terms of EBITDA margin, NLMK is a global leader among the major steel producers. During 2006 the company also sold a number of non-core assets. Disposals became another driver of net incomes growth, which rose to USD 2,066m (+50% year on year).

In 2006 NLMK's Board of Directors approved a large-scale Technical Upgrading Programme for the period through to 2011, shaped in accordance with NLMK`s Group development strategy of becoming one of the most efficient global manufacturers of steel and rolled products. The Programme's main objectives are to increase the efficiency of our production by reducing unit costs, increase production levels, improve the quality and range of our products, raise both our labour productivity and lessen the environmental impact of our operations.

Within the framework of this Programme, NLMK`s management is determined to implement the following major activities: increase the capacity of iron ore materials production, construct a pellet production plant, renovate two blast furnaces and construct a new blast furnace, renovate current converters and continuous-casting machines and construct a new converter. We also plan to upgrade both rolling-mill equipment and energy generating units.

Implementation of these plans will raise our steel production by 40%, increase rolled steel product output by 90% (through upgrading the existing production facilities and acquisition of rolling mills in the key markets) and enable us to reach a new level of self-sufficiency in raw materials and energy.

To improve the efficiency of management processes, in 2006 NLMK put in place a divisional management system in line with major segments of added value generation. The reorganization of the management structure and establishment of operating divisions became a logical step on the way to improving the transparency of the governance structure of our growing Group. The new structure boosts the sharing of successful management expertise across the newly acquired assets of NLMK. This will help to significantly increase the efficiency of all divisions within the company and to considerably expand opportunities for the Group to generate added value.

The company undertook certain steps to streamline staffing levels, which resulted in a considerable growth of labour productivity. For example, steel output per employee at the parent company increased by 11% during the year. Our policy of improving remuneration and labour incentive systems is focused on encouraging skilled labour, attracting younger workers and boosting employee motivation.

In addition to a focus on bolstering employees social security, we seek to position the company as Russia's industrial safety leader. By consistently pursuing initiatives in this area we have been able to reduce the number of occupational accidents at the parent company by 30% while maintaining production growth.

Our achievements in strengthening vertical integration, upgrading our technology, improving our corporate governance system and enhancing our employees social security have enabled the company to strengthen its competitive advantages and improve the efficiency of operations across the Group.

The impressive results demonstrated by the Group in recent years, well-established cooperation with the company's shareholders, a well-balanced development strategy and successful experience of implementing large investment projects have laid a solid foundation for maintaining the leading position of the company amongst global steel manufacturers in terms of production and financial efficiency.

Sincerely yours,

Alexey Lapshin

NLMK GROUP VISION, MISSION AND STRATEGY

Vision

We are committed to strengthening our leadership position in terms of profitability, product quality and technological advancement within the steel industry.

Mission

Our mission is to be the preferred supplier of flat steel products to our core customer base and to be among the most profitable steel producers in the world, enjoying sustainable growth in revenues and profits.

Strategic Goals

We plan to pursue the following strategic goals:

- To be among the world's most profitable steel companies. We are committed to a "profits before tonnes" approach;
- To strengthen our market leadership and expand our product range in value-added flat steel products in our core markets;
- To utilize our key competitive advantage in low cost production of crude steel through organic growth and continuing modernization of our facilities;
- To pursue external growth initiatives through enhanced vertical integration, balancing and strategic acquisitions;
- To maintain and enhance high standards of corporate governance, social and environmental protection.

Strategy

We intend to pursue the following key strategic initiatives:

- To implement the Second Phase of the Technical Upgrading Program (2007-2011). The key strategic goals of the Second phase of the Technical Upgrading Program are as follows:
  - To increase crude steel production by 40% to 12.4m tonnes per year at our main production site in Lipetsk;
  - To ensure continuity of supply of low cost, high quality raw materials through increased self sufficiency and long term arrangements to cover the projected increase in steel production;
  - To increase the production of finished flat steel products by 90% to at least 9.5m tonnes per year both at Russian and overseas facilities;
  - To increase energy self-sufficiency to cover 60% of our needs at the Lipetsk production site.

- Dynamic expansion through disciplined and synergy-driven M&A activity. NLMK's M&A policy is based on two major pillars: (1) pursuing strategic acquisition opportunities in our core markets, and (2) optimizing the existing asset portfolio of the company to strengthen business value chain.

Our selective M&A approach is based on applying consistent criteria:

- To pursue M&A activities which deliver substantial synergy benefits;
- To focus M&A developments on the company's core markets (the EU and North America) and core business segments;
- To assess each investment individually, but within the context of the overall long-term strategy.

Acquisitions in the core markets will advance the following strategic goals:

- To enable the maximum utilization of our key competitive advantage in low cost steel production through converting semi-finished products into value-added finished steel products overseas;
- To strengthen NLMK's leadership in finished steel products in our core markets and to build up market share;
- To expand our customer reach and market penetration by utilizing our service center network and distribution capabilities;
- To transfer technologies and management know-how from acquired companies across the group and to reduce the costs of technological and business enhancements;
- To gain the recognition of foreign customers currently moving production facilities to Russia e.g. automotive producers, appliance manufacturers etc...

Optimization of the existing asset portfolio to meet the following strategic objectives:

- To consolidate our core assets across the company's value chain to maximize their value;
- To unlock the value of non-strategic assets;
- To maximize returns to our shareholders by using the proceeds from divesting non-core assets for special dividend payments;
- Maintaining a high level of vertical integration:
  - To hedge against supply side constraints and raw material price fluctuations;

- To focus our vertical integration strategy on securing supplies of low cost raw materials.

- Building up an efficient management structure:
  - To develop a divisional management structure organized along the key segments of the company's value chain;
  - To increase the quality and transparency of decision-making;
  - To enhance management accountability to shareholders.

2006 MAJOR DEVELOPMENTS

JANUARY

Novolipetsk Steel (NLMK) acquired 100% of the shares of DanSteel A/S for USD 104m. The transaction was financed in full from the company's existing cash funds. The acquisition is an important step in the implementation of NLMK's growth strategy in the area of increasing the manufacture of high value-added products to achieve market-share gain in Western Europe and sustainable value enhancement.

OJSC NLMK completed the sale of a 12% stake in Lebedinsky GOK for USD 400m. The transaction was completed as part of the company's investment portfolio management strategy.

MARCH

NLMK announced the launch of an internal restructuring programme aimed at optimizing the asset portfolio of the company, strengthening the vertical integration of the company and building up an efficient management structure.

APRIL

NLMK acquired an 82% interest in Altai-koks coke-chemical plant, and a 100% interest in holding company Kuzbass Asset Holdings Limited, Gibraltar, which owns 100% of interest in Prokopievskugol Group of Companies.

A resource-saving policy was introduced aiming to reduce the cost of products and the energy-output ratio of steel manufacturing.

A new turbine generator was put into operation at OJSC NLMK's combined heat and power plant, with an installed capacity of 25 MWatts. Its operation will improve the reliability of power supply for the blast-furnace plant and some other plants, and reduce the costs of steel product manufacturing without increasing the impact on the environment.

MAY

Global Depository Shares of OJSC NLMK (LSE: NLMK) were included in the MSCI Emerging Markets Index.

JUNE

NLMK's Annual General Meeting was held. The shareholders elected the Board of Directors of the company, Internal Audit Commission members and the President (Chairman of the Management Board) of the company, and approved the company's auditor. Also, the shareholders approved a new wording of the company's Charter, Regulations on the Board of Directors, Regulations on the company's Management Board, Code of Corporate Governance and Dividend Policy. The shareholders also approved profits distribution, including dividends based on the results of the financial year.

A new membership structure was approved for three Board of Directors committees: the Strategic Planning Committee, the Audit Committee and the Human Resources, Remuneration and Social Policy Committee.

During the meeting held on June 19, 2006 the Board of Directors approved new structure and membership of the company's Management Board within the framework of the company's internal restructuring plan.

Standard & Poor's raised NLMK's rating from BB to BB+, forecast “stable”. At the same time, its national rating was raised from “ruAA” to “ruAA+”.

NLMK won the annual contest “Best Corporate Environmental Project” arranged by the Federal Agency for the Environment, Technology and Nuclear Supervision.

JULY

NLMK acquired an additional 30% stake in LLC NTK, a logistics provider of the company. After the completion of this transaction NLMK's interest in its share capital hit 100%.

The Board of Directors of Stock Exchange MICEX on June 21, 2006 resolved to include the ordinary shares of OJSC Novolipetsk Steel (NLMK) in the Quotation List B of the Moscow Interbank Currency Exchange (MICEX).

AUGUST

The company's Quality Management System successfully passed its second supervisory audit to comply with ISO/TS 16949:2002 (Quality management systems – Particular requirements for the application of ISO 9001:2000 for automotive production and relevant service part organizations).

NLMK completed the acquisition of a 100% stake in VIZ-Stal, the second-largest Russian electrical steel manufacturer, for USD 550m. The entire transaction was financed in full from NLMK's existing cash funds.

SEPTEMBER

The Board of Directors of NLMK approved the key parameters of the Second phase of the Technical Upgrading Programme for 2007-2011, which focuses on increasing steel production, developing NLMK's raw materials self-sufficiency, expanding the output of finished rolled products and improving energy production at the main NLMK site in Lipetsk.

NLMK divested a 92% interest in OJSC Combinat KMAruda for USD 302.5m. This transaction was undertaken as part of NLMK's internal restructuring plan, a key aspect of which is to optimize the company's asset portfolio.

An Extraordinary General Meeting of OJSC NLMK's shareholders resolved to pay dividends on the ordinary shares of NLMK in the amount of RUR 1.50 per ordinary share based on the performance results for the first six months of 2006.

NOVEMBER

At the 7th annual convention of Indesit suppliers, “Per Vincere Insieme” (Together to Win), NLMK won an award in the “Rolled Products Supplier” category for best quality.

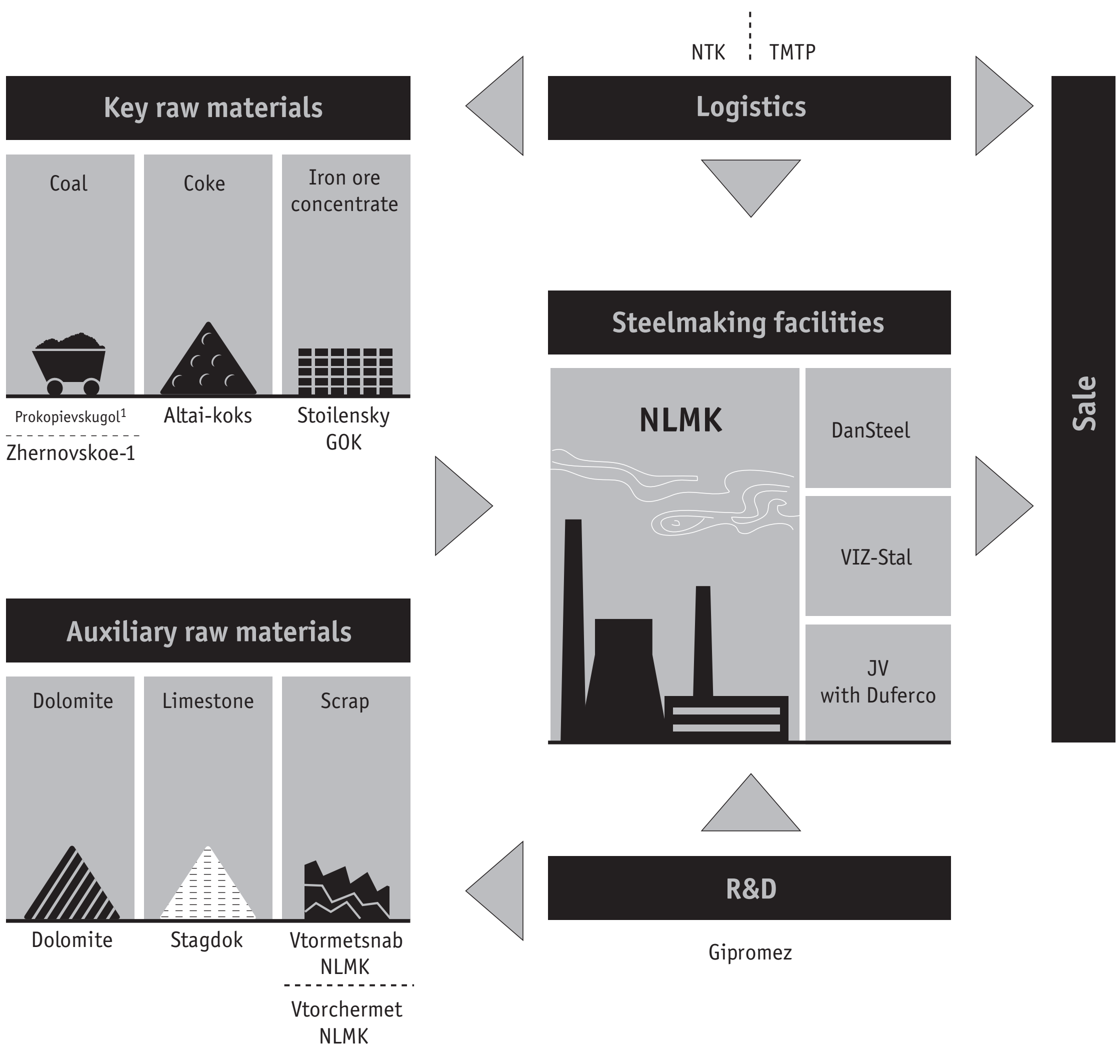
DECEMBER

Moody's increased NLMK's credit rating from Ba2 to Ba1, with a change of forecast to “stable”. At the same time, Moody's Interfax rating agency increased NLMK's national rating from Aa2.ru to Aa1.ru.

NLMK agreed to dispose of its stake in energy assets that, according to the decision of the Board of Directors, were classified as non-core investments.

NLMK completed the acquisition of a 50% interest in the joint venture with the Duferco Group, which owns and operates a number of steel production and distribution facilities in Europe and the USA. The purchase price of about USD 805m was financed in full from NLMK's existing cash funds.

VALUE CHAIN



1. In April 2007 NLMK accepted a proposal from the Local Administration of Prokopievsk to sell this asset.

NLMK GROUP TODAY

NLMK is a vertically integrated steel company that controls its main suppliers of raw materials and to a considerable extent is self-sufficient in meeting its energy requirements.

The parent company of NLMK Group specializes in the production of rolled steel in a variety of grades and sizes. The company produces around 13% of Russia's total steel output. Scoring fourth place in Russia's steel production, NLMK is the most profitable among Russian steel producers and holds a leading global position in terms of profitability. High value-added products make up a large part of overall production. The company is a leader in cold-rolled steel and coated steel manufacturing in Russia and is one of the largest producers of electrical steel in the world.

In addition, the Group's steel assets include hot-rolled thick plate producer DanSteel A/S, Denmark, and LLC VIZ-Stal, the second-largest Russian electrical steel manufacturer.

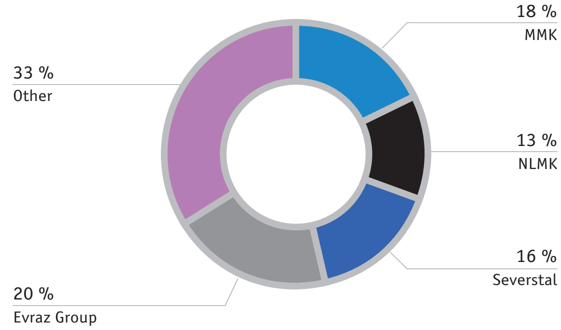
The Group's structure also includes mining companies supplying the main types of steelmaking raw materials, which provides for significant control over production costs. Stoilensky GOK, a mining company that is 97% owned by NLMK, is Russia's third-largest iron ore producer. In addition to iron ore, Group companies produce coke, dolomite and limestone, which are also used in the steelmaking process.

Group companies also contribute to optimizing commodity flow and provide a reliable supply of raw materials.

There is a steady demand for the company's products from both domestic and international markets. Our export sales generated 59% of NLMK's sales revenue. At present, NLMK's major export markets are the EU, North America, the Middle East and Turkey, Asia and Australasia.

The Group's structure is determined by its operating divisions, which are responsible for specific activities. The company has adopted an internal restructuring plan, during which a Corporate Center was set up to increase the efficiency of the company's business processes by centralizing key management functions.

NLMK`s share in the Russian steel industry production in 2006



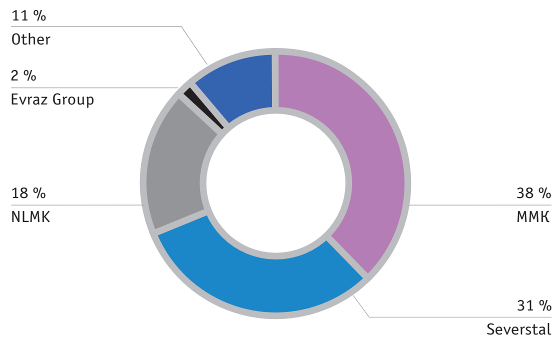
The main operating divisions of the Group are as follows:

- The steel division includes OJSC NLMK, the parent company; DanSteel A/S, a Danish hot-rolled plate manufacturer consolidated by the Group in 2006; and LLC VIZ-Stal, an electrical steel producer;
- The mining division includes OJSC Stoilensky GOK, OJSC Dolomite and OJSC Stagdok, all which produce metallurgical raw materials for the parent company. In addition, OJSC Combinat KMAruda was a member of NLMK Group from April to September. A 92.04% stake in this company was sold in late August 2006 in line with the company's sustainable growth strategy, one element of which is to unlock the value of non-strategic assets;
- The coal division includes raw materials assets OJSC Altai-koks and the Zhernovsky-1 coal deposit, for which NLMK holds the State license. In 2006 the division also included the Prokopievskugol Group of Companies, sold to the Local Administration of Prokopievsk in April 2007.

In 2006 we carried out further activities to provide the parent company with scrap: two companies specializing in this area began operations.

The company's logistic assets comprise LLC NTK and OJSC TMTP. NTK provides a reliable supply of raw materials for steel manufacturing and delivering finished products to customers both in Russia and overseas. TMTP is a major seaport operator in Tuapse (Black Sea), Russia's fifth-largest port in terms of transshipments.

NLMK`s share in the Russian industry production of flat-rolled products in 2006



Source:
Federal State
Statistics
Service,
Chermet

The NLMK Group also includes finance and insurance companies: OJSC Lipetskcombank and LLC LIC Chance.

The asset structure of NLMK provides for a high level of self-sufficiency in raw materials and efficient control over production costs, through which the company retains the value created at all stages of the value chain.

As of the end of 2006, NLMK was 100% self-sufficient in iron ore concentrate and coke. Additionally, around 43% of energy requirements at the main production site of NLMK in Lipetsk is generated by internal facilities.

The company devotes special attention to the introduction of new technology, thereby remaining Russia's leader in technological innovation. As a part of our Technical Upgrading Programme to increase the quality and competitiveness of our products and cut production costs, NLMK has considerably improved its technological standards and equipment.

The successful implementation of the Technical Upgrading Programme and effective control over production costs enables the Group to retain its competitive advantage of low cost steel production and retain its leading profitability level among the world's top steel producers.

Our sound financial position is confirmed by the highest credit ratings among Russia's steel companies. In 2006, the rating agencies responded positively to the company's achievements. Both Standard & Poor's and Moody's reviewed and raised NLMK's credit rating.

NLMK

WE BECAME
THE WORLD`S LARGEST SUPPLIER
OF GRAIN-ORIENTED STEEL

Nº1

after acquiring VIZ-Stal

STEELMAKING AND ROLLING

Production of steel products is NLMK's core activity. The company's steel manufacturing assets include the Group's parent company OJSC NLMK, thick plate producer DanSteel A/S and LLC VIZ-Stal, the second-largest Russian producer of electrical steel.

OJSC NOVOLIPETSK STEEL (NLMK) – (PARENT COMPANY)

Company Profile

OJSC NLMK, the Group's parent company, is a key asset of the steel division. OJSC NLMK is one of Russia's top manufacturers of rolled steel products. The company is a leading producer of cold-rolled steel products in Russia and one of the largest producers of electrical steel in the world.

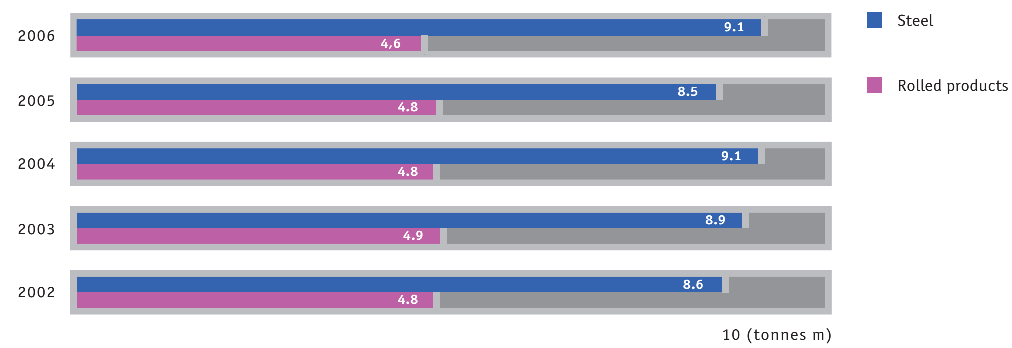
OJSC NLMK produces a wide range of quality steel products. Our product range includes pig iron, semi-finished steel products (slabs); hot-rolled and cold-rolled steel; non-grain-oriented and grain-oriented electrical steel; galvanized and pre-painted steel. NLMK's products are used in the automotive industry, shipbuilding, steel structure manufacturing, construction and other industries. Its rolled products have been certified by the leading Russian and world certification agencies. A high level of technology standards and equipment provides tight control over the quality of products manufactured at all stages of the technological process. This is reflected in the high level of consumer confidence in OJSC NLMK's products.

OJSC NLMK is an integrated steel producer; its steelmaking facilities occupies approximately 27 square kilometers. The facilities include:

- a sinter plant;
- a coke plant;
- a blast-furnace plant;
- a steelmaking plant;
- a hot-rolling plant;
- a cold-rolling plant and coated steel;
- a grain-oriented steel plant;
- a non-grain-oriented steel plant.

In addition to the production facilities, OJSC NLMK has an maintenance plant, a construction and repair plant, power and energy facilities and transportation facilities.

NLMK`s production of steel and rolled products in 2002-2006



A high concentration of major production facilities in one area is one of the company's major advantages, optimizing the production process and reducing transportation costs for products in subsequent processing lines.

High standards of technology and equipment of the company, maintained through the activities of OJSC NLMK's R&D professionals as well as the continuous introduction of advanced technologies and modernization of the existing equipment, allow NLMK to achieve high utilization of production capacities. In 2006, NLMK's steel production facilities had 98% utilization rate. In 2006, utilization rate of rolling facilities ranged from 92% to 102%. Engineering capacities of melting facilities enable the company to improve the quality of goods and meet expectations of the company's customers around the world. In addition to deliveries to third parties, some of NLMK's products are transferred to DanSteel A/S and LLC VIZ-Stal, companies entering the Group's steel division. NLMK is a major supplier of steel semi-finished products for DanSteel A/S and hot-rolled steel for LLC VIZ-Stal.

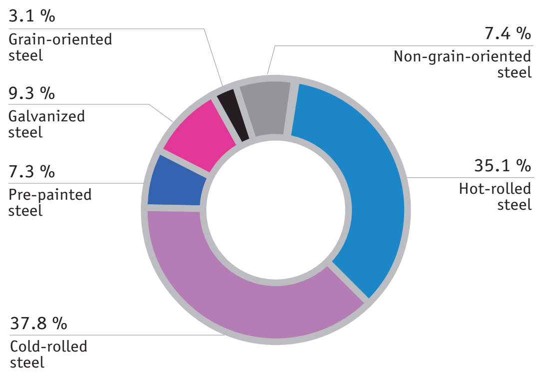
Production Volumes

Production volumes in 2005-2006

(thousand tonnes)	2006	2005	Изменение	
			+ , -	%
Sinter	14,219	12,931	1,288	10.0%
Coke with 6% moisture	3,896	3,836	60	1.6%
Pig iron	9,043	7,886	1,157	14.7%
Steel	9,125	8,468	657	7.8%
Marketable pig iron	845	399	446	111.8%
Slabs*	3,866	3,203	663	20.7%
Hot-rolled steel*	1,626	2,029	-403	-19.9%
Cold-rolled steel	1,752	1,744	8	0.5%
Hot-dip-galvanized steel	430	266	164	61.7%
Pre-painted steel	341	265	76	28.7%
Grain-oriented steel	142	133	9	6.8%
Non-grain-oriented steel	342	339	3	0.9%

* Including supply to other NLMK Group companies

NLMK`s rolled production structure in 2006



Stable consumer demand for NLMK's products in 2006 and increased production capacity of its major facilities after completing Phase 1 of the Technical Upgrading Programme contributed to the growth of the company's production volumes.

In 2006, the parent company produced 3.9m tonnes of slabs and 4.6m tonnes of rolled steel products. Production of slabs increased significantly (+20.7% y-o-y) after we completed a planned overhaul of blast-furnace and steel making plants in 2005.

One of the main objectives of the company is a growing production of high value-added products such as cold-rolled, coated and electrical steel, that resulted in a change of the company's product mix and in a 19.9% y-o-y decrease of hot rolled products output. NLMK demonstrated the highest growth rate in coated steel manufacturing. Production of pre-painted steel increased by 28.7%, and hot-dip-galvanized steel production increased by 61.7% comparing with the last year numbers. Introduction of a new hot-dip galvanizing line at the production facilities in Lipetsk was the main factor contributing to the growth in coated steel production.

The company's increased production efficiency through upgrading technology standards and equipment, and the stable growth of downstream products fully comply with the development strategy of the NLMK Group.

DANSTEEL A/S

Company Profile

Expansion in core markets is another important area of the Group's development. In December 2005, NLMK acquired a 100% stake in DanSteel A/S. This acquisition was an important step towards strengthening NLMK's position in the international steel market. Furthermore, DanSteel A/S has a long history of partnership with NLMK- its biggest supplier of quality slabs since 2002.

The main production assets of the company include a rolled steel plant and its own harbour, from where approximately 70% of its production is loaded and shipped directly to customers.

The company's production includes structural steel, shipbuilding steel and steel for boilers and pressure vessels. DanSteel A/S manufactures plate sheets with a thickness ranging from 6 to 125 mm. The company's products are delivered to customers in Germany, Denmark, Sweden, the UK, Norway and France.

DanSteel A/S was established in 2002 as a continuation of Odense Stålskibsværft A/S / DDS.

DanSteel A/S hot-rolled plates production in 2003-2006

Production Volumes

In 2006, DanSteel A/S manufactured 468,000 tonnes of hot-rolled plates. In comparison with 2005, when 432,000 tonnes of rolled sheet products were manufactured, production increased by 8%. A major factor of this increase was growing demand for hot-rolled plates and, accordingly, NLMK's transition during the 4th quarter of 2006 to an operation mode providing for a greater number of work shifts. In 2006, over 563,000 tonnes of slabs were processed for the company's manufacturing purposes. The Group's parent company delivered the largest portion of these products to DanSteel A/S.

VIZ-STAL

Company Profile

Based in Ekaterinburg, LLC VIZ-Stal is one of the leading producers of cold-rolled electrical steels and the largest producer of grain-oriented electrical steel in Russia. LLC VIZ-Stal is a non-integrated steel plant producing grain-oriented steel and non-grain-oriented steel.

NLMK is the major supplier of hot-rolled coils for further cold rolling at VIZ-Stal. The company manufactures electrical steel for use in the production of power and switch transformers, welding and heat-treatment machinery, generators and over-frequency converters, engines and other products.

The main customers of electrical steels are leaders in power engineering, producers of domestic appliances and radio equipment, multinational companies such as ABB, Siemens, Areva and Schneider Electric, as well as large Russian transformer manufacturers.

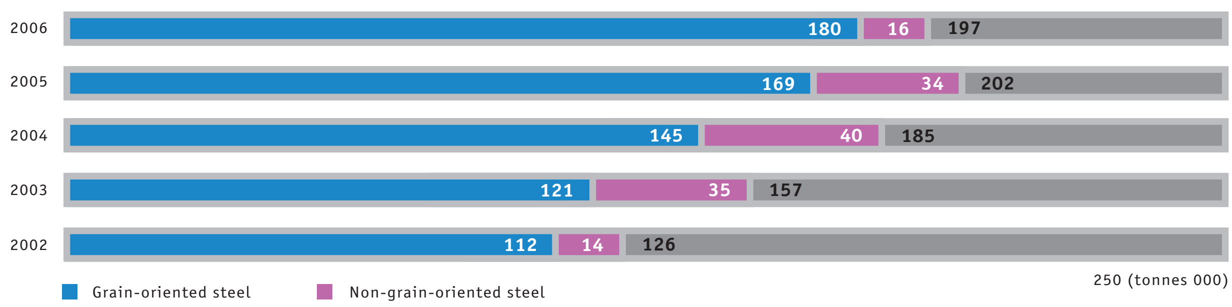
Production Volumes

In 2006, VIZ-Stal LLC produced a total of 197,000 tonnes of electrical steel (82,000 tonnes since joining the Group).

In 2006, production of its main product, grain-oriented steel, went up by 7% on 2005. The growth in production output was driven by higher market demand and increased technological capabilities for producing additional volumes of products.

In 2005, the company put additional technological lines into operation and improved the utilization of capacities on its main processing lines. In 2006, the utilization rate of grain-oriented steel production facilities reached 100%. Due to a fall in the efficiency of non-grain-oriented steel production, the available facilities were switched to the production of high quality grain-oriented steel. All operating lines are engaged in the production process.

LLC VIZ-Stal`s production of electrical steel in 2002-2006



The quality of VIZ-Stal's products is due to its strict observance of engineering standards and a quality management system maintained in compliance with ISO standards approved by the British leading certification agencies.

The company has adopted a Technical Upgrading Programme through to 2012. Phase 1 of the Programme, scheduled for 2007-2009, has been approved and is currently being implemented. A resolution on implementation of the Phase 2, for 2010-2012, will be approved based on the results of Phase 1.

Combining the production facilities of VIZ-Stal and NLMK within the Group will improve the efficiency of technological research and development efforts and reduce costs related to the introduction of new technology.

Consolidated production volumes of NLMK Group steel division in 2005-2006

(tonnes'000)	2006	2005	Change	
			+ , -	%
Slabs	3,463	3,203	260	8.1%
Hot-rolled steel	2,051	2,029	22	1.1%
Cold-rolled steel	1,752	1,744	8	0.5%
Galvanized steel	430	266	164	61.7%
Pre-painted steel	341	265	76	28.7%
Grain-oriented steel	218	133	85	63.9%
Non-grain-oriented steel	348	339	9	2.7%

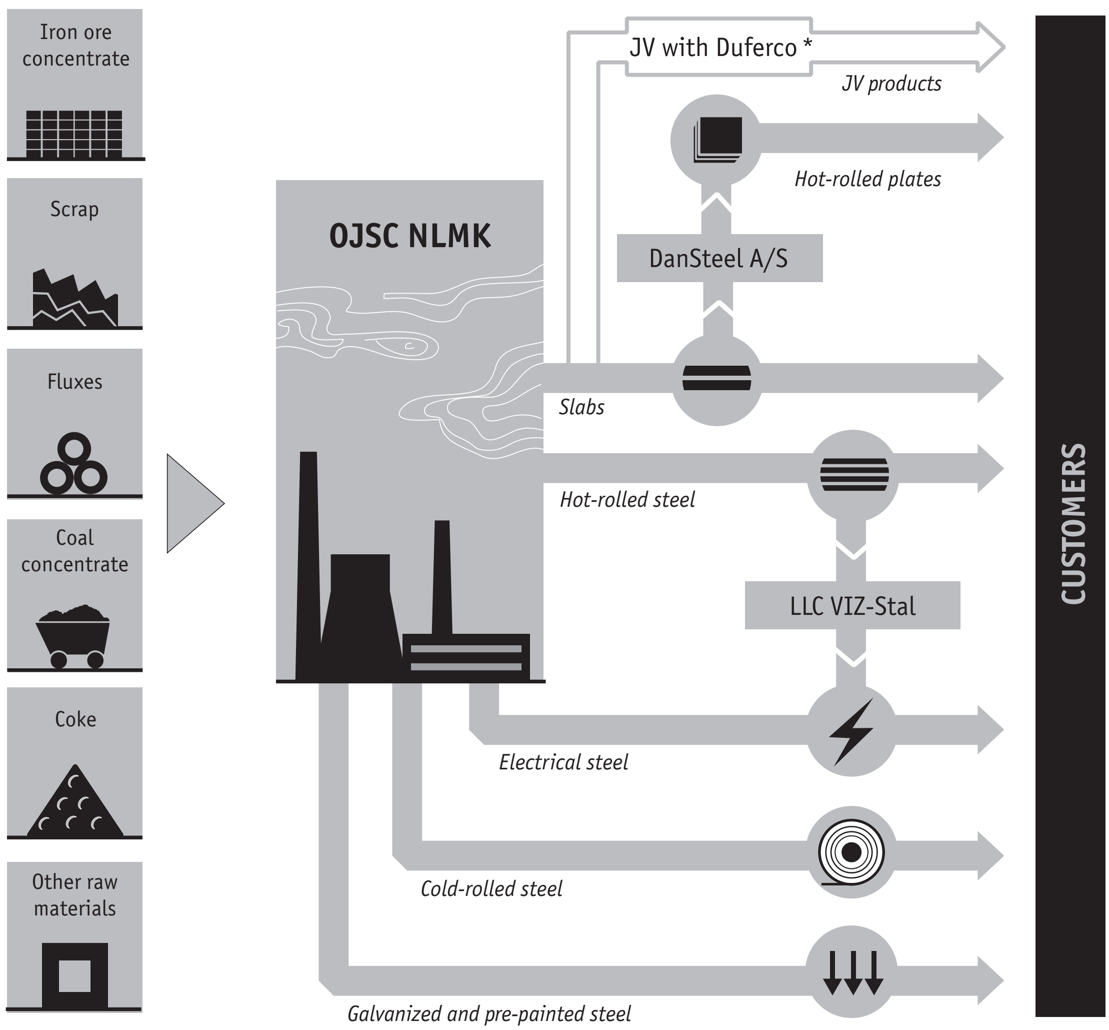
Not including products consumed within the division.

JOINT VENTURE WITH THE DUFERCO GROUP

At the end of 2006, NLMK entered into an agreement with the Duferco Group to establish a joint venture to acquire a number of steelmaking and steelrolling assets owned by the Duferco Group. The joint venture was formed through Steel Invest & Finance S.A. (Luxembourg), a limited liability company established under the laws of Luxembourg in which both companies hold a 50% interest.

The proposed purchase price is USD 805m. The final purchase price is subject to post-closing adjustment based on the results of the audited financial statements of the joint venture companies for the financial year ended September 30, 2006. The purchase price adjustment is expected to be completed in the second quarter of 2007. The deal was financed in full out of NLMK's existing cash funds.

INTERACTION AMONG COMPANIES OF THE STEEL DIVISION OF NLMK GROUP



** NOTE: The strategic partnership is planning to start in 2007.*

The joint venture comprises one steelmaking and five rolling assets with a total finished steel output of 4.5m tonnes in 2006. In addition, the joint venture includes nine distribution facilities.

Companies in the joint venture with the Duferco Group

Production	Interest
Duferco Clabecq S.A. (Belgium)	99.7%
Duferco La Louviere S.A. (Belgium)	87.9%
Duferco Coating S.A.S. (France)	90.6%
Acciaierie Grigoli S.p.a. (Italy)	75%
Carsid S.A. (Belgium)	100%
Duferco Farrell Corp. (USA)	100%

Distribution	Interest
SAFEF Thionville S.A.S. (France)	100%
SAFEF Belgique S.A. (Belgium)	100%
Duferco France S.A. (France)	100%
Duferco Profil Batiment S.N.C. (France)	100%
New Steel S.N.C. (France)	100%
Duferco Aciers S.A. (France)	99.9%
Jemappes Steel Center S.A. (Belgium)	100%
Manage Steel Center S.A. (Belgium)	50.1%
Rosso Steel AS (Czech Republic)	50.0%

Joint Venture companies – production:

Carsid S.A. (Belgium), a semi-finished steel producer with annual slab production capacity of 2.1 million tonnes. Slab production in the year ended September 30, 2006 was 1.85 million tonnes.

Duferco La Louviere S.A. (Belgium), a rolled steel producer, with annual production capacity of:

- 2.0m tonnes of hot-rolled products;
- 1.6m tonnes of cold-rolled products;
- 0.36m tonnes of wire rod.

Based on the results of the year ended September 30, 2006, the company produced 2.1m tonnes of finished steel products.

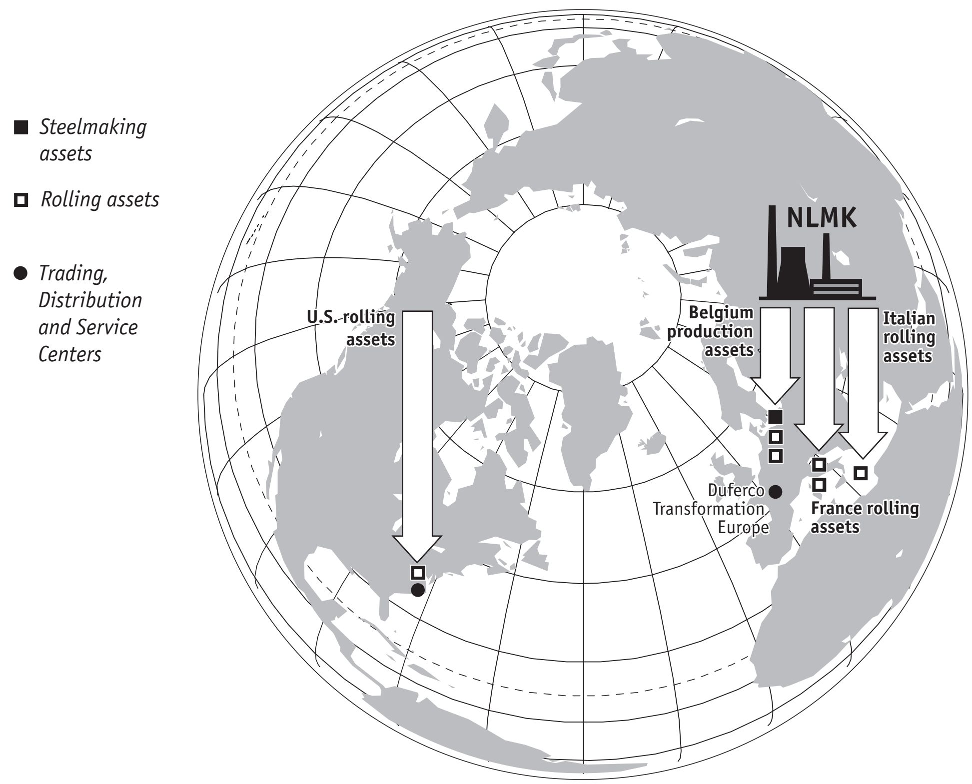
Duferco Clabecq S.A. (Belgium), manufacturer of thick plates. Rolling capacity: 0.8m tonnes per year. Based on the results of the year ended September 30, 2006, the company produced 0.6m tonnes of thick-gauge plates.

Duferco Coating S.A.S. (France), a coated steel producer, comprising two production units: Sorral (with annual hot dip galvanized steel capacity of 0.32 million tonnes and pre-painted steel capacity of 0.12 million tonnes) and Beautor (with annual cold-rolling capacity of 0.35 million tonnes and electrogalvanized steel capacity of 0.33 million tonnes). Production in the year ended September 30, 2006 was 0.27 million and 0.24 million tonnes in Sorral and Beautor respectively.

Duferco Farrell Corp. (USA), a flat-rolled steel producer with annual production capacity of 1.8m tonnes of hot-rolled and annual cold-rolling capacity of 0.8m tonnes. Finished steel production in the year ended 30 September, 2006 was 1.6m tonnes.

NLMK TO JV SLABS SUPPLY

2007E ▸ 1,200 th t | 2012E ▸ 3,600 th t



JV major assets

Belgium production assets	France rolling assets	U.S. rolling assets	Italian rolling assets
Duferco Clabecq S.A.	Duferco Coating Sorral S.A.	Farrell Corp.	Acciaierie Grigoli S.p.a.
Duferco La Louviere S.A.	Duferco Coating Beautor S.A.		
Carsid S.A.			

Acciaierie Grigoli S.p.a. (Italy), a heavy plates and forging ingots producer in Italy with annual heavy plates production capacity of 0.6m tonnes. Finished steel production in the year ended September 30, 2006 was 0.15m tonnes.

Joint Venture companies – distribution:

The companies within the distribution group include nine service centers engaged in the distribution of products manufactured by Duferco companies and third parties. The service centers are located in France, Belgium and the Czech Republic. Total product flow in the service companies in the year ended September 30, 2006 was 1.0m tonnes, of which 85% was attributed to Duferco products and the remaining 15% to products of third parties.

Strategic cooperation

The deal with the Duferco Group was completed as part of NLMK's strategy of expanding our presence in the strategic markets and increasing our share of high value-added products.

It is anticipated that by 2012, the share of high value-added products manufactured by NLMK and its joint venture companies will reach 58%, as compared with NLMK's current 42% share.

NLMK and Duferco's strategies complement each other. NLMK's strategic objective is to develop our raw materials base and to increase low-cost production of quality slabs for rolled product manufacturing using the production facilities acquired in core markets. NLMK intends to raise slab production by 3.4m tonnes. Concurrently, Duferco is planning to increase its output of high value-added products, including special-grade rolled products. Duferco lacks semi-finished steel products capacity and has excess rolling capacity.

The creation of the joint venture is fully consistent with NLMK and Duferco's strategies and provides for substantial industrial benefits, increased sustainability of earnings, stronger market positions and technological advancements.

Greater supplies of NLMK's quality slabs to the rolling facilities of the joint venture companies will create substantial synergies. With the planned volume of slab supply increasing from 0.5 million tonnes in 2006 to 3.6 million tonnes by 2012, the total synergy effect including industrial, commercial, and R&D synergies is estimated at around USD 330 million.

The parties have agreed to embark on an ambitious technical upgrade and expansion programme for the joint venture companies providing for total investments of approximately EUR 375 million. The investment programme is intended to boost production of finished products, increase output of high value-added products, enhance product quality as well as increase of production of special grades of steel (hot-rolled plates for tube manufacturing, hardened steel, cold-rolled products and galvanized steel for the automotive sector, etc.) through technical upgrade and modernization.

Additional information: With operations in over 40 countries, the Duferco Group is a leader in the manufacture, processing and selling of all types of steel products, including semi-finished products. The Duferco Group's products enjoy stable demand from companies in the mechanical engineering, automotive and shipbuilding industries, the construction sector and others.

WE ACHIEVED TOTAL SELF-SUFFICIENCY IN IRON ORE CONCENTRATE

100%

of the company`s demand

IRON ORE

RAW MATERIALS PRODUCTION

Extraction and processing of iron ore raw materials is another major business line of the company. This enables the company to control costs of the main raw materials which are used to produce steel and mitigate the effects of raw material price fluctuations in the market.

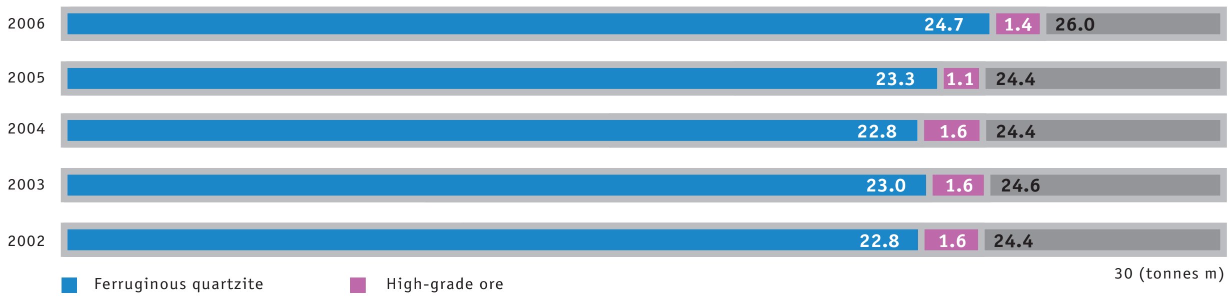
OJSC Stoilensky GOK is the main company in the mining division. It was consolidated into NLMK Group in 2004.

OJSC Stoilensky GOK fully meets NLMK's requirements in iron ore concentrate.

Iron ore raw materials are processed by NLMK's sinter plant, which manufactures blast-furnace sinter that is used as a raw material for the production of pig iron.

OJSC Combinat KMAruda (iron ore extraction and processing) was a part of the division from March to August 2006. In August, the company's stake in OJSC Combinat KMAruda was divested for USD 302.5m as NLMK's iron ore concentrate needs were fully met by OJSC Stoilensky GOK, the main company of the mining division.

OJSC Stoilensky GOK crude ore production in 2002-2006



STOILENSKY GOK

OJSC Stoilensky GOK extracts and processes iron ore from the Stoilensk deposit, located within 350 km from the main production site in Lipetsk. The asset is located in the city of Stary Oskol, in Russia's Belgorod Region. Currently, Stoilensky GOK is one of the leading Russian facilities in terms of volumes of iron ore raw materials produced for the steel industry. The company accounts for 16% of total commodity iron ore production in Russia. It employs around 6,000 people.

OJSC Stoilensky GOK holds a special-purpose mining license which is due to expire 2016. The license can be extended as provided by the Federal Law ”On Mineral Resources”.

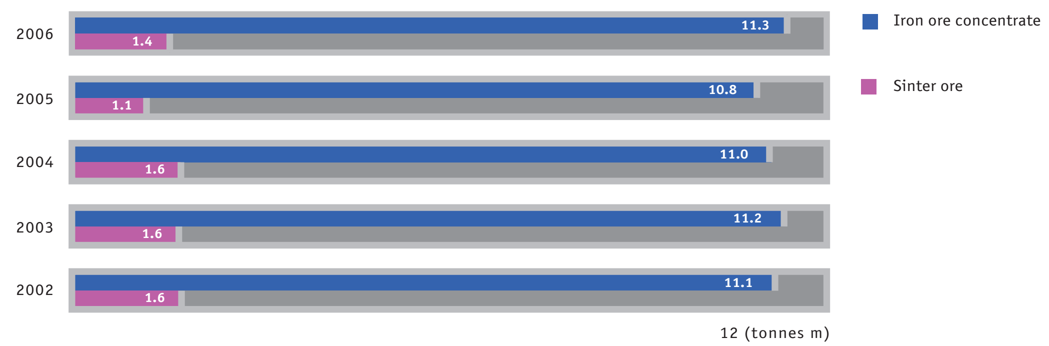
As at the end of 2006, proved licensed resources estimated using Russian valuation techniques were:

- high-grade iron ore:
  B+C1 categories – 56m tonnes;
  C2 category – 12m tonnes;
- iron ore:
  B+C1 categories – 4,910m tonnes;
  C2 category – 1,564m tonnes.

The iron ore reserves will last for no less than 180 years and high-grade iron ore reserves will last for 35 years, if the current level of extraction is maintained.

OJSC Stoilensky GOK's major products include sinter ore (52% average iron content) and iron ore concentrate (66.3%), which are raw materials used by steel companies in the production process.

OJSC Stoilensky GOK production in 2002-2006



In 2006, the total production of high-grade iron ore at OJSC Stoilensky GOK was 1.4m tonnes, an increase of 27% comparing with the last year production results. Quartzite extraction reached 24.7m tonnes, 6% growth on 2005.

Iron ore concentrate production reached 11.3m tonnes (+5% y-o-y) and sinter ore production was 1.4m tonnes (+27% y-o-y).

In 2006, 91% of iron ore concentrate shipments and 47% of sinter ore shipments were to the parent company. Stoilensky GOK also sells some portion of its production to other Russian, Ukrainian and Eastern European companies.

Stoilensky GOK's objective is to develop its iron ore concentrate production capacity and to put into operation a pellet plant with an annual capacity of 3m tonnes of pellets to fully supply the parent company with iron ore raw materials.

Consolidated operating performance of the mining division of NLMK Group in 2005-2006

(tonnes'000)	2006	2005	Change	
			+ , -	%
Iron ore concentrate *	12,219	11,267	952	8.4%
Sinter ore	1,377	1,081	296	27.4%

* Includes production of OJSC Combinat KMAruda, which was a member of NLMK Group in Q1 of 2005 (production output of 457 thousand tonnes), and from March to August in 2006 (production output of 914 thousand tonnes).

SELF-SUFFICIENCY
IN COKE IS OVER

100%

of internal demand

COAL AND COKE
PRODUCTION

Coal processing is an important area of NMLK's business development. To minimize the costs of steel production and to reduce industry risks resulting from coal and coke price fluctuations, NLMK considers and implements projects that allow the Group to ensure the achievement of its strategic goals.

ALTAI-KOKS

Located in Zarinsk, Altai Region, Altai-koks is one of the leading Russian coke-chemical plants. It produces high-quality coke and chemical products. NLMK acquired Altai-koks in April 2006.

The company has a total annual production capacity of 5m tonnes of coke (of 6% moisture) including production of the fifth coke battery, which was commissioned at the end of 2006. Modern production technology guarantees high-quality production and represents a competitive advantage over other Russian coke-chemical plants.

The company's major products include coke and a wide range of chemical products, such as coal-tar oil, crude benzol, and ammonium sulphate. Steel companies are the major consumers of coke while other products are shipped to chemical and agricultural companies.

In 2006, the production of coke reached 3.0m tonnes, growth of 9% y-o-y, with 2.4m tonnes of coke produced since OJSC Altai-koks joined the NLMK Group (April-December 2006). OJSC Altai-koks sells the largest portion of its products to Russian customers. In 2006, the company shipped 0.7m tonnes of coke to NLMK Group companies.

OJSC Altai-koks production of 6% moisture coke in 2002-2006

PROKOPIEVSKUGOL GROUP OF COMPANIES

The Prokopievskugol Group of Companies was acquired by NLMK as an integral, conditional part of the Altai-koks coking facility.

Prokopievskugol companies are located in the city of Prokopievsk, Kemerovo Region. Prokopievskugol Group of Companies owns seven mines and three processing plants. The company's mines are characterised by the complexity of their exploitation, and the company uses a special underground mining technique.

Prokopievskugol Group's major products are coking coal concentrate, mine-run coking coal, energy concentrate and coal, and also mine-run coal.

Total coal production in 2006 reached 4.7m tonnes, including 3.4m tonnes of coking coal. It produced 2.5m tonnes of coking coal concentrate, 0.5m tonnes of energy coal, and 0.9m tonnes of other products. In 2006, the major part of its output was shipped to NLMK Group.

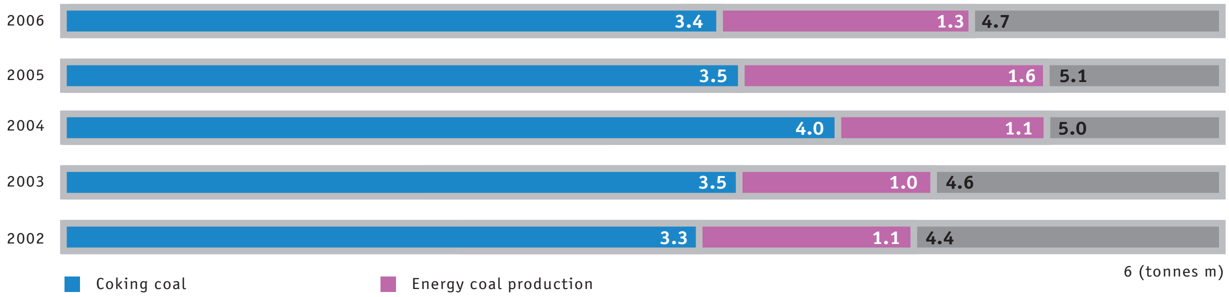
Due to unstable price trends in the Russian coal market and the high production costs of underground mining, Prokopievskugol Group of Companies reported a negative financial result when acquired by NLMK.

After the acquisition, the management of NLMK Group took a number of steps to improve the production and cost efficiency of the company. They achieved the following results:

- reduced liabilities to employees and state budgets of various levels;
- improved production process computerization and operational efficiency;
- reduced industrial accidents.

However, a large-scale investment programme to upgrade production assets and improve operational efficiency was also required to reach the break-even point.

Prokopievskugol Group of Companies coal production in 2002-2006



Due to the unstable market for coking coal and labor intensity of the underground mining techniques, these investments do not meet the investment efficiency requirements established for projects implemented within the NLMK Group. Due to the significant capital expenditure requirements and the need to further minimize losses, the Group accepted an offer to sell Prokopievskugol Group of Companies to the City Administration of Prokopievsk. In April 2007, the transaction was completed.

ZHERNOVSKOE-1

In May 2005, OJSC NLMK acquired a license for the exploration and development of the Zhernovskoe-1 coal deposit in the Kemerovo Region. According to the license, coking coal reserves of the mine are estimated at 239.9m tonnes.

At present, this project is in the design stage.

Production volumes of NLMK Group's Coal Division in 2005-2006

(tonnes'000)	2006[1]	2005	Change	
			+, -	%
Coke (6% moisture)[2]	6,263 (6,263)	3,836	2,427	63.3%
Coking coal concentrate	824 (1,950)	–	824	–
Energy coal and other products	1,014 (1,019)	–	1,014	–

1. Excluding production consumed within the division (Including production consumed within the division)

2. Including production of NLMK's coke-chemical plant

GROWTH IN CARGO FORWARDING SERVICES BY LLC NTK OF

26%

compared with 2005

OTHER
BUSINESS ACTIVITIES

FLUX PRODUCTION

The company's mining assets include enterprises involved in the extraction and processing of flux materials-OJSC Stagdok, a fluxing limestone producer, and OJSC Dolomite, a metallurgical dolomite producer. Both companies have been members of NLMK Group since 1999.

OJSC Stagdok

OJSC Stagdok is one of Russia's leading fluxing limestone producers. OJSC Stagdok fully satisfies NLMK's steel production requirements for fluxing limestone. The OJSC Stagdok mining facility is located within 20 km of NLMK's main production site. The company utilizes a fluxing limestone deposit with estimated reserves of 172m tonnes, which will last for 43 years at current extraction levels.

Fluxing limestone produced by OJSC Stagdok is mainly used for steelmaking, construction (ballast stone), sugar refining and in agriculture.

In 2006, the production output of OJSC Stagdok reached 3.1m tonnes, including 2.7m tonnes of fluxing limestone delivered to NLMK's main production site in Lipetsk.

OJSC Dolomite

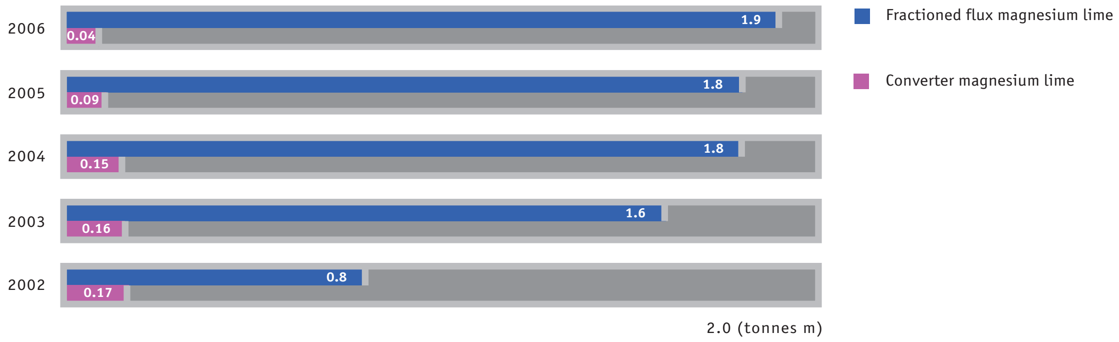
OJSC Dolomite is the largest Russian producer of metallurgical dolomite. Its limestone deposit, which is mined by open pit method, is located in the Lipetsk Region. OJSC Dolomite has reserves of 397m tonnes. These reserves will last for over 100 years at current extraction levels.

The company's major products are fractioned dolomite used for sinter and steelmaking, and converter dolomite used for the production of converter firebricks. In addition, the company produces dolomite powder that is used in agriculture, the construction industry, glass manufacturing for the electro-vacuum industry, and for producing heat insulating materials and powder construction composites. Dolomite powder is also used as filler for asphalt-concrete composites.

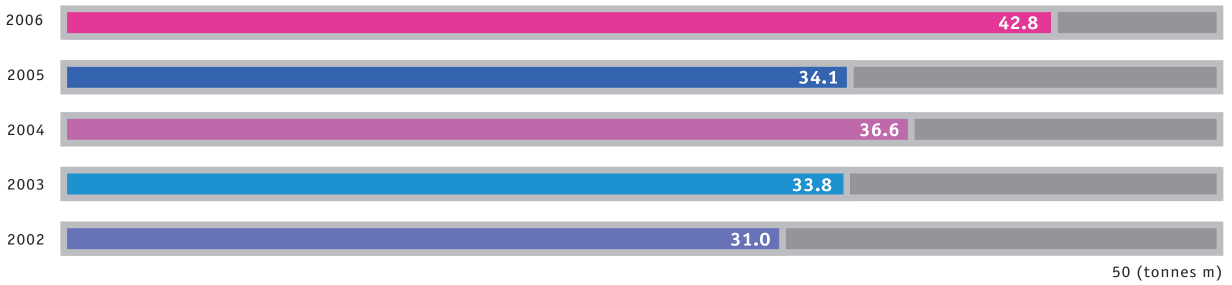
In 2006, the company shipped 1.9m tonnes of consumer goods, 52% of which were delivered to NLMK's main production site.

OJSC Stagdok production in 2002-2006

OJSC Dolomite production in 2002-2006



LLC NTK cargo forwarding services in 2002-2006



OJSC Stagdok and OJSC Dolomite production volumes (2005-2006)

(tonnes'000)	2006	2005	Change	
			+ , -	%
Metallurgical dolomite	1,976	1,970	6	0.3%
Fluxing limestone	3,215	2,936	279	9.5%

LOGISTICS

NLMK Group has set the objective of developing its own logistics base to optimize commodity flows and reduce the Group's expenses related to the delivery of raw materials and products.

The Group's logistics assets include LLC Independent Transportation Company (NTK) and OJSC Tuapse Commercial Sea Port (TMTP).

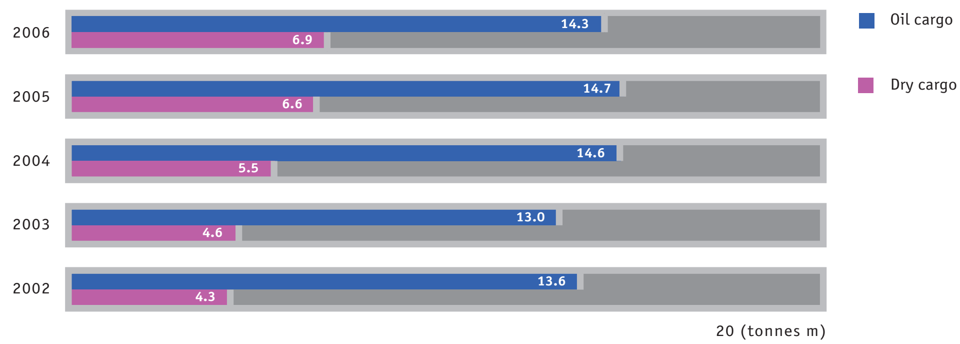
LLC NTK

LLC NTK provides timely supply of raw materials to our steelmaking facilities and delivery of steel products to customers both in Russia and overseas. LLC NTK manages NLMK's relations with OJSC Russian Railways and with port authorities. Railway transportation is carried out by railcars owned by the company and and rented from the general pool of OJSC Russian Railways. At the end of 2006, LLC NTK owned 1,439 railcars.

In 2006, LLC NTK's services amounted to 42.8m tonnes of freight turnover (26% more than in 2005).

NLMK Group benefits from the knowledge and experience of high caliber professionals working in this logistics provider.

OJSC TMTP cargo transshipment in 2002-2006



OJSC TMTP

OJSC TMTP has been a member of NLMK Group since mid 2004. It is a year-round deep-water port that specializes in turnover of oil cargo, coal, ore, ferrous and non-ferrous metals, sugar and other bulk commodities. The port is recognised as one of the most technologically advanced in the industry.

In 2006 dry cargo turnover carried out by TMTP was 6.9m tonnes (+ 5% y-o-y). In 2006, NLMK exported 1.84m tonnes of slabs via the company. Coke produced by OJSC Altai-koks is also transshipped for export purposes via port terminals. In 2006, turnover of oil cargo was 14.3m tonnes. Cargo turnover of OJSC Tuapse Commercial Sea Port in 2006 was 21.3m tonnes.

OTHER OPERATIONS OF NLMK GROUP

Other segments of NLMK Group include finance and insurance companies (Commercial Bank OJSC Lipetskcombank and LLC LIC Chance).

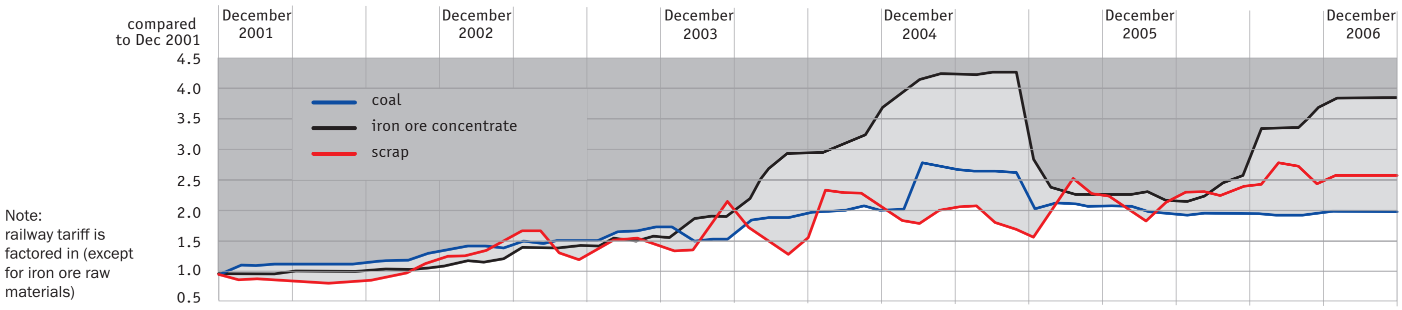
Lipetskcombank provides retail and wholesale banking services in accordance with a general licence issued by the Central Bank of Russia, a license to perform foreign exchange transactions and a broker's licence.

The bank's operations aim to ensure the consistent implementation of resources and pursue a policy of diversification of the client base. The development strategy of OJSC Lipetskcombank is aimed at the growth of the bank as a universal commercial bank through the development of its corporate banking services and the sustainable growth of its retail market share. To achieve this goal, the bank is expanding its network by opening branches and representative offices all over Russia focusing its strategy on most industrially developed regions.

LLC LIC Chance, an insurance company based in Lipetsk, provides a wide range of insurance services, including property insurance, accident insurance, medical insurance, TPL and others.

Another member company of NLMK Group during 2006 was LLC Lipetskaya Municipal Energy Company. Recently, NLMK's Board of Directors declared this utilities company a non-core asset. Within the framework of NLMK Group's optimization strategy, OJSC NLMK agreed to sell this company and minority shareholdings in other utilities assets in December 2006.

Growth rates of prices of primary raw materials



PROCUREMENT

Self-sufficiency in major raw materials is one of the key areas of NLMK's Group strategy. This will enable the company to achieve a high level of competitiveness of the Group's products through stringent control over production costs.

Parent company's supply partially satisfies the steel division's needs requirements semi-finished products. Thus, DanSteel A/S received 403,000 tonnes of slabs from Group companies in 2006. In addition, LLC VIZ-Stal, being a Group member, received 43,000 tonnes of hot-rolled coils since its consolidation..

The NLMK Group companies use the following raw materials in the production process: iron ore raw materials, coking coal concentrate, coke and scrap. Nearly all the raw materials required for production purposes are purchased in Russia.

The NLMK Group is able to significantly optimize its procurement activities by consolidating companies such as OJSC Stoilensky GOK, OJSC Dolomite, OJSC Stagdok and OJSC Altai-koks acquired in April 2006.

In 2006 OJSC Stoilensky GOK and OJSC Combinat KMAruda delivered around 12m tonnes of iron ore to the Group's parent company. In August 2006, the company sold its stake in OJSC Combinat KMAruda. The decision was made to invest the proceeds from the disposal of OJSC Combinat KMAruda in the development of OJSC Stoilensky GOK.

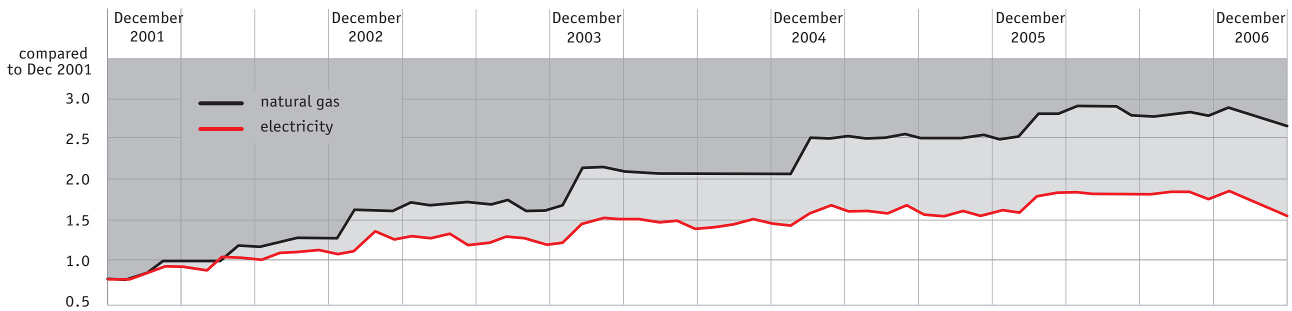
The company is self-sufficient in sinter ore and iron ore concentrate, but iron ore pellets are purchased from third parties in the domestic market. Currently, OJSC Stoilensky GOK plans to build a pellet manufacturing plant with a production capacity of 3m tonnes of iron ore pellets per year.

OJSC Altai-koks, consolidated by the Group in April 2006, fully supplies NLMK's shipped coke requirements. Over 0.7m tonnes of blast-furnace coke were delivered to NMLK since consolidation of OJSC Altai-koks in April 2006. Coke facilities, located at the production site in Lipetsk enable to meet 80% of coke requirement of its steelmaking segment.

Coal concentrate is mainly delivered to Group companies from the Kuznetsk basin, Pechersk and South-Yakutia basins. Since entering the NLMK Group, Prokopievskugol has met 14% and 40% of the coking coal concentrate supply requirements of the parent company and OJSC Altai-koks respectively.

NLMK's steel scrap needs are met mainly by suppliers located in the central regions of the Russian

Growth rates of natural gas and electricity



Federation. In addition to third-party suppliers, NLMK subsidiaries LLC Vtorchermet and LLC Vtormetsnab arrange raw material supplies for NLMK 's steelmaking operations.

OJSC Stagdok and OJSC Dolomite meet all the Group's steel limestone and dolomite requirements. In 2006, the parent company received 1.0m tonnes of dolomite and 2.7m of limestone.

Energy resources (both electricity and natural gas) are supplied by the state monopolies.

In 2006, OJSC Gazprom supplied natural gas to the parent company of the Group at the rates established by the Federal Tariff Agency of the Russian Federation.

The main production site at Lipetsk met its 2006 energy requirements with its own power plant and through purchases from the third parties.

Around 77% of the total electrical power was acquired by the parent company at regulated rates, and 23% was purchased on the wholesale market.

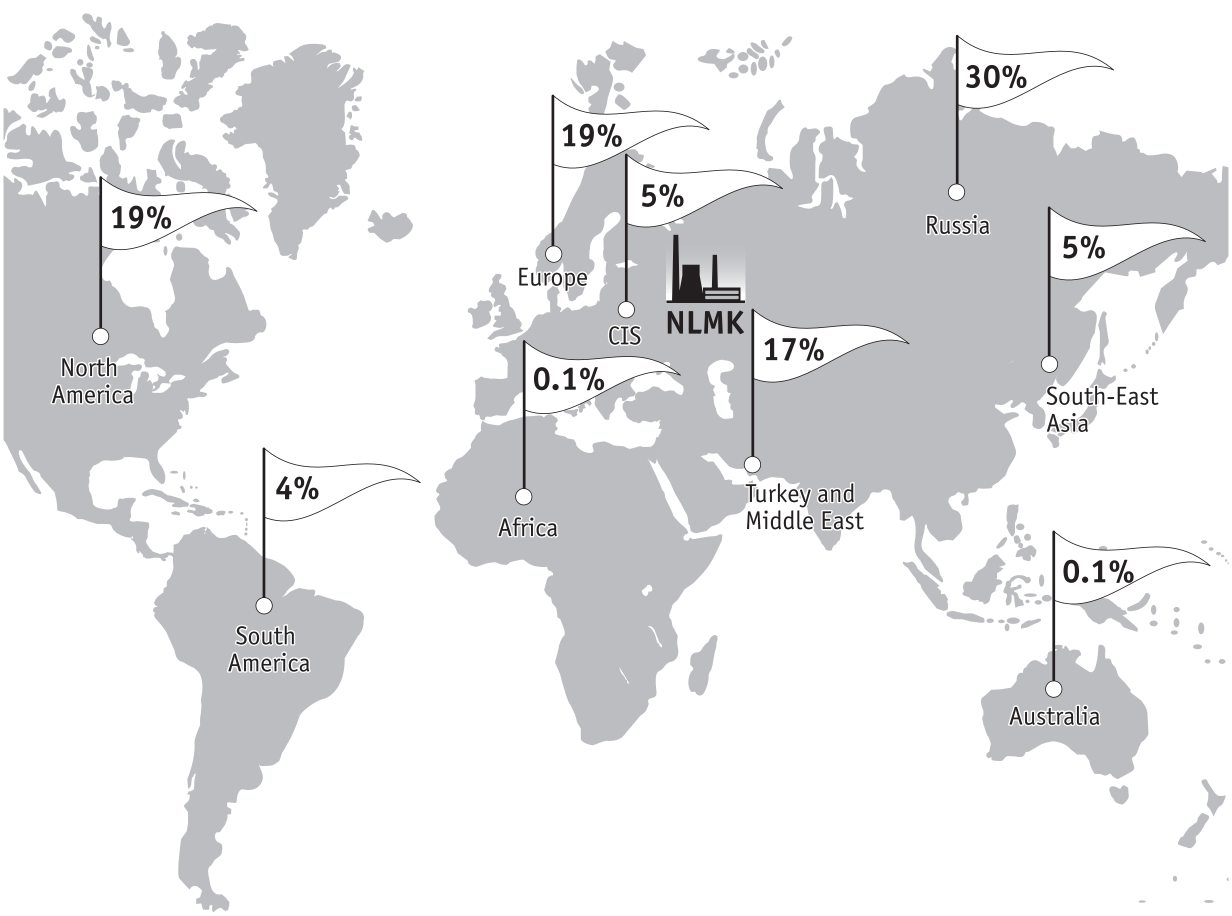
One of the priority areas of the company's technological development is ensuring NLMK's energy independence from external suppliers. In 2006, the main production site NLMK in Lipetsk supplied 43% of its total energy requirements internally. The company plans to increase the generation of its own power to 60% under Second phase of its Technical Upgrading Programme.

IN 2006 OUR SHARE OF THE STEEL SUPPLIED TO THE RUSSIAN CONSUMERS REACHED

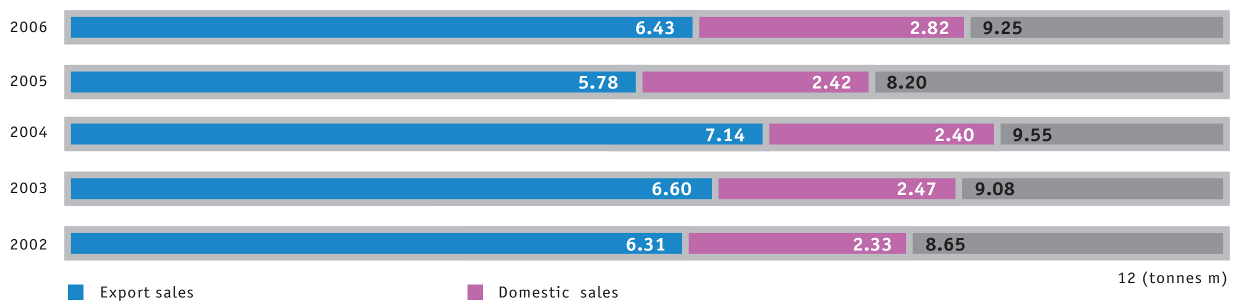
30%

of the total volume

SALES

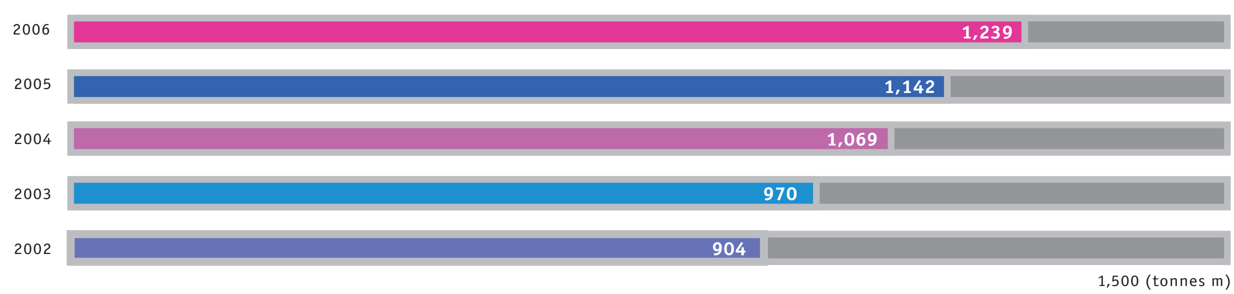

30%
19%
5%
19%
Russia
5%
Europe
NLMK
CIS
17%
North America
0.1%
South-East Asia
4%
Turkey and Middle East
Africa
0.1%
South America
Australia

Group steel product sales in 2002-2006



Global steel production in 2002-2006

Source: International Iron and Steel Institute



SALES OF NLMK GROUP STEEL PRODUCTS

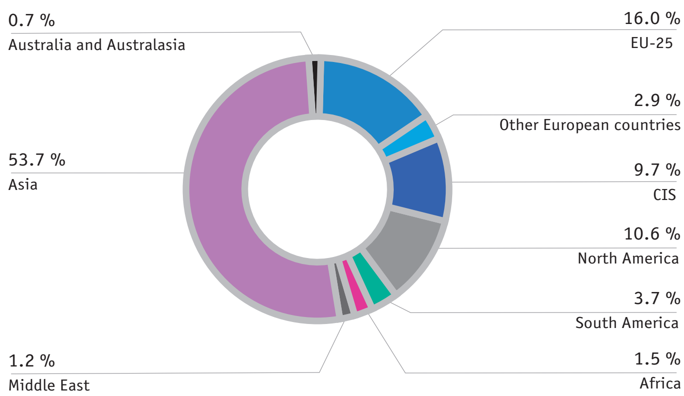
In 2006, the NLMK Group sold 9.3m tonnes of steel products, an increase of 13% comparing with the last year results. The key drivers that contributed to the substantial sales growth were:

- improved market conditions in the sales markets;
- growth of the parent company's production volumes after the completion of production equipment overhaul carried out in 2005;
- consolidation of new subsidiaries (DanSteel A/S and LLC VIZ-Stal) in NLMK Group.

During recent years, domestic sales have continued to grow. Sales to Russian customers increased by as much as 30% in 2006, compared to 29% in 2005 and 25% in 2004.

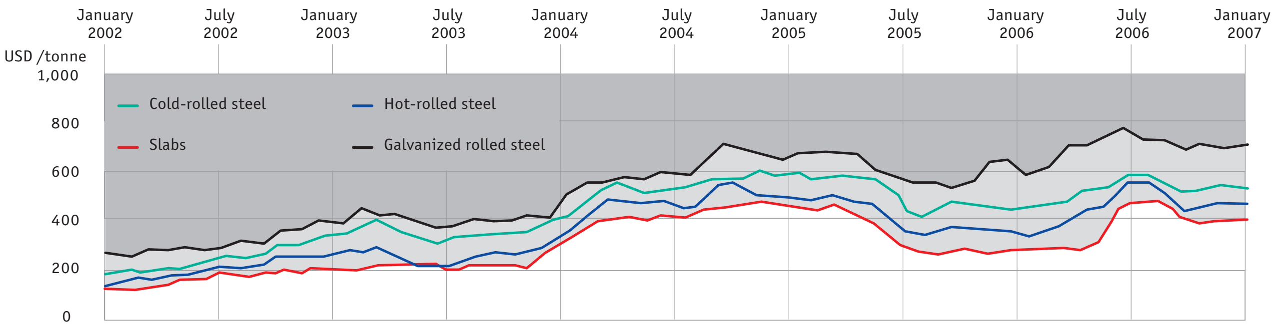
The flexibility of the sales strategy allows NLMK to take timely actions in response to the constantly changing external environment characteristic of the world steel products market and increase supply to the regions with a strong demand for the company's products and a high growth potential. NLMK's sales strategy is focused on customer requirements, improved product quality and competitive prices. Also, the company aims to develop its production facilities according to the needs of the world steel market.

Global steel production by region in 2006



Source: International Iron and Steel Institute

Prices of CIS exporters in 2002-2006 (FOB prices)



Source: Metal Bulletin, CSM

Global market trends in 2006

Overall, a balance between supply and demand in the global steel industry was reached in 2006. Favourable global market conditions for flat-rolled products in 2006 resulted in crude steel production growth of up to 1,239m tonnes (+9% y-o-y).

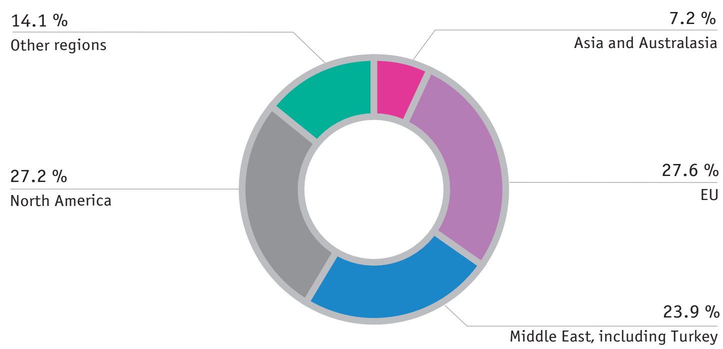
This growth was achieved mainly as a result of an 18% increase in Chinese steel production, China remained the leader in this area in 2006 with 34% of the total global steel output. Other top five steel producing countries with their respective shares in 2006 were Japan (9% of global steel production), the USA (8%), Russia (6%) and South Korea (4%).

The growing prices for steel products during the first half of 2006 gradually began to decline by the year end, though the average annual prices for the reporting year exceeded the level of 2005. Only the North American market demonstrated a significant drop in prices. The overall prices growth for basic types of flat-rolled products on the world's largest regional markets was in the range of 7-16% in 2006 (depending on the region and product type).

Export sales

NLMK Group export sales demonstrated 10% annual growth in 2006 and reached 6.4m tonnes as a result of favourable conditions in the global steel market during the year.

Structure of NLMK`s export sales by region in 2006



Note:
the structure is based on physical units of measurement

In the reporting period, NLMK Group's main export markets were North America, Europe and Middle East, including Turkey. These regions represent 27%, 28% and 24% respectively of the company's total sales.

In 2006 NLMK doubled its share of products sold on the North American market, as a result of improved market conditions.

NLMK's major markets in Asia during 2006 included Thailand and Taiwan.

Electrical steel sales to China were mostly effected through NLMK's sales branch in Vladivostok-NLMK DV.

In 2006, NLMK Group consolidated DanSteel A/S, a Danish hot-rolled thick plate manufacturer. The major sales regions for this new subsidiary are the countries of the EU, which enabled NLMK Group to strengthen its positions on this market. In 2006, NLMK was engaged in trading with the European Union in accordance with the Agreement between the Government of the Russian Federation and the European Coal and Steel Committee on the Trade of Certain Steel Products.

In the reporting period, NLMK demonstrated significant growth of sales to CIS countries. In 2006, NLMK increased its sales in the countries of Latin America as a result of supplying slabs to Brazilian companies.

In 2006, the export sales structure changed in terms of product range.

Marketable pig iron share more than doubled, reaching 12% as a result of pig iron sales growth and the growing demand for this product.

After acquiring DanSteel A/S, OJSC NLMK began supplying slabs to this company for further rolling in 2006, thus reducing the share of slabs supplied directly to overseas customers.

A drop in sales to third parties of hot-rolled steel manufactured by the parent company in 2006 was compensated for by the commencement of hot-rolled plates deliveries by DanSteel A/S.

The share of cold-rolled products in export sales dropped as a result of growing domestic sales. In 2006, the share of hot-dip galvanized and pre-painted steel increased. Export sales of electrical steel grew after the acquisition of LLC VIZ-Stal, a major producer of these products.

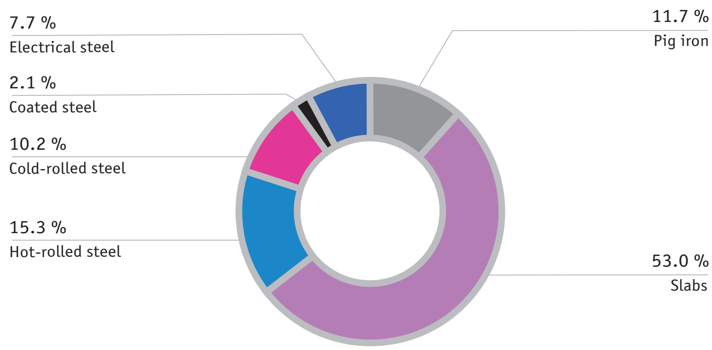
The overwhelming share of NLMK's export sales was effected through successful, long-term partnership with independent wholesale traders: Steelco Mediterranean Trading Ltd. of Cyprus, Tuscany Intertrade (UK) and Moorefield Commodities Company of the United Kingdom.

Domestic market trends in 2006

In 2006, the Russian domestic market also demonstrated favourable market trends. The demand for steel products was boosted by the production growth in steel-consuming industries. As a result, the production of pig iron, crude steel and rolled products in Russia increased by 7% in 2006.

Favourable global market conditions, the increased domestic demand for steel products backed by the Russian

Structure of NLMK's export sales by product in 2006



Note: the structure is based on physical units of measurement

industrial growth and, primarily, the unsatisfied demand for coated steel all had contributed to the price growth in 2006. The domestic market demonstrated dynamic growth for the whole year.

Average prices for steel products exceeded the level of 2005: by 12% for hot-rolled products, by 3% for cold-rolled products, and by 16% for hot-dip galvanized steel.

Domestic sales

In the context of the growing demand and prices for steel products in 2006, NLMK Group increased domestic sales by 17% compared to 2005 and totaled 2.8m tonnes.

The volume of hot-rolled steel sold to Russian customers remained at the level of the previous year, although their share dropped slightly against overall domestic sales. Some of these products were delivered by LLC VIZ-Stal, acquired in 2006.

The share of cold-rolled steel domestic sales remained at last year's level.

The share of hot-dip galvanized steel delivered to the Russian market went up significantly once a new galvanizing line was commissioned.

Increasing sales volumes of the parent company of NLMK Group and LLC VIZ-Stal, acquired in 2006, resulted in growing share of electrical steel sold to Russian customers.

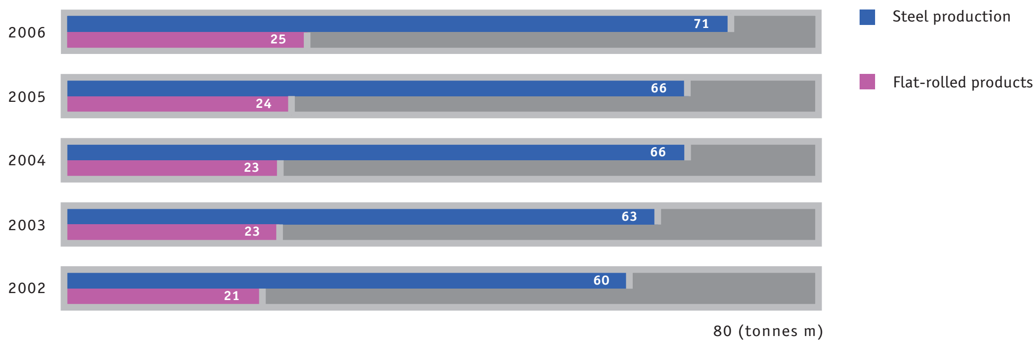
The sales structure by industry of NLMK Group was as follows: a significant share of steel products was sold to the steel constructions producers (24%), and 12% of products were supplied to the automotive sector. However, the largest part of total sales was delivered to trading companies (32%), which allows the company to reduce sales to mid-size and small customers.

In terms of regional sales structure, we noted a 58% increase in sales to the Urals Region, a 17% increase to the Northern Caucasian region and an 18% rise in deliveries to the Volgo-Vyatka Region, where the interests of NLMK intersect with those of its competitors – Ukrainian MMK named after Ilyich and OJSC Severstal. The major Russian customers of NLMK Group steel products are based in the Central (33%), the Mid-Volga (17%) and Central Black Earth (8%) regions.

A significant potential growth in the demand for steel products, backed by the country's rapidly growing economy over recent years, represents a positive pricing factor in the domestic market. The raw materials sector and the construction industry are the most promising prospective customers of steel products.

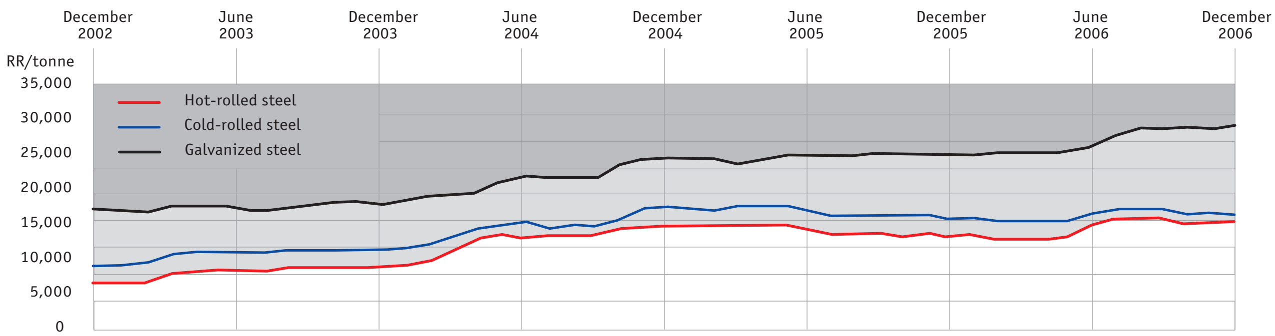
Production of steel and flat-rolled steel in Russia in 2002-2006

Source:
Federal State
Statistics Service



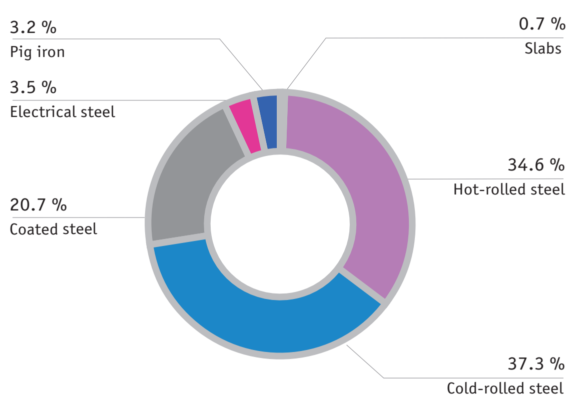
Domestic market prices in 2002-2006

Source:
Chermet,
Metal-Courier

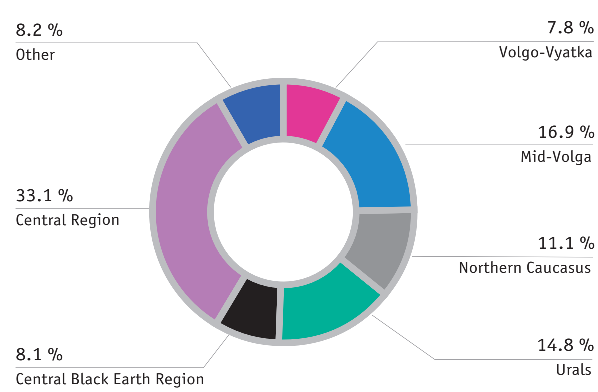


Structure of NLMK`s domestic sales by product in 2006

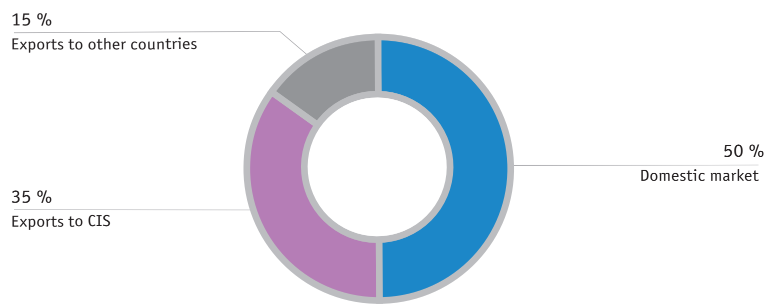
Note:
the structure
is based
on physical
units of
measurement



Structure of NLMK`s steel sales by region in 2006



OJSC Altai-koks' coke delivery to external buyers in 2006



Note:
The structure is based on physical units of measurement. Deliveries are presented from the date when OJSC Altai-koks merged into NLMK Group

SALES OF OTHER NLMK GROUP PRODUCTS

In addition to steel products, in 2006 NLMK Group sold iron ore raw materials, coke, chemical products, coal, dolomite and limestone to third parties. Of these other products sold by NLMK Group companies, the most significant is coke. OJSC Altai-koks supplies coke to the market.

NLMK Group sold 1.6m tonnes of coke in 2006: 50% of coke was sold on the domestic market, 35% on the CIS market and only 15% on export markets. The primary consumers are Russian and overseas steelmaking companies.

In addition to coke, NLMK Group delivered 0.8m tonnes of coal to the markets. Coking coal concentrate represented 14% of these sales. The remainder of the coal products shipped consisted of thermal coal and other products. Coal was delivered by Prokopievskugol Group of Companies.

In addition to the products mentioned above, in 2006 NLMK Group sold iron ore concentrate and sinter ore, sold by OJSC Stoilensky GOK to third parties. Deliveries of these products to third parties reached 1.7m tonnes – 14% of total sales. 77% of iron ore raw materials sales to third parties in 2006 were exports.

NLMK was also engaged in sales of flux raw materials: dolomite and limestone. These products are manufactured by OJSC Dolomite and OJSC Stagdok respectively. These products are delivered mainly to steel and construction companies. In 2006, the total external sales of dolomite reached 0.9m tonnes and that of limestone reached 0.4m tonnes.

NLMK

EBITDA
GROWTH BY

26%

to USD 2,631m

FINANCIAL HIGHLIGHTS

NLMK provides its shareholders and investors with reliable, unbiased and transparent information about the financial results and current financial position of the company. The Group's Russian companies maintain their accounting records in accordance with Russian legislation. Consolidated financial statements are prepared in accordance with US GAAP. The fairness of annual financial indicators is assured by independent auditors, while interim financial results are assured by independent accountants.

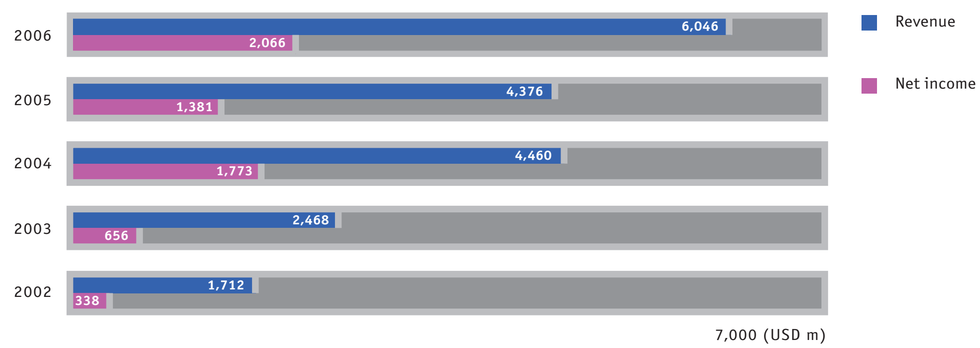
To ensure that financial information meets the demands and needs of all interested users, NLMK is constantly developing its reporting policies. Since 2006, we have been publishing US GAAP financial reports on a quarterly basis. Concurrently with these reports, we publish press releases and presentations to comment and expand on the company's official financial information. After these reports are issued, we arrange and run briefings and conferences to discuss our financial results with the shareholders, financial analysts and investors.

2006 FINANCIAL HIGHLIGHTS

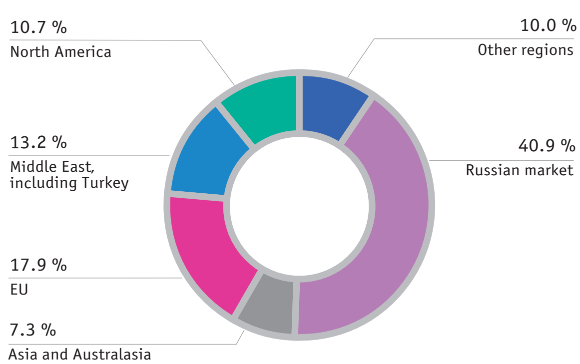
Financial results

The superior financial performance of 2006 has been achieved through balanced sales strategy that enables us promptly respond to any changes in market conditions, effectively manage production costs, pursue strategic acquisition opportunities and carry out a large-scale technical upgrading programme. NLMK's corporate strategy, aimed at increasing the company's value, creating sustainable competitive advantages and reducing dependence on market conditions, ensures NLMK's stable financial position and allows us to meet the challenges of unfavourable external factors in a flexible way. By following these principles OJSC NLMK has remained one of the most profitable steel producers in the world.

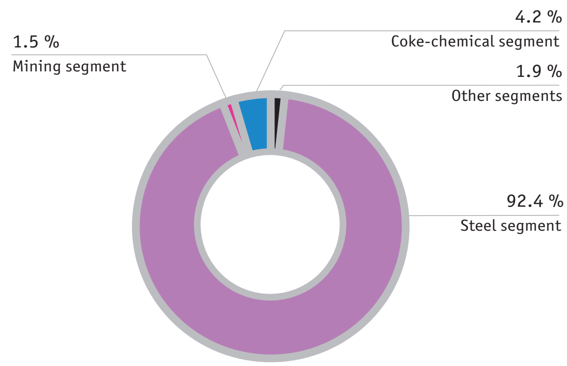
Group revenue and net income in 2002-2006



Group revenue structure by geographical segment in 2006



Group revenue structure by business segment in 2006



The year 2006 was marked by favorable conditions in the steel market. As a result, the average prices of our products in 2006 increased year on year. Higher prices in 2006 coincided with considerable growth in both production and sales of our steel products, as well as the effect of consolidating the acquired assets: DanSteel A/S, OJSC Altai-koks, Prokopievskugol Group of Companies and LLC VIZ-Stal. Additionally, the parent company changed its pricing procedure for export sales: starting from March 2006 the costs of delivering goods to a customer, transfer station or port station are now included in the prices of products.

As a result of these factors, revenues for 2006 increased by 38% against 2005, to reach USD 6,046m.

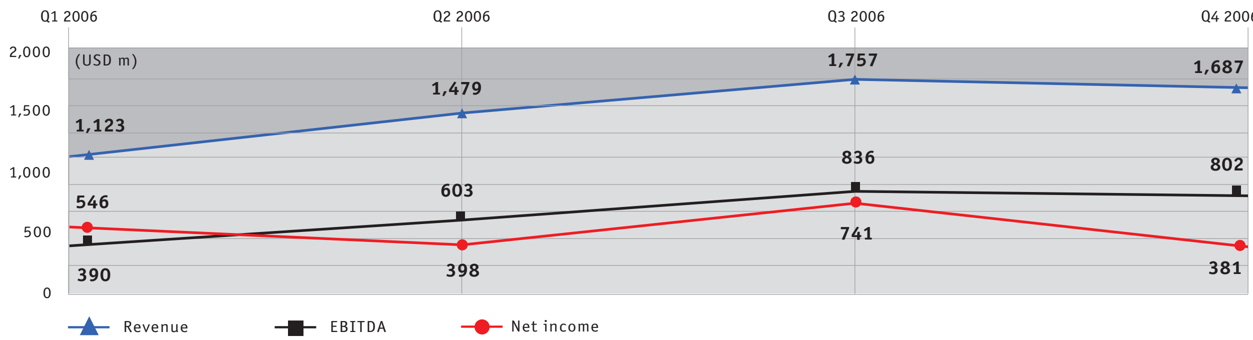
The majority of revenues (59%) were derived from export sales. The following regions of the world accounted for the majority of revenues in 2006: Russia (41%), the EU (18%), the Middle East and Turkey (13%), North America (11%), and Asia and Australasia (7%).

Most of our external revenues were generated by the Group's steel segment. Companies in the mining and coke-chemical segment deliver a considerable portion of their products to other companies within NLMK Group, and so their share of consolidated revenues is insignificant.

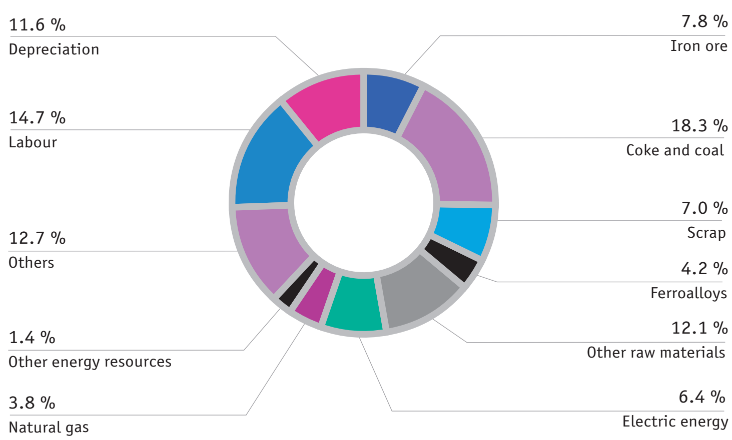
After the first quarter of 2006, in which revenues were USD 1,123m (the lowest quarterly level in 2006) due to adverse market conditions, the situation in global markets began to improve.

Also, at the beginning of the second quarter of 2006, OJSC NLMK obtained control of the coke producer Altai-koks and the Prokopievskugol Group of Companies. Consolidation of these companies' financial

Group revenue, EBITDA and net income in 2006



NLMK Group cost structure in 2006



results combined with more favourable market conditions pushed our revenues to USD 1,479m.

During the third quarter of 2006, OJSC NLMK's revenues hit USD 1,757m thanks to the acquisition of the electrical steel manufacturer LLC VIZ-Stal (and consolidation of their financial results) as well as further improvements in the global steel markets.

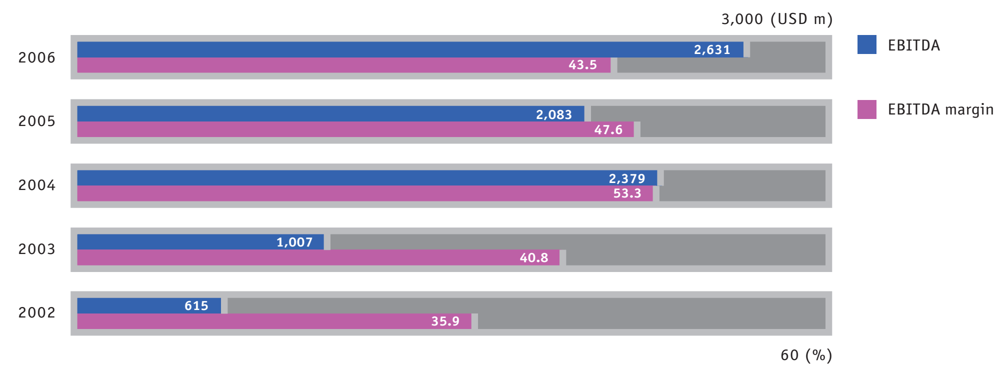
The fourth quarter of 2006 witnessed a price adjustment in the steelmarkets. Capital repairs of the parent company's technological equipment were planned for this period, which caused a reduction in steel product manufacturing and sales. These factors caused a 4% reduction in our revenues compared to the previous quarter.

Throughout 2006, NLMK continued to pursue a policy of stringent cost management and increased raw materials self-sufficiency. This helped to hold the increases in cost of sales as compared to 2005 to a level of 32% (to USD 3,074m). The increase in costs was caused by greater production volumes of steel products and growth in prices of raw materials, as well as the effects of consolidating the newly acquired assets.

Around 84% of cost structure comprises the following expense items: coal and coke (18%), other raw materials and components (12%), salaries plus statutory charges (15%), depreciation and amortization (12%), electric energy (6%), iron ore (8%) and other expenses (13%).

Thanks to our acquisition in 2006 of coal and coke production companies, the proportion of costs attributable to purchases of these raw materials dropped against 2005. Looking to the future, the Group's

Group EBITDA in 2002-2006



iron ore and power self-sufficiency will increase – and the corresponding expenses will decrease – after OJSC Stoilensky GOK has put into operation its planned pellet production plant.

As a result of revenues significantly outpacing production costs, OJSC NLMK's gross profit reached USD 2,971m, which meant a 45% increase year on year. Gross profit margin in 2006 was 49%. The majority of gross income (85%) was generated by the steel segment.

Changes in our steel export sales delivery terms resulted in considerable growth of selling expenses. This factor restrained the growth of our operating income, which in 2006 reached USD 2,243m (a 22% increase year on year). Operating income margin was 37%.

Recognition of impairment loss on fixed assets for a total of USD 137m in 2006 became one of the factors which curbed NLMK Group's operating profit growth. The Group also recognized an impairment loss on the fixed assets of Prokopievskugol Group of Companies for a total of USD 125m in the period to December 2006.

Over a number of years, NLMK has ranked among the leaders of the global steel industry in terms of EBITDA margin. In 2006, this indicator remained high (44%), while EBITDA rose to USD 2,631m, which was 26% higher than in 2005.

Based on first quarter results, EBITDA was USD 390m, while EBITDA margin was 35%. Relatively low level of EBITDA margin was caused by an adjustment of steel prices, which was followed by an upward trend in the second quarter.

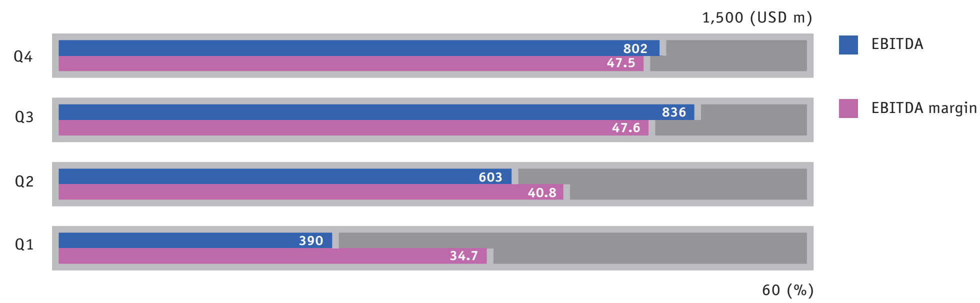
The second quarter witnessed a rise in prices in NLMK's core markets, which resulted in an increase of EBITDA to USD 603m, and corresponding margin increase to 41%. Consolidation of the operations of coke-chemical and coal assets acquired at the beginning of the second quarter was an additional factor contributing to EBITDA increase.

In the middle of the third quarter of 2006, LLC VIZ-Stal, an electrical steel manufacturer featuring high levels of profitability, was acquired by the Group. Consolidation of its results and favorable steel market environment resulted in further growth of EBITDA to USD 836m (EBITDA margin of 48%).

A slight decrease in both EBITDA and EBITDA margin during the fourth quarter as compared with the third quarter (USD 802m, 48% margin) was caused by less favorable market conditions and a decrease in production volumes as a result of conducting scheduled maintenance, and also as a result of higher prices for raw materials. During the fourth quarter, a favourable factor affecting EBITDA came into play: the consolidation of LLC VIZ-Stal's results for the whole reporting period (in the third quarter NLMK only consolidated LLC VIZ-Stal's results for two months).

In 2006, NLMK divested minority interests recorded on its balance sheet. During the first quarter of 2006 OJSC NLMK disposed 12% interest in OJSC Lebedinsky GOK for USD 400m.

Group EBITDA in 2006



A considerable portion of OJSC NLMK's sales revenue is generated in export operations. The major currencies for OJSC NLMK's settlements in external economic activities are the US dollar and the euro. The volatility of exchange rates and the considerable amounts of cash in deposits caused an increase in forex losses. This factor was most noticeable during the first 6 months of 2006. During the second half year, the volume of foreign currency deposits decreased following the acquisition of new assets. Also, starting from July 2006, NLMK began hedging foreign exchange risks by entering into forward currency contracts. In addition, a decision was taken to significantly increase the proportion of rouble-denominated deposits in the cash management structure. As a result, the net forex loss did not have a substantial impact on OJSC NLMK's financial results during the second half of the year.

These are the basic factors which caused an increase in income before tax to USD 2,621m (by 39% year on year), and the margin of income before tax was 43%.

In August 2006 NLMK sold its 92% interest in OJSC Combinat KMAruda for USD 302.5m in the framework of its earlier announced plan of internal restructuring. Proceeds from the divestment of interest in OJSC Combinat KMAruda were classified as income from discontinued operations in the amount of USD 177m.

In 2006 OJSC NLMK's net income (with income from discontinued operations factored in) was USD 2,066m, which was 50% higher than in 2005 with earnings per share of USD 0.34. The net income margin was 34%. Although the gain on investments and income from discontinued operations had a significant impact on NLMK's net income, even without factoring in the gains from these deals the company's net income is estimated USD 1,585m, which is 15% higher than in 2005.

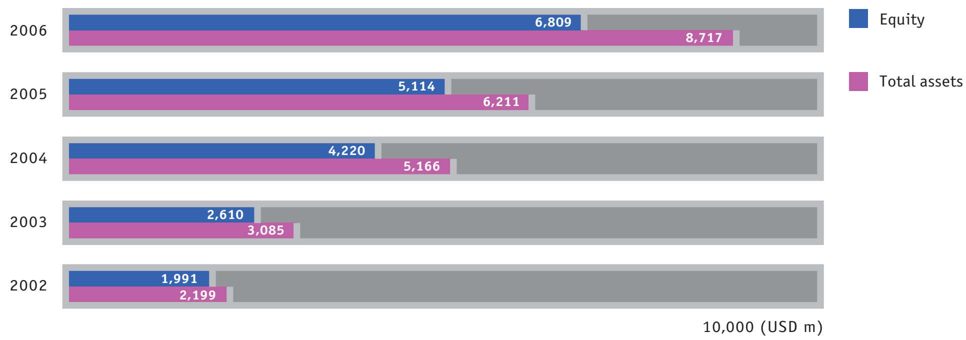
These robust financial results for 2006 enabled OJSC NLMK to meet all obligations to the shareholders set forth in the Dividend Policy.

NLMK management's extensive experience in the area of managing production costs and sales strategy enabled the company to demonstrate, throughout the whole industry cycle, high levels of EBITDA margins. The 2006 financial results represent further proof that NLMK is a leader in the steel industry in terms of both production and profitability.

Consolidated financial results for 2005-2006

(USD m)	2006	2005	Change	
			+ , -	%
Sales	6,046	4,376	1,670	38.2%
Cost of goods sold	-3,074	-2,332	-742	31.8%
Production costs	-2,716	-2,049	-667	32.6%
Depreciation	-358	-283	-75	26.5%
Gross profit	2,971	2,044	927	45.4%
- as a % of sales	49%	47%	–	–
Selling and administrative expenses	-514	-164	-350	213.4%
Taxes other than income tax	-57	-36	-21	58.3%
Impairment loss and increase in asset retirement obligations	-157	–	-157	–
Operating income	2,243	1,844	399	21.6%
- as a % of sales	37%	42%	–	–
Income before income tax and minority interest	2,621	1,892	729	38.5%
- as a % of sales	43%	43%	–	–
Net income	2,066	1,381	685	49.6%
- as a % of sales	34%	32%	–	–
EBITDA	2,631	2,083	548	26.3%
- as a % of sales	44%	48%	–	–

Group total assets and equity in 2002-2006



Financial position

During the reporting year NLMK completed a number of acquisitions as well as divestures of minority interests and non-strategic assets. These factors, combined with our positive financial results, brought about a considerable increase in total assets. At the end of 2006, NLMK's assets stood at USD 8,717m; i.e. 40% greater than at the beginning of the year. This trend is characteristic of the Group and has persisted over recent years: during the five-year period from 2002 through 2006 total assets increased by 4.6 times.

The 2006 growth in assets was, to a considerable extent, driven by an increase in NLMK's equity, which reached USD 6,809m at the end of 2006 (a 33% increase on the beginning of the year). Retained earnings were the source of equity growth.

Stable cash flow generation allows NLMK to finance both core operations and development programme of the Group primarily from existing funds. The debt-to-equity ratio of NLMK remains consistently high and was 78% at the end of 2006. A decrease of this indicator as compared with the beginning of the year was caused by consolidating the liabilities of the newly acquired subsidiaries on the Group's balance sheet.

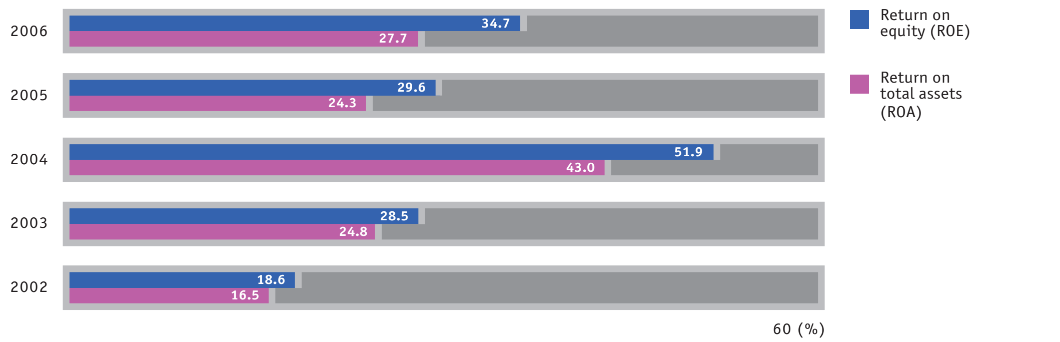
The year 2006 witnessed significant changes to our asset structure. At the beginning of the year the Group's non-current assets accounted for 45%, whereas by the year's end this indicator had increased to 65%. The change in both the size and proportion of non-current assets was caused by cash outflow attributable to acquisitions, cash inflow from operations as well as the sales of non-strategic assets and minority interests, consolidation of the liabilities of the newly acquired subsidiaries on the Group's balance sheet, implementation of a large-scale technical upgrading programme and NLMK's participation in the joint venture with the Duferco Group.

Despite a considerable decrease at the end of 2006 in cash and cash equivalents (down to USD 665m) and an increase in debt due to consolidation of the liabilities of the newly acquired subsidiaries on the Group's balance sheet, NLMK had net debt amounting to USD -406m at December 31, 2006.

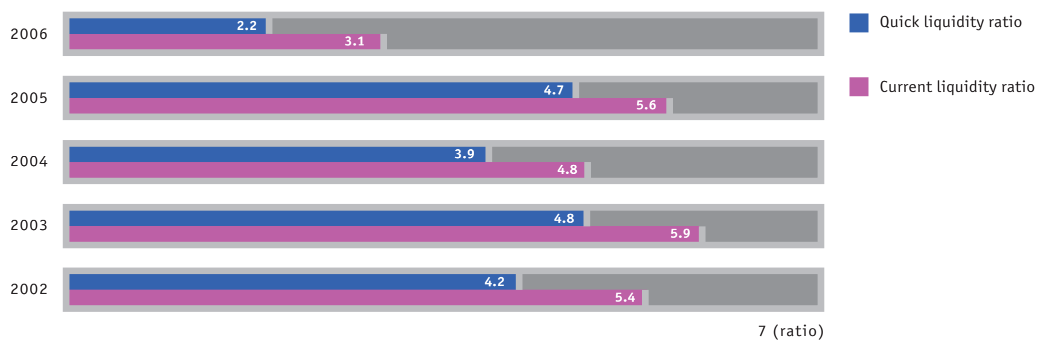
NLMK's high net income levels resulted in an increase in return on assets (ROA) and return on equity (ROE) – to 28% and 35% respectively. However, the levels of 2004, which was a remarkable year for the global steel industry, remained unsurpassed.

The decrease in cash and cash equivalents in the context of consolidation of the liabilities of the newly acquired subsidiaries on the Group's balance sheet resulted in lower liquidity indicators. The current liquidity ratio in 2006 was 3.1 and quick liquidity ratio was 2.2. Despite the decline in these indicators y-o-y, the company is able to settle its liabilities fully and in a timely manner.

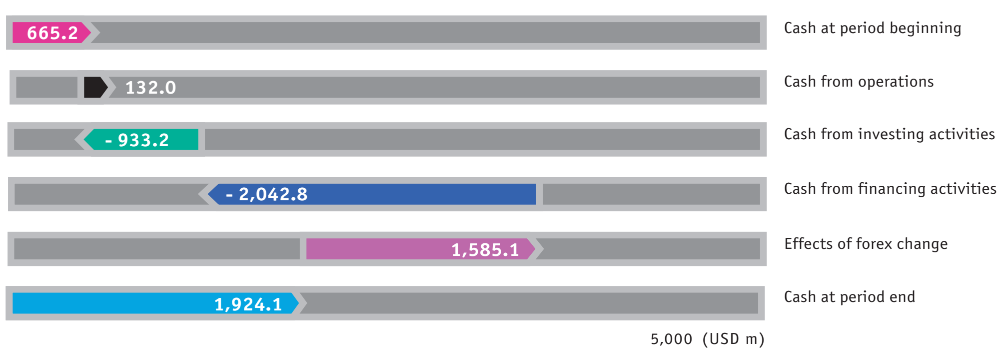
Group return on assets in 2002-2006



Group liquidity in 2002-2006



Group free cash flow in 2006



Cash flows

The major source of cash flow generation in 2006 was the production and sale of steel products. Cash flows from operations in 2006 reached USD 1,585m, up 4% y-o-y.

During the reporting year OJSC NLMK completed a number of material acquisitions of subsidiaries and associates (the net outflow of cash attributable to these items in 2006 was USD 2,257m) as well as sales of non-strategic assets and large ownership interests (resulting in a cash inflow of USD 713m). Also, during 2006 OJSC NLMK was in the process of implementing major investment projects to modernize/enhance production assets and to acquire new equipment. At the same time, preparatory activities were underway to embark on implementation of Second phase of the Technical Upgrading Programme. Capital expenditures recorded within acquisition and construction of fixed asset reached USD 619m an increase of 7% y-o-y. As a result, net outflow of cash from investing activities was USD 2,043m, which was 3.8 times higher than in 2005.

Dividends paid in 2006 were in compliance with OJSC NLMK's Dividend Policy and phased in two stages: dividend paid for the year 2005 and the interim dividend for the first half of 2006. The total dividend paid in 2006 was USD 870m, of which USD 767m was paid by the parent company of the Group to its shareholders.

As a result, net outflow of cash from financing activities was USD 933m, 2.7 times higher than in 2005.

The acquisition of new companies, implementation of the Technical Upgrading Programme and payment of considerable dividend in 2006 caused net outflow of cash in the amount of USD 1,391m. Cash balance decreased from USD 1,924m at January 1, 2006 to USD 665m at December 31, 2006.

The high creditworthiness and efficiency of NLMK was confirmed by international rating agencies, which upgraded our credit ratings based on their review of OJSC NLMK's financial performance and development prospects. For example, in July 2006 Standard and Poor's raised OJSC NLMK's long-term credit rating to BB+, with a forecast of “stable” (from BB), and Moody's revised their rating to Ba1, forecast “stable” (from Ba2). In January 2007 Fitch also noted the high financial stability of NLMK, assigning the company a rating of BB+, with a stable forecast. In terms of credit ratings, NLMK has confirmed its leadership amongst Russia's major steel producers.

Aggregated balance sheet in 2005-2006

(USD m)	2006		2005		Change	
	amount	%	amount	%	+ , -	%
Assets						
Current assets	3,050	35%	3,436	55%	-386	-11.2%
- cash and short-term investments	702	8%	1,951	31%	-1,249	-64.0%
- accounts receivable	1,150	13%	709	11%	441	62.2%
- inventory	857	10%	559	9%	298	53.3%
Non-current assets	5,667	65%	2,775	45%	2,892	104.2%
- long-term investments	810	9%	31	1%	779	26 times
- property, plant and equipment	3,988	46%	2,415	39%	1,573	65.1%
Total assets	8,717	100%	6,211	100%	2,506	40.3%
Liabilities						
Current liabilities	993	11%	612	10%	381	62.3%
- accounts payable	664	8%	566	9%	98	17.3%
Non-current liabilities	781	9%	392	6%	389	99.2%
Equity	6,809	78%	5,114	82%	1,695	33.1%
Total liabilities	8,717	100%	6,211	100%	2,506	40.3%

Key financial indicators of NLMK Group in 2005-2006

(USD m)	2006	2005	Change	
			+ , -	%
Financial stability indicators				
Share of equity in assets	78%	82%	-4	% point
Liquidity indicators				
Current ratio	3.1	5.6	-2.5	
Quick assets ratio	2.2	4.7	-2.5	
Turnover indicators				
Inventory days	95	92	3	
Debtors' days	56	54	2	
Creditors' days	83	90	-7	
Sales margin indicators				
Sales margin	37%	42%	-5	% point
Net income margin	34%	32%	2	% point
EBITDA margin	44%	48%	-4	% point
Return on assets indicators				
Return on equity	35%	30%	5	% point
Return on total assets	28%	24%	4	% point

RISK MANAGEMENT

Industrial and property risks

Industrial risk refers to the danger of income being reduced or damages being inflicted on a company or third parties due to any disruption of the production process. NLMK annually performs a series of work activities to test-run and improve the technologies it utilizes, as well as to enhance the reliability of its manufacturing equipment. This enables us to reduce the output of products with flaws in quality, bring down material resource consumption and raise production efficiency. We conduct a wide range of occupational health and safety procedures aimed at heading off any emergencies or dangerous situations at our facilities. To ensure the continuance of the production process, we maintain at each production stage the appropriate reserves of work-in-progress and auxiliary materials in case of an emergency shutdown.

Property risk implies the probability of a portion of the company's property being lost or damaged and income being subsequently reduced due to an interruption in production. To mitigate property risks, NLMK undertakes the following measures:

- insuring property;
- installing warning instruments and devices;
- protecting the company's property.

Environmental risks

Environmental risk implies the probability of civil liability for any environmental damage that may arise in the process of constructing and operating production facilities. To mitigate environmental risks, we continuously monitor the chemical constitution of emissions and wastewater discharges and seek to reduce the company's impact on the environment by putting into operation new, environmentally-friendly manufacturing equipment and upgrading our existing machinery.

NLMK insures its liabilities to third parties in case of an accident in the course of operating hazardous production assets.

Industry risks

Industry risks represent the potential effect of changes in the dynamics of major raw materials and finished goods markets.

Risks related to the sufficient provision of raw materials, supplies, and the products and services of natural monopolies:

- volatility of prices for purchased goods, which might lead to increased prices for manufactured products;
- increased prices for products and services of natural monopolies as a result of energy market deregulation, as well as imposed limitations on energy consumption;
- risk related to the failure of suppliers to fulfill their obligations in terms of the quality and composition of purchased raw materials;
- the introduction of import duties and other restrictions on imported raw materials and supplies;
- the risk that rolling equipment will be unavailable, which might result in failure to deliver raw materials and supplies.

Risks related to finished product supplies:

- the cyclical nature of the demand for ferrous steel products;
- price risks characterised by the high volatility of prices for ferrous products in the global and domestic markets;
- competition within the industry, caused by a high concentration of steel manufacturers;
- macroeconomic risks in external markets and in the domestic market, including economic growth rates, inflation expectations and market driven prices for energy resources;
- introduction of quotas and other trade restrictions in major export markets
- aggravation of competition among manufacturers, including steel companies of emerging markets (China, Brazil and India);
- risk related to structural change in the industry as a result of the current trend for industry consolidation.

NLMK makes use of several tools for managing and minimizing the risks inherent in the steel industry. In order to reduce the fallout from the cyclical nature of price behavior, the company seeks to expand its range of products and diversify steel supply both by consumer's geographical location and industry.

These steps reduce the potential impact on the company of adverse changes in product prices and minimize possible losses from any negative trends within one specific industry or in one or more geographical segments. These steps may also prove an effective hedge against closed markets caused by potential tariff regulations and quota setting.

Our continuous monitoring of current conditions and identifying growth potential in various market segments allow us to respond to adverse changes in a timely manner and compensate possible losses by appropriate re-channeling of our commodity flows to other consumers.

In our export activities we are up against competition from global steels producers in each geographical segment. NLMK constantly improves the quality of its products to meet all its customers' needs, thereby ensuring the potential to expand its presence in strategically important and financially attractive markets.

NLMK's development as a vertically integrated company enables us to reduce the risks inherent in raw material supplies.

The subsidiary OJSC Stoilensky GOK fully meets NLMK's demand for iron ore concentrate, the main raw material in steel production. In early 2006, the company acquired a controlling interest in OJSC Altai-koks. This acquisition ensured a 100% coke supply for the parent company.

To minimize the risk of any disruption of supplies, NLMK is creating reserves of raw materials and components that are designed to ensure uninterrupted production.

NLMK has an in-house standard that governs the quantification and approval of basic resources inventory, which keeps supplies at a reasonable level. NLMK has also provided for inventory increases to ensure uninterrupted operation during the autumn and winter periods.

One of the factors underlying NLMK's strong financial performance in 2006 was our strict adherence to our purchase policy, which enabled us to fully cover NLMK's demand for proper quality raw materials, components, energy and equipment.

Rail transport is used to supply raw materials to the company and deliver finished products to sea ports. The NLMK Group company LLC NTK is involved in the organization, planning and monitoring of transport flows. It also deals with transport flow optimization, which is an additional risk management tool.

NLMK only enters into raw materials and components supply contracts with tested, traditional business partners who can guarantee the reliability of supply and quality of the resources acquired. We occasionally perform monitoring of raw material markets to eliminate the risk of financial losses due to any unforeseen rise in prices for raw materials.

Country risks

The majority of NLMK's products are intended for export. Around 70% of the company's steel products tonnage wise were shipped for export in 2006. The company's major sales markets are the EU, Turkey and North America.

In the event of unfavorable market conditions in certain regions of the world, the company is able to redirect commodity flows to more attractive markets. Geographical diversification also helps to minimize losses that result from tariff regulation and quota setting.

Foreign exchange risks

Being an export-oriented company, NLMK faces foreign exchange risks that may affect its financial results and expose the company to the risk of asset liquidity deterioration.

In 2006, 59% of revenues were generated from export sales. Taking into account previous foreign exchange movements, we made the decision to diversify the structure of our export revenues by currency, which has enabled us to minimize the effect of EUR/USD rate fluctuations.

The company maintains a proportional allocation of payments under long-term import contracts and uses letters of credit in settlements generating interest income from the deposit placement of covers in respect of these transactions.

Since the majority of NLMK's expenses are denominated in roubles, there is a risk of business yield reduction if there are significant fluctuations in the rouble exchange rate against foreign currencies. To minimize these risks the company takes the following steps:

- forward hard currency contracts signed with banks to hedge hard currency risks;
- placement of temporarily free cash denominated both in foreign currency and in roubles to reduce dependence on exchange rate fluctuations while maintaining business yields.

Interest rate risk

At the present time, NLMK does not have a significant amount of borrowings. High creditworthiness allows the company to reduce the cost of its borrowings for financing current operations and investment projects.

In addition, the country's strict monetary policy has resulted in a lower inflation rate and accounting rate, which is an indicator in calculating the cost of borrowings.

Therefore, risks related to interest rate fluctuations are insignificant.

Liquidity risk

Liquidity risk as regards the company's activities is closely connected with the receipt of cash flow from operating activities. To reduce this risk the company performs precise planning of the schedule of cash inflows and outflows to identify a possible deficit of financial resources.

The ratio of NLMK's liquid assets to liquid liabilities testifies to its high financial solvency and, accordingly, its low liquidity risk.

NLMK

ATMOSPHERIC EMISSIONS DECREASED BY

11%

since 2000 while steel production increased by 11%

TECHNICAL DEVELOPMENT AND ENVIRONMENT PROTECTION

NLMK is one of the leaders in the Russian steel industry in terms of technological intensiveness and innovations. The company's sustainable growth strategy provides for enhancement of existing facilities and implementation of modern technologies. The Technical Upgrading Programme, which was launched in 2000, is one of the key elements of the company's development strategy.

The main goals of the Technical Upgrading Programme are:

- to increase the production efficiency by reducing unit costs;
- to increase production volumes;
- to improve the quality and to develop portfolio of our products;
- to increase the production of high value-added products;
- to reduce energy consumption and increase energy self-sufficiency;
- to reduce the environmental impact of our operations.

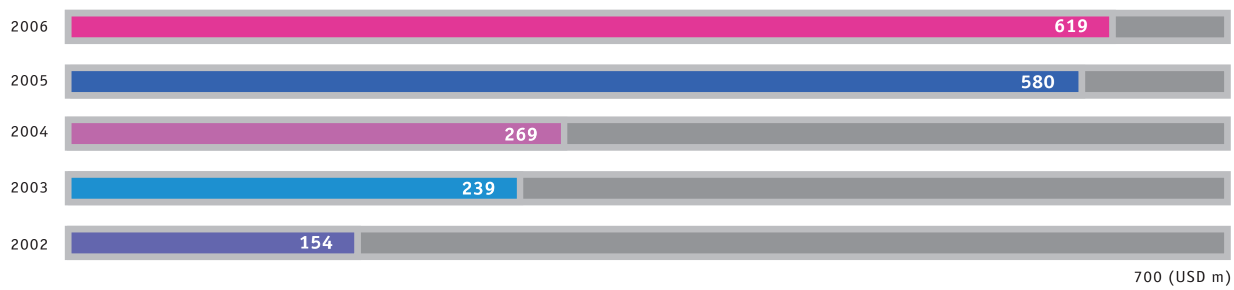
FIRST PHASE OF TECHNICAL UPGRADING PROGRAMME

First phase of the Technical Upgrading Programme was launched in 2000. Wide-scale reconstruction of the existing production facilities and creation of new capacities facilitated further enhancement of the company's competitive advantages. First phase of the Programme was successfully completed in 2005.

In 2000-2005, the NLMK Group spent over USD 1.5 bn on acquisition and construction of property, plant and equipment. Included in this amount are the parent company's costs of USD 1.3 bn incurred on the implementation of First phase of the Programme (2000-2005).

In 2006 costs incurred on fixed asset acquisition and construction stood at USD 619m.

Group expenditures on fixed assets acquisition and construction in 2002-2006



Major investment projects were implemented at the Group's main production site in Lipetsk. In First phase of the Technical Upgrading Programme facilities were reconstructed, upgraded or built at almost all production stages of OJSC NLMK.

As regards NLMK's coke and by-product process, coke battery No. 1 was upgraded and renovation of coke battery No. 2 will be completed in 2007.

In terms of the oxygen-converter process, the company built the new continuous caster No. 4-with a capacity of 2m tonnes of slabs per year-and two additional steel finishing units at converter plant No. 1. A unit for hot metal desulphurization in the ladles at BOF shop No. 2 with a capacity of 3.2m tonnes annually was also put into operation. In addition, we have begun construction of three air separation plants. Completion is expected in 2007.

At the cold-rolled steel and coating manufacturing facilities, the company put into operation a unit for preparation and inspection of cold-rolled steel with a capacity of 300,000 tonnes a year and a hot-dip galvanizing line No. 3, which allowed the company to increase hot-dip galvanized steel output by 340,000 tonnes a year. The commissioning of polymer coating division No. 2, with a capacity of 200,000 tonnes a year, allowed NLMK to increase its output of cold-rolled pre-painted steel to 380,000 tonnes a year.

The non-grain-oriented steel production facility increased its zinc-coated rolled product capacity by 140,000 tonnes by converting its continuous annealing unit into a hot-dip galvanizing facility.

With the aim of increasing the company's own power generating capacity at its heat and power generating plant, two turbo-generators with a capacity of 50 MWt each and boiler No. 13 with a capacity of 200 tonnes of steam per hour were put into operation.

As a result of NLMK's rapid development since 2004 and its acquisition of new assets, management began to pay greater attention to improving the technical equipment of its mining and other assets.

The most significant projects include commissioning an additional ore benefication unit at OJSC Stoilensky GOK, which allows it to increase concentrate output by 800,000 tonnes a year and, if necessary, will allow it to raise iron concept in finished products at the same level of production.

At completion of the First phase of the Technical Upgrading Programme the following results were achieved:

- steel output increased by 11% from 8.2m tonnes in 2000 to 9.1m tonnes in 2006;
- operational efficiency was improved to ensure the competitive advantage of the company's steel products in the domestic and external markets through lower production costs and higher quality products;
- the range of products was expanded;
- high value-added products output rose by 34% in the period from 2001 through 2005;
- the parent company increased its own power production to 43% of NLMK's total power consumption;
- the environmental impact of the company's operations was lessened.

SECOND PHASE OF TECHNICAL UPGRADING PROGRAMME

In 2006, OJSC NLMK's Board of Directors approved the key parameters for Second phase of the Technical Upgrading Programme for 2007-2011. This stage was developed in accordance with the Group's strategy for the further development of the company as one of the most efficient global manufacturers of steel and rolled products.

The Group has set the following basic objectives for its development through 2011:

- to increase crude steel production by 40% to 12.4m tonnes per year;
- increase production of finished flat steel products by 90% through upgrading existing facilities and acquiring high quality rolling facilities in core export markets;
- effectively develop the Group's own raw material base in view of the planned steel output growth;
- raise electricity self-sufficiency to 60%, taking into account the projected increase in steel production volumes;
- fully comply with global quality standards, including the requirements set by global car makers and other specialized consumers;
- maintain a leading position in the global slabs and electrical steel market as well as in the Russian cold-rolled products and coated steel market;
- lessen the environmental impact of our company's operations.

Second phase of the Programme calls for a balanced approach to investments and aims to ensure the optimized development of Group companies, thereby raising the efficiency of the Group as a whole.

Parent company's gross air emissions in 2002-2006

OJSC NLMK

A major portion of the investments will go towards developing the company's major steelmaking asset, OJSC NLMK. For 2007-2011, we plan to complete major projects in blast furnace, steelmaking and rolling processes as well as coke and by-product, agglomeration and energy processes. Technical upgrade of auxiliary and technical support workshops will be carried out with due regard for the needs of core production facilities.

In Second phase of the Technical Upgrading Programme, we plan to renovate two blast furnaces and construct a new blast furnace (No. 7). As regards the converter processes, we will renovate gas exhausts in the current converters, four slab casters and construct a new converter. In terms of cold-rolled products and coatings, the construction of a new reversing mill features among major projects.

Rolling assets

As part of the Technical Upgrading Programme for steelmaking assets, the company has plans for the further development of LLC VIZ-Stal and DanSteel A/S.

The strategic objective of developing LLC VIZ-Stal is to ensure its leading position in the grain-oriented steel market, an increase output of high value-added products and the manufacture of globally competitive products. We intend to achieve these objectives by constructing new and upgrading current equipment, starting up the manufacture of highly porous steel, improving the existing technology for manufacturing grain-oriented steel and cutting production costs.

The major objectives regarding DanSteel A/S are as follows: increasing overall production of rolled products, increasing the manufacture of high value-added products, improving the quality of products, reducing per unit consumption of electricity and decreasing the production costs of thick-gauge plates.

To achieve these objectives, DanSteel A/S will, implement a number of major projects within the framework of the Technical Upgrading Programme, including construction of a new reheating furnace.

Mining assets

The Technical Upgrading Programme also provides for the development of mining assets.

The Development Programme for OJSC Stoilensky GOK envisages increasing production of iron-ore concentrate and organizing production of steel pellets by raising the capacity of the open pit, renovating fine and secondary crushing buildings, and constructing Section IV of both the benefication plant and iron-ore pellet plant.

Upon completion of this programme, OJSC Stoilensky GOK plans to achieve the following production volumes of iron-ore raw materials:

- commercial-grade concentrate – 11.2m tonnes;
- sintered iron ore – 1.5m tonnes;
- oxidated pellets – 3.0m tonnes.

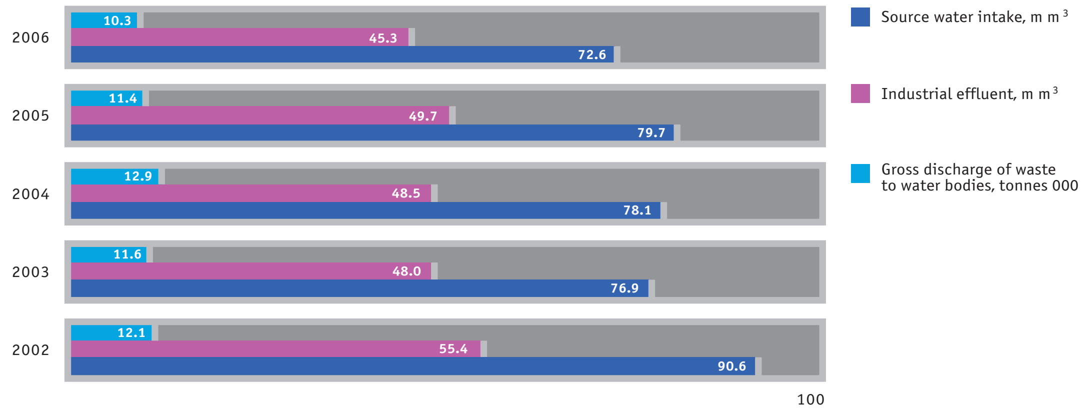
The project's main objective is to meet NLMK's demands for iron-ore raw materials for sinter production, given the planned steel production target of 12.4m tonnes per year.

As part of Second phase of the Technical Upgrading Programme, OJSC Altai-koks intends to renovate production facilities.

As a new coke battery was put into operation in 2006 at OJSC Altai-koks, no significant capital investments are planned for the plant.

In addition to increasing the production capacity of the Group, increasing the output of high value-added products, improving quality and cost-cutting, the Programme will also provide for a considerable reduction in the impact of the company's operations on the environment.

Parent company's indicators of impact on bodies of water in 2002-2006



ENVIRONMENTAL PROTECTION

Protection of the environment is one of the top priority areas of NLMK's Group development strategy. Group companies operate in strict compliance with environmental laws. Each company's development provides for implementation of environmental projects which will allow the Group to lessen the impact of its operations on the environment and to improve the environment in the regions where the Group companies operate.

Like all the companies in the Group, OJSC NLMK views environmental protection as its top priority.

OJSC NLMK operates in compliance with its environmental policy adopted in 2005, which is based on the principles of corporate social responsibility for environmental conditions and provides for the use of the best technologies to prevent environmental pollution.

The parent company speaks openly about its environmental goals, objectives and achievements.

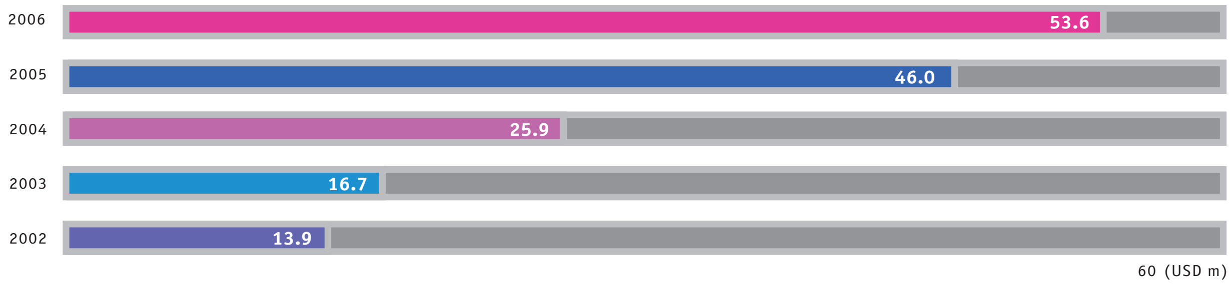
We base our environmental protection policy on the following principles:

- conducting business in a socially and environmentally responsible manner;
- using best available techniques;
- preventing environmental pollution;
- environmentally friendly approach toward nature components (water, soil, plants);
- reducing production and accumulation of wastes during production and consumption.

When addressing environmental issues, NLMK not only complies with the requirements of the environmental legislation but also adopts a proactive approach, shifting priorities from neutralization of pollution (waste water and gas treatment, disposal of other waste) directly to the sources of negative environmental effects (use of resources, production processes, organization of production). In 2006, Novolipetsk Steel (NLMK) became the winner of the Annual Contest “Best Ecological Project” organized by the Federal Service for Ecological, Technological and Nuclear Supervision and “Industrial Ecology” magazine.

NLMK's environmental management system meets international standards. Based on the regular supervisory audit findings for 2006, the TÜV CERT (Germany) certification firm confirmed the compliance of NLMK's environmental management system with ISO-14001:2004 (Environmental Management System).

Parent company's environmental expenditures in 2002-2006



The company's operations were first certified for compliance with the international environmental standard in 2002. Annual audits have confirmed efficiency throughout the whole chain of the company's Corporate Environmental Management System. In 2005, NLMK successfully passed a re-certification audit for compliance with ISO-14001 standards as revised in 2004, with stricter environmental management system requirements.

Despite of increased production output, the environmental impact of NLMK's operations is systematically decreasing. In particular, gross air emissions have decreased from 357,000 tonnes to 316,000 tonnes per year for the period since 2002 (by 11.5%). In 2006, gross emissions were additionally reduced by 3,000 tonnes against the level of 2005, despite continuing output growth.

Since 2002, consumption of river water has decreased from 90.6m m^3 to 72.6m m^3 per year (by 19.9%), production waste water volume dropped from 55.4m m^3 to 45.3m m^3 per year (by 18.2%) and discharge of pollutants together with industrial waste to the river went down from 12,100 tonnes to 10,300 tonnes a year (by 14.9%).

In addition, in 2006 NLMK completed the first stage of its upgrade of the common waste water treatment facilities jointly operated by the town of Lipetsk and OJSC NLMK. Although NLMK's share of the domestic waste water discharged to the Voronezh River does not exceed 12%, all waste water treatment facilities are owned by NLMK, which is a unique in steel industry practice.

Since 2000, previously accumulated waste were cut down by over 1.5m tonnes (by 16%) through the use of modern waste recycling technologies. Practically all waste (over 95% of the total volume) is detoxified and recycled as part of the production process. In 2004, the accumulation of major types of waste at the production site stopped and processing of earlier accumulated waste began.

Adverse environmental effects were reduced through significant investment in the above mentioned activities of OJSC NLMK. In 2002, investments in environmental protection accounted for USD 13.9m, and in 2006, this number increased four times reaching USD 53.6m.

Further implementation of environmental projects requires more investment in environmental activities by all the Group's companies, which will allow the NLMK Group to achieve the highest levels of environmental performance of its European peers.

NLMK

ON-THE-JOB ACCIDENTS
DROPPED BY

30%

at our main production site

HUMAN RESOURCES POLICY

AND MANAGEMENT SYSTEM

MANAGEMENT SYSTEM RESTRUCTURING

OJSC NLMK's Annual General Meeting held on June 6, 2006 approved changes in the company's articles of incorporation. In accordance with those changes, a new one-man managing body was established – President of the company. In addition, the composition and powers of the collective executive body – the company's Management Board-were significantly changed. An arrangement of vice presidents was put in place. All members of the newly-elected Management Board became vice presidents.

The basic objective of these changes was to make the company's management system commensurate with the latest changes in the group structure.

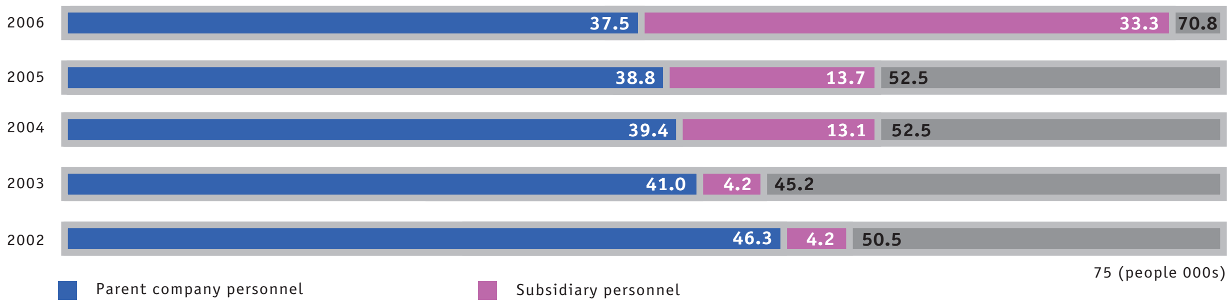
Vice presidents-members of the Management Board – are responsible either for specific areas of the company's operations (iron ore, coal), or for coordination of functional activities within the framework of the whole Group (finance, human resources and management system, sales, purchases, technological development and environment). The major production site in Lipetsk is managed by the Vice President – General Director and his subordinate directors responsible for specific areas of operations.

HUMAN RESOURCES POLICY

Qualified personnel are a key factor of the company's operating efficiency. In view of the fact that increasing shareholder value is NLMK's strategic objective, the management pursues an active personnel policy aimed at raising the welfare of our employees through higher salaries and the application of various social programs.

In 2006, the NLMK Group companies employed about 71,000 people. A considerable growth in personnel was caused by the integration within the Group of the assets acquired in 2006 – LLC VIZ-Stal, DanSteel A/S, OJSC Altai-koks and Prokopievskugol Group of Companies. In 2006 the parent company, OJSC NLMK, employed 37,500 people, which was 3.4% less than the year before.

Average Group personnel in 2002-2006



Steel output per employee (industrial production) of the parent company in 2002-2006

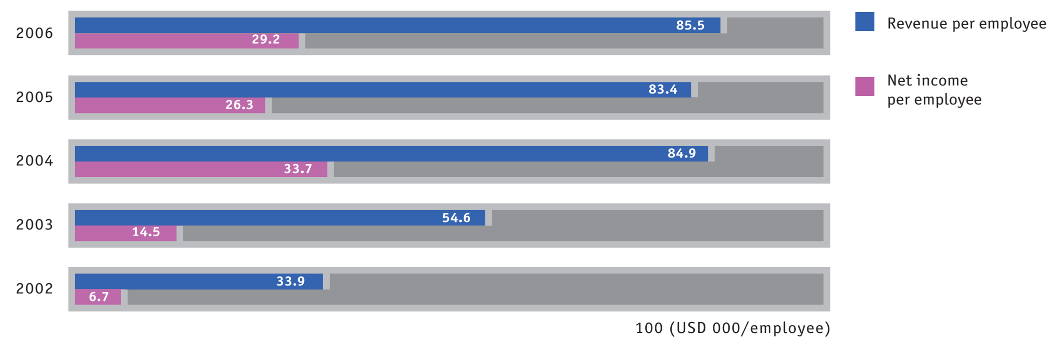
The reduction in staff at the parent company was the result of a labour productivity development policy. In the context of simultaneous reduction in OJSC NLMK's personnel and greater volumes of steel production, steel output per industrial production employee hit 264 tonnes in 2006, a year-on-year increase of 11%. Proceeds and net incomes per employee increased significantly.

Average Group employee salary in 2006 reached RUR 15,000, an 18.1% increase on 2005. The average salary of the parent company's employees also reached RUR 15,000 in 2006. The salaries of company's employees have been growing at a rate that considerably outpaces inflation, which testifies to a rise in employees' purchasing power.

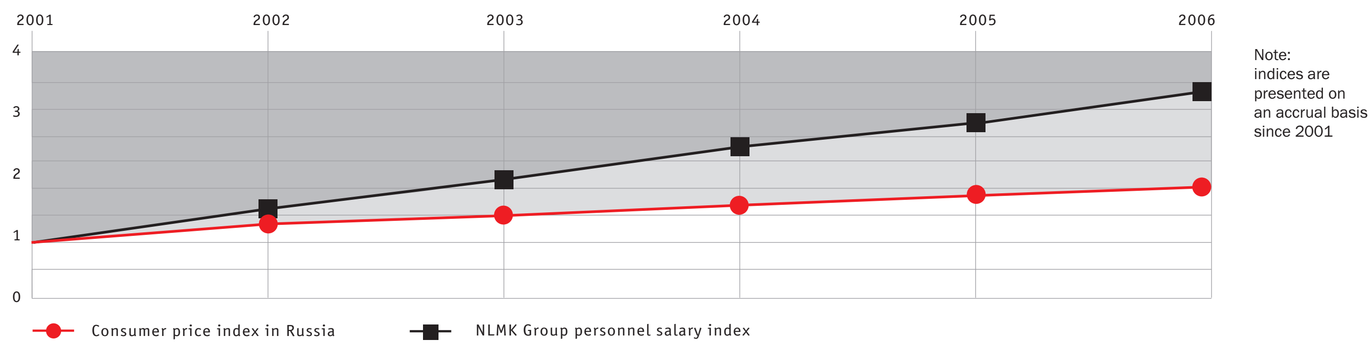
During 2006 OJSC NLMK continued to improve remuneration and labour incentive systems focused primarily on encouraging skilled labour, attracting younger workers and boosting employee motivation.

The main focus areas of the new compensation plan are attraction, selection and hiring of young people; motivation and remuneration of qualified professionals; professional training, adaptation and counseling; career management and working with young people. High quality education and the training of highly qualified staff are the key factors of NLMK's stable operations and high competitiveness.

Movement in revenue and net income per employee at NLMK Group in 2002-2006



Consumer prices index and average salary of NLMK Group personnel in 2002-2006



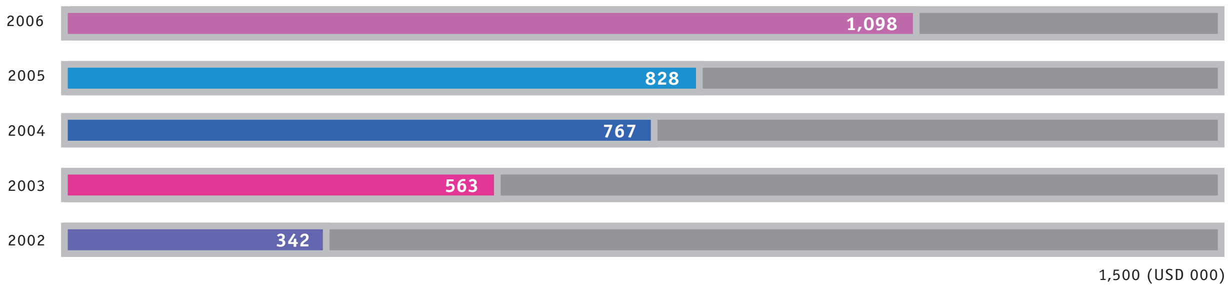
In 2006, over 20,000 NLMK employees were involved in various training programmes – for retraining, to acquire secondary professional skills, to raise their qualifications in specialized courses. Special attention was paid to raising employees' skills within the framework of the NLMK Technical Upgrading Programme, training reserve personnel and developing the professional knowledge and management skills of specialists. Training courses included on-the-job training, vocational and other schools, as well as training in the Corporate Training Center under the Professional Development Department.

Within the framework of the Young Employees Development Programme, OJSC NLMK developed a system of individualized planning and career development for young people, including self-assessment of career objectives and development of personal abilities.

Attracting promising young specialists and creating conditions for their professional growth, in combination with competitive selection of experienced employees who have proved their worth, enables OJSC NLMK to hold a leading position not only in Russia, but also in the global steel industry.

In 2006, 638 young specialists, including 387 graduates from core vocational schools/institutes, joined the parent company. To ensure the adaptation and retention of young people, the company continued to develop its counseling plan, which is designed to help young specialists to quickly improve their professional skills. The involvement of young specialists in professional competitions is a top priority of the company's human resources policy; it helps employees to realize their creative potential and become actively involved in management processes.

Personnel training costs of the parent company in 2002-2006



Every year, the Lipetsk State Technical University graduates engineers and specialists who gain employment at NLMK. In 2005, the Additional Professional Training Programme for Students was launched. It provides on-the-job training for students in NLMK's production entities with a view to preparing skilled specialists and reducing the period of their professional, social and psychological adaptation. To support the most talented students, special study grants were set up by V.S. Lisin (30 grants). Yet another programme, NLMK Students, provides financing for the education of NLMK employees' children. Under this programme, 29 students continued their education at Russia's leading technical institutes.

Since 2005, the company has been pursuing a programme named Housing for Young Metallurgists. Under this programme, 85 out of a total of 1000 applicants received 1-room or 2-room flats on beneficial terms.

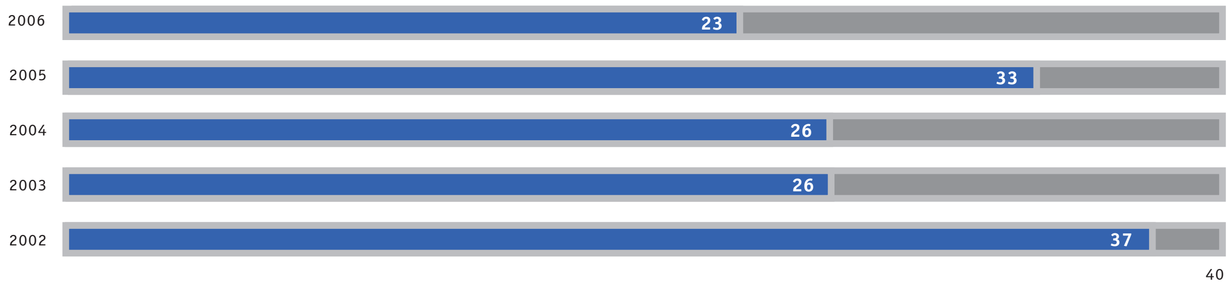
NLMK focuses on ensuring a high level of industrial safety and favourable labour conditions for our employees. The special attention paid to this issue by NLMK management has resulted in significant improvements in this area as compared to the late 1990s.

SOCIAL RESPONSIBILITY

NLMK's employee compensation package includes, besides salary and various bonuses, mandatory and voluntary medical insurance as well as a corporate pension plan.

A key direction of the company's social programmes is to maintain and develop its non-industrial divisions that provide medical treatment and health resort services to the community. The parent company's medical center in Lipetsk is primarily intended to provide high quality health services to NLMK's employees and their families as well as the population of the city and the region.

Number of on-the-job accidents in 2002-2006



In 2006, the following health care facilities were in operation as part of OJSC NLMK:

- a medical complex;
- two health spas;
- a health & recreation center for children.

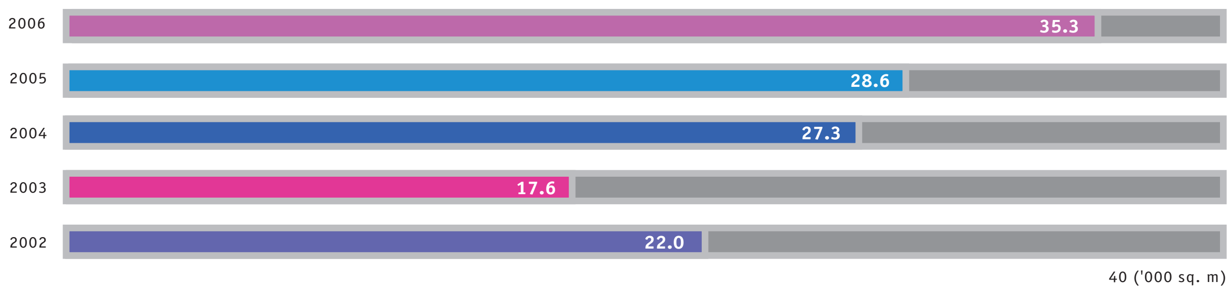
Costs incurred by these health care facilities amounted to approximately USD 18m, of which USD 2.8m was provided by NLMK Group. In 2006, OJSC NLMK spent USD 2.3m on medical treatment of employees.

On January 1, 2007, a new municipal health care institution in Lipetsk – the Central Municipal Clinical Hospital – was put into operation, based on OJSC NLMK's medical complex. OJSC NLMK transferred to the Lipetsk authorities 15 real estate plots with a total area of 35,000 m^2 plus over 2,000 items of medical and other special equipment. Today, the Central Municipal Clinical Hospital offers the highest level of comfort and technical equipment in the city. The new hospital continues to treat OJSC NLMK's employees under voluntary medical insurance plans.

NLMK Group is responsible for the mandatory medical insurance of its employees. An employer is an employee's health insurer under the current law, and insurance contributions are paid as part of unified social tax and amount to 3.1% of the payroll fund. Under the mandatory insurance programme, employees are entitled to out-patient and in-patient care, except for complex surgery and expensive diagnostics and therapy, as provided under the regional mandatory medical insurance programme.

In addition to the above, NLMK provides medical insurance to its employees under voluntary medical insurance contracts which provide for paramedic and medical care, orthopedic consultations, treatment in specialized clinics for serious diseases and rehabilitation in health resorts.

Housing put into operation by the parent company in 2002-2006



NLMK Group is a large Russian taxpayer. Tax charges for 2006 amounted to USD 1,150m. The parent company is the largest taxpayer in Lipetsk region. OJSC NLMK tax payments provided nearly 42% of the total tax revenues for the city of Lipetsk and nearly 55% of the Lipetsk regional government's budget.

An important area of the company's social policy is the construction of housing for its employees that are sold to them directly without involving intermediaries.

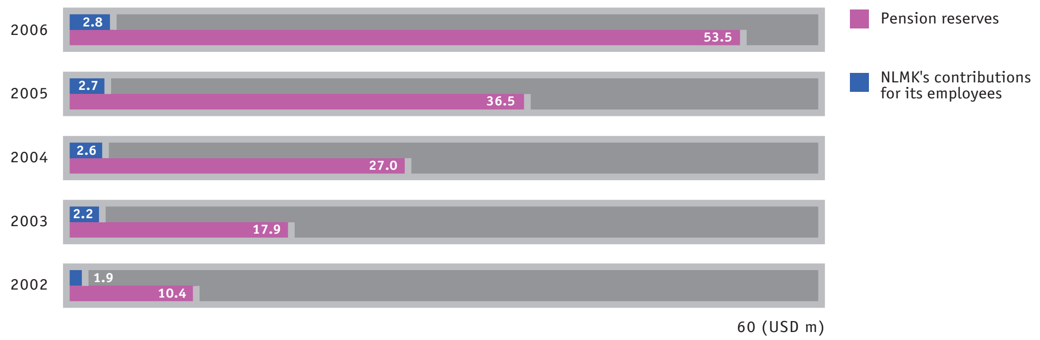
The company has established its own corporate pension plan. OJSC NLMK is one of the founders of the Social Development Pension Fund.

Currently the Social Development Pension Fund ranks among the top 30 non-governmental pension funds in Russia and is the largest one in Central Russia. At January 1, 2007, 23,748 employees of OJSC NLMK were contributors and participants of the fund.

In 2006 OJSC NLMK deductions to the Social Development Pension Fund in favour of its employees reached USD 2.8m. The fund invests money received from the contributors through the Libra Capital management company. Investment income distributed by the fund across contributors' accounts was 15.2% per annum in the reporting year. The fund's pension reserves are USD 53.5m.

The fund has been paying corporate pensions since 2001. For the period from 2001 to 2006, 7,231 NLMK employees joined the fund's pension plan. According to the fund's rules, a corporate pension is payable over a period of three to thirty years (at the participant's will) until the whole amount is withdrawn from the account. All payments are disbursed in accordance with the previously defined contributions of the participants.

Social Development Pension Fund in 2002-2006



Our company seeks to make an even more significant contribution to the community where we work than is required by legislation and industry standards. NLMK plays an important role in the social and economic life and sustained development of the region by effecting fruitful cooperation with educational institutions and also assisting in the development of cultural and sports venues.

The total sponsorship amount for social programmes of the parent company for 2006 reached about USD 70m.

Our company established the Miloserdie Charity Fund, which helps the residents of the region to resolve social problems. The fund provides support to low-income families, children, retired people and the disabled, encourages the strengthening of the role of families in society, and promotes a healthy lifestyle. Great attention is paid to the support of education, science and culture. We strive to implement these initiatives through specific charity programmes.

Pensioners and veterans of the Great Patriotic War, the majority of whom worked at our industrial production facilities, are placed under a special trusteeship by the company.

NLMK's contribution to the development of the social life of the region was confirmed by our victory in the national competition “Russian Organizations of High Social Efficiency”, which was announced in February 2007.

NLMK

INDEPENDENT DIRECTORS
MAKE UP

50%*

of the Board of Directors
(not including the Chairman)

* as of elections at the Annual General Meeting in June 2006

CORPORATE GOVERNANCE

Corporate governance goals and objectives

The company promotes best corporate governance standards with a view to protecting and ensuring shareholders' rights and interests. We confirm the necessity to implement the corporate governance principles set forth in the Corporate Governance Code of OJSC NLMK, whose new wording was passed by the Annual General Shareholders Meeting on June 6, 2006.

The Corporate Governance Code of OJSC NLMK was developed in accordance with basic principles recommended by the Organization for Economic Cooperation and Development (Corporate Governance Principles, 1999) and the provisions of the Corporate Governance Code approved by Resolution of the Federal Commission for Securities Market of the Russian Federation (2002).

Principles underlying the company's organization

The supreme management body of the company is the General Shareholders Meeting. Overall responsibility for operations and for defining the company's long-term strategy is borne by the Board of Directors. Executive bodies – the President (Chairman of the Management Board) and Management Board-exercise the management of day-to-day activities.

GENERAL SHAREHOLDERS MEETING

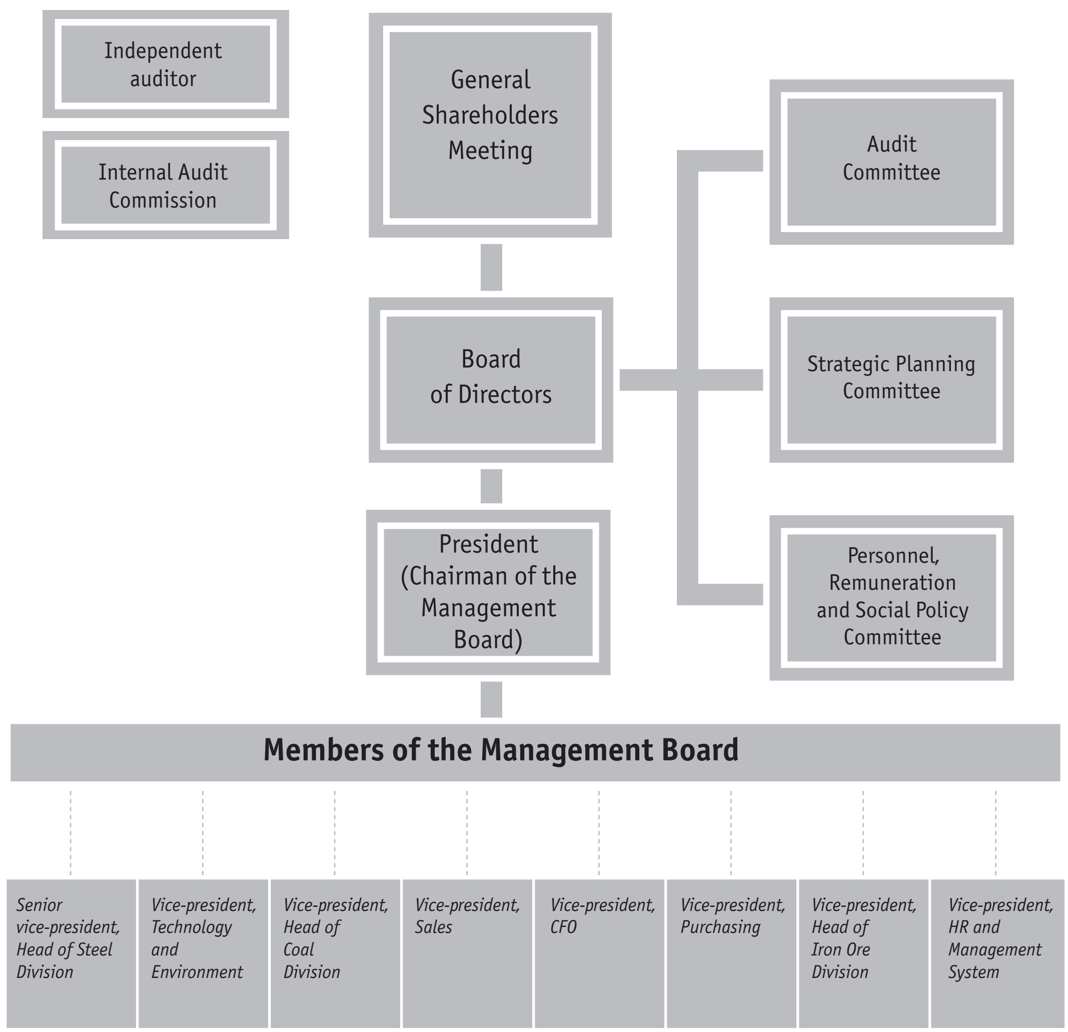
OJSC NLMK's shareholders, being the company's owners, possess a set of rights falling within the authority of the General Shareholders Meeting in accordance with OJSC NLMK's Charter. The shareholders exercise these rights themselves or through their representatives.

The main instrument for the shareholders to exercise their rights is participation in the General Shareholders Meeting. Procedures for convening, preparing and holding the General Shareholders Meeting are governed by OJSC NLMK Regulation on the General Shareholders Meeting. Voting at the General Shareholders Meeting is carried out with voting ballots which are sent to any shareholder within the period established by law and the Charter. The General Shareholders Meeting is chaired by Chairman of the Board of Directors (or by a Board Member on behalf of the Chairman).

The Annual General Meeting of the company is convened once a year not earlier than two months and not later than six months after the end of the financial year. The dates for holding shareholders meetings are set by the company's Board of Directors.

In 2006, OJSC NLMK held an Annual General Meeting and an Extraordinary General Meeting.

OJSC NLMK GOVERNANCE STRUCTURE



Annual General Meeting in 2006

A regular session of OJSC NLMK's General Shareholders Meeting was held on June 6, 2006 to discuss the following issues:

- passing fundamental documents of OJSC NLMK (new wording) – Code of Corporate Governance, Charter, Statute of the Board of Directors, Regulations of the Management Board and Regulation on Dividend Policies;
- considering and approving OJSC NLMK's annual report (including balance sheet, profit and loss statement, profits distribution);
- declaring dividends for 2005 – total dividend for 2005 on NLMK's floated ordinary shares shall be paid in cash in the amount of RUR 3 per ordinary share;
- electing a new Board of Directors – the General Shareholders Meeting elected a new Board of Directors, President (Chairman of the Management Board) and Inteernal Audit;
- payment of remuneration to members of the Board of Directors;
- consideration and approval of the company's auditor – the shareholders approved ZAO PricewaterhouseCoopers Audit as the statutory auditor of OJSC NLMK for 2006 and engaged the same firm to perform an audit of the company's US GAAP financial statements;
- OJSC NLMK's membership in the International Iron and Steel Institute (IISI).

Extraordinary General Meeting

An Extraordinary General Meeting was held on September 29, 2006. Based on its results, a decision was made to pay dividends for the first 6 months 2005 in the amount of RUR 1.5 per ordinary share.

BOARD OF DIRECTORS

Role of the Board of Directors

The Board of Directors bears overall responsibility for operations and defining the company's long-term strategy. The Board of Directors' authority is defined in OJSC NLMK's Charter. The main issues within the authority of the Board of Directors are as follows:

- consideration and approval of strategic development plans and priority areas in OJSC NLMK's activities;
- forming OJSC NLMK's Management Board, deciding upon its structure and number of members, approval of the Board's membership and early termination of their authority;
- recommendations to the General Shareholders Meeting as regards dividends on shares and dividend payment procedure;
- convening Annual and Extraordinary General Meetings;
- annual budget consideration and approval of both OJSC NLMK and the Group;
- taking decisions as regards purchase and sale of interests in other companies, incorporation of subsidiaries as well as other decisions concerning OJSC NLMK's participation in other organizations;
- consideration and approval of major transactions and interested-party transactions.

The Board of Directors adopts decisions through an open vote procedure, by a simple majority of directors present at the meeting, except when provided otherwise by the Charter and legislation. The “one man, one vote” principle applies to all decisions made by the Board of Directors.

Meetings of the Board of Directors are convened by its Chairman based on a duly approved meeting plan.

Extraordinary General Meetings of Shareholders are convened by the Chairman of the Board of Directors at his/her own initiative, at the request of any member of the Board of Directors, Internal Audit Comission, the company's Auditor, OJSC NLMK's Management Board or a shareholder(s) who owns in aggregate over 5% of the voting shares.

Membership of the Board of Directors

Membership on the Board of Directors should be arranged to give its members the opportunity to make critical judgments and to be independent of each other or any specific interests. In accordance with international standards of corporate governance and OJSC NLMK's regulations, it is in the company's interest to have at least three independent directors on the Board of Directors. Directors' independence criteria are defined in OJSC NLMK's Statute of the Board of Directors, and these standards comply with international best practices in corporate governance.

As of December 31, 2006, OJSC NLMK's Board of Directors has the following members:

Name	Position	Years of service on the Board	Independent	Audit Committee	Strategic Planning Committee	Personnel, Remuneration and Social Policy Committee
Vladimir Lisin	Chairman of the Board of Directors	10			Chairman	
Vladimir Skorokhodov	Deputy Chairman of the Board of Directors	10			●	
Oleg Bagrin	Board member	3		●	●	
Nikolai Gagarin	Board member	5			●	
Dmitriy Gindin	Board member	3	●			Chairman
Karl Doering	Board member	1	●		●	●
Randolph Reynolds	Board member	2	●	Chairman		
Igor Fyodorov	Board member	4		●		

Nikolai Lyakishev, an independent member of the Board of Directors elected by the General Shareholders Meeting, died in November 2006. At present there are three independent directors on the Board of Directors

Election of directors

Board members are elected by the General Shareholders Meeting for the period until the next AGM. The right to nominate candidates to the Board of Directors is conferred on those shareholders who own, in the aggregate, at least 2% of OJSC NLMK's voting shares. The Board of Directors should consider nominations and communicate, within five working days after the deadline for submitting nominations, their decision on putting a candidate's name on the ballot for election to the Board of Directors.

Members of OJSC NLMK's Board of Directors are only elected by cumulative voting at OJSC NLMK's General Shareholders Meeting. Cumulative voting implies that each voting share in OJSC NLMK should cover a number of votes equalling the total number of directors on the Board of Directors, as specified in OJSC NLMK's Charter.

Chairman of the Board of Directors

The Chairman of the Board of Directors organizes the board's activities, convenes and chairs board meetings, arranges the keeping of minutes and absentee ballots, and chairs sessions of the General Shareholders Meeting. Under the leadership of the Chairman, the Board of Directors considers important issues such as strategic development plans and OJSC NLMK's priority areas, approval of deals aimed at acquiring strategic assets or disposal of non-core assets. OJSC NLMK's Board of Directors is chaired by Vladimir Lisin, who has been on the Board for ten years, including eight years as its Chairman.

Board of Directors activities in 2006

In 2006, OJSC NLMK's Board of Directors held 13 meetings. The major decisions passed in 2006 were:

- approval of NLMK Group's Technical Upgrading Programme for 2007-2011;
- election of the Chairman, Deputy Chairman and Secretary of OJSC NLMK's Board of Directors and establishment of board committees;
- consideration and approval of a work plan for streamlining NLMK Group's (OJSC NLMK and its subsidiaries) organizational structure and management structure;
- consideration and approval of OJSC NLMK Management Board's structure and membership;
- convening OJSC NLMK's Annual General Meeting to discuss the 2005 results and Extraordinary General Meeting, setting the agenda of the General Shareholders Meeting;
- maintaining NLMK's stakes in the share capital of other companies;
- consideration and approval of budgets for both OJSC NLMK and NLMK Group;
- consideration and approval of NLMK's internal documents.

During the year, members of the Board of Directors took part in the following meetings of the board and its committees:

(Number of meetings[1])	Board of Directors meetings	Audit Committee meetings	Strategic Planning Committee meetings	Personnel, Remuneration and Social Policy Committee meetings
Vladimir Lisin	13 (13)	–	8 (8)	–
Vladimir Skorokhodov	13 (13)	–	8 (8)	–
Oleg Bagrin[2]	13 (13)	4 (5)	5 (5)	–
Nikolai Gagarin	13 (13)	–	7 (8)	–
Dmitriy Gindin	13 (13)	–	–	10 (10)
Karl Doering[3]	8 (8)	–	4 (5)	2 (4)
Randolph Reynolds	11 (13)	5 (5)	–	–
Igor Fyodorov	13 (13)	5 (5)	–	–

1. Figures in parentheses indicate the total number of meetings.

2. Oleg Bagrin has attended meetings of Strategic Planning Committee since he was elected to it in 2006. From the beginning of 2006 up to the formation of a new Committee, three Committee meetings were held.

3. Karl Doering was first elected a member of the Board of Directors by the Annual General Meeting on June 6, 2006.

Board of Directors involvement in risk management

As part of its mandate, OJSC NLMK's Board of Directors assesses the political, financial and other risks affecting the Group's activities. Executive decisions passed by OJSC NLMK's Board of Directors take into account possible risks and adverse implications that may arise from exposure to these risks. Apart from risk control functions, the Board of Directors also coordinates the company's risk management system, evaluates its efficiency and comes up with proposals as to its further development.

Support for Board of Directors operations

OJSC NLMK has a system in place that enables regular communications to members of the Board of Directors as regards the most important events in OJSC NLMK's business activities as well as other developments that have a bearing on shareholders' interests.

Members of the Board of Directors shall, as per the Statute of the Board of Directors, be provided with objective and exhaustive information concerning the agenda of board meetings. Members of OJSC NLMK's Board of Directors receive information about the venue, date and time of board meetings and their agenda not later than seven calendar days before the date of the meeting. If a board meeting is held to consider a request to convene an extraordinary session of the General Shareholders Meeting, board members should receive notice not later than two days before the date of the meeting.

Information provided by the Board of Directors to shareholders

The Board of Directors is accountable to shareholders; it has put in place a transparent system for evaluating the activities of each member in particular and the Board in general in accordance with international principles of corporate governance.

Shareholders are provided, in a regular and timely manner, with unbiased and exhaustive information concerning the activities of the Board of Directors and OJSC NLMK in its entirety. To implement the principles of its information policy, OJSC NLMK has adopted a Regulation on OJSC NLMK's Information Policy. The main principles of OJSC NLMK's information policy are as follows: regular communication, promptness, accessibility, reliability, completeness, balanced approach, equality, protection of information resources.

Information subject to mandatory disclosure is disseminated in the procedure, volume, timeframe and formats established by applicable legislation of the Russian Federation as well as OJSC NLMK's obligations attributable to trading its securities on stock exchange.

Information provided at the company's discretion is disseminated in accordance with a routine procedure, with due regard for the significance of facts or events and their prompt disclosure.

Directors' remuneration and compensation

Remuneration of board members is governed by the Regulation on Remuneration of OJSC NLMK's Board of Directors. Remuneration is paid to the board members provided they discharge their duties in good faith. Remuneration of an individual board member in the form of fees is determined by the extent of their personal involvement in the activities of a given managing body of OJSC NLMK.

Based on OJSC NLMK's results for the financial year, each member of the Board of Directors may, based on the decision of the Annual General Meeting with due regard for recommendations from the Personnel, Remuneration and Social Policy Committee, be awarded a bonus in the amount of up to 0.1% of the net incomes under US GAAP shown by OJSC NLMK for the reporting period. An annual performance bonus is not paid to those directors who have missed more than half of the board meetings during their tenure.

Disbursements to members of the Board of Directors for 2005 and 2006

Name	2005	2006
USD'000		
Disbursements to members of the Board of Directors	658	1,725
remuneration	398	1,576
fees	234	133
other	26	16

Note: disbursements for the calendar year

OJSC NLMK compensates directors' expenses in direct relation to the performance of their duties, including expenses incurred in obtaining professional advice on issues discussed at board meetings or translation of documents/materials provided to directors for review. Such expenses are compensated in accordance with an order of the Chairman of the Board upon a director's application for an expense refund.

BOARD OF DIRECTORS COMMITTEES

To resolve specific tasks facing OJSC NLMK, the Board of Directors has, in accordance with the Statute of the Board of Directors, put in place the following permanent committees:

- Strategic Planning Committee;
- Audit Committee;
- Personnel, Remuneration and Social Policy Committee.

Board committees submit annual reports for consideration by OJSC NLMK's Board of Directors concerning the results of their activities not later than 45 days prior to the date of Annual General Meeting.

Strategic Planning Committee

The Strategic Planning Committee works to develop and prepare recommendations for taking decisions on issues within the authority of OJSC NLMK's Board of Directors, related to defining both priority areas of the company's activities and strategies for further development.

Vladimir Lisin	Chairman of the Board of Directors, Chairman of the Committee
Vladimir Skorokhodov	Deputy Chairman of the Board of Directors
Nikolai Gagarin	Member of the Board of Directors
Oleg Bagrin	Member of the Board of Directors
Karl Doering	Member of the Board of Directors (independent director)
Alexey Lapshin	President (Chairman of the Management Board)
Vladimir Nastich	Senior Vice President/Head of Steel Division

In 2006, the Strategic Planning Committee held eight meetings, attended by all committee members. The following major issues were discussed:

- major development areas of companies within the NLMK Group;
- consideration and approval of NLMK Group's Technical Upgrading Programme for 2007-2011;
- developing recommendations to OJSC NLMK's Board of Directors as regards dividends on shares and their payment procedure, procedures governing distribution of profits (loss) based on the results of the financial year; approving recommendations to OJSC NLMK's Board of Directors as regards the proposed dividend based on the results of the first six months of 2006.

Audit Committee

The Audit Committee works to establish efficient controls over the business activities of OJSC NLMK, ensure the direct involvement of the Board of Directors in supervising the business activities of OJSC NLMK, its subsidiaries and associates, and ongoing monitoring and control over the process of preparing and disclosing true and accurate financial information about OJSC NLMK.

Randolph Reynolds	Member of the Board of Directors, Chairman of the Committee (independent director)
Igor Fyodorov	Member of the Board of Directors
Oleg Bagrin	Member of the Board of Directors.

In 2006, the Audit Committee held five meetings to discuss the following major issues:

- The committee prepared and submitted for the Board of Directors' consideration a proposal to recommend that the Annual General Meeting should approve OJSC NLMK's Russian Accounting Rules financial reports for 2005 and US GAAP consolidated financial statements for 2005. Also, the Committee reviewed and approved US GAAP interim condensed consolidated financial statements for the 1st quarter, 1st six months and nine months of 2006;
- The committee considered the results of the OJSC NLMK Audit Directorate's activities in 2005 and approved proposals on restructuring the Audit Directorate;
- The committee considered the candidacies of auditors of OJSC NLMK and its subsidiaries/associates. The committee prepared a proposal to the Board of Directors with their recommendation to the Annual General Meeting with respect to OJSC NLMK's auditors;

- The committee prepared recommendations to general directors of subsidiaries on their Russian statutory auditors;
- The committee considered and approved the candidacies of appraisers to be engaged for allocating the acquisition cost of subsidiaries acquired in 2005-2006

Personnel, Remuneration and Social Policies Committee

The human resources, Remuneration and Social Policy Committee works to develop and prepare recommendations for taking decisions as regards defining priority areas in human resources policies, remuneration of members of OJSC NLMK's executive bodies and Internal Audit Commission, and social policies.

Dmitriy Gindin	Member of the Board of Directors, Chairman of the Committee (independent director)
Karl Doering	Member of the Board of Directors (independent director)
Stanislav Tsyrlin	Vice President, Human Resources and Management System
Sergei Melnik	Director for Personnel and General Issues

In 2006, the committee held 10 meetings where members discussed and prepared recommendations to the Board of Directors concerning the following issues:

- payroll fund, labour productivity and targets, streamlining numbers of employees and changing personnel age structure in favour of younger people during 2006 and for the period through 2010;
- directors' remuneration (with respect to bonuses for their work on the Board of Directors);
- remuneration and bonuses of OJSC NLMK's management;
- main areas of social policies;
- progress of OJSC NLMK's housing construction programme;
- nominations for state and industry awards;
- coordination of human resources work at subsidiaries.

Internal Audit Commission

The Internal Audit Commission is a permanent internal controlling body of OJSC NLMK that exercises regular monitoring of the company's business activities.

The Internal Audit Commission acts on the basis of OJSC NLMK's Charter and Regulations on the Internal Audit Commission, and coordinates audits of the company's financial and business operations. Its objective is to obtain reasonable assurance that the company's operations comply with legislation and do not infringe upon shareholders' rights, and that there are no material misstatements in the company's accounting and reporting.

The Internal Audit Commission works on behalf of OJSC NLMK's shareholders and reports to the company's General Shareholders Meeting.

The Internal Audit Commission is elected by the General Shareholders Meeting for the term of one year. Based on a resolution of OJSC NLMK's General Shareholders Meeting, the Internal Audit Commission's authority may be terminated earlier.

In 2006, the General Shareholders Meeting elected four members to the Internal Audit Commission:

Member of the Internal Audit Commission	Position
Valeriy Kulikov	Chairman
Natalia Kurasevich	Member
Olga Savushkina	Member
Galina Shipilova	Member

Activities in 2006

In 2006, the Internal Audit Commission held three meetings to discuss the following major issues:

- the results of its audit of OJSC NLMK business activities for nine months of 2005;
- the wording of the report on the results of its audit of OJSC NLMK's annual reports on business activities for 2005, with due regard for information on both the results of interim audit and audit for the fourth quarter of 2005;
- consideration and approval of its opinion for 2005.

MANAGEMENT BOARD

The Management Board is a collegial executive body of OJSC NLMK that acts on the basis of its Charter and the Regulations of the Management Board.

Objective and principles of the Management Board's activities

The objective of the Management Board's activities is to ensure efficient day-to-day operation of the company. To achieve their objective, the Management Board must abide by the following principles:

- promptly taking the utmost objective decisions on behalf of OJSC NLMK and its shareholders;
- implementing resolutions of OJSC NLMK's General Shareholders Meeting and Board of Directors in good faith, in a timely and efficient manner;
- coordination with OJSC NLMK's trade unions to ensure due regard for employees' interests;
- coordination with governmental agencies and local government with respect to the most significant public concerns.

OJSC NLMK Management Board's authority covers the following major issues:

- preparing and submitting for consideration by OJSC NLMK's Board of Directors a development concept, long-term plans and major programmes underlying the company's activities;
- providing recommendations to the Board of Directors as regards the priority areas of OJSC NLMK's activities;
- establishing procedures for OJSC NLMK's coordination with its main subsidiaries, associates and other legal entities of which OJSC NLMK is a participant, shareholder or member, including approval of appropriate instructions, guidance, etc.;
- providing recommendations to the Board of Directors as regards approval of major transactions or interested-party transactions, as well as approval of transactions involving OJSC NLMK's assets, if the transaction price or value of assets is above 10% of the book value of OJSC NLMK's assets as of the latest reporting date (except for transactions conducted by the company in the ordinary course of business).

President (Chairman of the Management Board)

The President (Chairman of the Management Board) is elected by the General Shareholders Meeting for the period until the next AGM. The President (Chairman of the Management Board) manages the day-to-day activities of OJSC NLMK, organizes the implementation of resolutions of the General Shareholders Meeting and Board of Directors.

The contract with the President (Chairman of the Management Board) is signed on behalf of OJSC NLMK by the Chairman of the Board of Directors or another person authorized by him/her and may be terminated at any time based on a corresponding resolution of the General Shareholders Meeting, in accordance with legislation of the Russian Federation.

OJSC NLMK's President (Chairman of the Management Board) is Mr Alexey Lapshin (elected on June 6, 2006).

Division of responsibilities between Chairman of the Board of Directors and President (Chairman of the Management Board)

In accordance with the effective regulations of OJSC NLMK, the powers of every governance body are clearly delineated, which improves the efficiency of the company's management.

The Chairman of the Board of Directors coordinates all work with respect to defining strategic areas of the company's development, while the Chairman of the Management Board controls the day-to-day management of ongoing activities within the framework of the development strategy adopted by the Board of Directors.

Membership of the Management Board

The Management Board's structure and composition is subject to approval by OJSC NLMK's Board of Directors with due regard for the President's (Chairman of the Management Board's) opinion. The members of the Management Board are approved by the Board of Directors, while candidates are nominated by the President (Chairman of the Management Board). At present, NLMK's Management Board has nine members.

Management Board membership as of December 31, 2006

Member of the Management Board	Position	Meetings[1]
Alexey Lapshin[2]	Chairman of the Management Board, President	17 (17)
Vladimir Nastich	Member of the Management Board, Senior Vice President/Head of Steel Division	25 (27)
Galina Aglyamova	Member of the Management Board, Vice President, CFO	21 (27)
Igor Anisimov	Member of the Management Board, Vice President, Purchasing	23 (27)
Dmitry Baranov[2]	Member of the Management Board, Vice President, Sales	17 (17)
Alexander Zarapin[2]	Member of the Management Board, Vice President, Head of Coal Division	15 (17)
Yuri Larin[2]	Member of the Management Board, Vice President, Technology and Environment	16 (17)
Alexander Saprykin[2]	Member of the Management Board, Vice President, Head of Iron Ore Division	17 (17)
Stanislav Tsyrlin	Member of the Management Board, Vice President, Human Resources and Management System	18 (27)

1. In 2006, OJSC NLMK's Management Board held 27 meetings. Of which:
- 10 meetings were attended by board members approved by OJSC NLMK`s Board of Directors in May 2005;
- 17 meetings were attended by board members approved by OJSC NLMK`s Board of Directors in June 2006.

2. First elected to the Management Board in 2006

The contract with each member of the Management Board is signed on behalf of OJSC NLMK by the Chairman of the Board of Directors or another person authorized by him/her and may be terminated at any time based on a corresponding resolution of the Board of Directors, in accordance with the legislation of the Russian Federation.

External auditors

In accordance with Russian legislation, each year the company selects auditors to audit the company's results. OJSC NLMK selects its auditors on the basis of the following criteria:

- quality and promptness of work performance;
- extensive audit experience and solid reputation among global audit firms.

In 2006, OJSC NLMK engaged ZAO PricewaterhouseCoopers Audit to audit both the Russian Accounting Rules financial reports and US GAAP financial statements.

Company policy on interested-party transactions

According to the Federal Law “On Joint Stock Companies”, any transaction in which a member of the Board of Directors, the President (Chairman of the Management Board) or a person temporarily performing their duties, a managing organization or manager, member of the Management Board or company shareholder holding (along with his/her/its affiliated entities) twenty or more percent of the company's voting shares, as well as any person who is in a position to issue instructions/directives mandatory for the company, has an interest shall be approved in advance by the company's Board of Directors or General Shareholders Meeting by a majority vote of directors or shareholders who have no interest in conducting such a transaction.

Any interested-party transaction does not require the approval of the General Shareholders Meeting, if the terms and conditions thereof do not differ materially from similar transactions that were conducted in the ordinary course of business before the interested person was recognized as such.

EARNINGS PER SHARE
INCREASED BY

50%

compared with 2005

INFORMATION FOR SHAREHOLDERS

Ordinary shares

The company's share capital consists of 5,993,227,240 ordinary shares with a par value of RUR 1.0. NLMK's shares are traded on Russian exchanges (RTS and MICEX) as well as on the London Stock Exchange (LSE) in the form of Global Depositary Shares (GDS) (1 GDS = 10 ordinary shares).

Information about the company's listing	
RTS exchange code (ticker), Moscow	NLMK
MICEX exchange code (ticker), Moscow	NLMK
LSE exchange code (ticker), London	NLMK
Company code in the Bloomberg system	NLMK
Company code in the Reuters system	NLMK

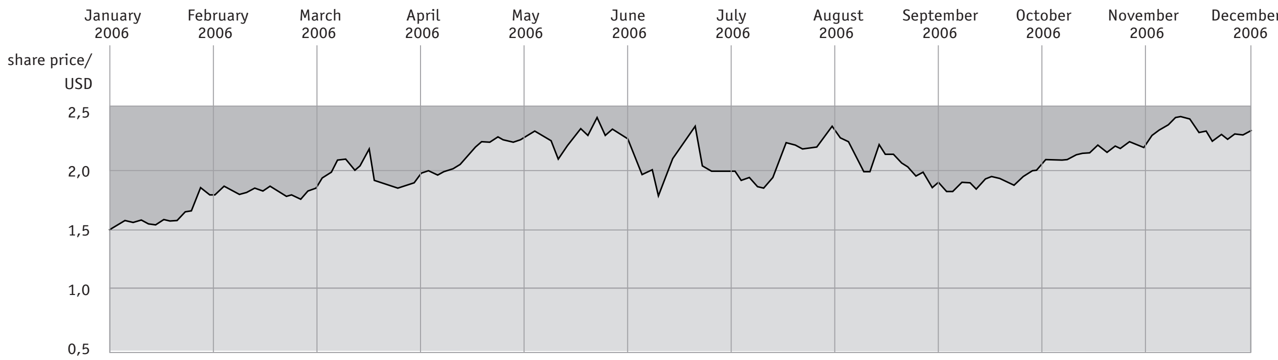
Global Depository Shares (GDS)

The ordinary share to GDS ratio is 10:1. As of December 31, 2006, the shares NLMK issued and traded on the LSE as GDSs accounted for 8.13% of its share capital.

As of March 31, 2007 GDS quotations were USD 29.41.

The company's depository bank is Deutsche Bank Trust Company Americas (for contact details see page 122).

OJSC NLMK ordinary shares on RTS in 2006



Share price

OJSC NLMK ordinary shares on the RTS

	2006	2005
Maximum (USD)	2.47	1.61
Minimum (USD)	1.51	1.00
At the year end (USD)	2.35	1.43
Number of transactions (units)	483	1,108
Trade volume (USD m)	38	66

OJSC NLMK ordinary shares on the MICEX

Trading in ordinary shares on the MICEX began on April 7, 2006

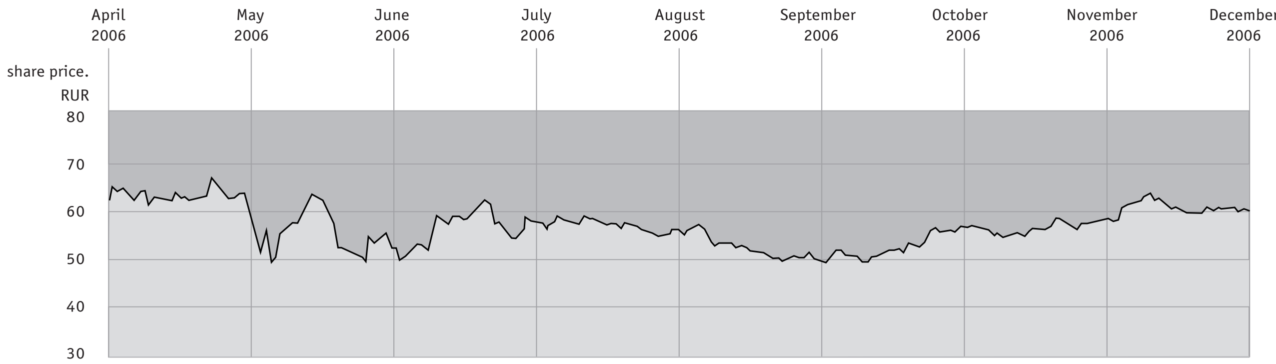
	2006	2005
Maximum (RUR)	70.1	–
Minimum (RUR)	48.5	–
At the year end (RUR)	63.45	–
Number of transactions (units)	10,417	–
Trade volume (RUR m)	966	–

GDSs of OJSC NLMK on the LSE

The company's shares were placed on the LSE as GDSs on December 15, 2005

	2006	2005
Maximum (USD)	25.15	14.88
Minimum (USD)	14.33	14.15
At the year end (USD)	23.25	14.30
Trade volume (USD m)	~4.0	~0.06

OJSC NLMK share price on MICEX in 2006
(since April 7, 2006 when NLMK has been accessed to bidding)



Market capitalization

In light of its robust financial performance and greater transparency in business affairs, NLMK's capitalization for 2006 increased by nearly 60% to reach USD 13.9 bn at the end of 2006. At the beginning of 2006, NLMK's capitalization was USD 8.8 bn.

Taxation

Under Russian legislation, the tax rate on dividend payments for shareholders and GDS holders is as follows: 9% for residents of the Russian Federation and 15% for non-residents of the Russian Federation. If a double taxation treaty is applicable, taxes are paid based on the rates specified in the treaty. Information on taxation is made publicly available. Current and potential investors should consult with their advisors on the tax implications of investing in the company's shares, including in its Global Depositary Shares.

DIVIDENDS

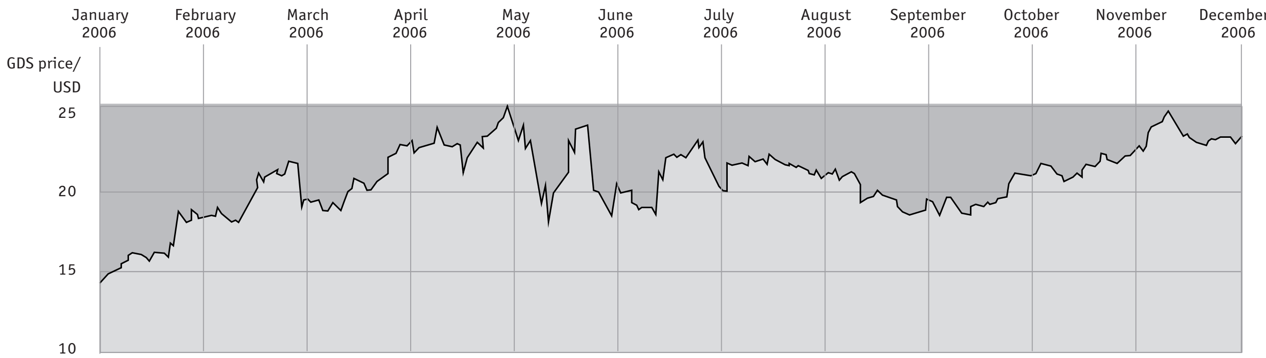
Dividend policy

The dividend policy of NLMK, approved in June 2006, was developed to make the company's strategy for distribution and use of NLMK's net incomes as clear as possible to shareholders and all interested parties. In accordance with the dividend policy, dividend paid shall not be less than 20% of net incomes under US GAAP. The company targets an average dividend payment during a five-year period of 30% of US GAAP net income.

The amount of dividend paid for each specific period shall be approved by the company's shareholders as recommended by the Board of Directors. It will depend on the company's financial position, operational results, cash flows, future forecasts, overall economic climate and other factors.

Dividend declared shall be paid to the shareholders within 90 days of the declaration date, unless a General Shareholders Meeting resolution on dividend payment provides for a shorter period.

NLMK`s GDS at the London Stock Exchange in 2006



Dividend per share

Year		Dividend per share	Declaration date	Total amount of dividends declared	Dividend / net incomes
2002	Full year	RUR 312.5 (USD 10.3010)	27.06.03	RUR 1,871,012,500 USD 61.675 m	18%
2003	Full year	RUR 0.6045 (USD 0.0208)	25.06.04	RUR 3,622,905,867 USD 124.834 m	19%
2004	Full year	RUR 1.8 (USD 0.0643)	20.05.05	RUR 10,787,809,032 USD 385.556 m	22%
	Including 9 months interim	RUR 1 (USD 0.0357)	03.12.04	RUR 5,993,227,240 USD 214.081 m	
2005	Full year[1]	RUR 3 (USD 0.1101)	06.06.06	RUR 17,979,681,720 USD 659.573 m	48%
	Including 6 months interim	RUR 1 (USD 0.0352)	26.09.05	RUR 5,993,227,240 USD 210.792 m	
2005	Full year	RUR 3 (USD 0.1140)	05.06.07	RUR 17,979,681,720 USD 683.266 m	33%
2006	Including 6 months interim	RUR 1.5 (USD 0.0561)	29.09.06	RUR 8,989,840,860 USD 336.071 m	

1. In accordance with the current dividend policy of OJSC NLMK, net income from sale of investments into equity securities which fail to ensure significant influence or control over the issuer can be fully allocated to dividend payment provided no cash mobilization is required for investment activity. During the first quarter of 2006, OJSC NLMK sold a minority interest in OJSC Lebedinsky GOK. Even though the sale took place in the first quarter of 2006, the General Shareholders Meeting held on June 6, 2006 voted to pay the relevant amount in the form of a dividend based on the results of 2005.

Dividends on GDS

Any dividend paid on shares whose rights are confirmed by GDS shall be declared and paid to the Depository in Russian roubles or in accordance with the Annual General Shareholders Meeting resolution in foreign currency (at the discretion of OJSC NLMK) to be further converted into US dollars by the Depository and then further distributed among GDS holders, less the Depository's fee and costs.

Proposals as regards distribution of profits

The Annual General Meeting approved the final dividend for 2006 of RUR 3.0 (USD 0.11) per ordinary share.

Number of shares issued	5,993,227,240
Dividend per 1 ordinary shares with a par value of RUR 1	3.0
Total dividend based on the 2006 results	17,979,681,720

With the interim dividends of RUR 1.5 per ordinary share declared by the General Shareholders Meeting in September 2006 taken into account, dividends of RUR 1.5 per ordinary share will additionally be paid based on 2006 results.

The Board of Directors recommended using the profit remaining after the payment of dividends for the implementation of investment programmes and the payment of dividends in subsequent periods.

Share capital structure as of December 31, 2006

Beneficiaries	Interest, %
Controlling shareholder	83.16
GDS traded on the LSE	8.13
Other shareholders	8.71

Corporate documents

The company's corporate documents, including its Charter, are published on its website: www.nlmksteel.com

Financial Statements

The company publishes its financial results on its website in the form of press releases and on the LSE website through RNS.

2007 financial calendar

Name	
Announcing US GAAP financial results for 2006 financial year	April 2007
Announcing US GAAP interim financial results for first quarter of 2007	June 2007
Announcing US GAAP interim financial results for first six months of 2007	September 2007
Announcing US GAAP interim financial results for nine months of 2007	December 2007

The company's annual report is published on its website, www.nlmksteel.com, on the day of its official publication, which the company announces in a special press release. Our annual report in hardcopy is provided by both the Shareholder Register's office and our PR consultants in London at shareholder`s request.

Glossary

A glossary is provided on page 125 of the Annual Report.

Contact details

Shareholder Register

Our shareholder register is maintained and kept by LLC R-Stinol, whose registered office is located at:
Ul. 9 May 10 B
Lipetsk 398017
Russia

Depository Bank

Deutsche Bank Trust Company Americas
The Head Office of the Depository in New York is located at:
60 Wall Street
New York, NY 10005
USA

The Head Office of the Depository in London is located at:
Winchester House
1 Great Winchester Street
London, UK
EC2N 2DQ

NLMK's subsidiaries and associates as of 31.12.2006

The table shows subsidiaries and associates of OJSC NLMK without their own subsidiaries or associates

Company name	Type of Business	NLMK share in Charter capital, (%)
Subsidiaries		
LLC Lipetsk insurance company Chance	Insurance	100
LLC Steel	Supply and sales, trade and purchasing	100
DanSteel A/S	Production of steel plates	100
Kuzbass Asset Holdings Limited	Commercial, commission, stock market trading, brokerage and investment operations	100
NLMK International B.V.	Holding company	100
LLC VIZ-Stal	Production and sales of electrical steel	100
LLC Independent Transport company	Cargo transportation and other forwarding services	100
LLC Trade House NLMK	Trade of ferrous and non-ferrous metals in internal and external markets	100
LLC Vtorchermet NLMK	Procurement, processing and sales of ferrous and non-ferrous scrap metal	100
LLC Novolipetskoye	Production and processing of agricultural products	100
LLC Karamyshevskoye	Production and processing of agricultural products	100
Holiday hotel Novolipetsky Metallurg	Provision of social and cultural services	100
LLC Larmet	Wholesale sale of metals and metal products	99.98
LLC Vimet	Wholesale trade of metals and metal products	99.97
OJSC Stoilensky GOK	Open mining and benefication of ferrous metal ore, other mining raw materials	96.98

The table shows subsidiaries and associates of OJSC NLMK without their own subsidiaries or associates

Company name	Type of Business	NLMK share in Charter capital, (%)
OJSC Altai-koks	Production and sales of coke and chemical products, generation and sales of heat and power	93.64
OJSC Dolomite	Mining	92.74
OJSC Studenovsk joint stock mining company	Mining	88.62
LLC Vtormetsnab NLMK	Procument, processing and sales of ferrous scrap	70.00
OJSC Tuapse commercial sea port	Cargo handling, servicing of national and foreign vessels	69.41
OJSC Northern oil and gas company	Prospecting and exploration of oil and gas fields	62.00
LLC Lipetsk municipal energy company	Generation, transmission and distribution of heat and power	51.00
OJSC Bank of Social Development and Construction Lipetskcombank	Banking operations	50.08
Associates		
Steel Invest & Finance (Luxembourg) S.A.	Holding company	50.00
OJSC Lipetsk Gipromez	Project and exploration works	43.44
LLC Neptun	Recreation and sport services	25.00

GLOSSARY

2000 mill

A mill, used to roll steel, which has a 2,000 millimetre barrel width.

Blast furnace

A towering cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt iron from ore. Its name comes from the "blast" of hot air and gases forced up through the iron ore, coke and limestone that load the furnace.

BOF

A basic oxygen furnace, which is a pear-shaped furnace, lined with refractory bricks, that refines molten iron from the blast furnace and scrap into steel.

Carbon steel

Type of steel generally having no specified minimum quantity of any alloying element and containing only an incidental amount of any element other than carbon, silicon, manganese, copper, sulphur and phosphorus.

Carlite

An inorganic insulating coating for grain-oriented electrical steels, typically a phosphate, chromate, or silicate coating, or combination thereof, which corresponds to a C-5-type insulating coating under the A976 ASTM classification.

Coating

The process of covering steel with another material (tin, chrome, zinc), primarily for corrosion resistance.

Coils

Steel sheet that has been wound. A slab, once rolled in a hot-strip mill, can be more than one mile long; coils are the most efficient way to store and transport sheet steel.

Coke

The basic fuel consumed in blast furnaces in the smelting of iron. Coke is a processed form of coal. About 450 kilograms of coke are needed to process a tonne of hot metal, an amount which constitutes more than 50% of an integrated steel mill's total energy use. Coke is used because metallurgical coal burns sporadically and reduces into a sticky mass. Processed coke, however, burns steadily inside and out, and is not crushed by the weight of the iron ore in the blast furnace. It is produced inside the narrow confines of a coke oven, in which coal is heated without oxygen for 18 hours to drive off gases and impurities.

Coking coal

Bituminous coal used in the production of steel in basic oxygen furnaces, generally low in sulphur and phosphorous.

Cold-rolling

Changes in the structure and shape of steel achieved through rolling the steel at a low temperature (often room temperature). It is used to create a permanent increase in the hardness and strength of the steel. It is effected by the application of forces to the steel which causes change in the composition, enhancing certain properties. In order for these improvements to be sustained, the temperature must be below a certain range because the structural changes in the steel are eliminated by higher temperatures.

Continuous casting

A method of pouring steel directly from a ladle through a into a mould, shaped to form billets, blooms or slabs. Continuous casting avoids the need for large mills for rolling ingots into slabs. Continuous cast slabs also solidify in a few minutes, versus several hours for an ingot. Because of this, the chemical composition and mechanical properties are more uniform.

Crude steel

Steel in primary form of hot molten metal.

Finished steel products

Steel that has been processed from crude steel into semi-finished steel products, such as slabs, or into rolled steel products.

Flat-rolled steel/Flat products

Category of steel that includes sheet, strip and tin plate, among others.

Galvanized steel

Steel coated with a thin layer of zinc to provide corrosion resistance in underbody auto parts, garbage cans, storage tanks, fencing wire, etc. Sheet steel normally must be cold-rolled prior to galvanizing. Galvanized steel is subdivided into hot-dipped galvanized and electrogalvanized steel. Electrogalvanizing equipment is more expensive to build and operate than hot-dipping equipment, but it gives more precise control over the weight of the zinc coating.

Hi-B

The term Hi-B is used to describe high grade grain-oriented electrical steels with high permeability and low incremental no-load magnetic losses.

Hot-rolling mill

The rolling mill that reduces a hot slab into a coil of specified thickness; the whole process is done at a relatively high temperature (when the steel is still red).

Hot-rolled Product

Hot-rolled Product – that is sold in its “as-produced” state off the hot-rolling mill, with no further reduction or processing steps, aside from being pickled and oiled (if specified).

Indicated mineral resources

An indicated mineral resource is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Iron-ore

Mineral containing enough iron to be a commercially viable source of the element for use in steel making.

Iron ore concentrate

Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed by undergoing treatment.

Long products

Classification of steel products that includes bars, rods and structural products that are “long” rather than “flat”.

Magnetic separator

A device used in a process when magnetically susceptible mineral is separated from gangue minerals by applying a strong magnetic field.

Mineral resource

A concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.

Open-pit mining

A surface mining operation in which blocks of earth are dug from the surface to extract the ore contained in them.

Pig iron

An alloy of iron and carbon, with a carbon content in excess of 2.14%, that is produced in a blast furnace.

Probable reserve

The economically mineable part of an Indicated Mineral Resource.

Reserve

That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.

Rolled steel (products)

Steel produced from a semi-finished steel to a desired thickness by being passed through a set of rollers. In relation to NLMK, it refers to the various flat-rolled steel products that we produce, including hot-rolled steel, cold-rolled steel, galvanized steel and electrical steels.

Scrap (ferrous)

Ferrous (iron-containing) material that generally is remelted and recast into new steel in electric arc furnaces. Integrated steel mills also use scrap for up to 25% of their basic oxygen furnace charge. Scrap includes waste steel generated from within the steel mill, through edge trimming and rejects, as well as excess steel trimmed by auto and appliance stampers, which is auctioned to scrap buyers as factory bundles.

Semi-finished steel

Steel shapes – for example, blooms, billets or slabs – that may later be processed into more finished "rolled" products such as sheet.

Sheet steel

Thin, flat-rolled steel created in a hot-strip mill by rolling a cast slab flat while maintaining the side dimensions. The malleable steel lengthens to several thousand feet as it is squeezed by the rolling mill. The most common differences among steel bars, strip, plate and sheet are merely their physical dimensions of width and gauge (thickness).

Sintering

A process that combines iron-bearing particles into small chunks. Previously, these materials were too fine to withstand the air currents of the smelting process and were thrown away. The iron is now conserved because the chunks can be charged into the blast furnace.

Slab

The most common type of semi-finished steel. Traditional slabs measure 18-25 centimetres thick, 75-225 centimetres wide and are usually about 6-12 meters long, while the output of the recently developed "thin slab" casters is approximately five centimetres thick. After casting, slabs sent to the hot-strip mill to be rolled into coiled sheet and plate products.

Strip

Thin, flat steel that resembles hot-rolled sheet, but it is normally narrower (up to 30 centimeters wide) and produced to more closely controlled thicknesses. Strip also may be cut from steel sheet by a slitting machine (see Sheet steel).

Tonne

A metric tonne, equal to 1,000 kilograms.

Underground mining

Mining to extract the ore from below the surface.

NLMK Group key performance indicators for 5 years

(tonnes'000)	2002	2003	2004	2005	2006
Key production results					
Pig iron	8,047	8,623	8,994	7,886	9,043
Steel	8,553	8,854	9,123	8,468	9,125
Slabs	3,242	3,338	3,763	3,203	3,463
Flats	4,764	4,895	4,813	4,776	5,140
Coated steel	550	543	528	532	771
(USD m)					
Key financial results					
Sales revenue	1,712	2,468	4,460	4,376	6,046
Gross profit	615	1 017	2,380	2,044	2,971
Operating income	512	882	2,197	1,844	2,243
Profit before income tax and minority interest	467	882	2,338	1,892	2,621
Net income	338	656	1,773	1,381	2,066
EBITDA [1]	615	1,007	2,379	2,083	2,631
(USD m)					
Key financial indicators					
Total assets	2,199	3,085	5,166	6,211	8,717
Equity	1,991	2,610	4,220	5,114	6,809
Equity as a percentage of assets	91%	85%	82%	82%	78%
Current liquidity ratio [2]	5.4	5.9	4.8	5.6	3.1
Quick ratio [3]	4.2	4.8	3.9	4.7	2.2
Accounts receivable turnover [4]	54	48	40	54	56
Inventory turnover [5]	75	72	77	92	95
Profitability indicators					
Operating income margin	30%	36%	49%	42%	37%
Net income margin	20%	27%	40%	32%	34%
EBITDA margin	36%	41%	53%	48%	44%
Return on assets [6]	17%	25%	43%	24%	28%
Return on equity [7]	19%	29%	52%	30%	35%
EBITDA to assets [8]	31%	38%	58%	37%	35%
Profit per share (USD)	0.0565	0.1095	0.2958	0.2305	0.3447

1. EBITDA is computed as the sum of net income, net interest expenses, profit tax, losses from the disposal of fixed assets, impairment losses, increase in asset retirement obligations, depreciation and amortization less gains (losses) from financial investments and income from discontinued operations.

2. Current liquidity ratio is calculated as current assets, excluding restricted cash, divided by current liabilities.

3. Quick liquidity ratio is calculated as current assets, excluding restricted cash and inventory, divided by current liabilities.

4. Accounts receivable days are calculated as simple average receivables, divided by sales revenue, multiplied by 365 (number of days in a year).

5. Inventory days are calculated as simple average inventory divided by production cost, multiplied by 365 (number of days in a year).

6. Return on assets is calculated as net income divided by simple average assets.

7. Return on equity is calculated as net income divided by simple average equity.

8. EBITDA to Assets is calculated as EBITDA divided by simple average assets.

CONTACT DETAILS

Open Joint Stock Company Novolipetsk Steel

Head Office

Novolipetsk Steel (NLMK)
2, pl. Metallurgov, Lipetsk
398040 Russia

Telephone numbers:

President (Chairman of the Management Board)	(4742) 444-006
Senior Vice President, Head of Steel Division	(4742) 445-010
Vice President, CFO	(4742) 444-572
Vice President, Purchasing	(4742) 444-448
Vice President, Sales	(4742) 440-097
Vice President, Head of Coal Division	(4742) 440-097
Vice President, Head of Iron Ore Division	(4742) 440-097
Vice President, Technology and Environment	(4742) 442-780
Vice President, Human Resources and Management System	(4742) 440-646
Director, Investor and Government Relations, Director of OJSC NLMK's Moscow Office	(4742) 444-572
Director, Public Relations	(495) 411-7739

Moscow Office

Investor Relations
Novolipetsk Steel (NLMK), Moscow Office
1/15, building «B», entrance 6,
Kotelnicheskaya nab.,
Moscow, 109240, Russia

Tel.: +7 495 915 15 75
Fax: +7 495 915 79 04
E-mail: info@nlmk.msk.ru

OJSC NOVOLIPETSK STEEL

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

THE OJSC NLMK MANAGEMENT`S OPINION

ON THE GROUP CONSOLIDATED US GAAP FINANCIAL STATEMENTS

The Management's Opinion stated below should be considered as an integral part of these consolidated financial statements of the OJSC Novolipetsk Steel (further – NLMK) prepared in accordance with the accounting principles generally accepted in the United States of America.

The NLMK management confirms its responsibility for the preparation of the consolidated financial statements of the Group as at and for the years ended December 31, 2006, 2005 and 2004 consisting of balance sheets, statements of income, statements of cash flows, statements of shareholders' equity and comprehensive income and notes to consolidated financial statements.

The NLMK financial statements, its subsidiaries and affiliated companies underwent an independent audit which confirms its compliance with the accounting principles generally accepted in the United States of America. Independent audit is held by the international company PricewaterhouseCoopers. While conducting their audits, independent auditors have access to the financial and other documents and also implement other tests needed to achieve sufficient confidence for expressing an opinion that the consolidated financial statements comply with the current legislation requirements and free of material misstatement.

Companies of the NLMK Group have an operating system of internal financial control, which major goal is to provide:

- the most effective organization of accounting;
- compliance with current legislation requirements;
- safety of property and other assets.

On the completion of the internal and external control procedures, the appropriate reports were given to the NLMK management, confirming fair presentation of the financial position, results of operations and cash flows of the NLMK and its subsidiaries and affiliated companies in the consolidated financial statements and its conformity with the accounting principles generally accepted in the United States of America.

President (Chairman of the Management Board)	Lapshin A.A.
Chief Accountant	Sokolov A.A.

PricewaterhouseCoopers

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bldg. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

REPORT OF INDEPENDENT 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.

Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit

April 16, 2007

The firm is an authorized licensee of the tradename and logo of PricewaterhouseCoopers.

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2006, 2005 and 2004

The consolidated financial statements as set out on pages 4 to 45 were approved on April 12, 2007.

Title	Note
Assets	
Current assets	
Cash and cash equivalents	4
Short-term investments	6
Accounts receivable, net	7
Inventories, net	8
Other current assets, net	9
Restricted cash	5
Non-current assets	
Long-term investments, net	6
Property, plant and equipment, net	10
Intangible assets, net	11(b)
Goodwill	11(a)
Other non-current assets	9
Total assets	

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(all amounts in thousands of US dollars, except for share data)
		see Note 24(a)	
	665,213	1,924,148	1,348,615
	37,261	27,040	21,153
	1,150,492	708,515	588,562
	856,940	559,250	475,303
	331,322	208,920	148,748
	8,372	7,979	5,094
	3,049,600	3,435,852	2,587,475
	810,350	31,470	51,425
	3,988,128	2,415,001	2,257,628
	199,030	21,086	21,594
	559,703	173,357	179,815
	110,179	133,747	67,984
	5,667,390	2 774 661	2,578,446
	8,716,990	6,210,513	5,165,921

Title	Note
Liabilities and stockholders' equity	
Current liabilities	
Accounts payable and other liabilities	12
Short-term borrowings	13(a)
Current income tax liability	
Non-current liabilities	
Deferred income tax liability	19
Long-term borrowings	13(b)
Other long-term liabilities	14
Total liabilities	
Commitments and contingencies	28
Minority interest	16
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)
Statutory reserve	17(a)
Additional paid-in capital	
Accumulated other comprehensive income	
Retained earnings	
Total liabilities and stockholders' equity	

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

As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
		(all amounts in thousands of US dollars, except for share data)
	see Note 24(a)	
664,319	565,983	449,962
248,782	5,282	5,312
80,350	40,639	78,638
993,451	611,904	533,912
537,647	300,712	305,472
48,153	45,341	3,796
194,872	45,505	16,463
780,672	391,558	325,731
1,774,123	1,003,462	859,643
–	–	–
133,425	92,576	85,787
221,173	221,173	221,173
10,267	10,267	10,267
1,812	1,812	680
589,986	72,129	242,387
5,986,204	4,809,094	3,745,984
6,809,442	5,114,475	4,220,491
8,716,990	6,210,513	5,165,921

Chief Accountant Sokolov A.A.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 and 2004

Title	Note
Sales revenue	25
Cost of sales	
Production cost	
Depreciation and amortization	
Gross profit	
General and administrative expenses	
Selling expenses	3(s)
Taxes other than income tax	
Impairment losses	29(b)
Accretion expense on asset retirement obligations	15

	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
		(all amounts in thousands of US dollars, except for earnings per share amounts)	
		See Note 24(a)	
	6,045,625	4,375,806	4,460,056
	(2,716,434)	(2,048,828)	(1,838,927)
	(357,941)	(282,876)	(241,229)
	(3,074,375)	(2,331,704)	(2,080,156)
	2,971,250	2,044,102	2,379,900
	(188,648)	(101,351)	(92,784)
	(325,361)	(62,371)	(57,006)
	(57,215)	(36,356)	(32,985)
	(136,916)	–	–
	(19,765)	–	–

Title	Note
Operating income	
Loss on disposals of property, plant and equipment	
Gains on investments, net	20(a)
Interest income	
Interest expense	
Foreign currency exchange loss, net	
Other expenses, net	
Income from continuing operations before income tax and minority interest	
Income tax	19
Income from continuing operations before minority interest	
Minority interest	16
Equity in net earnings of associate	
Income from continuing operations	
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)
Income tax	
Income from discontinued operations	
Net income	
Income from continuing operations per share (US dollars)	
basic and diluted	
Income from discontinued operations per share (US dollars)	
basic and diluted	
Net income per share (US dollars)	
basic and diluted	18

For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
(all amounts in thousands of US dollars, except for earnings per share amounts)		
	See Note 24(a)	
2,243,345	1,844,024	2,197,125
(3,582)	(11,579)	(12,168)
400,696	2,771	165,955
111,789	98,708	49,971
(29,692)	(15,377)	(12,878)
(74,975)	(9,805)	(39,101)
(26,526)	(16,468)	(10,614)
2,621,055	1,892,274	2,338,290
(706,605)	(497,273)	(566,532)
1,914,450	1,395,001	1,771,758
(25,773)	(21,080)	(9,449)
501	3,701	–
1,889,178	1,377,622	1,762,309
228,499	3,773	10,192
(51,714)	–	–
176,785	3,773	10,192
2,065,963	1,381,395	1,772,501
0.3152	0.2299	0.2941
0.0295	0.0006	0.0017
0.3447	0.2305	0.2958

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 and 2004

Title	Note
Cash flows from operating activities	
Net income	
Adjustments to reconcile net income to net cash provided by operating activities:	
Minority interest	16
Depreciation and amortization	
Loss on disposals of property, plant and equipment	
Gains on investments, net	20(a)
Gain on disposal of discontinued subsidiary	20(b)
Equity in net earnings of associate	
Deferred income tax benefit	19
Stock-based compensation	27(e)
Impairment losses	29(b)
Accretion expense on asset retirement obligations	15
Other movements	

	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
			(thousands of US dollars)
		See Note 24(a)	
	2,065,963	1,381,395	1,772,501
	25,773	21,080	9,449
	357,941	282,876	241,229
	3,582	11,579	12,168
	(400,696)	(2,771)	(165,955)
	(227,524)	–	–
	(501)	(3,701)	–
	(38,732)	(3,677)	(35,945)
	–	1,132	–
	136,916	–	–
	19,765	–	–
	21,386	(3,984)	15,198

Title	Note
Changes in operating assets and liabilities	
Increase in accounts receivable	
Increase in inventories	
(Increase) / decrease in other current assets	
Increase in loans provided by the subsidiary bank	
(Decrease) / increase in accounts payable and other liabilities	
Increase / (decrease) in current income tax payable	
Net cash provided by operating activities	
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)
Purchases of equity investments	6(c)
Proceeds from disposal of discontinued operations	20(b)
Proceeds from sale of property, plant and equipment	
Purchases and construction of property, plant and equipment	
Proceeds from sale of investments	
Purchase of investments	
Movement of restricted cash	5
Net cash used in investing activities	
Cash flows from financing activities	
Proceeds from borrowings and notes payable	
Repayment of borrowings and notes payable	
Capital lease payments	
Contributions from controlling shareholders	
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)
Payments to controlling shareholders for common control transfers of interests in existing subsidiaries	
Proceeds from controlling shareholders for sale of investments	
Dividends paid to previous shareholder of acquired subsidiary	
Dividends paid to minority shareholder of existing subsidiaries	
Dividends to shareholders	

For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
		(thousands of US dollars)
	See Note 24(a)	
(141,359)	(91,585)	(158,628)
(159,995)	(53,270)	(132,375)
(16,905)	(33,208)	331
(69,776)	(69,142)	(86,501)
(23,125)	121,031	146,731
32,376	(33,990)	51,140
1,585,089	1,523,765	1,669,343
(1,347,545)	–	(173,856)
(805,503)	–	–
302,526	–	–
15,565	10,706	8,352
(618,677)	(580,198)	(269,459)
465,274	72,872	518,866
(54,758)	(42,722)	(185,594)
339	(3,122)	3,378
(2,042,779)	(542,464)	(98,313)
224,870	20,143	2,545
(183,305)	(13,866)	(22,161)
(379)	–	(40,818)
–	33,185	–
(104,000)	–	(635,383)
–	–	(2,617)
–	–	5,554
(83,547)	–	–
(20,228)	(1,390)	–
(766,646)	(384,973)	(332,817)

Title	Note
Net cash used in financing activities	
Net (decrease) / increase in cash and cash equivalents	
Effect of exchange rate changes on cash and cash equivalents	
Cash and cash equivalents at the beginning of the period	4
Cash and cash equivalents at the end of the period	4
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Income tax	
Interest	
Non cash operating activities:	
Offset of income tax payable with VAT receivable	
Non cash investing activities:	
Capital lease liabilities incurred	21
Reclassification of restricted cash to long-term investments	
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
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

	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
			(thousands of US dollars)
		See Note 24(a)	
	(933,235)	(346,901)	(1,025,697)
	(1,390,925)	634,400	545,333
	131,990	(58,867)	73,641
	1,924,148	1,348,615	729,641
	665,213	1,924,148	1,348,615
	611,408	434,885	479,732
	28,781	13,623	12,002
	99,115	96,427	76,251
	8,460	–	19,920
	–	–	15,000
	–	30,797	597,665
	1,347,545	–	173,856

CONSOLIDATED STATEMENT OF STOCKHOLDERS` EQUITY AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 and 2004

Title	Note
Balance at December 31, 2003	
Comprehensive income:	
Net income	
Other comprehensive income:	
Net unrealized gain on a change in valuation of investments	
Cumulative translation adjustment	2(b)
Comprehensive income	
Stock split	17(a)
Increase in statutory reserve	
Dividends to shareholders	17(b)
Transfers of subsidiary interests from controlling shareholders	24(e)
Payments to controlling shareholders for common control transfer of subsidiary interests	24(e)
Balance at December 31, 2004	

Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders` equity
					(thousands of US dollars)
14,440	32	680	27,672	2,567,084	2,609,908
–	–	–	–	1,772,501	1,772,501
–	–	–	66	–	66
–	–	–	214,649	–	214,649
					1,987,216
206,733	–	–	–	(206,733)	–
–	10,235	–	–	(10,235)	–
–	–	–	–	(338,915)	(338,915)
–	–	–	–	598,735	598,735
–	–	–	–	(636 453)	(636,453)
221,173	10,267	680	242,387	3,745,984	4,220,491

Title	Note
Comprehensive income:	
Net income (see Note 24(a))	
Other comprehensive income:	
Net unrealized gain on a change in valuation of investments	
Cumulative translation adjustment	2(b)
Comprehensive income	
Stock-based compensation	27(e)
Dividends to shareholders	17(b)
Transfers of subsidiary interests from controlling shareholders	24(a)
Balance at December 31, 2005 (See Note 24(a))	
Comprehensive income:	
Net income	
Other comprehensive income:	
Net unrealized loss on a change in valuation of investments	
Cumulative translation adjustment	2(b)
Comprehensive income	
Dividends to shareholders	17(b)
Payments to controlling shareholders for common control transfer of subsidiary interests	24(a)
Balance at December 31, 2006	

Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders` equity
					(thousands of US dollars)
–	–	–	–	1,381 395	1,381,395
–	–	–	7	–	7
–	–	–	(170,265)	–	(170,265)
					1,211,137
–	–	1,132	–	–	1,132
–	–	–	–	(382,267)	(382 267)
–	–	–	–	63,982	63,982
221,173	10,267	1,812	72,129	4,809,094	5,114,475
–	–	–	–	2,065,963	2,065,963
–	–	–	(1,177)	–	(1,177)
–	–	–	519,034	–	519,034
					2 583 820
–	–	–	–	(784,853)	(784,853)
–	–	–	–	(104,000)	(104,000)
221,173	10,267	1,812	589,986	5,986,204	6,809,442

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 and 2004

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.

(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.

(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.

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.

(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.

(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.

(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, A*ccounting 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.

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

Title
Cash – Russian rubles
Cash – other currency
Deposits – Russian rubles
Deposits – US dollars
Deposits – Euro
Other cash equivalents

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.

5. RESTRICTED CASH

Restricted cash balances as at December 31, 2006, 2005 and 2004 totaled $8,372, $7,979 and $5,094,

Title
Short-term investments and current portion of long-term investments
Long-term investments, net
Total investments, net

(a) Trading securities

Investments in shares
Corporate bonds
Eurobonds
Government bonds
Subfederal bonds
Other

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(thousands of US dollars)
	113,380	124,003	269,860
	44,852	420,194	2,437
	466,254	247,724	39,822
	1,612	917,670	709,457
	37,227	214,378	310,782
	1,888	179	16,257
	665,213	1,924,148	1,348,615

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
			(thousands of US dollars)
	37,261	27,040	21,153
	810,350	31,470	51,425
	847,611	58,510	72,578

	10,098	3,990	1,190
	13,575	7,971	264
	–	7,759	–
	4,767	6,401	–
	7,134	220	–
	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

(b) Available-for-sale securities

Title
Russian government and other bonds with annual coupon rates ranging from 3% to 9.4%
Acquisition cost
Gross unrealized gains / (losses)
Deposit certificates with interest rates ranging from 5.2% p.a. to 20% p.a.
Fair value

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

Due within one year
Due in one to five years
Due after five years

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

Title
Steel Invest & Finance (Luxembourg) S.A.
OJSC Lipetsky Gipromez
OJSC Combinat KMAruda

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)).

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(thousands of US dollars)
	295	590	2,216
	(6)	(31)	1,784
	–	–	35,817
	289	559	39,817

	289	–	19,684
	–	559	18,619
	–	–	1,514
	289	559	39,817

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
					(thousands of US dollars)
50.00%	–	–	805,463	–	–
43.44%	43.44%	43.44%	9	8	8
–	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.

(d) Non-marketable securities

Title
Non-marketable securities, net of current portion:
OJSC Lebedinsky GOK
OJSC Lipetskenergo
OJSC Lipetsk power generating company
OJSC Lipetsk energy management company
OJSC TGK-4
OJSC Lipetsk energy sales company
OJSC Lipetsk mains systems
OJSC Lipetskoblgaz
Other
Provision for other than temporary diminution in value

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.

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)).

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
					(thousands of US dollars)
–	11.96%	11.96%	–	9,456	9,808
14.11%	14.11%	14.11%	162	148	3,388
–	14.11%	–	–	2,719	–
–	14.11%	–	–	0.2	–
2.68%	–	–	2,972	–	–
14.11%	14.11%	–	36	33	–
14.11%	14.11%	–	400	366	–
19.40%	19.40%	19.40%	778	712	738
			919	788	1,686
			5,267	14,222	15,620
			(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.

7. ACCOUNTS RECEIVABLE

Title
Trade accounts receivable
Advances given to suppliers
Taxes receivable
Accounts receivable from employees
Other accounts receivable
Allowance for doubtful debts

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

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

(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.

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(thousands of US dollars)
	667,369	443,978	357,948
	97,458	55,589	57,260
	311,993	198,917	157,736
	2,838	1,646	1,192
	84,287	21,880	22,765
	1,163,945	722,010	596,901
	(13,453)	(13,495)	(8,339)
	1,150,492	708,515	588,562

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

Title
Raw materials
Work in process
Finished goods and goods for resale
Provision for obsolescence

9. OTHER CURRENT AND NON-CURRENT ASSETS

Title
Other current assets
Short-term loans provided by the subsidiary bank
Other current assets
Allowance for doubtful loans
Total other current assets, net
Other non-current assets
Long-term loans provided by the subsidiary bank
Other non-current assets
Total other non-current assets

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(thousands of US dollars)
	554,126	383,832	333,414
	199,243	109,679	102,692
	129,421	81,232	47,054
	882,790	574,743	483,160
	(25,850)	(15,493)	(7,857)
	856,940	559,250	475,303

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(thousands of US dollars)
	254,544	163,055	131,267
	90,292	51,875	20,047
	344,836	214,930	151,314
	(13,514)	(6,010)	(2,566)
	331,322	208,920	148,748
	80,435	71,138	37,500
	29,744	62,609	30,484
	110,179	133,747	67,984

10. PROPERTY, PLANT AND EQUIPMENT

Title
Land
Mineral rights
Asset retirement cost
Buildings
Land and buildings improvements
Machinery and equipment
Vehicles
Construction in progress and advances for construction and acquisition of property, plant and equipment
Leased assets
Other
Accumulated depreciation

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

As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
		(thousands of US dollars)
77,191	56,070	46,466
583,962	522,802	500,996
24,277	–	–
1,201,439	715,066	715,759
1,204,403	757,066	798,892
5,030,473	4,246,584	4,320,088
278,711	219,431	205,297
773,388	467,354	254,271
8,460	–	862
76,763	37,229	38,787
9,259,067	7,021,602	6,881,418
(5,270,939)	(4,606,601)	(4,623,790)
3,988,128	2,415,001	2,257,628

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.

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

Title
Balance as at December 31, 2003
Acquired in new subsidiaries (Note 24)
Cumulative translation adjustment
Balance as at December 31, 2004
Cumulative translation adjustment
Balance as at December 31, 2005
Acquired in new subsidiaries (Note 24)
Disposal in subsidiary
Cumulative translation adjustment
Balance as at December 31, 2006

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

(b) Other intangible assets

Title
Intellectual industrial property
Customer base
Customers relationships (oil)
Customers relationships (dry cargo)
Customers relationships
Accumulated amortization

	(thousands of US dollars)
	–
	173,677
	6,138
	179,815
	(6,458)
	173,357
	370,020
	(17,749)
	34,075
	559,703

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.

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				*(thousands of US dollars)*
LLC VIZ-Stahl	149	64,895	–	–
LLC VIZ-Stahl	125	123,575	–	–
OJSC TMTP	66	11,876	10,865	11,270
OJSC TMTP	66	13,156	12,036	12,484
DanSteel A/S	72	4,988	4,563	–
		218,490	27,464	23,754
		(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

Title
Aggregate amortization expense
For the year ended December 31, 2006
Estimated amortization expense
For the year ended December 31, 2007
For the year ended December 31, 2008
For the year ended December 31, 2009
For the year ended December 31, 2010
For the year ended December 31, 2011

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Title
Trade accounts payable
Advances received
Customers' deposits and accounts in the subsidiary bank
Taxes payable other than income tax
Accounts payable and accrued liabilities to employees
Dividends payable
Short-term capital lease liability
Other accounts payable

13. SHORT-TERM AND LONG-TERM BORROWINGS

(a) Short-term borrowings

Title
Loans, US$ denominated, 5.35%-6.9% per annum
Loans, RUR denominated, 6.3%-9% per annum
Notes payable
Other loans

at fair values at the date of acquisition, based on their appraised value.

	Amortization expense
	(thousands of US dollars)
	(13,082)
	(22,436)
	(22,436)
	(22,436)
	(17,884)
	(17,740)

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(thousands of US dollars)
	130,396	128,180	78,651
	121,654	130,347	127,776
	201,638	188,265	156,176
	66,297	25,728	19,044
	104,591	59,592	51,628
	4,602	2,572	6,332
	1,379	–	232
	33,762	31,299	10,123
	664,319	565,983	449,962

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(thousands of US dollars)
	155,026	–	–
	83,970	–	–
	5,454	5,281	5,052
	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

(b) Long-term borrowings

Title
Loan, US$ denominated, 5% per annum
Loan, Euro denominated, 5.25% per annum
Notes payable
Other loans

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

14. OTHER LONG-TERM LIABILITIES

Title
Customers' deposits in the subsidiary bank
Long-term capital lease liability
Asset retirement obligations (Note 15)
Other long-term liabilities

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:

Title
Balance as at December 31, 2005
Liabilities recognized on acquisition
Accretion expense on asset retirement obligations
Cumulative translation adjustment
Balance as at December 31, 2006

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

provisions and maintenance of certain financial ratios, financial position and maintenance of certain revenue flows.

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(thousands of US dollars)
	13,829	10,276	–
	15,805	5,937	–
	18,519	5,631	599
	–	23,497	3,197
	48,153	45,341	3,796

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(thousands of US dollars)
	53,547	45,377	16,150
	6,690	–	313
	134,635	–	–
	–	128	–
	194,872	45,505	16,463

	(thousands of US dollars)
	–
	114,229
	19,765
	641
	134,635

16. MINORITY INTEREST

Title	
	(thousands of US dollars)
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

Title
Average number of shares
before restatement
after restatement
Net income (thousands of US dollars)
Basic and diluted net income per share (US dollars)

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

19. INCOME TAX

Title
Current income tax expense
Deferred income tax benefit:
origination and reversal of temporary differences
Total income tax expense

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:

Income from continuing operations before income tax
Income tax at applicable tax rate
Increase in income tax resulting from:
non-deductible expenses
Total income tax expense

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	5,993,227,240	5,993,227,240	3,948,404,836
	5,993,227,240	5,993,227,240	5,993,227,240
	2,065,963	1,381,395	1,772,501
	0.3447	0.2305	0.2958

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.

	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
			(thousands of US dollars)
	745,337	500,950	602,477
	(38,732)	(3,677)	(35,945)
	706,605	497,273	566,532

	2,621,055	1,892,274	2,338,290
	629,053	454,146	561,190
	77,552	43,127	5,342
	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:

Title
Deferred tax assets
Accounts payable and other liabilities
Non-current liabilities
Accounts receivable
Other
Allowance
Deferred tax liabilities
Property, plant and equipment
Intangible assets
Inventories
Other
Total deferred tax liability

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

	As at December 31, 2006	As at December 31, 2005	As at December 31, 2004
			(thousands of US dollars)
	17,922	8,486	6,948
	16,779	88	222
	1,250	1,066	1,129
	1,821	381	–
	–	–	(28)
	37,772	10,021	8,271
	(470,630)	(274,927)	(302,529)
	(51,579)	(7,806)	(5,183)
	(20,159)	(12,906)	(6,031)
	(33,051)	(15,094)	–
	(575,419)	(310,733)	(313,743)
	(537,647)	(300,712)	(305,472)

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):

Title	
	(thousands of US dollars)
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

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.

Title
Machinery and equipment
Vehicles
Accumulated depreciation
Net value of property, plant and equipment obtained under capital lease arrangements

21. CAPITAL AND OPERATIONAL LEASES

Title	Capital leases
	(thousands of US dollars)
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
			(thousands of US dollars)
	–	–	198
	8,460	–	664
	8,460	–	862
	(690)	–	(87)
	7,770	–	775

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.

Title
Assets
Current assets
Cash and cash equivalents
Accounts receivable, net
Inventories, net
Non-current assets
Property, plant and equipment, net
Intangible assets, net
Total assets

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:

	Previously reported	Retroactive adjustment	As adjusted
			(thousands of US dollars)
	1,896,741	27,407	1,924,148
	660,054	48,461	708,515
	501,556	57,694	559,250
		133,562	
	2,393,549	21,452	2,415,001
	16,655	4,431	21,086
		25,883	
		159,445	

Title
Liabilities and stockholders' equity
Current liabilities
Accounts payable and other liabilities
Non-current liabilities
Deferred income tax liability
Other long-term liabilities
Total liabilities
Stockholders' equity
Other comprehensive income
Retained earnings
Total liabilities and stockholders' equity

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.

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):

	Previously reported	Retroactive adjustment	As adjusted
			(thousands of US dollars)
	502,355	63,628	565,983
		63,628	
	294,337	6,375	300,712
	61,675	29,171	90,846
		35,546	
		99,174	
	71,899	230	72,129
	4,749,053	60,041	4,809,094
		60,271	
		159,445	

Title	
	(thousands of US dollars)
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.

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:

Title	
	(thousands of US dollars)
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.

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:

Title	
	(thousands of US dollars)
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).

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):

Title	
	(thousands of US dollars)
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.

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:

Title	
	(thousands of US dollars)
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.

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:

Title	
	(thousands of US dollars)
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:

Title
Sales revenue
Operating income
Income from continuing operations before income tax and minority interest
Income from continuing operations before minority interest
Net income
Net income per share (US dollars)

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.

For the year ended December 31, 2006 (unaudited)	For the year ended December 31, 2005 (unaudited)
	(thousands of US dollars)
6,484,401	5,484,866
2,521,064	1,939,124
2,906,500	1,930,749
2,167,513	1,402,508
2,141,973	1,383,422
0.3574	0.2308

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:

Title	Steel
Revenue from external customers	5,586,725
Intersegment revenue	26,065
Depreciation and amortization	(224,056)
Gross profit	2,513,544
Operating income	2,108,437
Interest income	45,394
Interest expense	(2,028)
Income tax	(622,962)
Income from continuing operations before minority interest	1,934,234
Segment assets, including goodwill	5,913,356
Capital expenditures	(476,650)

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

Title	Steel
Revenue from external customers	4,195,236
Intersegment revenue	4,402
Depreciation and amortization	(197,423)
Gross profit	1,672,599
Operating income	1,523,572
Interest income	58,863
Interest expense	(287)
Income tax	(401,156)
Income from continuing operations before minority interest	1,161,179
Segment assets, including goodwill	4,582,317
Capital expenditures	(499,962)

Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
					(thousands of US dollars)
90,998	252,699	115,203	6,045,625	–	6,045,625
523,558	83,707	107,384	740,714	(740,714)	–
(71,795)	(19,603)	(42,487)	(357,941)	–	(357,941)
349,329	76,377	36,707	2,975,957	(4,707)	2,971,250
297,286	23,883	(174,713)	2,254,893	(11,548)	2,243,345
22,541	4	44,555	112,494	(705)	111,789
–	(5,461)	(22,908)	(30,397)	705	(29,692)
(72,499)	(6,641)	7,135	(694,967)	(11,638)	(706,605)
242,549	7,962	(149,063)	2,035,682	(121,232)	1,914,450
1,417,926	968,412	1,003,230	9,302,924	(585,934)	8,716,990
(80,456)	(25,936)	(35,635)	(618,677)	–	(618,677)

Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
					(thousands of US dollars)
94,661	–	85,909	4,375,806	–	4,375,806
460,579	–	5,154	470,135	(470,135)	–
(68,359)	–	(17,094)	(282,876)	–	(282,876)
303,682	–	52,874	2,029,155	14,947	2,044,102
277,479	–	32,440	1,833,491	10,533	1,844,024
10,464	–	30,235	99,562	(854)	98,708
(28)	–	(15,916)	(16,231)	854	(15,377)
(64,581)	–	(12,831)	(478,568)	(18,705)	(497,273)
218,056	–	39,628	1,418,863	(23,862)	1,395,001
1,071,717	–	706,761	6,360,795	(150,282)	6,210,513
(67,467)	–	(12,769)	(580,198)	–	(580,198)

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

Title	Steel
Revenue from external customers	4,399,606
Intersegment revenue	3,365
Depreciation and amortization	(174,646)
Gross profit	2,182,293
Operating income	2,037,325
Interest income	31,110
Interest expense	(3,326)
Income tax	(530,694)
Income from continuing operations before minority interest	1,639,276
Segment assets, including goodwill	3,767,196
Capital expenditures	(219,673)

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

Title
Russia
European Union
Middle East, including Turkey
North America
Asia and Oceania
Other regions

Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
					(thousands of US dollars)
18,977	–	41,473	4,460,056	–	4,460,056
337,344	–	204	340,913	(340,913)	–
(57,545)	–	(9,038)	(241,229)	–	(241,229)
184,028	–	18,222	2,384,543	(4,643)	2,379,900
162,900	–	15,550	2,215,775	(18,650)	2,197,125
2,285	–	17,235	50,630	(659)	49,971
(245)	–	(9,966)	(13,537)	659	(12,878)
(35,879)	–	(3,488)	(570,061)	3,529	(566,532)
122,545	–	15,567	1,777,388	(5,630)	1,771,758
984,495	–	654,131	5,405,822	(239,901)	5,165,921
(44,541)	–	(5,245)	(269,459)	–	(269,459)

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
		(thousands of US dollars)
2,473,645	1,769,399	1,549,611
1,083,585	646,326	783,014
798,862	571,331	636,044
647,712	306,996	657,427
440,331	847,605	628,238
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

Title
Cash and cash equivalents
Accounts receivable
Other current assets
Investments and long-term deposit
Other non-current assets
Accounts payable and other liabilities
Other long-term liabilities

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

(c) Commercial risks

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

The Group's sales outside Russian Federation in monetary terms for the 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
			(thousands of US dollars)
	19,930	59,639	4,142
	340,881	226,416	112
	24,135	–	79
	1,289	–	–
	6,950	1,455	43
	(23,829)	(41,590)	(707)
	–	–	(16)

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.

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)).

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.

(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.

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):

Title	
	(thousands of US dollars)
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.

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:

Title	
	(thousands of US dollars)
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)