NLMK ANNUAL REPORT 2007

STEEL

FOR GROWTH

Our Company NLMK is one of the world's leading producers of steel and one of Russia's largest steel companies, with key production capacities located in Russia and the EU.

In 2007 NLMK Group exported almost 69% of its products to customers from 80 countries. NLMK accounts for more than 10% of the world slab market and about 20% of the transformer steel market.

NLMK is a vertically integrated group controlling every stage of steel production from mining to delivery of finished products to end-users. The Group's structure and efficient management system help achieve strong financial performance.

NLMK is a rapidly growing business with a balanced development strategy.

Apart from developing in-house production and mining assets, the strategy envisages a stronger presence in key markets through the acquisition of high-quality rolling assets in these markets.

Financial statements

Group overview

NLMK is one of Russia's largest producers of steel products and is a vertically integrated group with a high degree of self-sufficiency in key raw materials. Vertical integration and modern technology assure NLMK's position as one of the lowest-cost steel producers worldwide.

Steel-making and rolling

NLMK's core business is steel-making and rolling. Crude steel is produced at NLMK's main production site and Maxi-Group facilities, while other businesses in the segment produce rolled products, with the bulk of semi-finished rolled stock supplied by NLMK Group companies. Having acquired Maxi-Group in December 2007, NLMK entered the long products market.

Mining

Mining is an important line of business for NLMK. The Group is 100% self-sufficient in iron ore concentrate and fluxing materials. Pellets are currently purchased from third-party suppliers. The Technical Upgrading Programme proposes to build a pelletizing facility, which will in part improve sufficiency in pellets.

Coal and coke

Coke-chemical operations are an important business for NLMK. The Group is more than 100% self-sufficient in coke.

NLMK coal deposit Zhernovskoe-1 has reserves of about 240 million tonnes.

Others

Other business operations include logistics assets and trading operations, as well as insurance services. Logistics operations help to streamline the movement of commercial cargo and reduce Group costs associated with freight of raw materials and products.

OPERATING COMPANIES	KEY MARKETS	PRODUCTS	PRODUCTION HIGHLIGHTS
NLMK producer of a wide range of steel products **VIZ-STAL** Russia's largest producer of electrical steel **DANSTEEL A/S** Danish producer of hot-rolled steel heavy plates **MAXI-GROUP** long products and metalware producer	Key consumers are: construction, automotive, machinery, power equipment and white goods producers.	PIG IRON SLABS HOT-ROLLED STEEL COLD-ROLLED STEEL COATED STEEL (galvanized and pre-painted) ELECTRICAL STEEL (dynamo and transformer) LONG PRODUCTS METALWARE	**9.2mt** CRUDE STEEL **5.3mt** FLAT STEEL PRODUCTS **0.1mt*** LONG STEEL PRODUCTS AND METALWARE *production volume of Maxi-Group for December 2007
STOILENSKY GOK iron ore producer **STAGDOK** limestone producer **DOLOMITE** dolomite producer	The mining division mainly supplies raw materials to NLMK's steel-making facilities. Intersegmental sales accounted for 95% of iron ore concentrate, 78% of limestone and 45% of dolomite produced by the division.	IRON ORE CONCENTRATE SINTER ORE FLUXING MATERIALS (limestone and dolomite)	**11.6mt** IRON ORE CONCENTRATE **1.7mt** SINTER ORE **3.2mt** LIMESTONE **2.2mt** DOLOMITE
ALTAI-KOKS coke producer **ZHERNOVSKOE-1** coal deposit	Altai-koks supplied 22% of coke to NLMK. In future, after closing four obsolete coking batteries at the Lipetsk production site, supply from Altai-koks is expected to increase significantly. Zhernovskoe-1 will increase NLMK's self-sufficency in coal.	METALLURGICAL COKE CHEMICAL PRODUCTS METALLURGICAL COAL	**3.8mt** COKE (6% MOISTURE) **3.0mt** CAPACITY OF COKING COAL IN 2011
COMMERCIAL SEA PORT OF TUAPSE (TMTP) fifth-largest sea port in Russia **INDEPENDENT TRANSPORTATION COMPANY (NTK)** logistics and transportation **CHANCE** Insurance services	In 2007 TMTP handled 460,000 tonnes of NLMK slabs exported. In 2007 over 85% of all shipping operations of NTK were associated with NLMK.	LOGISTICS AND TRANSPORTATION SEA PORT OPERATIONS INSURANCE SERVICES	**5.5mt** TMTP VOLUME OF DRY CARGO TURNOVER **14.2mt** TMTP VOLUME OF OIL CARGO TURNOVER **47.5mt** NTK VOLUME OF TRANSPORTATION AND FORWARDING

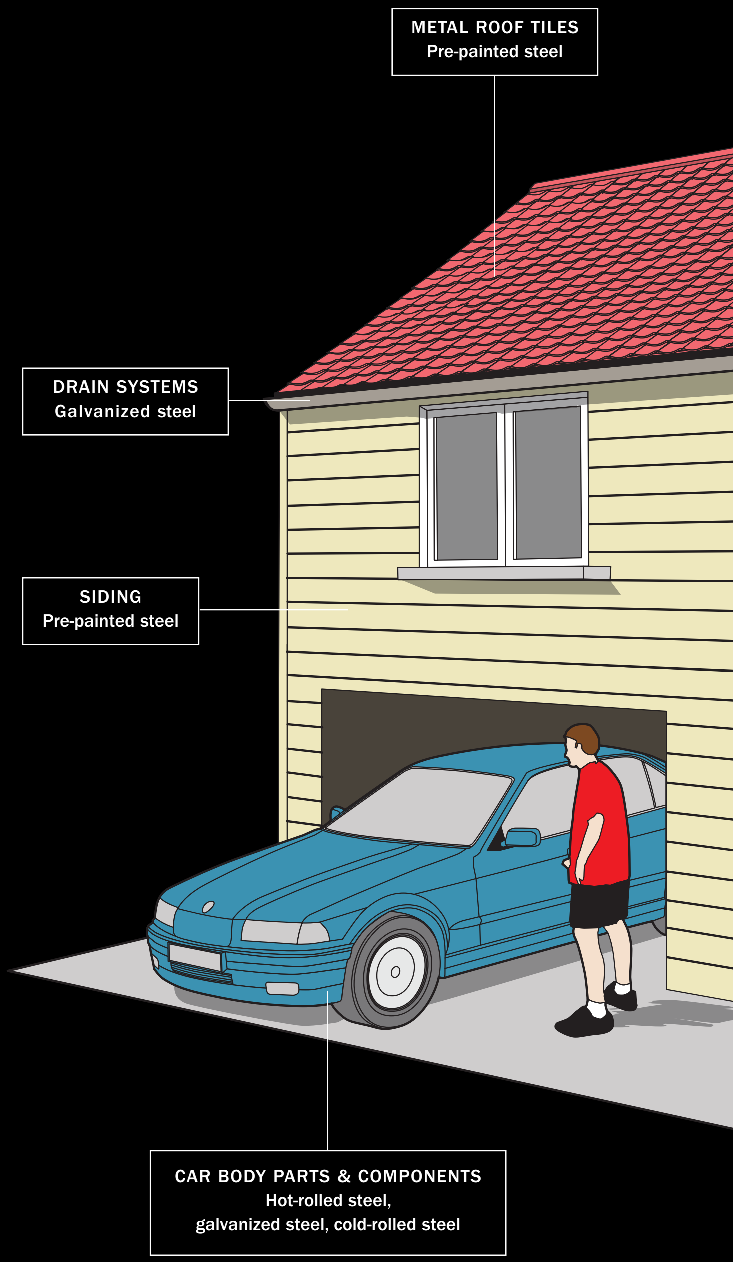
Steel for Growth.

Steel is a vital part of our everyday life. We depend on steel for housing and health. Without it there would be no offices or retail parks. It is at the root of the quality of life that each of us enjoys today, helping to shelter us, feed us and enhance both our working day and free time.

Steel for your home.

Steel is the measure of progress of modern civilization. The metal began its ascent in the Iron Age and is now both visibly and invisibly omnipresent in our everyday life. Most household items contain steel and we entrust our lives, homes and comfort to the strength and power of this metal. Steel is crafted into support structures and roofs, window frames and air conditioners, car bodies and parts. Since the technological boom of the 21st century, almost all household appliances contain steel.

Steel reflects human progress. At times it has been replaced by plastic, but it is playing an ever increasing role and taking on new forms. One cannot imagine our homes, everyday lives and recreation without steel. Combined with stone, steel can make a building stand for decades. It changes as technology advances, creating more comfort and reliability. New technology makes steel lighter and sturdier, and though it takes on different colours and shapes, it remains just as strong.

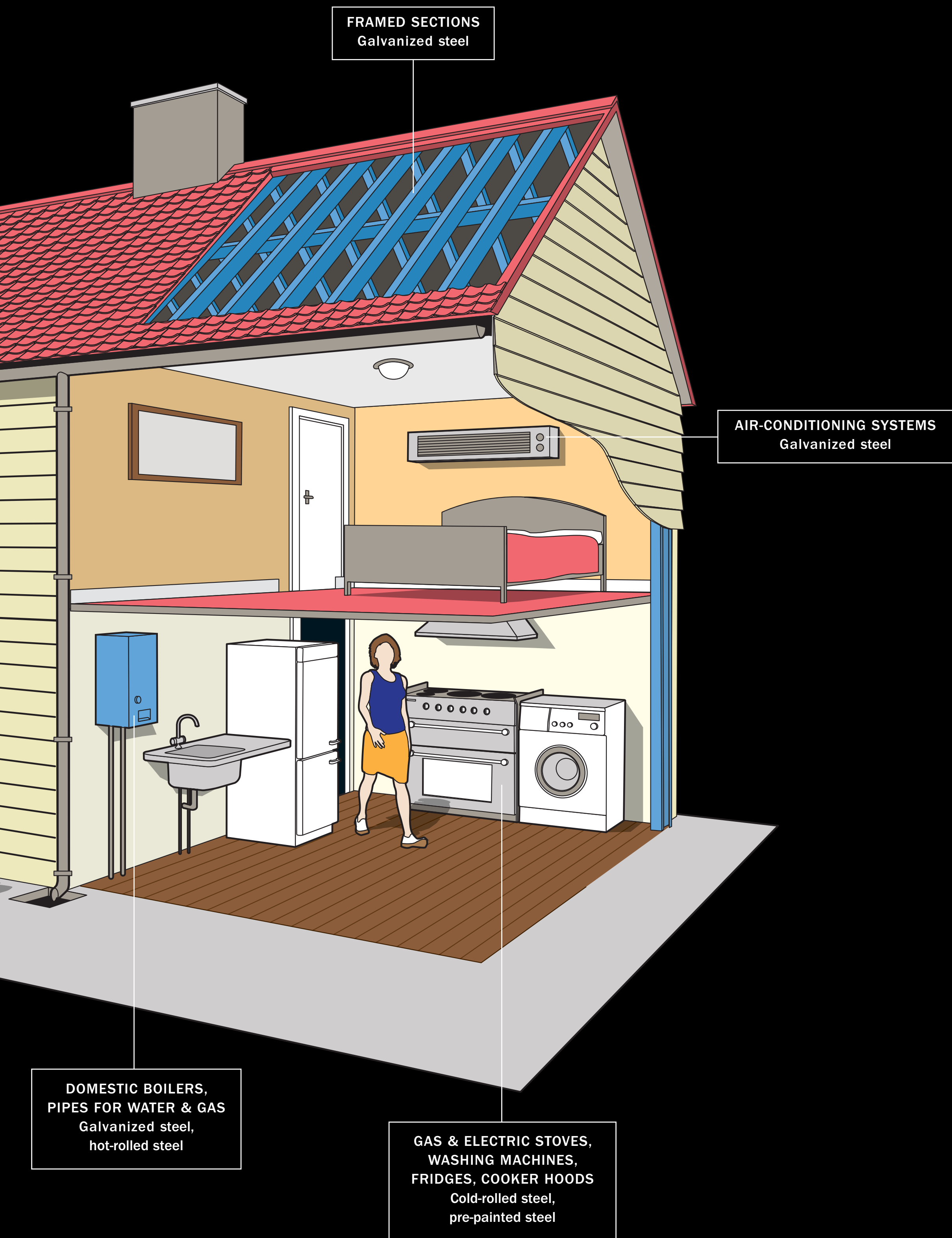


Facts & figures

60%+
OF NLMK'S DOMESTIC SALES GOES TO CONSTRUCTION

42%
OF THE TOTAL PRE-PAINTED STEEL PRODUCED IN RUSSIA

20%
GROWTH RATE OF RESIDENTIAL CONSTRUCTION IN RUSSIA


FRAMED SECTIONS
Galvanized steel
AIR-CONDITIONING SYSTEMS
Galvanized steel
DOMESTIC BOILERS,
PIPES FOR WATER & GAS
Galvanized steel,
hot-rolled steel
GAS & ELECTRIC STOVES,
WASHING MACHINES,
FRIDGES, COOKER HOODS
Cold-rolled steel,
pre-painted steel

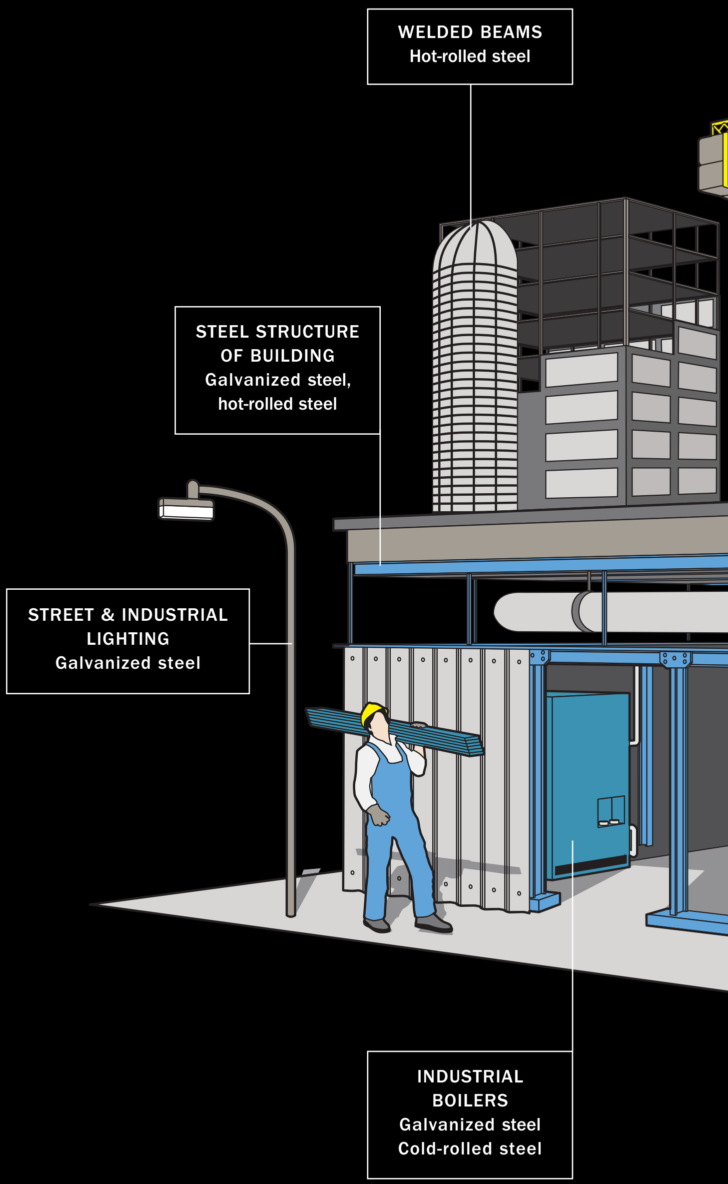
Making work easy

Steel for work.

The modern world is a place of offices and large buildings. These structures need to meet conflicting requirements, such as being cheap to build and to create a comfortable working environment. Steel fits these tasks perfectly. The booming and changing office environment has prompted major developments in steel technology.

Today most buildings are made of light and sturdy steel structures. Window frames, sidings, sandwich panels, multicolored steel roof tiles, pipes and cables, ventilation and air-conditioning ducts, office furniture and even dustbins are all made of steel. The buildings have become stronger and more durable, and steel has helped to provide more space, install engineering services and mould the infrastructure to adapt to the most demanding requirements.

Buildings are now easy to repair and renovate and they are lighter inside. Let's get to work!

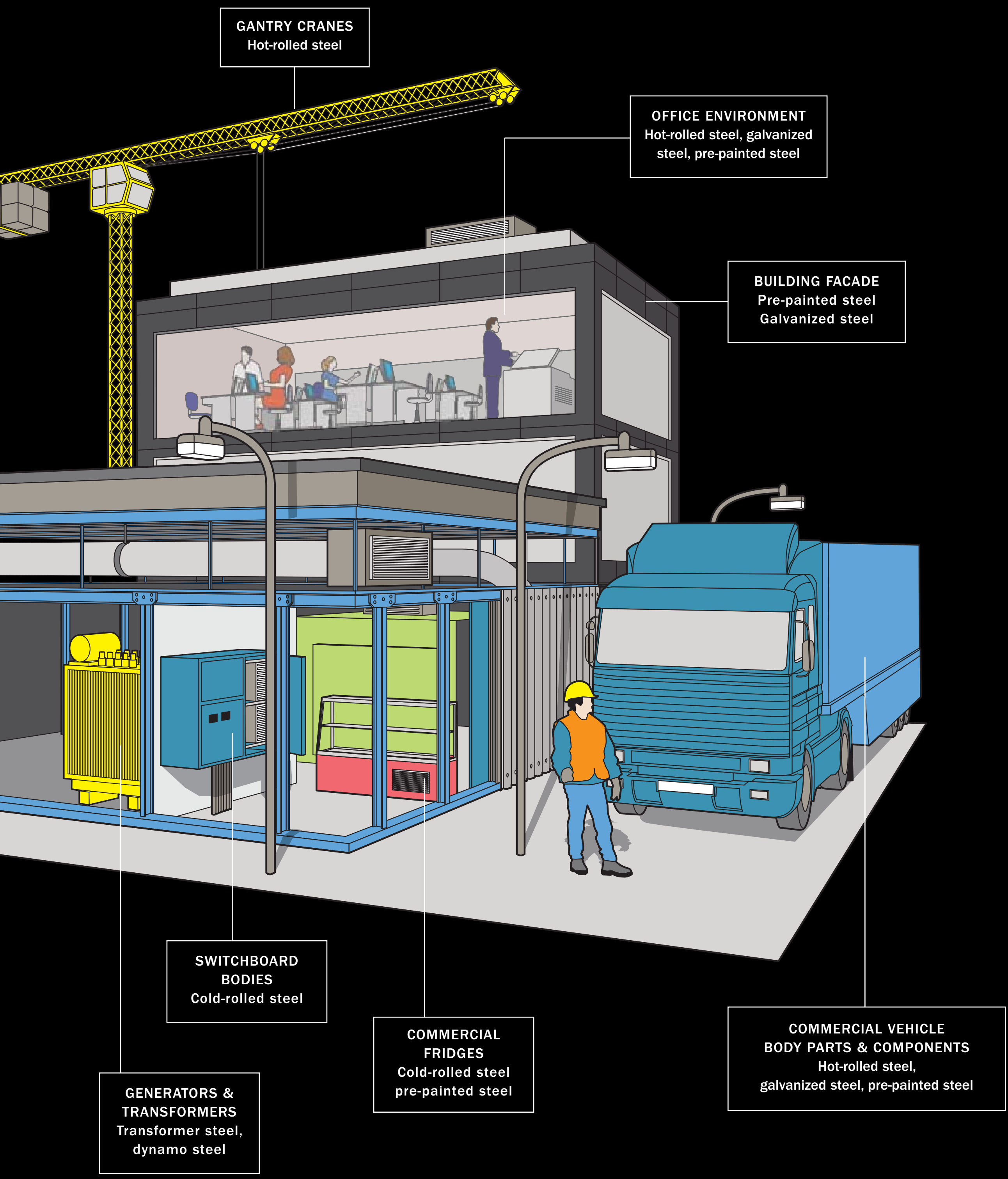


Facts & figures

$129bn
CONSTRUCTION MARKET VALUE IN RUSSIA IN 2007

100%
GROWTH OF NON-RESIDENTIAL CONSTRUCTION IN 2007

27%
GROWTH RATE OF UTILITIES SECTORS IN 2007

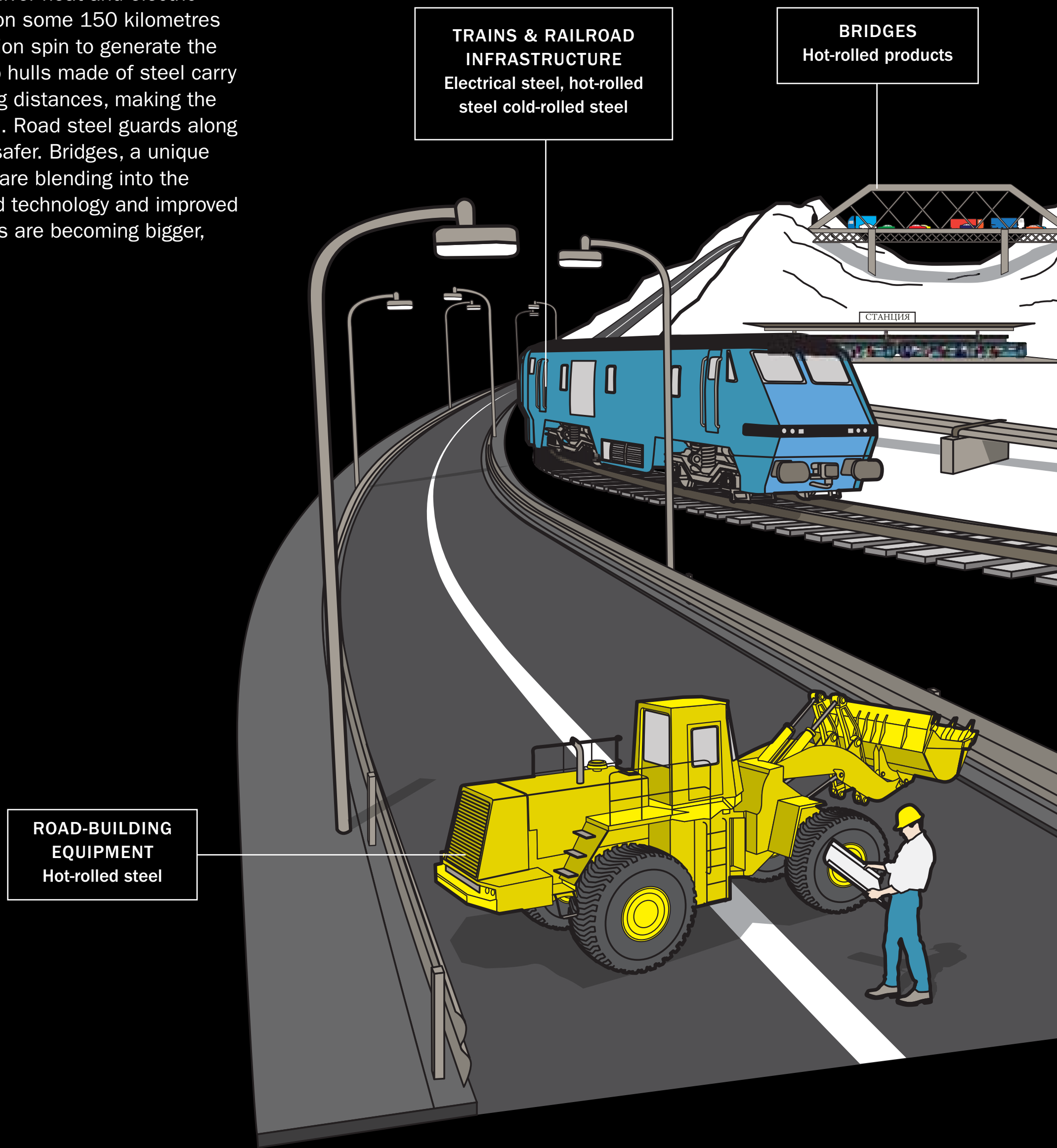

GANTRY CRANES
Hot-rolled steel
OFFICE ENVIRONMENT
Hot-rolled steel, galvanized steel, pre-painted steel
BUILDING FACADE
Pre-painted steel
Galvanized steel
SWITCHBOARD BODIES
Cold-rolled steel
COMMERCIAL FRIDGES
Cold-rolled steel
pre-painted steel
COMMERCIAL VEHICLE BODY PARTS & COMPONENTS
Hot-rolled steel,
galvanized steel, pre-painted steel
GENERATORS & TRANSFORMERS
Transformer steel,
dynamo steel

Accelerating evolution

Steel for infrastructure.

Would you like to move faster? Make it to that meeting halfway across the world? Steel is at your service! This could well become the advertising slogan for all transportation businesses, making it the most honest advertisement pitch ever.

Steel has made the ideas of humanity's greatest minds possible. It has shortened time and distance and made travelling safer. Steel masts deliver heat and electric power to us from a power station some 150 kilometres away, while turbines at the station spin to generate the power. Strong railways and ship hulls made of steel carry vast amounts of cargo over long distances, making the world economy more integrated. Road steel guards along modern highways make roads safer. Bridges, a unique product of human engineering, are blending into the environment. With sophisticated technology and improved quality of steel, trains and ships are becoming bigger, faster and safer every day.



Facts & figures

100%

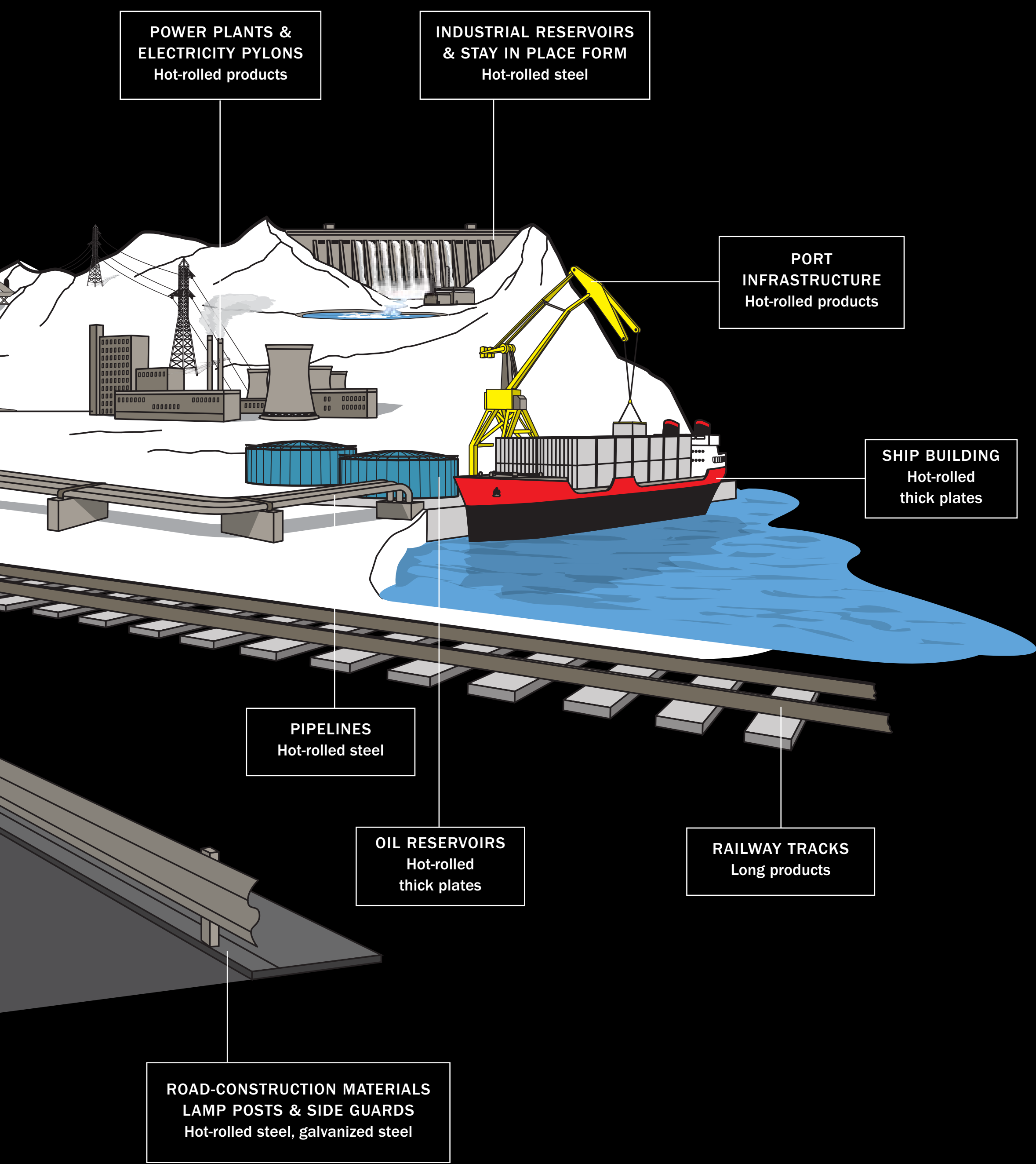
OF DOMESTIC SHARE AND 20% GLOBAL MARKET SHARE IN TRANSFORMER STEEL

120GW+

PROJECTED EXTRA CAPACITY IN RUSSIA BY 2020

2,500km+

OF NEW ROADS TO BE BUILT IN RUSSIA DURING 2008–09


POWER PLANTS &
ELECTRICITY PYLONS
Hot-rolled products
INDUSTRIAL RESERVOIRS
& STAY IN PLACE FORM
Hot-rolled steel
PORT
INFRASTRUCTURE
Hot-rolled products
SHIP BUILDING
Hot-rolled
thick plates
PIPELINES
Hot-rolled steel
OIL RESERVOIRS
Hot-rolled
thick plates
RAILWAY TRACKS
Long products
ROAD-CONSTRUCTION MATERIALS
LAMP POSTS & SIDE GUARDS
Hot-rolled steel, galvanized steel

Conclusion.

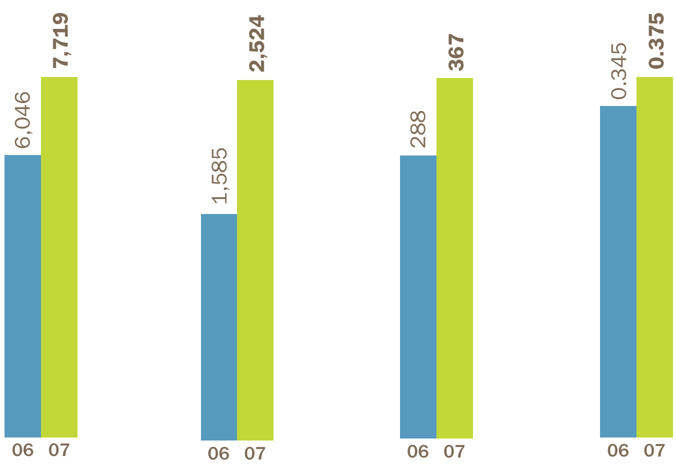
Steel is unique. It is crucially important for modern living and an integral part of our everyday life.

Steel can be continually recycled without loss of quality. Therefore, its contribution to sustainable development is difficult to overstate.

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

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

2007 performance highlights



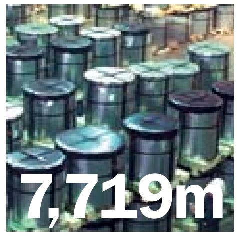
Sales revenue ($m)

Operating cash flow ($m)

EBITDA per tonne of steel ($)

EPS ($)

STEEL PRODUCED IN 2007
SEE PAGE 12



SALES REVENUE IN 2007 (USD)
SEE PAGE 22

EBITDA MARGIN
SEE PAGE 23

NLMK GROSS EMISSIONS REDUCED
SEE PAGE 41

Chairman's statement

Vladimir Lisin

It gives me great pleasure to report on a year of excellent delivery against our strategic objectives and the prospect of further growth in the coming years. Exceptional results achieved by the Company in 2007 were truly remarkable. Our record numbers were driven by strong domestic and global demand for steel, a favourable pricing environment and unrelenting cost-reduction efforts.

We have made significant progress in executing the Company's 'Sustainable Growth Strategy', both through organic growth and acquisition opportunities. NLMK has strengthened its geographic and product profile and continued to optimize its asset structure. The 2nd Phase of the Technical Upgrading Programme, which is aimed at delivering ambitious production and performance growth over the next four years, remains on schedule. NLMK continues to remain among the world's most profitable steel companies, demonstrating an exceptional financial performance.

Recently, the fundamental factors driving the steel industry have changed dramatically due to the increase of steel production in China, accelerating industry consolidation and continuous growth of the BRIC (Brazil, Russia, India, China) economies. In this new environment NLMK has emerged as a strong force in the steel industry, creating a platform for significant value creation for its shareholders.

Financials

NLMK posted strong financial results in 2007. Revenues increased by 28% to reach USD7.719 billion. EBITDA amounted to USD3.366 billion, representing a 28% increase on a year on year basis. The Company achieved an EBITDA margin of 44%, maintaining margins above a 40% level for the fifth consecutive year. Net income amounted to USD2.247 billion. This exceptional performance resulted not only from the favourable market conditions but also from the disciplined implementation of the Company's Sustainable Growth Strategy.

Dividends

NLMK's strong cash generation enables the Company to maintain a stable dividend policy with ample distributions to shareholders. NLMK's dividend policy currently targets a 30% average payout ratio. The Board is proposing a 2007 final dividend of RUR3 per ordinary share (1 Global Depositary Share = 10 ordinary shares). The dividend yield as at 31 December 2007 exceeded 3%.

Strategy

NLMK's growth strategy for the domestic market is based on further organic development of our existing production platforms. The ambitious plan to increase crude steel production at our main site is on track. In 2010, NLMK will commission the first blast furnace in Russia since the 1980s. This will increase the Group's steel output by approximately 40% from the current level.

In this time of continuously rising raw material and energy prices, NLMK's integrated business model has demonstrated its strong competitive advantages. The projected increase in steel production will be 100% covered by self-sufficiency in iron ore, achieved by developing Stoilensky GOK. NLMK's iron ore subsidiary is considered to be the most efficient mine in Russia. The exposure to high coking coal prices is largely mitigated by sales of coke produced by Altai-koks, while we intend to continue to look for efficient vertical integration opportunities in the coking coal segment. Apart from basic raw materials, NLMK also continues to develop its own scrap collection base, both through acquiring scrap collection facilities and increasing scrap processing volumes.

The Technical Upgrading Programme entails significantly raising energy self-sufficiency. By 2012, NLMK's generation facilities in Lipetsk will supply 60% of internal electricity requirements. Further, the technical upgrade of our blast furnaces will enable us to cut natural gas consumption by approximately 75%.

The development of a high value-added product portfolio remains the most essential component of NLMK's organic growth plans. NLMK will maintain and strengthen its position as a primary supplier of high value-added flat products on the domestic and international markets. We are focused on the fastest-growing segments in Russia: construction, infrastructure and machinery.

Our global leadership as a supplier of electrical steel used in power grid equipment is being enhanced with continuous efforts to develop new technologies, widen the range of grades, raise quality and improve customer service. NLMK plans to strengthen its leading position in this segment through a large-scale capex programme of USD400 million, aimed at developing the Company's transformer steel production facilities. We are capitalizing on the strong market outlook for transformer steel, mainly driven by power generation investments in BRIC countries. In 2007 NLMK agreed to launch a service centre in China in partnership with Tebian Electric Apparatus Stock Co., Ltd (TBEA), a leading Chinese transformer producer. Through this partnership with TBEA, NLMK will enhance its presence in the growing Chinese market and capture the strong demand for electrical steel.

The investment capex in 2007 amounted to USD958 million. The total estimated capex of the 2nd Phase of the Technical Upgrading Programme (2007–2011) is over USD4.4 billion, excluding the Maxi-Group investment programme. Recently we also adopted a vision of NLMK's development to the year 2015 targeting steel output of 22 million tonnes and substantial growth of finished steel sales.

The second pillar of NLMK's strategy is growth through acquisitions in our core markets. In 2007, NLMK pursued and completed a number of strategic acquisitions. The most notable of these was the acquisition of a controlling stake in Maxi-Group, one of the largest scrap collectors and producers of long steel products in the Russian market. We believe the acquisition will give NLMK a significant share of the domestic long products market, particularly in the most dynamically developing regions of Central and Southern Russia and Urals. I am pleased to note that the acquisition of the only producer utilizing the mini-mill model in Russia on a large-scale provided NLMK with unique 'first mover' advantage in this segment.

This year we successfully met a number of critical milestones pursuing an integration of our joint venture with Duferco Group. The modernization of the Carsid blast furnace in Belgium, carried out last summer, has put this facility among the best in its class in Europe. To improve the cost of operation and to meet rising ecological standards, coke production has been shutdown, while NLMK will supply all of Carsid's coke needs starting in 2008. The joint venture grew through the acquisition of Sharon Coating (formerly, Winner Steel), one of the largest independent galvanized steel producers in the US.

Our well-balanced and financially disciplined mergers and acquisitions (M&A) policy and aggressive organic growth served to provide superior returns from existing businesses and built a competitive base for NLMK's growth in new markets.

Corporate Governance

The Board remains committed to the highest standards of corporate governance, which we believe will lead to better results for the Company and for our shareholders. The Board and management team have worked together to define a coherent strategic framework and the Company's financial performance and strong growth clearly show the success of this strategy.

In 2007 we again strengthened our Board with knowledge and valuable expertise. We would like to welcome Mr Bruno Bolfo, who joined the Board as an independent Director in June 2007. Mr Bolfo is currently President of Duferco S.A. and is a member of the Board of Duferco Participations Holding, of which he has been Chairman for the past 13 years.

It has always been NLMK's policy to comply with the corporate governance and best practice requirements of all the jurisdictions where we operate in order to protect the rights of our shareholders.

Economic Outlook

Despite the potential of a US recession, we expect global demand for steel to be underpinned by ongoing infrastructure and construction booms in BRIC countries, particularly in Russia. We are observing a situation when emerging markets steel producers are redirecting export sales back to outperforming domestic markets. In the meantime, steel prices are moving up as steel companies across the world attempt to pass on steep rises in raw materials costs. The commodity cycle is on the rise while industry consolidation serves to build price discipline and a favourable situation in the global steel market.

Last year, in my letter to shareholders, I mentioned a threat of oversupply coming from Chinese steel exports. We all now see that China has introduced sound measures that have enabled its steel industry to expand sensibly.

We are going through a time of unprecedented basic raw materials cost inflation, when an efficient level of vertical integration and quality of assets are becoming crucial factors for steel-makers. Thus, NLMK is uniquely positioned to benefit from the prolonged steel price cycle that will drive forward our superior financial performance.

Conclusion

I would like to extend my sincere thanks to our employees, managers and Directors for the outstanding progress achieved over the last year. On behalf of NLMK's Board I would like to extend my gratitude to all our shareholders. With the strong platform secured in 2007, the Company is well positioned for another year of taking its Sustainable Growth Strategy forward with confidence. I strongly believe that 2008 will be another exciting period of growth for our company.

Vladimir Lisin, Chairman

President's review

Alexey Lapshin

2007 proved to be a very successful year for NLMK. Consistent implementation of the Company's growth strategy and favourable developments in our key markets helped us achieve a record financial performance. An increase in high value-added products sales coupled with growing demand for steel and robust control over production costs allowed us to produce strong profits from our core operations.

Throughout 2007 the NLMK Group continued to grow and diversify its operations. Today approximately 2.1 million tonnes of steel and 4.8 million tonnes of rolled products are produced by NLMK and through our participation in businesses in the EU and the United States, our subsidiary DanSteel and our joint venture with Duferco Group. The Company also debuted in the promising long products market, which is currently displaying high growth rates. All this allows NLMK to expand its presence in strategic markets.

In December 2007 NLMK acquired a controlling stake in Maxi-Group, a large Russian long products producer, which comprises steel-making assets and an extensive scrap-collecting network. Installed capacity at Maxi-Group produces 2.4 million tonnes of crude steel, 1 million tonnes of rebar, 320,000 tonnes of wire rod and about 550,000 tonnes of metalware. In addition, it operates over 300 scrap-collection and processing sites with an annual capacity of 3 million tonnes of scrap per year.

The company is developing its finished products output close to the end-consumer in its most important markets. It is also expanding its share in the strategically important Russian market, using all available opportunities to increase volume and develop its product portfolio.

Apart from acquiring new businesses, NLMK Group streamlined its existing assets and, as part of the restructuring, in 2007 the Company divested its stakes in energy sector assets and the Lipetskkombank commercial bank, which the Board of Directors had earlier recognized as non-core. These transactions were worth USD78.7 million and USD47.7 million, respectively.

Pursuing acquisition opportunities in core markets is an important element of NLMK's development strategy, but we also maintain a strong focus on expanding and upgrading our existing facilities. In 2007 Phase 2 of the Technical Upgrading Programme was launched, which aims to increase steel output at the main production site in Lipetsk to 12.4 million tonnes by 2012, to achieve a significant increase in flat-rolling capacity, and to improve NLMK Group's self-sufficiency in major raw materials and energy.

The Group's capital expenditures, including the acquisition and construction of property, plant and equipment amounted to USD957.7 million in 2007. NLMK's largest projects completed in 2007 include the following: the completion of the upgrade of coke battery No. 2, which led to significant reductions in its environmental impact; the modernization of the reheating furnace at the hot-rolling plant; the upgrade of the reversing mill for transformer steel, which almost doubled its capacity; the commissioning of the new galvanizing line; and many other projects. In addition, 2007 saw the beginning of more significant projects within Phase 2 of the Technical Upgrading Programme: the construction of a new blast furnace with an annual capacity of 3.4 million tonnes of pig iron; the large-scale modernization of the steel-making facilities, calling for the installation of a new converter and the modernization and significant capacity upgrade of continuous casting machines; as well as a number of important projects at NLMK's production site in Lipetsk.

NLMK Group produced a total of 9.18 million tonnes of steel in 2007, including Maxi-Group production volumes for December 2007. Equipment modernization efforts allowed us to increase flat product production to 5.3 million tonnes in 2007, or 4% higher than in 2006. The most significant output increases were achieved for high value-added products, including transformer steel and coated steel.

NLMK's raw material supply and coke-chemical businesses also demonstrated strong performance. In 2007 Stoilensky GOK produced 11.6 million tonnes of iron-ore concentrate, 95% of which was delivered to our main production site at Lipetsk. Altai-koks also reported strong production numbers, with the commissioning of a new coke battery, production increased by 28% and reached 3.8 million tonnes. Significant growth in output and coke sales allowed NLMK to mitigate a large extent of the negative impact of rising coking coal prices following several major accidents at Russian coal mines in the middle of the year.

In 2007 conditions remained favourable in almost all of NLMK's key markets, with 9.2 million tonnes of steel products sold during the year. We focused strongly on selling high value-added products. Adjustments in the delivery profile, the prompt action to refocus our sales to the most efficient product types and positive price developments in key markets allowed us to achieve a strong financial performance.

NLMK Group's consolidated revenues for 2007 reached USD7.7 billion. Strong sales and tight production cost controls resulted in stronger EBITDA, which improved by 28% to USD3.4 billion, with an EBITDA margin of 44%.

The liquidity crisis in late 2007 demonstrated the wisdom of NLMK's conservative financial policy. The Company continues to rely on its own cash flow to encourage organic growth and finance asset acquisitions. At the same time, the significant increase in debt in late 2007 was mostly due to the consolidation of Maxi-Group's debt. In view of this, management does not rule out the use of debt to finance assets acquisitions and capital expenditure. Given the Company's robust financial position and strong credit ratings we are confident of the effectiveness of this approach.

Environmental protection is one of NLMK's priorities. We are upgrading our technology in order to reduce environmental impacts and are looking for ways to recycle our waste. This generates tangible results as our environmental standards improve. Over a five-year period we have managed to reduce specific emissions by 20% per tonne of products, and to significantly reduce water usage and pollutant discharge.

Our Company pursues a strong social policy. We work hard to create both a good working and living environment for our employees and their families, and to contribute to improving the social climate in the regions where we operate. With a focus on the under privileged, we actively participate in the development of municipalities and provinces where the Company operates, providing sponsorship and developing charitable activities.

Looking back over the year I can say with confidence that we were able to achieve this strong performance by relying on a dedicated team of employees who excel in their work on a daily basis. We value our personnel. Our policy aims to encourage our employees to continuously improve their professional skills, increase productivity and advance production standards. Our Company pays strong attention to industrial and occupational safety and we have made significant progress in this area.

Vertical integration, sound technology, skilled employees and a sustainable development strategy allow us to achieve the utmost in production efficiency and financial performance, laying a strong foundation for securing NLMK's place among the leaders of the global steel industry.

Alexey Lapshin
President

Our strategy

NLMK strengthens its market leadership through enhancing vertical integration, increasing low cost steel production and developing a high value-added product portfolio.

01 Vertical integration
02 Production growth
03 Product mix development

Strategic review

Strategic Objectives
We plan to pursue the following strategic objectives:

- To be among the world's most profitable and fast growing 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 become a leading player in the domestic construction steel products market by utilizing the mini-mill business model.
- To utilize our key competitive advantage in low cost crude steel production to increase output of finished products at our rerolling and processing facilities worldwide.
- To pursue external growth initiatives through enhanced vertical integration, by balancing the group's asset portfolio and undertaking strategic acquisitions.
- To maintain the highest principles of corporate governance, social and environmental standards.

Strategy
We intend to pursue the following key strategic initiatives:

- To implement the 2nd Phase and the 3rd Phase of our Technical Upgrading Programme covering the period from 2007 to 2015. The key strategic goals of the Programme are as follows:
  - To increase crude steel production to 16 million tonnes per year at our main production site in Lipetsk.
  - To increase Maxi-Group's EAF steel production to 6 million tonnes and to supply local demand for construction long products.
  - To boost output of value-added finished flat steel products for the growing Russian market.
  - To maintain our global leadership in electrical steel.
- To maintain a high level of vertical integration:
  - To focus our vertical integration strategy on securing supplies of low cost raw materials.
  - To hedge against supply side constraints and raw material price fluctuations.
  - To pursue further efficiency gains through increased energy self-sufficiency and modern production technologies.
- To develop the company into a truly global player through our foreign subsidiaries and future acquisitions and to increase the proportion of finished value-added steels produced by our international division.
- To pursue M&A opportunities based on three major pillars:
  - To pursue acquisitions that can bring substantial synergy benefits.
  - To focus M&A developments on the Company's core markets.
  - To assess each investment individually, but within the context of the overall long-term strategy.
- Building up an efficient management structure:
  - To increase the quality and transparency of decision-making processes.
  - To enhance management accountability to shareholders.
- To enhance standards for employee, social and environmental policies:
  - To improve health and safety at work.
  - To maintain responsible corporate citizenship in all the regions of NLMK's operations.
  - To reduce the Company's environmental impact.

Marketing Strategy
NLMK Group's marketing policy primarily aims to meet the domestic and international demand for core items in its product mix. NLMK Group's marketing policy is based on the following principles:

- Provide better satisfaction for customers.
- Produce high-quality products and maintain a reputation for being a reliable supplier.
- Make every employee responsible for producing high-quality products.
- Practice a holistic approach towards managing the product sales system by taking effective decisions based on a regular review of developments in the markets.
- Improve continuously the quality management system, including improved management of all business processes required to improve product quality.

NLMK's Sales Strategy
NLMK's sales strategy is based on building effective sales channels, implementing an efficient and flexible marketing system and effectively managing human resources. Developments in target markets are monitored and reviewed continuously, promising areas of development are identified and the shortfalls and weaknesses in the Company's marketing system are corrected.

The Group's Sales Strategy is based on the following:

- Produce high-quality products meeting both international standards and rising customer demands.
- Increase presence in existing markets and enter new markets by developing new products and services.
- Develop partner relationships with customers and communicate with customers on a continual basis to gauge customer satisfaction.

NLMK's sales strategy is built on a regular review of markets, prices and developments. A flexible marketing system allows the Company to adapt to the changing environment and retarget sales to more lucrative markets on a timely basis and minimize market risk.

Sustainable growth strategy

01 Vertical integration

Integration into efficient raw material assets:

Iron ore raw materials:
Stoilensky GOK
Coke:
Altai-koks
Coal:
Zhernovskoe – 1

- Meeting steel division requirements at increased production volumes
- Efficient hedge of raw material price upturns

02 Production growth

Increase of crude steel production in Russia:

- Enhancement and modernization of steel-making facilities at Lipetsk production site
- Integrated steel producer

- Maximum utilization of competitive advantage in low-cost crude steel production
- Securing slab supply to rolling facilities

03 Product mix development

Development of high value-added product portfolio:

- Acquisition of high-quality rolling facilities in core markets
- Organic growth
- Exposure to long products segment

- Strengthening leadership in value-added flat-rolled steel segments
- Decreasing volumes of free-market sales of semi-finished products
- Focusing on the domestic construction segment

Balanced and dynamic development along the steel value chain

FOR FURTHER READING
WWW.NLMKSTEEL.COM/ABOUT NLMK

FOR FURTHER READING
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Strategy in action

01 Vertical integration into raw materials and energy

Management plan of action

- Integration into highly efficient raw materials assets;
- Maintaining 100% self-sufficiency in iron ore concentrate and coke;
- Reducing raw material consumption in the steel-making process through ongoing technological innovation;
- Developing a scrap collection network;
- Pursuing opportunities for efficient integration into coking coal;
- Increasing energy co-generation on the main site;
- Introducing energy-saving technologies.

Achievements

- 100% self-sufficiency in iron ore concentrate;
- Lowest cash cost per tonne of iron ore concentrate in Russia;
- Self-sufficiency in coke including future growth requirements;
- Over 40% of electricity requirements produced on main site.

Major projects under the Technical Upgrading Programme

- Commissioning a pelletizing factory of 3 million tonne capacity by 2011 with a further increase to 6 million tonnes by 2014;
- Development of Zhernovskoe-1 coking coal deposit with a 3 million tonne capacity in 2011;
- Implementing pulverized coal injection technology (PCI) on all blast furnaces during 2009–2011;
- Closing four coke facilities at the Lipetsk site.

02 Increase of crude steel production in Russia

Management plan of action

- Maximize benefits of the low-cost production in Russia by increasing crude steel capacity to 16 m t at the Lipetsk production site;
- Modernization of steel-making division;
- Improve steel quality and technical characteristics;
- Increase share of steel applicable for automotive and other demanding applications.

Achievements

- Among world's lowest-cost steel producers;
- Construction of a new blast furnace and a converter started.

Major projects under the Technical Upgrading Programme

- Commissioning new 3.4 million tonne blast furnace by 2011;
- New basic oxygen furnace (BOF) facility in 2010;
- Installing vacuum degassers in 2009 (over 50% of NLMK's steel will be applicable for automotive purposes by 2010);
- Construction of 1.5 million tonne casting and rolling mill at the Lipetsk production site which comprises EAF, thin slab caster and hot-rolling mill.




100%

SELF-SUFFICIENCY IN BASIC RAW MATERIALS

Case Study

Pelletizing plant

Stoilensky GOK (SGOK), acquired in 2004, is a wholly owned subsidiary of NLMK. SGOK is one of the most efficient iron ore producers in Russia, supplying 100% of our iron ore concentrate needs. We currently plan to invest a total of over USD500 million to expand SGOK and upgrade its production facilities as part of the 2nd Phase (2007-2012) of our Technical Upgrading Programme. The largest project under the capex programme is the construction of a pelletizing plant with a planned annual capacity of 3 million tonnes by 2011 with a further increase to 6 million tonnes by 2014. Taking into consideration the booming commodity cycle and close proximity of SGOK to NLMK's main production site in Lipetsk, this project will further enhance NLMK's group performance. It will also enable the Group's raw materials supply capacity to balance the increased production capacity of our facilities under our announced development plans.




Over 70%*

INCREASE IN CRUDE STEEL PRODUCTION BY 2015*

* At the main production site in Lipetsk.

Case Study

New blast furnace construction

The new blast furnace construction project is a key component of the 2nd Phase of the Technical Upgrading Programme which, envisages a 40% increase in crude steel capacity by 2012. NLMK's blast furnace construction project is the first in Russia and the CIS since the Soviet era. We currently estimate the total cost of this project to be over USD1 billion. NLMK has already signed the contract for the supply of blast furnace equipment. Construction of the foundations has commenced.

The new blast furnace is expected to reach full capacity in 2011, in line with our plans to supply the Duferco joint venture (JV) facilities with 3.6 million tonnes of slabs starting in 2012 while continuing to grow rolled steel output in Russia. This dynamic organic growth programme makes NLMK the growth leader in the Russian steel-making industry.

03 Development of high value-added product portfolio

Management plan of action

- Increase share of high value-added products in the product mix due to increasing demand;
- Increase slab supply to controlled rolling facilities, reducing exposure to volatile semi-finished product segment through acquisition of rolling assets;
- Maintain and strengthen the Company's leadership in high value-added market niches.

Achievements

- Commissioning galvanizing line No.3.;
- 20% of Group EBITDA derived from transformer steel segment;
- Preferred pre-painted steel supplier for domestic 'white goods' producers;
- Derived over 80% of domestic revenue from high value-added product segment.

Major projects under the Technical Upgrading Programme

- Commissioning galvanizing line No.4. 300,000 tonnes per year in 2008;
- Commissioning pre-painting line No.3. 200,000 tonnes per year in 2009.

Entering new product niches

Management plan of action

- Enter Russian long products market and target high growth potential in regional segments;
- Develop product range for construction and infrastructure segments showing strong demand;
- Secure permanent scrap supplies;
- Participate in consolidation process in the Russian scrap market.

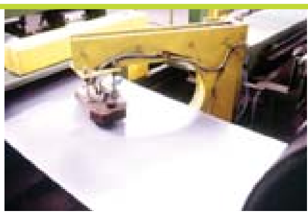
Achievements

- Acquisition of Maxi-Group, the only existing domestic steel-making company utilizing the mini-mill business model;
- Establishing operational control over the Maxi-Group's production facilities and pursuing a capacity growth plan.

Major projects under the Technical Upgrading Programme

- Scrap collection capacity of 7.8 million tonnes by 2015;
- Crude steel production capacity based on EAF method of 5.9 million tonnes by 2015.

Maxi-Group development business plan is currently in progress. The details are expected to be announced during Q3 2008.




No.1

TRANSFORMER STEEL PRODUCER IN THE WORLD

Case Study

Transformer steel leadership

NLMK is the world leader in the production of transformer steel, primarily used in transformer cores. The transformer steel segment is highly technically sophisticated and consolidated, with four producers accounting for over 60% of the global market. NLMK will maintain and strengthen its position in the segment through large-scale investments of over USD400 million during the next few years. The primary objective of the capex programme is to launch the production of high grades (Hi-B) of transformer steel. Taking into consideration the growing demand for transformer steel from leading global power generation equipment suppliers, this may result in stronger cash flow from this niche product segment.




5.9mt

OF LONG PRODUCTS AND PIPES BY 2015

Case Study

Russian rebar market

The consumption of long products is expected to grow by c.10% annually through to 2015. The construction boom continues in the residential and non-residential sectors as well as in infrastructure. At the same time, the domestic producers of long products, particularly rebars, are operating close to full capacity. In addition, there are no rebar producers located in Central and Southern Russia where construction demand is strongest. The acquisition of Maxi-Group was our response to a fast-changing situation and favourable market environment. We have gained 'first mover' advantage 'on the customer's doorstep' in the most dynamic geographic clusters. The Maxi-Group development plan in the Central region provides us with a unique competitive advantage in logistics.

The acquisition of the Maxi-Group further enhances NLMK's growth story and will lead our Company to become the largest steel producer in the Russian market by 2015.

Group overview
Our global presence

NLMK GROUP'S GEOGRAPHY
The NLMK Group comprises assets both in Russia and overseas.

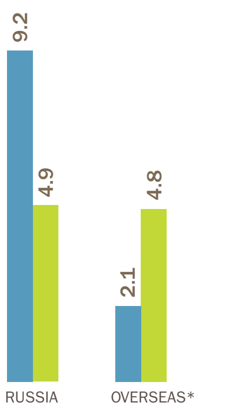
The parent company is situated in the city of Lipetsk in the centre of European Russia, 450 kilometres from Moscow.

The iron ore supplier Stoilensky GOK is part of the Kursk Magnetic Anomaly (KMA) iron ore deposit located 350 kilometres south of the parent company. The close location of the iron ore subsidiary helps minimize transportation costs.

Altai-koks, the coke producer, is located close to major coal deposits in the Kuznetsk Coal Basin. Zhernovskoe-1 coking coal deposit is located c.70km from Altai-koks.

VIZ-Stal and the production facilities of Maxi-Group, acquired in late 2007, are located in the Urals region of Russia.

RUSSIAN AND OVERSEAS PRODUCTION IN 2007
(MILLION TONNES)



* This includes SIF and DanSteel production results.

Belgium*
Carsid SA Product: Slabs
La Louvière Product: Slabs, HRC, Long products
Clabecq Product: Thick plates

Denmark
DanSteel A/S
Product/Output: Thick plates/0.5mt

USA*
Duferco Farrell
Product: CRC, HRC
Sharon Coating
Product: HDG

France*
Duferco Coating S.A.S
Product: CRC, EG, HDG, Pre-painted

Italy*
Verona Steel
Product: Ingots, Thick plates

	STEEL OPERATION
	MINING OPERATION
	COKE-CHEMICAL OPERATION
*	DUFERCO JV PRODUCTION ASSETS
	DUFERCO JV DISTRIBUTION & SERVICE CENTRES
	RUSSIAN CITIES

Russia
Novolipetsk Steel
Product/Output:
Steel/9.1mt
Slabs/3.7mt
Flats/4.7mt

Russia
VIZ-Stal
Product/Output:
Electrical Steel/0.2mt

Russia
Maxi-Group*
Product/Output:
Steel/1.8mt
Long products/0.6mt
Metalware/0.3mt
Scrap/2.1mt

Russia
Zhernovskoe-1
3mt of coking coal in 2011

Russia
Tuapse Sea Port (TMTP)
Dry cargo turnover/5.5mt
Oil cargo turnover/14.2mt

Russia
Stoilensky GOK
Product/Output:
Iron ore concentrate/11.6mt
Sinter ore/1.7mt

Russia
Altai-koks
Product/Output:
Coke: 3.8mt

*Maxi-Group production results were consolidated since December 2007

Product overview

NLMK's product mix includes a wide variety of high-quality products. The parent company is an integrated steel production cycle business. Its product mix includes pig iron, slabs, hot-rolled and cold-rolled, galvanized, pre-painted steel and electrical steel.

The blast furnace operation at NLMK produces pig iron, which is used for steel production. In 2007, over 90% of pig iron produced was processed by in-house steel-making operations. Any pig iron that cannot be utilized to make steel (for technology reasons) is sold on the open market, where it may be used for the production of iron pipes and other iron products.

The slabs are utilized at NLMK as semi-finished products for the production of hot-rolled steel. In 2007 we processed c.60% of slabs in-house. The remaining slabs are exported to other companies, where they are rerolled into flat products.

Slabs are delivered to DanSteel A/S, which is part of the NLMK Group. In 2007 NLMK supplied 0.6 million tonnes of slabs to DanSteel A/S, which were used for hot-rolled thick plate production. Hot-rolled thick plates produced by DanSteel A/S are used in ship building, the energy sector, construction, machine-building and engineering.The company operates primarily in the EU market. DanSteel A/S is one of the important players in the market for steel plate used in ship building. The parent company also produces hot-rolled steel sheet up to 1,850mm wide and between 1.5mm to 16mm thick, which is used for oil and gas pipes production (including pipelines operated in low temperature environments and at high pressure), for construction, ship building and manufacturing of high-pressure vessels. NLMK maintains approximately 11% on the Russian market. The Parent Company also one of the key suppliers of hot-rolled coils for electrical steel produced by VIZ-Stal, which is part of NLMK's steel division.

Cold-rolled steel sheet is up to 1,820mm wide and between 0.35mm and 2.5mm thick. It is used for the production of automobile, tractor and harvester bodies, stamped parts, cabinets for household electric appliances, steel structures, roofing and trimmings. Cold-rolled steel produced by NLMK is of high quality, confirmed by compliance with international quality standards.

We produce hot-dip galvanized steel sheet up to 1,800mm wide and between 0.4mm and 2.0mm thick (up to 4.5mm thick after commissioning of hot-dip galvanizing line No. 3). It is used to manufacture formed shapes, steel structures, automobile parts and components for household electrical appliances. We also produce special low-carbon steel alloyed with titanium (IF-steel), which has extra-deep drawing qualities.

Pre-painted rolled products are used for the production of steel structures, cabinets for instruments and household electrical appliances, roof tiles, etc. This type of steel has a high rate of resistance to atmospheric corrosion, displays ornamental properties and combines strength and plasticity. NLMK is the largest producer of pre-painted steel in Russia.

NLMK is one of the leading producers of electrical steel, with a 76% share of the Russian market for these high value-added products. Facilities at the main production site in Lipetsk and at VIZ-Stal offer an annual production capacity of about 320,000 tonnes of transformer steel and 370,000 tonnes of dynamo steel. NLMK maintains 20% global market share in transformer steel, being a leader in this niche market segment.

The dynamo steel is used for the production of stators, rotating elements, dynamo machines, electro-engines and other power equipment. It is made to thicknesses between 0.27mm and 1.00mm and a width of up to 1,200mm.The transformer steel is used for the production of a wide range of transformer cores. It is a made to thicknesses between 0.23mm and 0.35mm and a width of up to 960mm, and comes with a heat-resistant insulation. We also produce special-purpose transformer steel between 0.15mm and 0.80mm thick, which is used for the production of powerful electric motors.

Steel products produced by NLMK comply with international quality standards. The advanced technological capacity, a high level of production process optimization and the quality of NLMK products have all been repeatedly affirmed by authoritative Russian and international certification institutions.

In December 2007, NLMK acquired the large domestic long steel producer, Maxi-Group. The product mix of Maxi-Group includes billets, rebar, wire rod and metalware.

In addition to steel products NLMK produces iron ore concentrate, sinter ore, coke, dolomite and limestone. The bulk of raw materials is consumed within the Group while the surplus is sold on the open market.

Steel production is a process that generates significant amounts of waste products. NLMK's objective is to minimize the negative environmental impact of the steel-making process. Waste generated by operations (scrap, scale, ferruginous dust) is either recycled or processed for further use in other industries. For example, slag generated during blast furnace production is utilized by the construction industry as a component for road construction.

Products	Abbreviations	Description
Coke		The basic fuel consumed in blast furnaces in the smelting of iron. Coke is a processed form of coal.
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.
Sinter ore		Product of combining iron-bearing particles under high temperature into small chunks with aim of conserving the iron for blast furnace process.
Pellets		An enriched form of iron ore shaped into small balls or pellets. Pellets are used as a raw material in the steel-making process.
Scrap (ferrous)		Ferrous (iron-containing) material that is generally 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 is wasted steel, prepared for recycling.
Pig iron		An alloy of iron and carbon that is produced in a blast furnace.
Crude steel		Steel in primary form of hot molten metal.
Billet		A semi-finished steel form that is used for steel long products such as bars, channels, wire rod or other structural shapes.
Slab		A semi-finished steel form. After casting, slabs are sent to the hot-strip mill to be rolled into coiled sheet and plate products.
Rebar (reinforcement bar)		A commodity-grade steel used to strengthen concrete in highway and building construction.
Wire rod		Round, thin, semi-finished steel length that is rolled from a billet and coiled for further processing. Wire rod is commonly drawn into wire products or used to make bolts and nails.
Hot-rolled steel	HR, HRC	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).
Cold-rolled steel	CR,CRC	Steel that is rolled at common or low temperature. This kind of steel has increased hardness and strength.
Coated steel		Steel covered with another material (tin, chrome, zinc, polymers), primarily for corrosion resistance.
Hot-dip galvanized steel	HDG	Steel coated with a thin layer of zinc to provide corrosion resistance in underbody auto parts, garbage cans, storage tanks, fencing wire, etc.
Pre-painted steel	PPS	Steel coated with a thin layer of polymers and used in building structures, instrument casings, household appliances, roofing tiles and other goods.
Transformer steel (grain-oriented)	GO	Steel processed in such a way that the optimum properties are developed in the rolling direction. It is used for the cores of high-efficiency transformers, high-efficiency electric motors and generators.
Dynamo steel (non-grain-oriented)	NGO	Steel that has similar magnetic properties in all directions, which makes it isotropic. It is used in applications where the direction of magnetic flux is changing, such as electric motors and generators.

Key markets
Russia

Construction and infrastructure

64%* SALES

30% MARKET SHARE

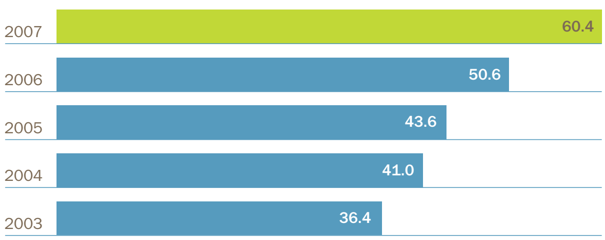
HOT-ROLLED STEEL
Roll-formed sections, water and sectioned pipes, angles/shapes

HOT DIP-GALVANIZED STEEL
Framed sections, internal hardware, vent and ceiling systems water pipes

PRE-PAINTED STEEL
Sandwich panels, metal tiles, corrugated board, siding

LONG PRODUCTS
Rebar, metalware, wire rod

RUSSIAN RESIDENTIAL CONSTRUCTION (MILLION SQ.METRES)



Source: Federal State Statistics Service.

Hot-rolled steel is used for the production of sections, moulded and welded shapes, and various types of pipes. Galvanized steel products are used in ventilation systems, roofing and corrosion-resistant constructions and pipes. Pre-painted steel products are used for the production of sandwich panels, roofing (tiles and sheet), outside wall panels and other products.

In 2007 NLMK acquired Maxi-Group. This transaction gives the Company significant exposure to the domestic long product market. Maxi-Group's, product mix includes a wide range of products such as wire rod, rebar and metalware that are primarily used in the construction and infrastructure sector.

* Includes volumes sold to metal traders.

Machine-building

23%* SALES

31% MARKET SHARE

COLD-ROLLED
Carbody parts, yellow goods with related accessories, lifts

GALVANIZED
Air pipes and ventilation equipment, car components

ELECTRICAL STEEL
Transformers, various electrical motors, transport electric equipment

LIGHT VEHICLE MANUFACTURING (000's PCS)

Source: Federal State Statistics Service.

Machine-building is another key market for NLMK in Russia. Further development of the country's industrial sector and the strong growth of real household incomes increases the potential for growth in this market segment. For example, the production of passenger vehicles in 2007 demonstrated a growth rate of c.14%. Key products supplied to the automotive industry include pig iron, cold-rolled and dynamo steel.

Leading international auto producers are also developing their assembly capacities in Russia. In the future, a significant share of automotive parts will be made in Russia and NLMK is actively engaging these foreign auto producers in order to expand its product sales and obtain appropriate certification. NLMK already supplies its products to a number of major auto producers in the Russian market.

Russia's long-term development strategy calls for an increased focus on high-tech sectors, including power equipment production and instrumental engineering. NLMK Group supplies more than 70% of electrical steel requirements for these sectors.

* Includes volumes sold to to automotive industry, electric and instrumental engineering and metal traders.

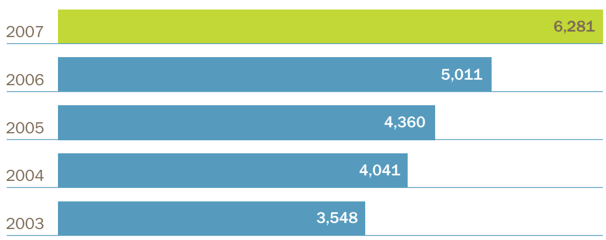
White goods manufacturing

3% SALES

50% MARKET SHARE

PRE-PAINTED, GALVANISED STEEL
White goods: fridges, gas and electric stoves, cooker extractor fans, washing machines, etc.

WHITE GOODS MANUFACTURING (000's PCS)



Source: Federal State Statistics Service.

The domestic appliances market is also displaying strong growth rates. As demand continues to grow, the share of imported white goods will decline and domestic production facilities will expand. Stronger interaction with domestic producers will encourage the development of NLMK's products.

Market review
Global

World Market Developments in 2007

Last year proved to be a successful year for global steel-makers, despite a slowdown in the rate of growth of apparent consumption of steel products to 6.8% from 8.8% in 2006.

This was mainly caused by a slight downturn in world economic growth and industrial production. Global real GDP grew by 4.7%[1] in 2007 compared to 4.9% in 2006. Industrial production increased by 5.4% compared to 6.5% in 2006.

Nevertheless, the global steel industry demonstrated 7.5%[2] growth. Despite the slowdown in growth rates (from 9% in 2006), this set a record high in the history of the global steel industry.

Growth was mostly driven by emerging markets. Some 71% of the increased demand for ferrous metals came from Russia, Brazil, India and China, which produce almost 50% of global steel output.

China was again the major driver for growing demand in world markets. Its rapidly expanding economy required 11.4% more steel products than in 2006. China continued to dominate global steel markets, accounting for one-third of total consumption globally. Domestic production of steel in China increased by 15.7%. Excluding China, global steel production increased by only 3.3%.

The Indian market expanded quite significantly with consumption increasing by 13.7%. New capacity allowed for a 7.3% increase in steel production.

In the EU, apparent consumption of steel increased by 4.0%, compared to 11.4% in 2006. Despite this decline in the consumption growth rate, caused by decelerating economic growth primarily in the EU-13 countries, the European steel market showed favourable market conditions. In 2007 European steel-makers increased steel production in the EU by 1.7%.

Consumption in non-EU European countries increased by a much stronger 7.8%. In Turkey, demand increased by 10.2%. In a similar fashion to 2006, higher consumption was driven by the construction sector with large-scale government-sponsored projects. Expansion in steel-making capacity allowed Turkey to boost output by 10.5%. In non-EU European nations, steel production expanded by 4.4%.

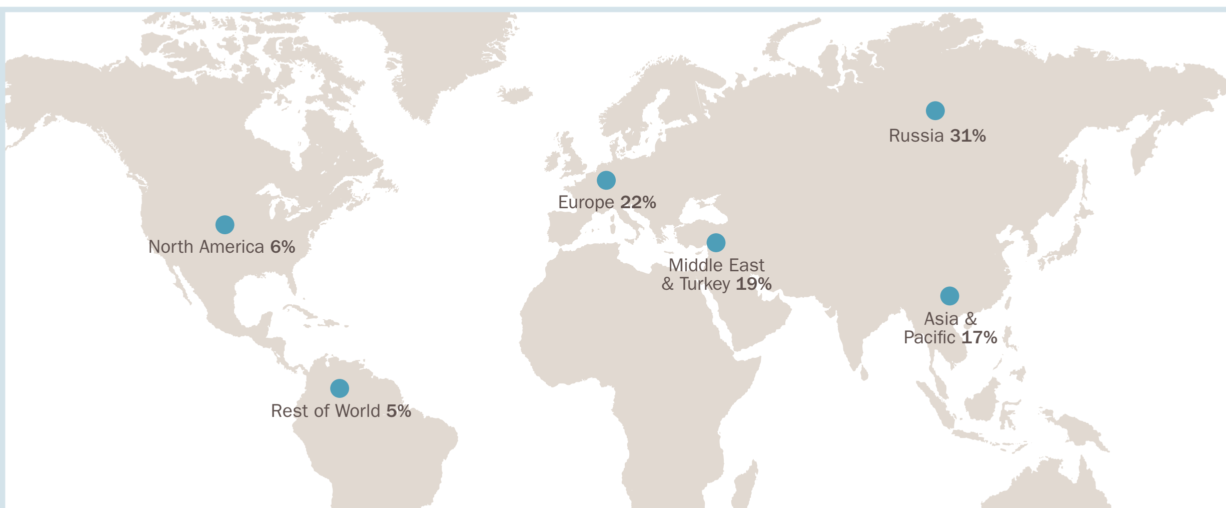
The Central and South American steel markets evidenced strong growth with apparent consumption growing by 10.9%. New production capacity going on-line, primarily in Brazil, boosted steel output in the country by 9.3%, and by 6.5% in South America in general. The North American market was stagnating due to economic problems in the US. Lower consumption by households also had a negative impact on sales of metal-intensive durable goods, including automobiles and major household appliances. Apparent consumption fell by almost 5%. Smelting increased by a modest 0.4%. In terms of world market price developments, 2007 proved to be much more stable compared to previous years. Upward price movement resumed in February and continued until the end of Q2. The subsequent price weakening coincided with the seasonal slump ending early in the autumn.

Sales of Steel Products by NLMK Group
In 2007, NLMK Group sold 9.2 million tonnes of steel products, of which 69% was delivered to customers overseas. Notwithstanding the significant share of exports, the domestic market remains a priority for the NLMK Group for sales of high value-added products.

One of the elements of NLMK Group's development strategy is to increase the share of high value-added products and expand the Company's geographic presence. While in 2005 the parent company was the only supplier of products, currently the share of steel products supplied by our subsidiaries has increased to 9%, with 5% supplied by our overseas assets.

Export Sales of Products by NLMK Group
NLMK Group pursues a strong export policy. In 2007, NLMK Group exported a total of 6,374,000 tonnes of steel products, a 1% decrease year on year.

NLMK SALES IN 2007, TONNAGE-WISE



In 2007, NLMK Group's steel products were exported to 80 countries around the world, while the parent company supplied its products to 60 countries.

EU and Middle Eastern countries, which showed the most favourable market environment for steel products in 2007, became priority export destinations for the NLMK Group. The largest share of exported steel products (more than 1.3 million tonnes) was shipped to Turkey, which is one of the most important strategic markets for NLMK's steel products.

In 2007, exports of steel products increased significantly to South East Asia and China, where demand for NLMK steel products substantially improved.

Also, in terms of sales geography, there was a strong decline in the share of exports to North America, where the steel market was depressed throughout 2007, largely due to a slowdown in the US industrial sectors, especially in construction.

The share of high value-added products increased by 5% compared to 2006, amounting to 21% of sales (+1 percentage point y-o-y). These changes reflect NLMK Group's long-term strategy, which aims to increase sales of high value-added products.

Special mention should be made of increased sales of electrical steel, with a share of 10% in 2007 (+2 percentage points).

Strong demand in export markets allowed for an increase in sales of hot-rolled flat products and its share grew to 19% (+3 percentage points).

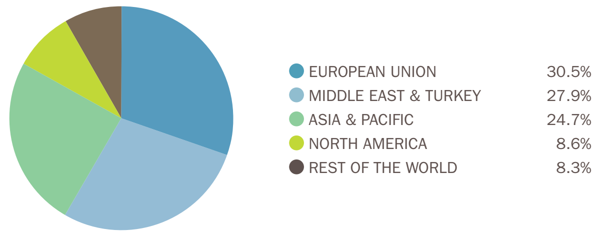
Slabs were the major export product delivered to overseas partners in 2007, accounting for 49% of all exports. Apart from third-party buyers, in 2007, slabs were also supplied to DanSteel A/S (571,000 tonnes) and Steel Invest and Finance (329,000 tonnes).

A large share of NLMK's export sales were handled by its traditional trading companies: Steelco Mediterranean Ltd., Cyprus Tuscany Intertrade (UK), Great Britain and Moorfield Commodities, Great Britain.

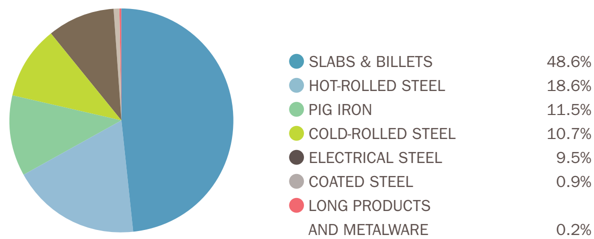
NLMK is actively participating in cooperation with foreign businesses. In 2007 NLMK and the Chinese Tebian Electric Apparatus Stock Co., Ltd (TBEA) launched a project to develop a joint Russian-Chinese centre for the processing and selling of electrical steel, allowing NLMK the opportunity to strengthen its position in the largest and strategically most important market, which consumes around 30% of global output of grain-oriented steel, while TBEA obtained a supply channel of main input for the manufacturing of transformers.

Going forward, we will continue to strengthen our global position as a supplier of quality steel products that meet the requirements of our customers.

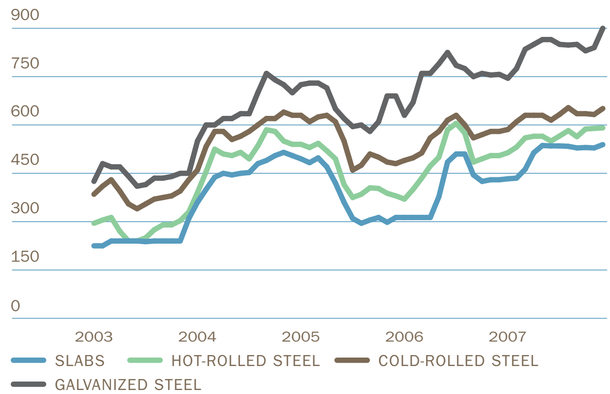
NLMK'S EXPORT SALES VOLUME (TONNES), **BY REGION 2007**



NLMK'S EXPORT SALES VOLUME (TONNES), **BY PRODUCT 2007**



EXPORT STEEL PRICES,
(BLACK SEA/BALTIC SEA, USD/TONNE, FOB) **2003–2007**



Source: Metal Bulletin, Coated Steels Monthly.

[1] Sources for macroeconomic indicators: CSFB Global Economics Weekly, IMF World Economic Outlook.

[2] Source for steel output data: IISI.

Market review
Domestic

A favourable macroeconomic environment, and, primarily, higher consumer incomes, encouraged growth of the Russian steel market last year. With growing output in steel-intensive sectors (18% growth in construction, 19% growth in machine-building, 16% growth in automotive manufacturing and 13% growth in the output of electrical equipment and appliances), apparent consumption of steel increased by more than 7%. The demand for flat products expanded by 12% and reached 19.2 million tonnes.

In 2007 steel production in Russia grew by 2%, driven by modernization and the technical upgrade of existing capacities. Flat steel production reached 25.4 million tonnes, an increase of 4% year on year, while domestic sales increased by 10% reaching 15.7 million tonnes.

Growing market capacity promotes greater efficiency in sales through increased supplies of high value-added products. A good example is coated steel, with more than 90% of output delivered to Russian customers.

The domestic market displayed favourable price developments throughout the year. In April–May 2007, prior to the seasonal rise in prices, prices for steel increased by around 15%. In late summer a downward trend began to dominate, which continued through the remainder of the year due to low consumer activity, and in the second half of the year this translated into weaker average monthly growth rates for the main drivers behind steel consumption, namely, output of industrial products, fixed capital investments and construction.

Domestic Sales

Our Company is consistently expanding its presence in its key strategic markets. The domestic market, which currently displays strong growth rates, is one of the most lucrative targets for sales of steel products by NLMK. In 2007 the domestic Russian market accounted for 31% of total sales of steel products.

In 2007 NLMK Group sold 2.9 million tonnes of steel products on the domestic market, of which 56% were high value-added products (cold-rolled steel products, coated steel and electrical steel).

There was a change in the structure of the domestic sales of flat products – the share of hot-rolled flat products declined (from 41% in 2006 to 37% in 2007) due to a shift towards the production of high value-added products and increased intersegment sales. In 2007 VIZ-Stal consumed 127,000 tonnes of hot-rolled coils, while in 2006 shipments accounted for 43,000 tonnes.

A 12% decline in sales of cold-rolled products in 2007 as compared with 2006 was mainly attributable to further development of high value-added products, namely, galvanized steel, sales of which grew by 26% year on year. Hot-dip galvanizing machine No. 3 reached its installed capacity, generating stronger sales in galvanized steel. Overall, the share of coated steel in domestic sales in 2007 increased to 25% (21% in 2006).

Higher sales in electrical steel were driven by an increase in sales of the same products by VIZ-Stal, and by a relatively longer presence of this asset in the consolidated Group in 2007 compared to 2006.

The majority of our domestic sales are made to the construction industry (33% share of sales in 2007), tubes and pipes (11%) and the automotive industry (9%). A substantial part of our products is delivered to trading companies and service centres that provide high-quality service including slitting, packaging and delivering rolled products to newly opened manufacturing plants. Due to this cooperation NLMK's products are delivered to the modern facilities of white goods manufacturers that traditionally outsourced steel flats processing. As the machinery sector continues to grow further we foresee increasing sales volumes through this form of cooperation.

In 2007 NLMK increased steel sales to the growing domestic market, thus our supplies to the construction and tube and pipes sectors grew by 42% and 27% year on year respectively.

The Company's favourable geographic location in the centre of European Russia encourages efficiency in sales to the most industrially developed regions. NLMK sees great promise in the Russian market considering its development peculiarities while implementing specific investment projects. For example, in response to increased demand for pre-painted and galvanized steel by automobile manufacturers, the construction industry and manufacturers of white goods, NLMK is aggressively increasing its production capacity for the corresponding steel products.

Higher consumption in the construction sector is associated with growing demand for both flat and long products. Given the prospect offered by this sector of the economy NLMK began developing a new line of business producing long products. In late 2007 NLMK acquired a 50% + 1 share stake in Maxi-Group, a large Russian producer of long products.

Strong growth in the Russian market driven by favourable developments in the domestic economy and significant room for further growth in demand for steel products is a positive factor from the steel market perspective. All of this encourages hopes for continued sustained demand for products of the Group and the expansion of our presence in the promising Russian market.

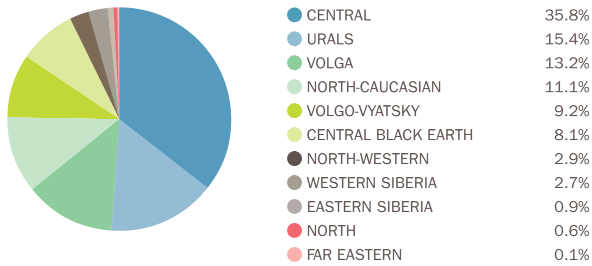
Sales of Other Products
In addition to steel products, NLMK Group supplies third-party customers with iron ore (ore concentrate and sintered ore), coke, chemical products, dolomite and limestone. Coke supplied by Altai-koks is the most significant item among sales of non-core products.

Major consumers of coke include Russian and foreign steel companies. In 2007 NLMK Group sold 2.8 million tonnes of coke. Domestic sales of coke accounted for nearly 40% of total sales and the rest was sold in export markets. The Lipetsk production site purchased 755,000 tonnes of coke and Steel Invest and Finance (SIF), a joint venture with Duferco Group, bought an additional 147,000 tonnes. In 2008 coke deliveries to SIF are expected to reach 780,000 tonnes.

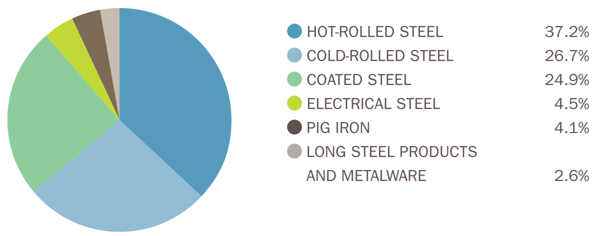
NLMK Group also supplies iron ore concentrate and sinter ore produced by Stoilensky GOK. Sales of raw materials to the third parties included 0.5 million tonnes of iron ore concentrate and 1.1 million tonnes of sinter ore, or about 14% of total sales of Stoilensky GOK. The rest of its products are shipped to NLMK's main production site in Lipetsk.

In 2007 the NLMK Group also sold fluxing materials, dolomite and limestone, which are produced by the Group's subsidiaries Dolomite and Stagdok, respectively. Fluxing materials were mostly marketed to steel producers and businesses in the construction sector. In 2007 NLMK Group supplied to third-party customers c.1.3 million tonnes of dolomite (56% of total volume sold by Dolomite) and 0.7 million tonnes of limestone (22% of total sales by Stagdok). The remaining share of products was supplied to the main production site in Lipetsk.

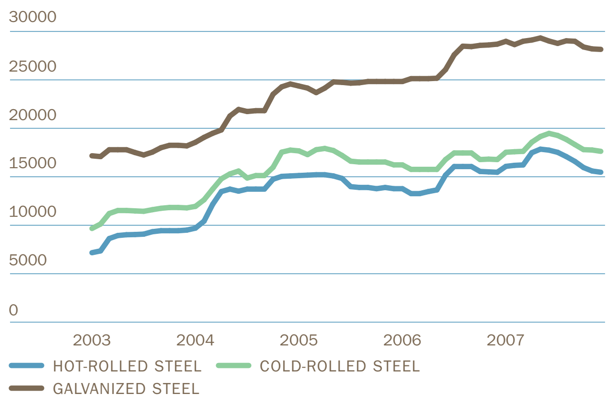
NLMK'S DOMESTIC SALES VOLUME (TONNES)
BY REGION 2007



NLMK'S DOMESTIC SALES VOLUME (TONNES)
BY PRODUCT 2007

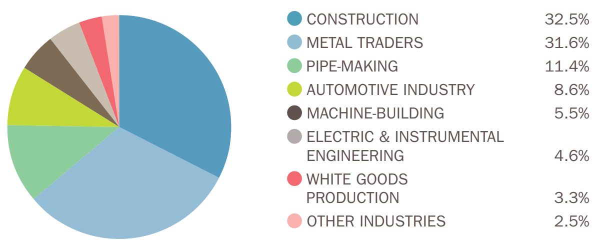


DOMESTIC MARKET PRICES 2003–2007
(RUSSIAN RUBLE/TONNE)



Source: Chermet, Metalcurier, Metaltorg.

NLMK'S DOMESTIC SALES VOLUME (TONNES)
BY INDUSTRY 2007

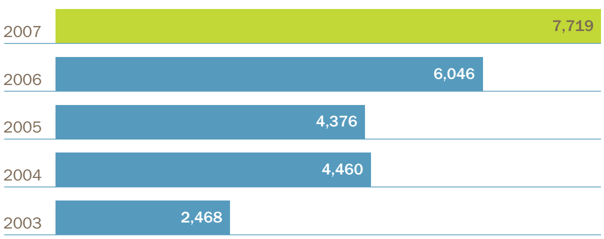


Financial review

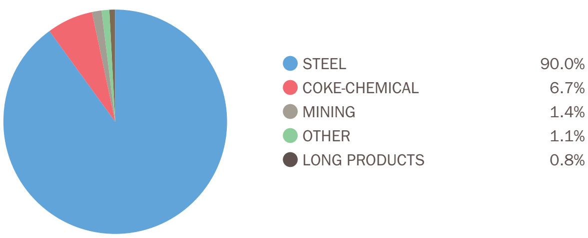
Galina Aglyamova has been NLMK's CFO since 2000. Joined NLMK as an economist in 1985. Named an honorary economist of Russia. Graduated from the Moscow State Steel and Alloys Institute. PhD in Economics.

Galina Aglyamova, Chief Financial Officer

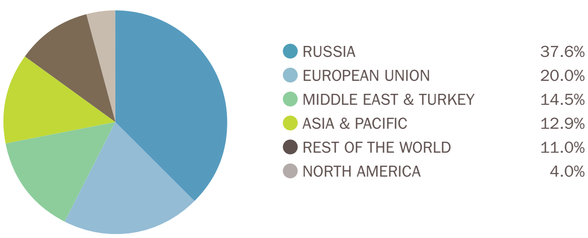
NLMK'S SALES REVENUE, 2003–2007 (USD MILLION)



NLMK'S SALES REVENUE, 2007 – BY SEGMENT



NLMK'S SALES REVENUE, 2007 – BY REGION



Recent Economic Developments

Despite the unstable economic environment in the USA and its negative impact on the world economy during the second half of the year, global GDP continued to grow at a strong pace and 2007 annual growth rate reached 4.7%.

As in earlier years China continued to drive growth with its GDP expanding by 11.4%. Other emerging markets also displayed significant growth.

NLMK is an international vertically integrated company with core production assets located in Russia, and its activities are directly linked to the economic developments within the country. In 2007 the Russian economy grew at a steady pace, with GDP expanding by 8.1%. Strong growth rates were observed in the steel-consuming industries.

Greater stability in financial and economic policies in recent years and lower country and political risks have allowed Russian industrial businesses to improve the effectiveness of their operations and create a sustained base for further growth.

Consolidated Results

For a number of years NLMK has been one of the leaders among world steel producers in terms of financial efficiency. In 2007 our Company showed record financial performance by pursuing a clearly defined strategy and capitalizing on its competitive advantages.

NLMK Group's consolidated revenues in 2007 reached USD7,719 million (+28% y-o-y). Stronger earnings were driven by increased sales volumes and higher product prices, improved sales mix and the consolidation of assets in 2006-2007.

NLMK is increasing the share of high value-added products in its sales. Asset acquisitions and the commissioning of new production capacity encouraged a significant improvement in sales revenue share of transformer steel to 15% (+ 3 percentage points y-o-y).

We also increased sales to our core markets, thus the domestic market share in total sales reached 37.6%, EU countries accounted for 20% of our sales, the Middle East, including Turkey, accounted for 14.5% of our total sales and Asia and Pacific 12.9%.

NLMK Group is one of the lowest-cost steel producers in the world. Despite significant price increases for raw materials and energy inputs, the NLMK Group managed to contain consolidated cost increases to around 29%.

Major cost items include: raw materials – 51.2%, fuel and power – 10.6%, labour – 13.5%, depreciation – 10.3%.

The Company's cost management policies helped optimize costs and mitigate price risks associated with raw materials. Vertical integration with producers of raw materials makes the company fully self-sufficient in iron ore concentrate, coke and fluxing materials, and partly self-sufficient in scrap and electrical power (43% of main production site requirements).

NLMK Group's vertical integration helps reduce production costs by 25% to USD221 per 1 tonne of slab when compared to costs on a non-consolidated basis.

The Technical Upgrading Programme also aims to improve self-sufficiency in raw materials and fuel and power supply. The Company has designed a long-term programme for reducing production costs. In addition, a range of measures is taken annually to improve the efficiency of equipment, raise productivity and reduce consumption of raw materials, fuel and power.

Changes in commercial, administrative and general expenses were affected by higher commercial expenses, lower administration costs and no recognition of losses in connection with the Prokopievskugol group of companies. This resulted in lower commercial and administrative expenses of around USD744 million.

Consolidated operating profit in 2007 reached USD2,998 million (+34% y-o-y), and the operating income margin was 39% (+2 percentage points y-o-y).

The balance of other revenues and expenses in 2007 was USD158 million a decrease of 58% y-o-y. Changes over the previous year are primarily attributed to the lack of major asset disposals and financial investments and the hedging of foreign exchange proceeds, allowing for foreign exchange gains against downward movements in the US dollar exchange rate of a total of USD80 million (in 2006 foreign exchange losses were USD75 million).

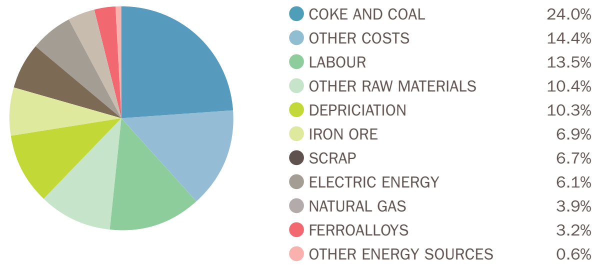
Consolidated net income of the NLMK Group in 2007 was USD2,247 million (+9% y-o-y). The net income margin was 29%. In 2007 there were no significant disposals of assets, though in 2006 the Company divested its stakes in Lebedinsky GOK and Kombinat KMAruda. If the impact of one-off activities is excluded, the Company's net profit in 2007 would grow by 37%.

In 2007, EBITDA of NLMK Group reached USD3,366 million (+28% y-o-y).

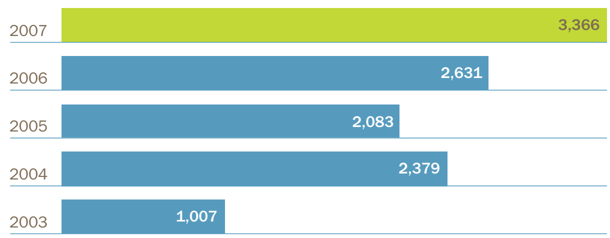
EBITDA margin in 2007 was 44%. NLMK Group remains one of the leaders in the global steel industry in terms of EBITDA margin.

The strong financial results of NLMK Group confirm the effectiveness of its strategy, the effective application and further enhancement of its competitive advantages, and the strengthening of NLMK's position as a low-cost, high-margin producer of high-quality, competitive products.

NLMK CONSOLIDATED COST STRUCTURE, 2007



NLMK'S EBITDA, 2003–2007 (USD MILLION)



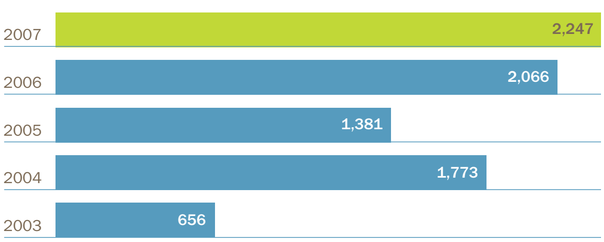
NLMK'S EBITDA MARGIN, 2003–2007 (%)

Financial review continued

Consolidated Financial Performance 2006-2007

USD million	2007	2006	Change +/-	Change %
Sales revenue	**7,719**	6,046	1,673	27.7%
Cost of sales	**-3,977**	-3,074	-903	29.4%
Production costs	**-3,569**	-2,716	-853	31.4%
Depreciation and amortization	**-408**	-358	-50	14.0%
Gross profit	**3,742**	2,971	771	26.0%
– as % of net sales	**48%**	49%	–	–
SG&A	**-657**	-514	-143	27.8%
Taxes other than income tax	**-80**	-57	-23	40.4%
Accretion expense on asset retirement obligations	**-6**	-157	151	(96.2%)
Operating profit	**2,998**	2,243	755	33.7%
– as % of net sales	**39%**	37%	–	–
Income before income tax and minority interest	**3,157**	2,621	536	20.4%
– as % of net sales	**41%**	43%	–	–
Net income	**2,247**	2,066	181	8.8%
– as % of net sales	**29%**	34%	–	–
EBITDA	**3,366**	2,631	735	27.9%
– as % of net sales	**44%**	44%	–	–

NLMK NET INCOME, 2003-2007 (USD MILLION)



Operating Segments
NLMK Group identifies four core segments and discloses them separately in its financial reports: the steel segment, the mining segment, coke-chemical segment and the long products segment.

Other lines of operations, the quantitative indicators for which are below threshold levels, mostly include operations of the commercial sea port and financial services, including banking and insurance services.

The steel segment accounted for the bulk of consolidated earnings (90%) in 2007. The small share for the mining division (1%) is explained by significant intersegment sales to NLMK Group businesses.

The operating income pattern differs significantly from the sales pattern: the steel division accounts for 79%, while the mining division generates 17%.

Steel Segment
The financial indicators for NLMK Group are mostly determined by the operations of the steel division, which includes the parent company (Novolipetsk Steel), the electrical steel producer VIZ-Stal, the Danish plate manufacturer DanSteel A/S and a number of services companies.

Total revenue for the steel division reached USD6,970 million in 2007 (+24% y-o-y). A major share of sales revenue (99.6%) was generated by sales to third-party customers.

The major factors behind the changes in sales for the steel division in 2007 were higher prices for steel products, changes in volume and product mix, and the full-year effect of VIZ-Stal performance in 2007 (in 2006 the consolidated figures only covered the period between August and December).

Production costs within the steel segment amounted to USD3,813 million (+33% y-o-y), and depreciation and amortization expenses were USD265 million (+18% y-o-y).

The most significant expense item within the overall steel division's costs was the acquisition of iron ore raw materials, accounting for 25.1%. At the same time, a significant part of raw materials requirements are supplied by the mining division companies.

The steel segment showed an operating income of USD2,363 million in 2007 (+12% y-o-y).

Mining Segment

In recent years, the mining segment has consistently increased its contribution to the consolidated financials of NLMK Group. The mining division includes Stoilensky GOK, a producer of iron ore, and the suppliers of fluxing materials, Stagdok and Dolomite.

Total 2007 sales revenue generated by the mining segment amounted to USD889 million (+45% y-o-y). The mining segment's revenue from external customers amounted to 11.9% of its total revenue, and intersegmental sales reached 88.1%. The significant increase in revenue was due to higher sales and stronger prices for products produced by the division.

Production costs of the mining segment reached USD220 million (+14% y-o-y), while depreciation expenses increased to USD80 million (+12% y-o-y).

The operating income of the mining segment increased to USD523 million in 2007 (+76% y-o-y). The operating income margin was 59% (+11 percentage points y-o-y). The stronger margin is attributable to significant price increases for iron ore in Russia, and greater sales to both NLMK Group and third-party customers with tighter controls over production costs.

Coke-Chemical Segment

NLMK Group's coke-chemical segment includes Russia's largest non-integrated coke producer, Altai-koks and its subsidiaries.

Total revenue for the coke-chemical segment in 2007 doubled compared to 2006 and reached USD685 million. Third-party sales accounted for 76%, and sales of products within the NLMK Group accounted for 24%.

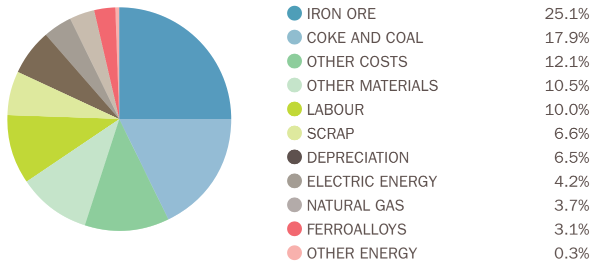
This sharp increase in revenue of the coke-chemical segment was caused by increased sales in connection with the commissioning of new production capacities (a new coke battery put into operation in late 2006) and increased coke prices.

Production costs of the coke-chemical segment in 2007 reached USD439 million (+82% y-o-y).

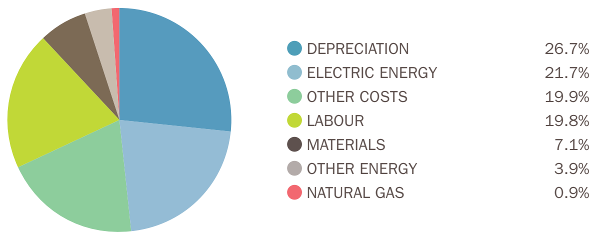
Coking coal is the main cost item for the coke-chemical division, and accounts for over 80% of total costs for the coke-chemical division. Other significant cost items include labor (8%) and depreciation (8%).

Significant increases in revenue generated a four-fold increase in the operating income of the coke-chemical division, which reached USD114 million. The operating income margin in 2007 was 17%, or 10 percentage points higher than in 2006.

NLMK'S STEEL SEGMENT COST STRUCTURE, 2007



NLMK'S MINING SEGMENT COST STRUCTURE, 2007



Financial review continued

Long Products Segment
The long products segment comprises the companies that make up Maxi-Group that focus on long products manufacturing and scrap collection. Maxi-Group, was acquired in December 2007, thus the consolidated results of NLMK Group only incorporate results for December 2007.

In 2007 sales revenue and operating profit of the segment reached USD62.3 million and USD1.6 million respectively.

Cash Flow
NLMK generates strong operating cash flow, demonstrating its high level of financial sustainability.

The primary source of cash inflows in 2007 were production and sales of steel products. With significant net income and no substantial transactions involving the sale of financial investments or assets, 2007 cash flow generated from operations reached USD2,524 million (+59% y-o-y).

Capex, including acquisition and construction of property, plant and equipment, reached USD958 million, while depreciation charges in 2007 amounted to USD408 million. The ratio of capital expenditure to depreciation and amortization suggests that NLMK Group is aggressively expanding its production capacity.

In 2007, NLMK Group issued a loan of USD134 million to Steel Invest and Finance to support its current operating activities and development programme.

In 2007, NLMK reflected a financial investment of USD199 million. This includes the loan granted to Maxi-Group before its consolidation.

In view of these developments, the net cash outflow for investment activities was USD1,268 million.

In 2007, the NLMK Group relied on equity as well as borrowing to finance its current operations. New borrowing during the year amounted to USD269 million. Loan amortization expenses amounted to USD452 million.

In line with its current dividend policy, the NLMK Group has paid dividends worth USD703 million to its shareholders, covering dividends payable for the second half of 2006 and the interim dividend for the first half of 2007. In addition, minority shareholders in the subsidiaries received a payout of USD19 million.

Net cash outflow from financial activities in 2007 amounted to USD830 million.

Allowing for the USD exchange rate movements, the net increase in cash amounted to USD489 million, and the balance of cash and cash equivalents stood at USD1,155 million at the end of 2007.

Financial Position
The financial performance as of end-2007 and major acquisitions of subsidiaries allowed for a significant expansion of the NLMK Group's asset base. As at the year end NLMK Group assets were valued at USD13,076 million, or 50% higher than at the beginning of 2007. The NLMK Group has displayed high rates of asset growth over an extended period of time. In the five years between 2003 and 2007, the overall value of its assets increased four-fold, with an average annual growth rate of 44%.

In 2007, asset growth was, to a large extent predicated on larger equity capital, which reached USD8,992 million at the end of 2007 (+32% y-o-y). Equity capital increases were funded by retained profits.

Equity capital consistently accounts for a large share of funding and stands at 69% at end-2007. The decline compared to the start of year was caused by the consolidation of the liabilities of acquired subsidiaries on the balance sheet of the Group.

The same reason explains the significant increase in NLMK's debt, with short-term and long-term liabilities at the end of 2007 amounting to USD1,610 million. These are mostly loans and credits associated with Maxi-Group, which are expected to undergo a restructuring in the future to adjust their maturity and the cost of servicing.

Over the last several years NLMK Group has been pursuing a conservative policy, according to which the Company relied on equity to finance the acquisitions of new and the development of its current, production facilities. The ability of NLMK to sustainably generate significant cash-flows enables the Company to cover in full its financing requirements. NLMK, nevertheless, does not relinquish the use of various financing options for large-scale projects.

Key Highlights

000's tonnes	2003	2004	2005	2006*	**2007**
Key production indicators					
Steel	8,854	9,123	8,468	9,125	**9,177**
Commercial slabs	3,338	3,763	3,203	3,463	**3,153**
Flats	4,895	4,813	4,776	5,117	**5,341**
Coated steel	543	528	532	769	**819**
Electric steel	395	514	472	566	**723**
Long products and metalware					**84**

USD million	2003	2004	2005	2006*	**2007**
Key financial indicators					
Sales revenue	2,468	4,460	4,376	6,046	**7,719**
Operating profit	882	2,197	1,844	2,243	**2,998**
Net profit	656	1,773	1,381	2,066	**2,247**
EBITDA	1,007	2,379	2,083	2,631	**3,366**
EBITDA margin	41%	53%	48%	44%	**44%**
Operating cash flow	668	1,669	1,524	1,585	**2,524**
CAPEX	239	269	580	619	**958**
Earnings per share	0.1095	0.2958	0.2305	0.3447	**0.3750**
Headcount					
Headcount ('000 people)	45.2	52.5	52.5	70.8	**60.2**

* 2006 and prior periods production results were retrospectively changed according to new calculations methodology.

NLMK Group Key Financial Ratios 2006–2007

	2007	2006	Change +/-	%
Financial soundness ratios				
Equity to assets ratio	**69%**	78%	-9	pp
Liquidity ratios				
Current liquidity ratio	**1.5**	3.1	-1.6	
Quick liquidity ratio	**1.0**	2.2	-1.2	
Turnover ratios				
Inventory turnover	**107**	95	12	
Receivables turnover	**67**	56	11	
Payables turnover	**105**	83	22	
Sales margin ratios				
Sales margin	**39%**	37%	2	pp
Net income margin	**29%**	34%	-5	pp
EBITDA margin	**44%**	44%	0	pp
Return on assets ratios				
Return on equity	**28%**	35%	-7	pp
Return on assets	**21%**	28%	-7	pp

Financial review continued
Risks and uncertainties

This section addresses the principal risks to which the Company is exposed. Like any other business, companies within NLMK Group have to manage risk in the course of their operations. The major risks that have a significant impact on the activities of NLMK include the following:

Property Risks
Property risks involve the possibility of losing some part of its property, and the risk of reduced earnings due to interruption in the production operations. In order to mitigate these risks the NLMK Group companies take precautionary measures aimed at the prevention of accidents and hazardous events, maintenance of a reasonable stock of work-in-progress and auxiliary supplies in case of an emergency shutdown. Property is safeguarded and alarm and fire systems have been installed at the production facilities.

Major companies within the NLMK Group take out insurance for their property assets and business interruptions with priority reinsurance in major Western markets. Prominent international brokers are invited to participate in tenders for the development of the most effective insurance and protection programmes, which provide for the most advantageous premiums, as well as guaranteed insurance indemnity paid in the case of an insured event.

Environmental Risks
Environmental risks emerge during the construction and operation of production facilities wherever there is a probability of causing damage to the natural environment.

For the purposes of mitigating environmental risks we conduct continuous chemical monitoring of air emissions and effluent, and the overall impact on the environment is further reduced with the commissioning of environmentally friendly technology and the upgrading of installed equipment.

NLMK Group companies carry third-party liability insurance against accidents during the operation of hazardous production facilities.

Sector Risks
1. Purchases of Raw Materials and Supplies
NLMK is one of Russia's largest consumers of raw materials for the steel industry. Supplies of raw materials are associated with certain risks that depend on the individual features of each particular segment of the market.

Risks most commonly associated with the supply of raw materials and expendables for the steel industry include the following:

- Risk of increased prices for raw materials due to unfavourable market developments in the particular segment or under-supply of raw materials in the domestic market.
- Risk of failure by suppliers to provide raw materials of proper specification or quality;
- Risk of failure by suppliers to deliver raw materials on time, including complete failure to deliver.

In order to mitigate the risk of higher prices for basic raw materials and inputs, NLMK pursues a policy of becoming self-sufficient in supplies of raw materials (by acquiring raw materials assets) or signing annual contracts with fixed prices. NLMK Group companies also follow a policy of improving self-sufficiency in energy and power. NLMK is already generating some of the required electrical power at its in-house cogeneration plant and intends to increase the share of in-house electric power in total consumption by installing new generating capacity.

Stronger vertical integration of the company would further mitigate the risks associated with supplies of raw materials.

2. Finished Products
Risks associated with finished products include the following:

- Cyclical nature of demand for steel and steel products;
- Price risks stemming from high volatility of international and domestic market prices for steel products;
- Intra-industry competition due to high concentration of steel-making businesses;
- Domestic and exogenous macroeconomic risks, including growth rates, inflationary expectations and fuel and power price developments; and
- Imposition of quotas and other trade restrictions in key export markets.

NLMK utilizes various arrangements for managing and mitigating risks that are common for the steel and mining sectors.

In order to mitigate the impact of cyclical price volatility, the Company is expanding its range of products and diversifying its sales by geographical destination and customer base.

By continuously monitoring current developments and gauging the growth potential in various segments of the market, the Company is capable of responding promptly to any negative developments and can offset possible losses with the timely redistribution of its sales.

The above measures make the Company less vulnerable to negative price developments for certain products and help mitigate potential losses from deterioration in a particular industry, sector or geographical segment. These measures can also prove to be effective when markets close due to the application of tariff regulation measures or quotas.

Country and Regional Risks
NLMK market its products to various export destinations. This leads to the emergence of risks of lower revenues in the event

of unfavourable market developments in certain parts of the world. The Company, however, has extensive opportunities to divert its products to more attractive markets. Geographical diversification also helps mitigate losses due to tariff regulation measures and quotas.

Core NLMK Group businesses operate inside Russia. Currently, given the economic and political situation in Russia, country risks for the Company are not significant.

NLMK is not affected by risks associated with the geography of Russia. The Company has built a coherent system for interaction between all players in the raw materials, steel and transportation divisions.

Risks associated with potential military conflicts, states of emergency and industrial action are almost non-existent, because NLMK Group companies operate within regions that enjoy economic and social stability.

Currency Risks
Export-oriented businesses of NLMK are affected by currency risks, which may have a negative impact on financial performance and lead to impaired asset liquidity.

In 2007, over 60% of revenues were generated by exports. In view of exchange rate developments in recent years, a decision was made to diversify the currency mix for export proceeds, which helped mitigate the impact of the EUR/USD exchange rate movements.

The Company prorates its payments under long-term import contracts and generates interest income by investing on deposit the cash cover provided under letter of credit arrangements.

Since a proportion of NLMK's costs are borne in Russian rubles, there exists a risk of lower business returns in the event of significant volatility of the ruble exchange rate vis-a-vis foreign currencies. Export-oriented businesses within NLMK Group have employed hedging of currency risks with forward forex contracts with banks. The use of derivative financial instruments for hedging currency risks helps mitigate such risks and ensures targeted performance of budgeted revenues generated by proceeds from exports.

Gains (Losses) from Currency Risk Hedging in 2007:

Currency	Average Forward Exchange Rate	Actual Average Market Rate in 2007	Forward Gain (Loss), RUR, millions
USD	26.1099	25.5770	1,087.72
EUR	34.8851	35.0174	-126.23
		Total	**961.49**

Interest Rate Risks
In 2007 NLMK Group increased debt in its capital structure but still its proportion remains insignificant. Risks associated with interest rates changes exist and depend mostly on financial market conditions. We estimate the influence of interest rate risks as insignificant.

Liquidity Impairment Risks
The liquidity impairment risk as applied to the operations of NLMK Group is closely linked to the receipt of payments for products sold. Incoming and outgoing cash flows are carefully planned in order to mitigate these risks by identifying potential financial gaps. The ratio of the most liquid assets to liabilities indicates a strong solvency position and, respectively, a low liquidity risk.

Developing the Risk Management System
In late 2007, NLMK approved a decision to engage a professional consultant to review the risk management system utilized by the Company and to advise on its improvement.

Within the context of this project the following actions are expected to take place in 2008:

- Review the compliance of the existing NLMK risk management system compared with the best practice applicable to the metals and mining sector;
- Identify NLMK-specific risks, compile a register of NLMK risks and a comprehensive risk map;
- Determine Company risk-tolerance levels;
- Design policies for handling critical risks;
- Design a customized risk management system for NLMK; and
- Provide risk management training for Company personnel.

Once completed, the project is expected to identify and rank all the risks that may have a negative impact on the Company's business according to their significance. In addition, policies for handling key risks will be developed, allowing for timely response to any threats of risk affecting the interests of NLMK Group.

At this stage, the project serves as the basis for implementing a comprehensive risk management system conducive to the increased effectiveness and sustainability of business.

Ratings as of 01 May 2008

	NLMK	Russia
Moody's	Ba1/Stable	Baa2/Possible Upgrade
S&P	BB+/Stable	BBB+/Positive
Fitch	BB+/Stable	BBB+/Stable

Operating review

Vladimir Nastich
Senior Vice President, Head of Steel Division

Joined NLMK in 1975. General Director of NLMK since 2004. Graduated from Donetsk Polytechnic Institute with a major in metal forming. Ph.D. in Technical Sciences.

Steel-making and rolling

Companies	Novolipetsk Steel, VIZ-Stal, Maxi-Group, DanSteel A/S
Location	Lipetsk, Ekaterinburg, Sverdlovsk region (Russia), Frederiksverk (Denmark)
Highlights	c.9.2mt of steel
Products	Slabs, flat and long products

The core business of NLMK Group is making steel and steel products. The Russian steel assets of the Company include NLMK, the parent company of the Group, VIZ-Stal, Russia's second-largest producer of electrical steel, and the integrated holding Maxi-Group.

In December 2007, NLMK completed the transaction to acquire 50% plus one share of Maxi-Group. The acquisition was made as part of NLMK's strategy to expand its presence in the Russian market. It will allow the Company to gain a significant share in the domestic market for long products. More importantly, Maxi-Group is weighted towards the rapidly growing Urals, Volga, Central, and Southern Federal Districts of Russia.

The Group's overseas assets include DanSteel A/S, the Denmark-based producer of hot-rolled flat products. In addition, NLMK owns a 50% stake in Steel Invest and Finance S.A. (a joint venture with the Duferco Group), which comprises one steel-maker and six rolling businesses.

Transformer steel produced at our main production site in Lipetsk.

Consolidated Output by NLMK Group Steel Division, 2006–2007[1]

000's tonnes	2007	2006	Change +/-	Change %
Steel	**9,177**	9,125	52	0.6%
Commercial pig iron	**853**	845	8	0.9%
Slabs	**3,153**	3,463	-311	-9.0%
Hot-rolled steel	**2,345**	2,232	113	5.1%
Cold-rolled steel	**1,454**	1,551	-97	-6.3%
Hot-dip galvanized steel	**475**	429	46	10.7%
Pre-painted steel	**344**	340	4	1.2%
Transformer steel	**328**	218	110	50.5%
Dynamo steel	**395**	348	47	13.5%
Long products and metalware	**84**	–	84	–
Total Steel products	**9,431**	9,426	5	0.05%

[1] Steel Invest and Finance S.A. production results are not included.

RUSSIAN STEEL ASSETS

Novolipetsk Steel – Parent Company

Business Profile
The parent company, Novolipetsk Steel, is the core asset of the steel division. NLMK is one of the leading steel producers in Russia. The company is the largest producer of cold-rolled steel in Russia and is one of the world's largest producers of electrical steel.

NLMK produces a wide range of quality steel products of different varieties. Its main products include pig iron, semi-finished steel products (slabs), hot-rolled and cold-rolled flat products, electrical steel (transformer and dynamo), galvanized and pre-painted steel. The company's products are used in construction, automobile manufacturing, ship building, for manufacturing metal structures and in other industries. Flat products produced by NLMK have been certified by leading Russian and international certifying authorities. Advanced technology provides for strict quality assurance at all stages of the production process and encourages customer confidence in our products.

NLMK is an integrated steel-making company with its main production facilities concentrated in Lipetsk, located in the center of European Russia, on a site of approximately 27 square kilometres.

The high concentration of core production operations within one site offers a competitive advantage for the company, helps optimize the production process and reduce the costs associated with the movement of products between processing facilities.

The advanced technological capability of the company is supported by strong research and development (R&D) activities. In 2007, the company's steel-making facilities were running at 99.6% of capacity utilization rate. Rolling capacity for certain types of flat products were utilized in excess of 100%. The technological capacity of metallurgical equipment allows the company to improve the quality of its products and meet the requirements of its customers around the world.

Apart from third-party customers, some of NLMK's products are supplied to the steel division companies DanSteel A/S and VIZ-Stal. NLMK is the principal supplier of slabs for DanSteel A/S (571,000 tonnes in 2007) and hot-rolled coils for VIZ-Stal (127,000 tonnes in 2007).

Production Highlights

NLMK's output of major products remained constant compared with last year. The company produced 9.1 million tonnes of steel and an equal amount of pig iron.

The changes in the flat steel portfolio were as follows: output of hot-rolled steel in 2007 increased by 8.1%, while output of cold-rolled steel declined by 6.3% due to increased efficiency in exports of hot-rolled flat products compared to cold-rolled steel, and also due to the increased in-house consumption of cold-rolled steel for the production of high value-added commercial products (coated steel, dynamo and transformer steel).

A significant increase in the output of hot-dip galvanized steel (+10.7% y-o-y) was prompted by the commissioning in 2006 of hot-dip galvanizing line No. 3.

Output of dynamo steel in 2007 increased by 9.9% over 2006, driven by greater demand for this product.

A more sophisticated mix of transformer steel products made by NLMK caused a slight decline in the total output of transformer steel in 2007 compared to 2006.

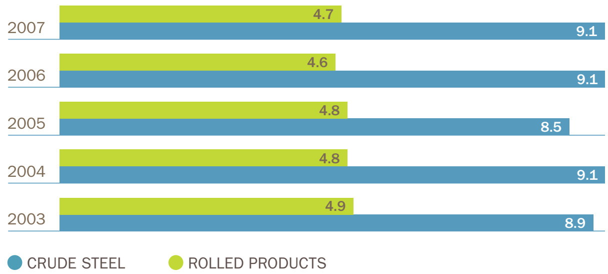
The increased production efficiency of the company, encouraged by upgrading technology and the steady trend towards output of high value-added products is fully in line with NLMK Group's development strategy.

NLMK Production Results[1]

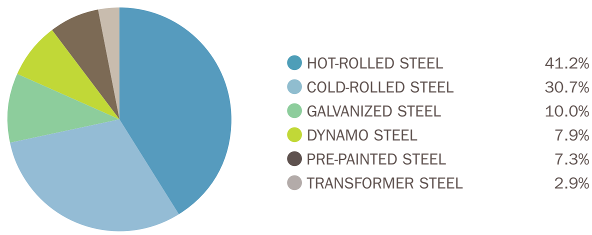
000's tonnes	2007	2006	Change +/-	Change %
Sinter	**14,093**	14,219	-126	-0.9%
Coke of 6% moisture	**4,051**	3,896	155	4.0%
Pig iron	**9,056**	9,043	13	0.1%
Steel	**9,056**	9,125	-69	-0.8%
Commercial pig iron	**853**	845	8	0.9%
Slabs[2]	**3,724**	3,866	-142	-3.7%
Flat steel, including:	**4,740**	4,612	128	2.8%
Hot-rolled steel[2]	**1,953**	1,807	146	8.1%
Cold-rolled steel	**1,454**	1,551	-97	-6.3%
Hot-dip galvanized steel	**475**	429	46	10.7%
Pre-painted steel	**344**	340	4	1.2%
Transformer steel	**139**	142	-3	-2.1%
Dynamo steel	**376**	342	33	9.9%

1 Main production site in Lipetsk.
2 Includes intermediates for other Group businesses.

PRODUCTION OF CRUDE STEEL AND ROLLED PRODUCTS BY NLMK, 2003–2007 (MILLION TONNES)



NLMK ROLLED STEEL OUTPUT, 2007



VIZ-Stal

Business Profile

VIZ-Stal, a leading producer of cold-rolled electrical steel and Russia's largest producer of transformer steel, became part of the NLMK Group in August 2006. VIZ-Stal's share of worldwide production of transformer steel is around 11%.

VIZ-Stal is located in Ekaterinburg and is a non-integrated steel company with installed capacity capable of producing dynamo and transformer steel coated with various types of electrical insulation.

The company uses hot-rolled coils, the bulk of which are supplied by NLMK, to produce electrical steel. Rolled products produced by the company are used in the manufacture of mains and distribution power transformers, welding and heat-treatment machinery, elevated and high-frequency generators and converters, motors, etc.

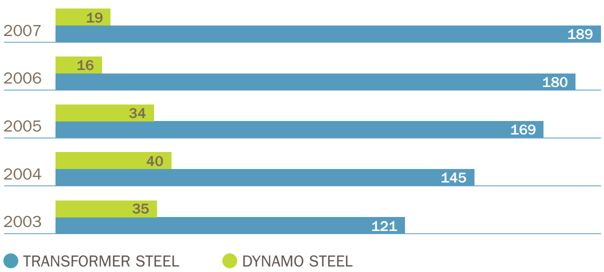
Production Highlights

In 2007 VIZ-Stal produced 208,000 tonnes of electrical steel, including 189,000 tonnes of transformer steel and 19,000 tonnes of dynamo steel. Compared to 2006, output of transformer steel, the main product, increased by 5%, while output of dynamo steel increased by 18%. The production target was exceeded by an additional 14,000 tonnes of cold-rolled flat products, which were further utilized by the parent company for the production of electrical steel.

The company is equipped with modern technology and has the capacity to produce around 190,000 tonnes of transformer steel and 40,000 tonnes of dynamo steel a year. In 2007, capacity utilization of transformer steel operations was 99.4%.

Operating review continued

VIZ-STAL PRODUCTION RESULTS, 2003–2007
TRANSFORMER STEEL AND DYNAMO STEEL (000'S TONNES)



The output of transformer steel is expected to reach 200,000 tonnes per year by 2011, with output of high permeability transformer steel increasing to 47,000 tonnes per year, with further improved quality.

The company aims to maintain and strengthen its competitive advantages, including low production costs and high-quality products. This involves the following key measures:

- Streamlining production costs (introduction of resource-saving processes, inventory and employment streamlining); and
- Introduction of high permeability transformer steel production and improved properties of products.

The merger of VIZ-Stal and NLMK production platforms within the Group helps boost the effectiveness of research and development activities.

Maxi-Group

In December 2007, NLMK acquired a 50% + one share stake in Maxi-Group.

Maxi-Group comprises several metallurgical businesses combined in a single production system involving several operations: from collection and processing of ferrous scrap to production of long products. Organizationally, Maxi-Group includes two divisions: steel and scrap. The company's main production assets are located in the Urals region.

In terms of technology and logistics, Maxi-Group steel division is based on the concept of mini-mills located in the Sverdlovsk region, and the Central and Volga regions of Russia. The product mix manufactured by existing facilities includes long billets (2.4 million tonnes), bars (1.3 million tonnes) and metalware (0.55 million tonnes). The scrap collection and processing division includes several businesses with a total capacity of 3 million tonnes of scrap per year operating in 38 regions of Russia.

This acquisition was made within the context of NLMK's strategy to expand its presence in the domestic market. It will allow the company to gain a more significant share of the Russian market for long products. This share is likely to be more significant in rapidly growing parts of Russia, including the Urals, Volga, Central and Southern Federal Districts. The Maxi-Group acquisition will also allow NLMK to develop future production of niche high value-added products (reinforcement bars, oil and gas and construction pipes).

The Maxi-Group development strategy foresees the expansion of steel-making capacity from 2.4 to 5.9 million tonnes, long products capacity from 1.3 to 4.4 million tonnes, and seamless pipe capacity to 1.5 million tonnes by 2012.

After the acquisition of Maxi-Group, NLMK intends to develop company assets through rapid expansion in output of finished products, maintaining low production costs, developing self-sufficiency in resources and effectively competing with integrated producers by localizing production and marketing in growing regional markets.

Maxi-Group Production Results

'000 tonnes	2007	Including December 2007*
Steel	1,784	121
Long products	648	76
Metalware	268	7
Scrap	2,081	150

* Maxi-Group was consolidated in NLMK Group since December, 2007.

OVERSEAS STEEL ROLLING ASSETS

DanSteel A/S

Business Profile
NLMK acquired a 100% stake in DanSteel A/S in December 2005. The acquisition was an important step towards strengthening NLMK's positions in the global steel markets. In addition, DanSteel A/S has long maintained a close partnership with NLMK, its key supplier of slabs since 2002.

The company currently produces over 0.5 million tonnes of steel plate per year. The company's main production assets include plate rolling operations, shipping facilities and its own sea port used for handling incoming slabs and outgoing finished products.

The company produces construction and ship building steel, and steel used in the manufacturing of boilers and high-pressure vessels. DanSteel A/S produces steel plate between 6mm and up to 125mm thick. It supplies steel o customers in Germany, Denmark, Sweden, United Kingdom, Norway, France and others.

DanSteel A/S is one of the major players in the ship building steel market. For example, DanSteel A/S supplies 25% of the demand for ship plate in Northern Germany.

DANSTEEL A/S PRODUCTION RESULTS, 2003–2007
HOT-ROLLED THICK PLATE (000'S TONNES)

DanSteel A/S continues to improve its main competitive advantages through:

- Reducing the turnaround times for completing and shipping products to customers by introducing a new production planning and management system, streamlining in-house logistics and renewing the company transportation fleet;
- Increasing the output of steel plate with special properties to be applied in the production of high-pressure vessels; and
- Expanding the product range by producing steel with increased tensile strength, producing large plates weighing up to 20 tonnes, and producing high value-added rolled products (parts for wind power generation, billets for large-size machine-building items), and by increasing the share of heat-treated rolled products in total output from 50% to 60%.

Production Highlights
In 2007 DanSteel A/S produced 520,000 tonnes of steel plate, an increase of 11% compared with the 468,000 tonnes produced in 2006. The main reason for the higher production rates was the stronger market demand for steel plate, which encouraged the transition to an increased number of shifts at the company in Q4 of 2006. In 2007, the company processed more than 640,000 tonnes of slabs, the bulk of which were supplied to DanSteel A/S by the parent company of the Group. In 2007 production of normalized plates grew from 220,000 tonnes to 260,000 tonnes, and plates with underlayer increased from 160,000 tonnes to 210,000 tonnes.

Steel Invest and Finance (joint venture with Duferco Group)

Business Profile
NLMK has owned a 50% stake in Steel Invest and Finance, a joint venture with Duferco Group, registered in Luxembourg, since late 2006.

Steel Invest and Finance (SIF) comprises the following companies:

Production Division:

Belgium
- Carsid S.A., produces slabs for processing by Group companies.
- Duferco Clabecq S.A., produces medium thick plate and thick gauge plate.
- Duferco La Louvière S.A., produces hot-rolled, pickled, cold-rolled steel and wirerod.

France
- Duferco Coating S.A. includes two production assets: Beautor, a producer of galvanized sheet used in the automobile manufacturing industry; and Sorral S.A., a producer of galvanized coil and sheet and coated rolled products for the construction and automotive industries.

USA
- Duferco Farrell Corporation, produces hot-rolled, pickled cold-rolled coil and sheet.
- Sharon Coating produces galvanized rolled products. Sharon Coating joined of SIF in June 2007. Its production facilities, including three continuous galvanizing machines with capacity of 1.2 million tonnes per year, are situated within a single production site in the state of Pennsylvania.

Italy
- Verona Steel S.p.a., produces plate and ingots.

Distribution Division:
- Duferco Transformation Europe S.A., France. The DTE group includes nine service centres located in France, Belgium and the Czech Republic. Businesses within the DTE Group provide downstream processing and product distribution services.
- Steel Invest Trading S.A. (SIT), Switzerland, a trading company supplying raw materials, consumables and semi-finished products to SIF companies. It also markets the finished products of these companies.

Production Highlights
SIF Group companies produce steel for the automotive, construction and machinery sectors. Its core markets are EU countries.

In 2007, SIF businesses produced 2.1 million tonnes of steel and 4.8 million tonnes of finished products.

Steel Invest and Finance production results

(000's tonnes)	2007
Semi-finished steel (slabs, billets, ingots)	525
Thick plate	603
Hot-rolled and pickled steel	1,507
Cold-rolled and hard drawn steel	554
Wirerod	180
Galvanized rolled steel	557
Pre-painted steel	76
DTE* products	789
Total	**4,791**

* DTE Group businesses provide downstream processing and distribution of steel produced by major SIF companies.

In the future, it is expected to launch new types of products and increase sales of high value-added steel products in line with the strategic development plan. The approved investment programme envisages the following: increased production of finished products, product quality enhancement and technical upgrade to increase output of special steel (rolled plate for pipes, hardened steel, cold-rolled and galvanized steel for the automotive industry). This will shift the output pattern towards a higher share of products with special features, targeting niche markets.

Co-operation with NLMK
The creation of a joint venture conformed to NLMK's development strategy, which aims to expand the company's presence in the strategically important European market, and to increase sales of high value-added products.

In 2007, a total of 329,000 tonnes of slabs were supplied to the businesses operated by SIF. In the future, NLMK intends to expand its co-operation with SIF companies and increase supplies of slabs to 3,600,000 tonnes by 2012. In addition, in 2007 the NLMK Group supplied SIF businesses (Carsid, Steel Invest Trading) with 147,000 tonnes of coke. In 2008, coke supplies to SIF businesses are expected to reach 780,000 tonnes.

Operating review continued

Alexander Gorshkov
Vice President, Head of Iron Ore Division

Head of Iron Ore Division since 2007. Since 2004 – General Director of Stoilensky GOK. Graduated from Novosibirsk Electro-Technical Institute, majoring in development and production.

Mining

Companies	Stoilensky GOK, Dolomite, Stagdok
Location	European part of Russia (Belgorod and Lipetsk regions)
Highlights	11.6mt of iron ore concentrate, 1.7mt of sinter ore, 2.2mt of dolomite, 3.2mt of limestone
Products	Iron ore concentrate, sinter ore, dolomite, limestone

An open pit of Stoilensky GOK, Russia's third largest iron ore producer.

The mining and processing of iron ore is an important part of business for NLMK Group. This allows the Company to control the costs of a key input for its steel-making operations, and to smooth out the impact of volatile prices for raw materials.

The core business within the mining division is Stoilensky GOK, a producer of iron ore, which became part of NLMK Group in 2004.

Stoilensky GOK supplies 100% of the parent company requirements for iron ore concentrate.

The mining division also includes Stagdok and Dolomite, mining companies supplying NLMK's main production site with fluxing materials.

Stoilensky GOK

Stoilensky GOK, located within 350 kilometres of the main production site, produces and processes rich iron ore and ferruginous quartzite. Stoilensky GOK is currently one of the largest domestic producers of iron ore, accounting for a 13% share of Russian commercial iron ore. It employs over 6,000 employees.

According to Russian standards, proven licenced reserves of the company at the end of 2007 were as follows:

- Sinter ore reserves of 55 million tonnes (to a depth of 500 metres), with 23 million tonnes within the pit boundary (to a depth of 250 metres); and
- Magnetic quartzite reserves of 4,885 million tonnes (to a depth of 500 metres), with 1,361 million tonnes within the final pit boundary (to a depth of 250 metres).

This is sufficient to sustain production at current levels of unoxidized quartzite and sinter ore within the final pit boundary for 53 and 20 years respectively.

The main commercial product of Stoilensky GOK is iron ore concentrate (average Fe content of 66.5%) and sinter ore (Fe 52%). Both are raw materials used in the steel-making process.

In 2007, Stoilensky GOK produced 1.7 million tonnes of sinter ore, a 27% increase y-o-y, due to changes in the mining and geological characteristics of the deposit.

Generally in 2007, Stoilensky GOK showed increased output of iron ore concentrate encouraged by the commissioning in 2006 of Phase I at section No. 4 of the ore dressing and sintering plant.

In 2007, nearly 95% of iron ore concentrate and 35% of sinter ore was shipped to the parent company. Other customers include steel-makers in Russia, Ukraine, China and Eastern Europe.

The primary objective of Stoilensky GOK is to meet the requirements of the parent company in iron ore raw materials. Dressing section No. 4 is under construction with a planned capacity increase from 12 million tonnes in 2008 to 14.3 million tonnes in 2010, allowing the company to meet the increasing requirements of NLMK sintering operations. Stoilensky GOK is also planning to commission a pelletizing plant with a capacity of 3 million tonnes per year.

Fluxing Materials Production
Apart from Stoilensky GOK, the key mining asset, other assets in the mining division include fluxing materials mining and processing businesses; Stagdok, a producer of fluxing limestone, and Dolomite, a producer of fluxing dolomite. Both businesses have been within the NLMK Group since 1999.

Stagdok

Stagdok is currently one of the leading companies in Russia in terms of fluxing limestone production. Stagdok fully meets the demand of NLMK's steel-making operations for fluxing limestone.

Stagdok's production facilities are located within 20 kilometres of the NLMK main production site. The company is developing a fluxing limestone deposit with reserves currently estimated at 168 million tonnes. With an annual production rate of 5.0 million tonnes of crude limestone, the deposit will provide the company with sufficient quantities of limestone for another 33 years.

In 2007, the company produced 3.2 million tonnes of limestone. In 2007, Stagdok shipped 3.3 million tonnes of commercial product, of which 2.5 million tonnes of fluxing limestone was acquired by NLMK.

Dolomite

The open-pit dolomite deposit mining operation is located in the central part of Dankovsky District in the Lipetsk region. Dolomite is developing a deposit with estimated mineral reserves of 394 million tonnes. At present rates of production, the reserves would last for more than 100 years.

The business's main product is screened fluxing dolomite used in sintering and steel-making operations, and converter-grade dolomite used to manufacture refractory liner for converters.

In 2007, the company produced 2.2 million tonnes of dolomite and dolomite powder, a 12% growth y-o-y. Commercial product deliveries to customers reached 2.3 million tonnes (1.9 million tonnes in 2006), of which NLMK accounted for 44%. Increased production and sales were driven by rising demand for the company's products.

STOILENSKY GOK PRODUCTION, 2003–2007
(MILLION TONNES)

DOLOMITE PRODUCTION, 2003–2007 (000's TONNES)

STAGDOK PRODUCTION, 2003–2007 (000's TONNES)

Alexander Saprykin
Vice President, Head of Coal Division

Head of Coal Division since 2007. Before that he headed the Raw Materials Market Department at Rumelco Ltd from 2002 until 2006. Graduated from Moscow State Mining University.

Coal and coke

Companies	Altai-koks, Zhernovskoe-1 (coal deposit to be developed)
Location	Altai region, Kemerovo region, Siberia
Highlights	c.3.8mt of coke; 3mt coking coal in 2011
Products	Coke and chemical products; coking coal (from 2011)

Coke production at Altai-koks.

Blast-furnace coke is one of the key raw materials for steel-making. Given the rising prices for coking coal, the need to control the cost of coal and coke is gaining greater importance.

Coke Production
The bulk of the demand for coke is met by parent company production and the balance is supplied by Altai-koks, a subsidiary of NLMK Group and Russia's largest non-integrated producer of coke and by-products. Altai-koks joined NLMK Group in April 2006.

One of the advantages of the company is its proximity to the major suppliers of coking coal located within the Kuznetsk Coal Basin, helping to reduce the cost of transporting coal used in the production of coke.

After the commissioning of a new coke battery in late 2006, the production capacity of the company reached 5 million tonnes of coke with 6% moisture content per year. Major products include coke and chemical by-products: coal-tar pitch, benzene and ammonium sulphate.

Underutilization of capacity in 2007 was caused by an under-supply of coking coal resulting from major industrial accidents at Russian coal mines.

A significant share of Altai-koks' products (over 50% in 2007) is marketed to domestic customers, with NLMK accounting for 0.8 million tonnes of coke in 2007.

Coal Production
In early 2007, NLMK Group included the Prokopievskugol Group of Companies, which had been acquired by NLMK in 2006 under a commitment within the context of Altai-koks' acquisition.

The costs of production at Prokopievskugol mines were twice as high as industry averages due to low level of mechanization and high employment rates.

In view of these factors, in March 2007 NLMK agreed to sell businesses within the Prokopievskugol Group of Companies in response to a proposal made by the government of the city of Prokopievsk.

In 2007, and prior to the sale of the asset, it produced 0.6 million tonnes of coking coal concentrate, and 0.2 million tonnes of steam coal and other products.

In May 2005, NLMK acquired a licence for the use of mineral resources, allowing it to explore and develop the Zhernovskoe-1 hard-coal deposit in the Kemerovo region. The licence estimates reserves at 239.9 million tonnes of coking coal.

A feasibility study is currently underway for the project.

ALTAI-KOKS PRODUCTION, 2003–2007* (MILLION TONNES)

* Coke (6% moisture).

Other businesses

Companies	NTK, Tuapse Sea Port, Lipetsk Chance (Insurance Company), other
Location	European part of Russia
Highlights	Transportation and forwarding services: 47.5mt of cargo Handling: 19.6mt
Services:	Transportation, logistic services, insurance, etc.

NTK transported and forwarded c.47.5 million tonnes of cargo.

Logistics

NLMK Group also includes logistics operations that help to streamline the movement of commercial cargo and reduce Group costs associated with transporting raw materials and products.

The logistics companies of the Group operate a comprehensive system for delivering products from point of origin to point of destination in the most rational and economically justified manner.

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

In order to streamline commercial cargo flows, develop an effective marketing system and improve control over exports, in early 2008 NLMK International BV, a subsidiary of the NLMK, negotiated with United Steel Group (USG) the acquisition of 100% stakes in trading companies Novexco Limited (Cyprus) and Novex Trading S.A. (Switzerland).

NTK

NTK provides for the timely delivery of raw materials for steel-making and the shipping of finished products to customers both throughout Russia and abroad. NTK coordinates its export-oriented operations with Russian Railways, the state-owned rail monopoly, and the authorities of sea ports.

NTK offers a comprehensive range of services from developing and selecting best available low-cost transportation arrangements to accompanying the customer's cargo to its point of destination.

NTK provides transportation and forwarding services for domestic, incoming and outgoing foreign and transit cargo across the CIS and other countries by rail and sea. Shipping by rail is done with in-house and leased NTK rolling stock, as well as by Russian Railways rolling stock designated for general use. NTK has a fleet of 5,000 railcars, including 2,809 owned and leased railcars. In 2007, over 85% of all shipping operations were associated with NLMK Group (ore, coal, coke, fluxing materials and finished products). In 2007, NTK transported and forwarded 47.5 million tonnes of cargo (+11% y-o-y).

The availability of a transportation asset within NLMK Group provides the benefit of reliance on the knowledge and experience of skilled professionals in the field of logistics. The company intends to further diversify its client base across sectors and geographical regions, and to expand its fleet of multi purpose freight cars and specialized rolling stock.

TMTP (Tuapse Sea Port)

TMTP has been part of NLMK Group since mid-2004. The commercial sea port of Tuapse is the operator of the Black Sea port in Tuapse, which is one of Russia's five largest ports. It is a deep-sea facility with year-round maritime traffic and specializes in transshipment of oil cargo, coal, ore, ferrous and non-ferrous metals, sugar and other bulk cargo. It is considered to be one of the best-equipped ports in the industry.

In 2007, TMTP handled 19.6 million tonnes of freight, a decrease of 8% year on year. The decline in freight turnover was due to labour disputes between dock workers and the sea port administration.

In 2007, oil cargo accounted for 14.2 million tonnes, or 1.4% less than in 2006, and bulk cargo accounted for 5.5 million tonnes (or 21% less than in 2006). In 2007, TMTP handled 460,000 tonnes of NLMK's slabs sold for export.

Other NLMK Group Companies

In 2007, other business interests of NLMK Group included financial and insurance companies: Lipetskkombank Commercial Bank and Chance Lipetsk Insurance Company (LIC).

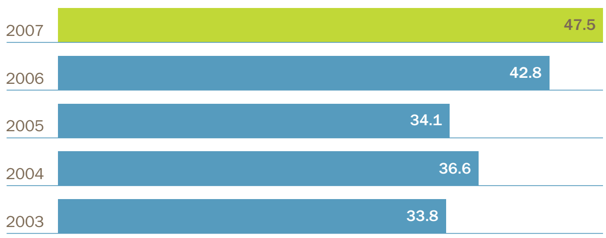
Chance LIC, the Lipetsk-based insurance company, provides various types of insurance, including property, casualty, medical, third-party liability and other insurance lines both to NLMK Group companies and to third parties.

Lipetskkombank Commercial Bank provides banking services to corporate customers and households in accordance with its general licence, foreign currency licence and broker operations licence issued by the Central Bank of Russia. In July 2007, Novolipetsk Steel sold its 50.08% stake in Lipetskkombank to Zenit Bank for about USD48 million.

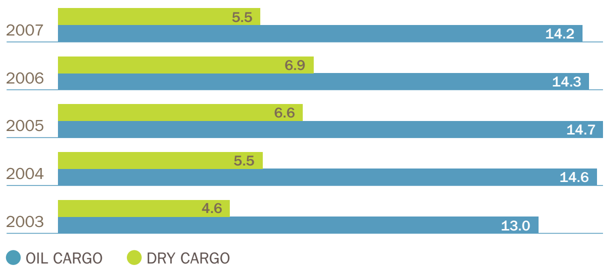
Throughout 2006, NLMK Group owned the Lipetsk Municipal Energy Company. In February of 2007, NLMK finalized the sale of the company and its minority stakes in other energy and power sector assets for USD78.7 million.

These transactions were closed within the context of the previously announced restructuring plan, a key element of which focuses on streamlining the asset portfolio of the company. Lipetskkombank and the power sector company were identified as non-core assets by a decision of the NLMK Board of Directors approved in 2006.

NTK TRANSPORTATION VOLUMES, 2003–2007
(MILLION TONNES)



TUAPSE SEA PORT FREIGHT (TMTP) TURNOVER, 2003–2007
(MILLION TONNES)



NLMK's proximity to the Baltic and Black Sea ports helps to reduce the costs of transporting our products.

Corporate social responsibility

Yuri Larin
Vice President, Technology and Environment

Mr. Larin was Director of Engineering Centre NLMK (1999-2006) and from 1996 to 1999 he worked as Deputy Director of Central Lab of NLMK and was responsible for technology. He graduated from Voronezh Polytechnic Institute. Ph. D in Technical Sciences.

Environment

NLMK Group's environmental activities comply with guidelines for key business strategy statements and reasonable objectives.

We are continuing to invest in a complex range of environment protection projects to minimize the impact of our operations.

Protecting the Environment
NLMK has approved and is implementing an Environmental Protection Policy, which defines the key interactions between business strategy, environmental guidelines and Company objectives.

Business Strategy for the Environment:

- Gain domestic and international recognition as a leading steel company committed to preserving the environment;
- Rigorous compliance with international commitments, national laws and environmental quality standards;
- Upgrade the technology employed by core and supporting production operations;
- Implement and improve system business management methods, including the ISO 14001:2004 Environment Management System; and
- Due consideration of public opinion in decisions regarding development and expansion of operations.

Environmental Guidelines:

- Conduct business in a socially and environmentally responsible manner;
- Use best available technologies;
- Prevent environmental pollution;
- Environmentally friendly approach towards natural components (water, soil, plants); and
- Reduce generation and accumulation of wastes during production and consumption.

Environmental objectives:

- Comply with environmental quality standards;
- Achieve resource-saving indicators in production activities in line with global practices;
- Implement low-waste processes (technology) and effective waste recycling techniques.

Environmental priorities are a cornerstone of the Technical Upgrading Programme across all NLMK Group activities, encouraging the achievement of strategic objectives without the potential risk of constraining Company development due to environmental considerations.

The Group's companies implement Environmental Management Systems following global best practice and developed strategy. Currently, the ISO 14001:2004 certified companies include the parent company (2002, recertified in 2005) and Stoilensky GOK (2007). Altai-koks has already embarked on developing a management system compliant with the same standard.

Environmental expenditures by the NLMK Group, USD 70 Million
The reduced environmental impact recorded in recent years is directly linked to the ongoing significant increases in environmental protection investments: annual expenses for the Group's environmental programmes reached USD70 million in 2007. Nature-protecting investments of the Parent company grew by 3.2 times from USD17 million in 2003 up to USD60 million in 2007.

In 2007 gross emissions by NLMK Group businesses declined by 2.7%, compared to 2006, to 339.4 thousand tonnes per year. The major component of NLMK Group's emissions is carbon oxides (80%), released via tall stacks, volatile matter (8%), sulphur dioxide (7%) and nitrogen oxides (5%).

Companies that directly process raw materials for steel-making, NLMK and Altai-koks, account for the bulk of emissions. In 2007 they were recognized among the winners of 'Russia's Top 100 Businesses: Environment and Environmental Management' contest as companies with positive environmental performance. The contest covered more than 400 businesses from 50 Russian regions.

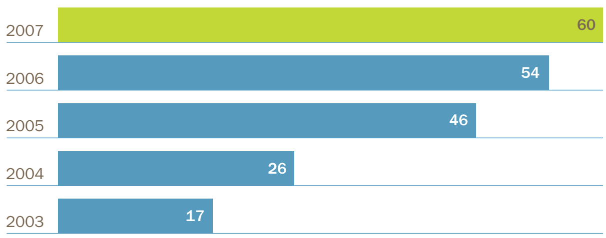
In 2007 NLMK Group demonstrated strong progress in protecting water resources. Stoilensky GOK has stopped discharging effluents into surface-water bodies, VIZ-Stal reduced its discharges by 28.6%, and NLMK reduced effluents by 6.2%. Generally for NLMK Group, discharges of pollutants in effluents decreased in 2007 by more than 6%.

In 2004 stockpiling of major wastes at the parent company production site was discontinued and recycling of previously stockpiled waste was initiated. In 2007 the recycling rate for industrial waste was 2% higher than waste generation. Slag, a major waste-product of steel-making, is recovered and processed for further use in road construction and manufacturing of construction materials. Nevertheless, waste recycling within NLMK Group remains a concern; NLMK Group waste recycling level reached 15%.

Overall, it should be mentioned that with a growing output of finished products, NLMK Group is demonstrating effective performance in reducing the scale of its environmental footprint.

Development plans for every company within the NLMK Group assume the implementation of environmental protection measures, which would reduce the negative impact on the environment. The Company intends to increase investments in environmental projects. This will put NLMK in line with top European business performers in terms of environmental safety by 2011, improve its competitive advantage and encourage sustainable development of the Company as a business, which fully complies with international environmental standards.

NLMK ENVIRONMENTAL INVESTMENTS, 2003–2007*
(USD MILLION)



NLMK AIR EMISSIONS (KG/TONNE OF STEEL), 2003–2007*

* Parent company numbers.

Ecology is one of the major factors that we consider while planning maintenance and development projects at our production facilities.

Stanislav Tsyrlin
Vice President, HR and Management System

Head of HR and Management System since 2004. Graduated from Moscow Institute of Physics and Technology and from Stanford University.

Human Resources

Human Resources Policy
Highly qualified employees with extensive professional experience are one of the Company's competitive advantages. To benefit from this the Company creates an environment where employees are encouraged to perform successfully and recognize their contribution to the Company's overall performance.

Human resources policy is based on a number of key principles, including occupational safety, a comprehensive compensation package directly related to the employee's contribution to the end result, opportunity for professional training and skills enhancement, opportunity for career growth and social welfare for employees and their families.

NLMK is a vertically integrated group of more than 100 companies (as of end 2007). The average number of employees in 2007 was 60,200. The sharp decrease in the number of employees, compared to 2006, was caused by the divestment of the Prokopievskugol Group of Companies.

We conduct our business that ensures the health and well-being of our employees.

NLMK Group companies are pursuing a programme of enhancing human resources efficiency in line with the following key principles:

- Compensation growth linked to better performance; and
- Streamlining of personnel strength aimed at bringing employment within the Group companies in line with world standards.

The implementation of the programme has led to the transfer of a number of non-core operations outside the parent company and a 7% reduction in the average number of employees, compared to 2006, to 34,900.

With a stronger economic performance by the Company, the average monthly compensation for NLMK Group employees in 2007 increased by 41% (over 2006) and reached USD786. Average monthly wages for parent company employees reached USD822 in 2007. Compensation growth for Company employees outstripped inflation rates, ensuring improved welfare for employees of the Group.

Major human resources developments are: mechanisms to recruit and retain young employees, incentives and remuneration for highly skilled personnel, professional training, work place integration, coaching and career management.

Training and development of highly skilled personnel and proper instruction are pre-requisites for NLMK's stable performance and strong competitiveness. The Company considers professional training and skills development for its employees to be a strategic investment. In 2007 about half of NLMK Group employees have completed various professional training and skill development programmes. The coaching system practiced by NLMK Group companies is intended to help young professionals to handle a steeper learning curve, and to quickly adjust and gain a footing in a workplace environment. Young professionals are encouraged to participate in various professional contests and competitions, which help discover their potential and improve their involvement in Company business.

Training of qualified personnel is promoted by developing cooperation with specialized learning institutions, which train engineers and technicians in a variety of professional fields. For example, the Lipetsk State Technical University offers the Programme for Enhanced Professional Training of Students at

NLMK Production Facilities, which aims to provide on-site instruction for highly skilled specialists in an operational steel-making environment and reducing the time of professional, social and psychological adaptation for young professionals.

NLMK Group pays special attention to maintaining high industrial safety standards and creating a favourable working environment for its employees. Special concern for the issue on the part of NLMK management has brought about significant improvements, compared to the late 1990s.

Social Programmes

NLMK Group makes a major contribution to the social development of the local communities, primarily due to social support for its employees, and enhancing their welfare.

Businesses within the NLMK Group play an important role in the economic and social development of communities. NLMK, the parent company, is the largest taxpayer in the Lipetsk Region. In 2007 NLMK paid USD384 million in taxes to local governments in the Lipetsk Region. Companies of the Group paid a total of USD1,221 million in taxes in 2007 to the budgets of different levels of government.

The Group performs its social responsibility by pursuing the following social programmes:

- Medical services and health improvement for employees and their families;
- Promotion of fitness and sports;
- Housing programmes: construction of dwellings for employees, and mortgages;
- Financial assistance and support: companies of the Group provide financial assistance to their employees and offer support to vulnerable households;
- Care for the retired; and
- Corporate sponsorship and charity.

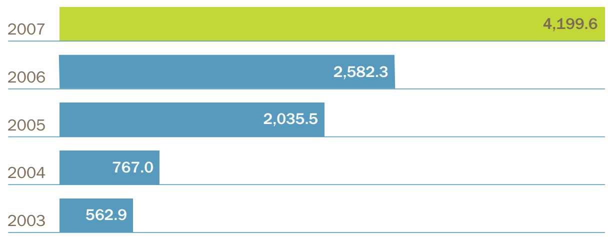
The employee health improvement programme involves voluntary medical insurance, occupational injury insurance, treatment at resorts for employees operating in harmful and hazardous production environments, and various sporting events. Children of Company employees benefit from health and recreation facilities located on the coast of the Black Sea and in other locations around the country.

The parent company maintains a ‘Housing for Young Steelworkers Programme, allowing young employees working at steel-making facilities to obtain new apartments on concessionary terms.

The Company is actively implementing a non-state pension fund programme. NLMK is one of the founding shareholders of the Social Development non-state pension fund, which is currently among Russia’s top 30 best performing non-state pension funds, with some 23,000 contributing and participating parent company employees as of 1 January 2008.

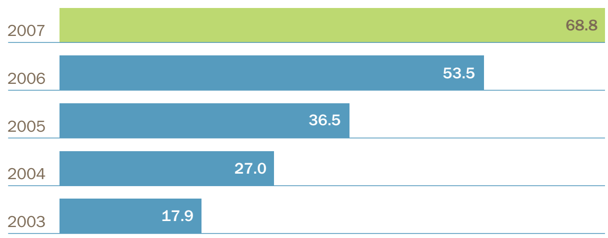
In 2007 NLMK contributed USD3.7 million to the Social Development non-state pension fund on behalf of its employees. The pension fund invests contributions through Libra Capital asset managers. In 2007 the pension fund generated 10.18%

PARENT COMPANY PERSONNEL TRAINING EXPENSES, 2003–2007* (000’s USD)



* Parent company personnel training expenditures for 2006 and prior periods were retrospectively changed due to new calculation methodology applied.

PENSION RESERVES (NON-STATE PENSION FUND SOCIAL DEVELOPMENT), 2003–2007 (USD MILLION)



(annualized) in investment income distributed to the accounts of its members. Pension reserves of the fund stand at USD68.8 million.

Businesses of the Group are also involved in corporate sponsorship and charitable activities. The parent company has founded the Miloserdiye charity foundation to provide help and assistance to the residents of the region by supporting low-income households, children, senior citizens and the disabled, promoting the role of families within the community and encouraging healthy lifestyles. An important focus is placed on providing support for education, science and the arts.

Group companies are engaged in programmes sponsoring schools, pre-school establishments and orphanages.

In 2007 core companies of the Group, including NLMK (main production site at Lipetsk), Stoilensky GOK, Altai-koks and VIZ-Stal donated about USD13 million for charity and sponsorship.

Our Company will continue to uphold our status as a good corporate citizen, maintain proper working conditions and standards of living for our employees, provide support for households and generally improve the welfare of communities where companies of the Group operate.

Board of Directors

The Board is responsible to shareholders for creating and sustaining shareholder value through the strategic management of NLMK's operations. It is also committed to ensuring that the highest standards of corporate governance are maintained by NLMK.

Vladimir Lisin[3]

Chairman
On the Board from 1996 and Chairman since 1998. Since 1993, Board member of several leading Russian metal producers. He previously worked as Deputy Chief Engineer and as Deputy General Director of Karaganda, one of the USSR's largest steel plants. Graduated from the Siberian Metallurgic Institute and started his career at Tulachermet as a foreman. His postgraduate degrees include a MSc and a PhD in Engineering and DSc in Economics. He is a professor of the Academy of National Economy.

Vladimir Skorokhodov[3]

Deputy Chairman
A member of the Board since 1996. He has been a Deputy General Director of Rumelco Ltd since 1999, a professor at the Lipetsk State Technical University, and was a Consultant-Expert at CJSC Vimet in 1999. He graduated as a metallurgical engineer from the Moscow State Steel and Alloys Institute. Doctor of Technical Science (1991).

Oleg Bagrin[1,3]

Member of Board
A member of the Board since 2004. He has been the General Director of CJSC IC Libra Capital since 2005. Mr Bagrin has a graduate and post-graduate degree in economics from the State Management University and a degree in business administration from the University of Cambridge.

Nikolai Gagarin[3]

Member of Board
Has been a member of the Board since 2001. In 2003 he was appointed Chairman of the Council of the Advocate Bureau, Reznik, Gagarin, Abushakhmin and Partners, having served as its Managing Partner from 1999 to 2003. He graduated in law from Moscow State University.

1. Member of the Audit Committee
2. Member of the Personnel & Social Policy Committee
3. Member of the Strategic Planning Committee

Dmitriy Gindin[2]

Member of Board
A member of the Board since 2004. Mr Gindin has been the President of the association Agroindustrial Corporation Stoylenskaya Niva since 2004 and a General Director of OJSC Moscow Plant Sapfir since 1997. He was the President of LLC Management Holding Company Metalloinvest from 2001 to 2005. Mr Gindin graduated as a metallurgical engineer from the Moscow State Steel and Alloys Institute.

Karl Doering[3]

Member of Board
Joined the Board in June 2006. Prof. Doering is head of Projekt Consulting firm. He held various executive and managerial positions in the German steel industry. From 1979 to 1985 he was a Deputy Minister of Mining, Metal and Potassium Industries of Eastern Germany. Prof. Doering graduated from Moscow State Steel and Alloys Institute with a degree in Metallurgy in 1962. He holds a DSc in Engineering and a DSc in Economics.

Randolph Reynolds[1]

Member of Board
A member of the Board since 2005. He is currently the President of Industrial Advisors Services, Inc., an international business management company in Richmond, Virginia, USA. His career started at Reynolds Metals Company in 1969 and lasted until 2000 as Vice Chairman and Executive Officer. He also served on the Board of Directors for Reynolds Metals Company from 1984 until 2000. He currently serves on the Boards of the Greater Richmond Chapter of the American Red Cross and The Carpenter Company.

Igor Fyodorov[1,3]

Member of Board
A member of the Board since 2002. From 1994 to 2003, he worked as the Business Consultant at Advocate Bureau Reznik, Gagarin, Abushakhmin and Partners. He is currently an advocate with the Moscow City Advocates' Chamber and Partner with Advocate Bureau Reznik, Gagarin, Abushakhmin and Partners. He graduated from the department of Law from Moscow State university.

Bruno Bolfo[3]

Member of Board
Joined NLMK's Board of Directors as an independent Director in June 2007. Mr Bolfo is President of Duferco S.A. and Chairman of the Board of Directors of Duferco Participations Holding. Bruno Bolfo graduated from the University of Parma with a degree in Economics. He holds an honorary degree in Economics from the University of Genoa.

Corporate governance

Corporate Governance Goals and Objectives
The Company is guided by international and Russian standards for corporate governance and follows best practice. Adherence to corporate governance standards and strong financial performance helps the Company gain credibility with Russian and international investors. Recognizing the importance of corporate governance for building an attractive investment case for the Company, NLMK continues to improve its corporate governance practices in the following key areas: protection and security of shareholder and investor rights and interests, openness and transparency, and efficient functioning of managing and control authorities.

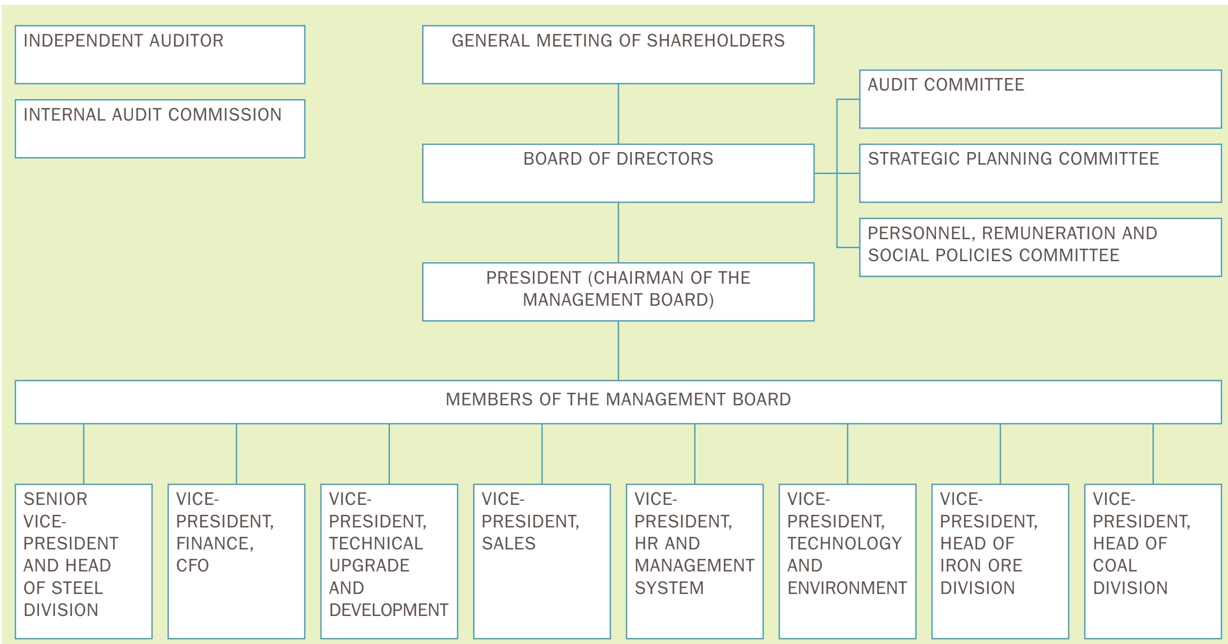
The Company adheres to a common corporate governance policy with respect to its subsidiaries and affiliates, as well as any other corporate entities in which it is a participant, founding shareholder or member.

The underlying corporate governance principles and policies are summarized in the Company's Code of Corporate Governance, revised and approved by the General Meeting of Shareholders on June 6, 2006. The Code of Corporate Governance was developed in compliance with the guiding principles advised by the Organization for Economic Cooperation and Development (Principles of Corporate Governance, 1999), and the provisions of the Corporate Governance Code approved by the Russian Federation Securities Market Commission.

Company Governance Structure
The supreme governing authority of NLMK is the General Meeting of Shareholders. The Board of Directors takes responsibility for the overall operations of the Company and its long-term development strategy. The executive bodies, the President (Chairman of the Management Board) and the Management Board, manage the day-to-day activities of the Company. An Independent Auditor and the Internal Audit Commission supervise the financial and business activities of the Company. Financial statements are subject to mandatory audits in accordance with Russian laws and Generally Accepted Auditing Standards.

In addition to the Code of Corporate Governance and Charter of the Company, the activities of its managing and supervisory authorities are also governed by other corporate by-laws, including the General Meeting of Shareholders Regulations, the Board of Directors Regulations and the Internal Audit Commission Regulations.

NLMK GOVERNANCE STRUCTURE



General Meeting of Shareholders
NLMK shareholders exercise their rights as owners of the Company to participate in managing the Company by voting on resolutions at the General Meeting of Shareholders.

Voting at the General Meeting of Shareholders is done by voting ballots, which are sent to each shareholder at least 20 days before the date of the General Meeting of Shareholders.

Two General Meetings of Shareholders were convened in 2007, and one Extraordinary and one General.

The following items were included in the agenda of the regular General Meeting of Shareholders on June 5, 2007:

- Approval of the Annual Report of NLMK (including its balance sheet, profit and loss statement, and profit distribution);
- Declaration of dividends for 2006;
- Election of Company managing and supervisory authorities. The Meeting elected the Board of Directors, President (Chairman of the Management Board), and the Internal Audit Commission;
- Appointment of the NLMK Auditor;
- Approval of amendments to Company by-laws. The Meeting approved amendments to the Charter, the Board of Directors Regulations and the Dividend Policy;
- Approval of a related party transaction;
- Approval of remuneration paid to the members of the Board of Directors of NLMK.

The Extraordinary General Meeting of Shareholders was convened on September 28, 2007, and approved the following key decisions:

- Payment of dividends for the first half of 2007 in the amount of RUR1.5 per ordinary share;
- Approval of related party transactions: the transaction to acquire iron ore between NLMK (the Buyer) and Stoilensky GOK (the Supplier); and the transaction to pay for the acquisition of shares in NLMK International B.V. with a 50% stake in Steel Invest and Finance (Luxembourg) S.A., owned by NLMK.

Board of Directors
The activities of the Board of Directors of NLMK are the key element in the corporate governance framework of the Company. The Board of Directors exercises overall control over Company operations, defines its long-term development strategy and acts within the authority defined by the Charter of the NLMK Board of Directors Regulations.

Members of the Board of Directors are elected by the General Meeting of Shareholders until the next Annual Meeting. Any shareholder owning in aggregate at least 2% of NLMK voting stock is entitled to nominate a Director. Directors are elected by cumulative voting during General Meetings of Shareholders.

Decisions of the Board of Directors are approved by open ballot and a simple majority of votes of Directors present and voting at the meeting, unless otherwise defined by the Charter and law. Every Director is entitled to one vote for the purposes of voting at meetings of the Board of Directors.

The meetings of the Board of Directors are convened by the Chairman of the Board of Directors in accordance with the approved meeting schedule.

Extraordinary meetings of the Board of Directors may be convened by the Chairman of the Board of Directors at his own initiative, at the request of a Director, the Internal Audit Commission or Auditor of NLMK, its executive authority, as well as shareholders owning in aggregate more than 5% of voting share in the Company.

Chairman of the Board of Directors
The Chairman of the Board of Directors arranges the business of the Board of Directors, convenes meetings of the Board of Directors and presides at these meetings, arranges for recording of proceedings during meetings, arranges for approval of the Board of Directors decisions by absentee voting and presides at the General Meetings of Shareholders of the Company. The Chairman of the Board of Directors' supervises the consideration of key issues, including strategic development plans and priority areas for the activities of NLMK, approval of transactions involving the acquisition of assets of strategic importance for NLMK development and the disposal of non-core assets.

Vladimir Lisin, Chairman of the Board of Directors of NLMK, has been a Director for 11 years, and has served as Chairman of the Board of Directors for 9 years.

Members of the Board of Directors

The Board of Directors of NLMK includes nine members. In accordance with international corporate governance standards and statutory requirements, the Company seeks to have not less than three independent Directors on the Board. The criteria for independent Directors have been defined in corporate by-laws and are in line with international best practice corporate governance. The Board of Directors presently includes four independent Directors.

As of December 31, 2007 the NLMK Board of Directors includes the following Directors:

Name	Position	Number of Years on the Board	Independent	Audit Committee	Strategic Planning Committee	Human Resources, Remuneration and Social Policies Committee
Vladimir Lisin	Chairman of the Board of Directors	11	No		Chairman	
Vladimir Skorokhodov	Deputy Chairman of the Board of Directors	11	No		Member	
Oleg Bagrin	Member of the Board	4	No	Member	Member	
Bruno Bolfo	Member of the Board	1	Yes		Member	
Nikolai Gagarin	Member of the Board	6	No		Member	
Dmitriy Gindin	Member of the Board	4	Yes			Chairman
Karl Doering	Member of the Board	2	Yes		Member	
Randolph Reynolds	Member of the Board	3	Yes	Chairman		
Igor Fyodorov	Member of the Board	5	No	Member	Member	

Background information on Directors and members of the Management Board can be found at the NLMK website at: www.nlmksteel.com

Board of Directors Activities in 2007

In 2007, the NLMK Board of Directors held 10 meetings. Key decisions approved in 2007 include the following:

- Consideration of priority areas for NLMK activities;
- Election of the Chairman of the Board of Directors, Deputy Chairman of the Board of Directors, appointment of Corporate Secretary (Secretary of the Board of Directors), establishment of NLMK Board committees;
- Approval of chart of organization and individual members of the Management Board of NLMK, and improvements in the corporate structure of NLMK;
- Convening and holding the 2006 Annual General Meeting of Shareholders of NLMK and the Extraordinary General Meeting of Shareholders of NLMK;
- NLMK's participation in the charter capital of other companies;
- Approval of the NLMK and NLMK Group budgets;
- Approval of related party transactions.

In the course of the year the Directors have attended the following Board of Directors and Committee meetings:

	Board of Directors Meetings	Audit Committee Meetings	Strategic Planning Committee Meetings	Human Resources, Remuneration and Social Policies Committee Meetings
	Number of Meetings[1]			
Director				
Vladimir Lisin	9 (10)		5 (5)	
Vladimir Skorokhodov	10 (10)		5 (5)	
Oleg Bagrin	10 (10)	4 (4)	5 (5)	
Bruno Bolfo	5 (7)[2]		1 (2)[3]	
Nikolai Gagarin	10 (10)		2 (5)	
Dmitriy Gindin	9 (10)			5 (5)
Karl Doering	9 (10)		3 (5)	1 (2)[4]
Randolph Reynolds	8 (10)	4 (4)		
Igor Fyodorov	10 (10)	3 (4)	2 (2)[3]	

Notes:

[1] Number in parentheses indicates total number of meetings held.

[2] Mr Bruno Bolfo was first elected Director at the Annual General Meeting of Shareholders on June 5, 2007. Three Board of Directors meetings had been held between the beginning of 2007 and the time of election of the new Board of Directors.

[3] Messrs Bruno Bolfo and Igor Fyodorov have attended Strategic Planning Committee meetings since their election to the Committee in June of 2007. Three meetings of the Committee had been held between the beginning of 2007 and the time of the election of the new Committee.

[4] Mr Karl Doering had attended one of the two meetings of the Human Resources, Remuneration and Social Policies Committee as a member of the Committee. The other three meetings were held after the election of the new Committee in June of 2007.

Board of Directors Involvement in Risk Management
An important function of the Board of Directors is the design of an effective system for risk assessment and risk management, to allow the Company to gauge its exposure to risks, to mitigate the negative impact of these risks and to streamline actions required to achieve the objectives.

The Board of Directors assesses strategic risks (identifies Company strengths and weaknesses, its opportunities and threats), approves internal control procedures used for risk management and supervises compliance with these controls, reviews their effectiveness and encourages their improvement.

Directors' Remuneration and Compensation
Directors are entitled to remuneration subject to performance of their duties in good faith. Any fees paid to remunerate any Director are dependent on the individual's personal participation in the activities of the Board of Directors.

The General Meeting of Shareholders of the Company has approved the Regulations for Directors' Remuneration (Director Remuneration Policy) for members of the NLMK Board of Directors, which defines the criteria for remunerating Directors and providing compensation for their expenses.

Based on Company performance in a given fiscal year the Annual General Meeting of Shareholders, acting on the advice of the Human Resources, Remuneration and Social Policies Committee, may decide to pay a bonus to each Director equal to within 0.1% of the NLMK net profits for the reported period, as determined in accordance with the Generally Accepted Accounting Principles (US GAAP). Any Director who has failed to attend more than half of the Board of Directors meetings during their tenure are not eligible to receive the annual performance bonus.

Remuneration and Compensation to Board Members 2007

USD, 000's

Item	2007
Remuneration and Compensation to Board Members	1,810
Of which:	
Remuneration	1,468
Fees	212
Other	130

Note: paid in the calendar year.

The Company compensates Directors for any expenses directly associated with the discharge of their functions, including expenses incurred in connection with obtaining the professional advice of experts in issues raised during Board of Directors meetings, and in connection with the translation into a foreign language used by the Director of documents/materials provided to Directors for their consideration.

Board Committees
The Board of Directors has established the following standing Committees for the purposes of handling certain aspects of NLMK business, and in accordance with the Board of Directors regulations:

- The Strategic Planning Committee;
- The Audit Committee;
- The Human Resources, Remuneration and Social Policies Committee.

The Board of Directors Committees are required to file annual reports of their activities with the NLMK Board of Directors at least 45 days before the Annual General Meeting of Shareholders.

Strategic Planning Committee
The Strategic Planning Committee drafts and submits to the Board of Directors recommendations regarding priority areas for Company activities and its development strategy, including long-term actions to improve effectiveness, and to promote asset growth, profitability and a stronger investment case.

The Committee includes nine members. In addition to Directors, the Committee includes two members of the NLMK Management Board: Alexey Lapshin, President (Chairman of the Management Board) and Vladimir Nastich, First Vice-President and CEO.

In 2007, the Strategic Planning Committee held five meetings to discuss the following key issues:

- Approval of recommendations to the Board of Directors regarding the size of dividends payable on shares and procedures for their payment, and the distribution of NLMK profits (losses) for FY 2006 and the first half of 2007;
- Key developments in the markets for rolled products and their production;
- Key areas for the development of NLMK Group companies.

Audit Committee
The Audit Committee drafts and submits to the Board of Directors recommendations regarding the efficient supervision of financial and business activities of the Company, including annual independent audits of financial statements, the quality of services provided by the auditor and compliance with the requirements for auditor independence. The Committee comprises three Directors.

In 2007, the Audit Committee held four meetings to discuss the following key business:

- The Committee drafted and submitted for the consideration of the Board of Directors the proposal recommending that the Annual General Meeting of Shareholders should approve the RAS financial (accounting) statements and the US GAAP consolidated financial statements of NLMK for 2006;
- The Committee reviewed the draft auditor's report by the NLMK Auditor with respect to RAS financial (accounting) statements of NLMK for 2006;
- The Committee reviewed the nominations for NLMK Auditor and auditors of its subsidiaries and affiliates and developed recommendations for their approval.

Human Resources, Remuneration and Social Policies Committee
The primary purpose of the Human Resources, Remuneration and Social Policies Committee is the development of draft guidance regarding Company personnel policies and remuneration policies for officers of the Company executive authorities and members of the Internal Audit Commission. The Committee also reviews issues pertaining to Company social policies, environmental safety and federal and local government relations.

The Committee includes three members. It is chaired by Dmitriy Gindin, Director. The other two members of the Committee are Stanislav Tsyrlin, Vice-President for Human Resources and Management Systems, and Sergey Melnik, Personnel and General Issues Manager at NLMK.

In 2007, the Committee held five meetings to consider and issue guidance on the following issues:

- Payroll and labour productivity at NLMK;
- Design and implementation of new remuneration arrangements for senior Company managers;
- Recommendations to the Annual General Meeting of Shareholders regarding end of fiscal year performance bonuses to members of the NLMK Board of Directors;
- Improvements to the NLMK housing programme;
- Nominations for government and sector business community awards.

Internal Audit Commission
The Internal Audit Commission is a full-time internal controls authority exercising continuous supervision over the financial and business activities of the Company.

The Internal Audit Commission operates under the Charter and the Internal Audit Commission Regulations and audits the financial and business activities of NLMK in order to obtain adequate assurance that its activities comply with applicable Russian Federation laws and do not infringe the rights of Company shareholders, and the Company accounts and reports contain no material misstatements.

The Internal Audit Commission acts in the interests of the shareholders and is elected by the General Meeting of Shareholders for a term of one (1) year.

The report of the Internal Audit Commission is an integral part of the NLMK RAS financial statements.

The General Meeting of Shareholders in 2007 elected the following persons to the Internal Audit Commission:

Name	Position
Valeriy Kulikov	Chairman
Tatyana Gorbunova	Member
Lyudmila Lazarenko	Member
Larissa Ovsyannikova	Member
Galina Shipilova	Member

Management Board
The day-to-day operations of the Company are managed by its sole executive authority, the President (Chairman of the Management Board), and the plural executive authority, the Management Board. The actions of the President (Chairman of the Management Board) and Management Board are governed by laws of the Russian Federation, the Charter of the NLMK and the Management Board of the NLMK Regulations, as approved by decisions of the General Meeting of Shareholders of the Company.

The President (Chairman of the Management Board) is elected by the General Meeting of Shareholders until the next Annual General Meeting of Shareholders, unless otherwise defined by a decision of the General Meeting of Shareholders.

The President (Chairman of the Management Board) manages the day-to-day operations of NLMK, except issues that fall under the exclusive authority of the General Meeting of Shareholders, the Board of Directors and/or the Management Board, and arranges for the implementation of decisions approved by the General Meeting of Shareholders and the Board of Directors of the Company. The composition and number of members of the Management Board are approved by the Board of Directors of NLMK with due regard for the opinion of the President (Chairman of the Management Board). Individual members of the Management Board are approved by the Board of Directors based on nominations made by the President (Chairman of the Management Board).

Management Board Members
Mr Alexey Lapshin has been President (Chairman of the Management Board) of NLMK since June 2006 (re-elected for a new term on June 5, 2007).

Presently the Management Board of OJSC NLMK includes nine members.

The Management Board as of December 31, 2007

Management Board Member	Position	Meetings[1]
Alexey Lapshin	President, Chairman of the Management Board	36 (36)
Vladimir Nastich	First Vice-President and Head of Steel Division	34 (36)
Galina Aglyamova	Vice-President, Finance	35 (36)
Igor Anisimov	Vice-President, Technical Upgrade and Construction	28 (36)
Dmitry Baranov	Vice-President, Sales	31 (36)
Alexander Gorshkov[2]	Vice-President, Iron Ore Division	19 (21)
Yury Larin	Vice-President, Technology and Environment	35 (36)
Alexander Saprykin	Vice-President, Coal Division	31 (36)
Stanislav Tsyrlin	Vice-President, Human Resources and Management System	30 (36)

Notes:

[1] The Management Board of NLMK held 36 meetings in 2007. Of which:

– 15 meetings were attended by members approved by the Board of Directors in June 2006;

– 21 meetings were attended by members approved by the Board of Directors in July 2007.

[2] Mr Alexander Gorshkov was first elected to the Management Board in July 2007.

Management Board Activities in 2007
The Management Board of NLMK held 36 meetings in 2007. The Management Board has considered the following key issues in its meetings during 2007:

- Recommendations to the Board of Directors of NLMK and Boards of Directors of significant subsidiaries and affiliates.
- Review of US GAAP-based monthly financial performance indicators for the NLMK Group of companies and the execution of the consolidated budget for the NLMK Group of companies throughout 2007.
- Approval of draft decisions regarding issues which fall under the mandate of General Meetings of Shareholders in companies where NLMK is the sole shareholder.

External Auditors
As required by the laws of the Russian Federation, the General Meeting of Shareholders of NLMK on an annual basis appoints an auditor to perform an audit of the financial and operating results of the Company's performance. The Audit Committee drafts proposals for the Board of Directors regarding the nomination for the Auditor of the Company, selected from among recognized independent auditors with prominent professional reputations. While drafting its proposals, the Audit Committee is guided by the following principles:

- Professional qualifications of the auditor;
- Quality of services;
- Compliance with requirements for auditor independence.

ZAO PricewaterhouseCoopers Audit, which performs audits of both RAS and US GAAP-based financial statements has been approved by the Annual General Meeting of Shareholders in 2007 as the Auditor of NLMK based on the advice of the Audit Committee.

Company Policy on Related Party Transactions
According to the Federal Joint Stock Companies Act, any transaction in which a member of the Board of Directors, the President (Chairman of the Management Board) or a person acting in their capacity, a managing organization or manager, member of the Management Board, or Company shareholder holding (along with any of their affiliates) 20% or more of the Company's voting shares, as well as any person who is in a position to issue instructions/directives that are binding upon the Company, appears as an interested or related party, shall be subject to prior approval by the Board of Directors of NLMK or the General Shareholders Meeting by a majority vote of Directors or shareholders who are not an interested or related party to such a transaction.

The mandate of the Management Board includes issuing advice to the Board of Directors of NLMK regarding approval of one or several transactions with interested or related parties submitted for the consideration of the Board of Directors in connection with its authority.

Information on the related party transactions completed in 2007 can be found in the correspondent section of NLMK Group US GAAP consolidated financial statements and NLMK RAS non-consolidated financial statements.

Remuneration and Compensation to the Management Board Members
In accordance with the Regulations on the NLMK Management Board, its members receive remunerations and compensations of all the expenses incurred while performing their functions.

Remuneration is paid in the order and the amount stipulated in the agreement signed with the Management Board members in line with the Regulations on the Management Board members' remunerations, approved by the Board of Directors on the recommendations of the Personnel and Recommendations Committee.

Remuneration and Compensation to the Management Board (USD, 000's)

Item	2007
Payments to Management Board members	2,095

Information for shareholders and investors

Ordinary Shares
The share capital of the Company is distributed into 5,993,227,240 shares with par value of RUR 1. NLMK's shares are listed on the Russian stock exchanges (RTS and MICEX), and are also traded on the London Stock Exchange (LSE) in the form of Global Depositary Shares (GDS) (1 GDS equals 10 ordinary shares).

Company Shares Listings

RTS (Moscow) Ticker Code	NLMK
MICEX (Moscow) Ticker Code	NLMK
LSE (London) Ticker Code	NLMK
Bloomberg Code	NLMK
Reuters Code	NLMK

Global Depositary Shares (GDS)
The ratio of Global Depositary Shares to ordinary shares is 1:10. As of December 31, 2007 the Global Depositary Shares issued by NLMK and traded on the London Stock Exchange account for 8.45% of share capital. As of March 31, 2008 GDS's were trading at USD42.95.

The depositary bank for the Company is Deutsche Bank Trust Company Americas (see contact details on page 56).

NLMK GDS PRICE PERFORMANCE, 2007

NLMK Ordinary Shares at RTS

	2007	2006
Maximum (USD)	**4.35**	2.47
Minimum (USD)	**2.3**	1.51
At end of year (USD)	**4.0**	2.35
Number of Trades	**401**	483
Trading Volume (USD, millions)	**37**	38

NLMK Ordinary Shares at MICEX

	2007	2006
Maximum (RUR)	**107.9**	70.1
Minimum (RUR)	**56.11**	48.5
At end of year (RUR)	**99.51**	63.45
Number of Trades	**68,431**	10,417
Trading Volume (RUR, millions)	**8,228**	966

Note: Ordinary shares were listed on the Moscow Interbank Currency Exchange (MICEX) on April 6, 2006.

NLMK Global Depositary Shares at the London Stock Exchange

	2007	2006
Maximum (USD)	**44.89**	25.15
Minimum (USD)	**20.80**	14.33
At end of year (USD)	**40.9**	23.25
Trading Volume (USD, million)	**7,295**	3,990

Note: Company stock was listed on the London Stock Exchange in the form of Global Depositary Shares on December 15, 2005.

Market Capitalization
With consistently strong financial performance and improved transparency of its business, NLMK's market capitalization in 2007 increased from USD13.9 billion up to USD24.5 billion as of December, 31, 2007. Thus, the capitalization grew by 76%.

Taxation
The tax rate under the Russian legislation is 9% for legal entities holding shares and GDS's, who are residents of the Russian Federation, and 15% for non-residents, for individuals – 9% and 15%, respectively. Wherever an avoidance of double taxation treaty is in effect, taxes are assessed at the rate defined by the treaty. Taxation information is provided for general information only. Potential and existing investors should consult their advisors on taxation implications for investments in Company shares, including Global Depositary Shares (GDS).

Dividends
Dividend Policy
The Company's Dividend Policy was approved in June 2006 and aims to offer clear guidance to the shareholders and all concerned parties about Company's strategy with respect to the distribution and use of NLMK net profits. The Dividend Policy states that dividend paid shall be no less than 20% of net profit as defined in accordance with US GAAP. Over a five-year period NLMK targets an average dividend payout of at least 30% of net profit as defined in accordance with US GAAP. Net gains from disposals of financial investments in equities, which do not offer significant influence or control over their issuers, may be directed in full to payment of dividends provided there is no need to raise cash for investment purposes.

The amount of dividends payable for any given period of time shall be approved by the shareholders of the Company acting on the advice of the Board of Directors and shall depend, among other considerations, on the financial standing of the Company, its performance, cash flow, forward-looking projections, overall economic environment and other considerations.

Declared dividends shall be paid to shareholders within 90 days of the date of their declaration, unless the decision of the General Meeting of Shareholders approving dividend payments stipulates a shorter time-frame.

Dividend per Share

Year		Dividend per share	Declaration date	Total amount of dividend declared	Dividend/ Net Income
2002	Full Year	RUR 312.5 (USD 10.3010)	27.06.03	RUR 1,871,012,500 USD 61.675 million	18%
2003	Full Year	RUR 0.6045 (USD 0.0208)	25.06.04	RUR 3,622,905,867 USD 124.834 million	19%
2004	Full Year	RUR 1.8 (USD 0.0643)	20.05.05	RUR 10,787,809,032 USD 385.556 million	22%
	of which 9 months interim	RUR 1 (USD 0.0357)	03.12.04	RUR 5,993,227,240 USD 214.081 million	
2005	Full Year[1]	RUR 3 (USD 0.1101)	06.06.06	RUR 17,979,681,720 USD 659.573 million	48%
	of which 6 months interim	RUR 1 (USD 0.0352)	26.09.05	RUR 5,993,227,240 USD 210.792 million	
2006	Full Year[1]	RUR 3 (USD 0.1140)	05.06.07	RUR 17,979,681,720 USD 683.267	33%
	of which 6 months interim	RUR 1,5 (USD 0.0561)	29.09.06	RUR 8,989,840,860 USD 336.071 million	
2007	Full Year*	RUR 3 (USD 0.1222)[2]	06.06.08	RUR 17,979,681,720 USD 732.483[2]	33%
	of which 6 months interim	RUR 1,5 (USD 0.0601)	28.09.07	RUR 8,989,840,860 USD 360.142 million	

Notes:

[1] In accordance with the NLMK Dividend Policy, the net gains from disposals of financial investments in equities, which do not offer significant influence or control over their issuers, may be directed in full to payment of dividends provided there is no need to raise cash for investment purposes. In Q1 2006, NLMK sold a minority stake in Lebedinsky GOK. Notwithstanding the fact that the disposal happened in Q1 2006, the Annual General Meeting of Shareholders held on June 6, 2006 approved the decision to use the proceeds to pay dividends for 2005.

[2] Based on the RUR/USD Central Bank exchange rate as at 31.12.2007.

Dividends per GDS

Any dividends payable on shares ownership of which is certified by Global Depositary Shares shall be declared and paid to the Depositary Bank in Russian rubles or foreign currency, and shall be converted by the Depositary into US dollars (whenever dividends are paid in any currency other than US dollars) and distributed among GDS holders net of Depositary Bank fees and expenses.

Proposals Regarding Distribution of Profits

The Board of Directors of NLMK recommended the General Meeting of Shareholders to declare dividends for 2007 in the amount of RUR3.0 per ordinary share.

Shares Issued	5,993,227,240
Dividends per 1 ordinary share with par value of RUR1, rubles*	3.0
Total dividends payable for 2007 RUR*	17,979,681,720

On account of interim dividends in the amount of RUR1.5 per ordinary share declared by the General Meeting of Shareholders in September of 2007, an additional dividend of RUR1.5 per ordinary share shall be paid for the full year of 2007.

* Subject to approval of shareholders at the AGM in June 2008.

The Board of Directors recommended using the balance of profits after payment of dividends for funding investment programmes and paying dividends in the future.

Share Capital Structure as of December 31, 2007

Shareholder	Share, %
VEFT Enterprises Limited*	77.09
London Stock Exchange (LSE) listed Global Depositary Shares registered through Deutsche Bank Trust Company Americas	8.45
Investment Company "LKB-INVEST"*	7.52
Beneficially owned by the management of Novolipetsk Steel (NLMK)	2.50
Free float, including free float on Russian stock exchanges (RTS and MICEX)	4.44

* beneficially owned by Vladimir Lisin, Chairman of the Board of Directors of Novolipetsk Steel (NLMK).

Corporate Documents

Company corporate documents, including its Charter, may be found on the Company website: www.nlmksteel.com

Financial Reporting

Notice of Results

The Company posts notices of results on the LSE website via the Regulatory News Service (RNS) and then publishes them at the Company's website as press releases and distributes them among media representatives. The Company publishes its financial results quarterly.

The Company's annual report is published electronically 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 shareholders' request.

Information for shareholders and investors continued

Contacts
Shareholder Register
The register of our shareholders
is maintained by R-Stinol LLC.

Registered address:
10B 9th May ul.
398017 Lipetsk
Russia

Depositary Bank
Deutsche Bank Trust Company Americas
New York Headquarters
60 Wall Street, New York, NY 10005
USA

London Office:
Winchester House,
1 Great Winchester Street,
London EC2N 2DQ,
United Kingdom

IR contacts
Anton Bazulev, Investor & Government Relations
Boris Krasnojenov, IR manager

Novolipetsk Steel (NLMK), Moscow Office
18, Bakhrushina ul., bldg 1
115054 Moscow
Russia
T.: +7 495 915 1575
e-mail: info@nlmk.msk.ru

PR Consultant
Jon Simmons
T.: +44 207 831 3113
e-mail: jon.simmons@fd.com

Financial Dynamics
Holborn Gate, 26, Southampton Buildings
London, WC2A 1PB
United Kingdom

NLMK Subsidiaries and Affiliates as of December 31, 2007

Company Name	Location	Activity	OJSC NLMK's Share in Charter Capital (%)
Subsidiaries			
1. Lipetsk Insurance Company Chance LLC	30 Nedelina St., Lipetsk, Russia	Insurance underwriting	100
2. Steel LLC	1 Lenina St., Uglich, Yaroslavl region, Russia	Raw materials, supplies, scrap for steel-making	100
3. NLMK International B.V.	Amsterdam, The Netherlands	Holding company, holds shares in subsidiary production and trading companies, manages subsidiaries, provides financing	100
4. Kuzbass Asset Holdings Limited	Office 41/42, Victoria House, 2B Main Street, Gibraltar	Trading, agency, stock market, broker and investment activities	100
5. VIZ-Stal LLC	28 Kirova St., Ekaterinburg, Russia	Production and marketing of electrical steel	100
6. Independent Transport Company LLC	32A Leninsky Prospekt, Moscow, Russia	Cargo transportation and other transportation and forwarding services	100
7. NLMK Trading House LLC	Building B, 1/15 Kotelnicheskaya nab., Moscow, Russia	Sales of ferrous and non-ferrous metals in domestic and overseas markets	100
8. Vtorchermet NLMK LLC	2 Metallurgov Sq., Lipetsk, Russia	Collection, processing and sales of ferrous and non-ferrous scrap	100
9. Novolipetskoye LLC	Tyushevka Village, Lipetsk district, Lipetsk region, Russia	Production and processing of agricultural products	100
10. Karamyshevskoye LLC	1 Tsentralnaya Sq., Karamyshevo village, Gryazinsky district, Lipetsk region, Russia	Production and processing of agricultural products	100
11. Novolipetsky Metallurg Resort	25 Chekhova St., Morskoye village, Sudak, Crimea Autonomous Republic, Ukraine	Rest and recreation services, health and rehabilitation facility	100

Company Name	Location	Activity	OJSC NLMK's Share in Charter Capital (%)
Subsidiaries			
12. Larmet LLC	44/28 Studencheskaya St., Moscow, Russia	Wholesale steel and hardware trade	99,98
13. Vimet LLC	2 Metallurgov Sq., Lipetsk, Russia	Wholesale in raw materials for steel-making, hardware wholesaler	99,97
14. Stoilensky GOK OJSC	Stary Oskol, Belgorod region, Russia	Mining and processing of iron ore and other minerals	96,98
15. Altai-koks OJSC	Zarinsk, Altaysky Kray, Russia	Production and marketing of coke and by-products, generation and marketing of heat and electric power	94,15
16. Dolomite OJSC	1 Sverdlova St., Dankov, Lipetsk region, Russia	Dolomite mining and processing	92,74
17. Studenovskaya Joint Stock Mining Company OJSC	4 Gaydara St., Lipetsk, Russia	Production of fluxing limestone for steel-making, process limestone for the sugar industry, lime-containing materials and crushed stone for construction and roads	88,62
18. Vtormetsnab NLMK	2 Metallurgov Sq., Lipetsk, Russia	Collection, processing and sales of ferrous and scrap	70,00
19. Commercial Sea Port of Tuapse OJSC	2 Morskoy Blvd., Tuapse, Krasnodarsky Kray, Russia	Cargo handling, servicing of Russian	69,41
20. North Oil and Gas Company OJSC	Building 1, 14 Spartakovskaya Sq., Moscow, Russia	Prospecting and exploration of oil and gas fields	62,00
21. Lipetsky Gipromez OJSC	Kalinina St., Lipetsk, Russia	R&D	57.57
22. Maxi-Group OJSC	4 Lesnaya St., Troitsk, Moscow region, Russia	Corporate financial management consulting services	50,00005
Affiliates			
1. Neptune LLC	Office 35, 1C Adm. Makarova St., Lipetsk, Russia	Health services	25,00

Note: List includes only direct NLMK's subsidiaries and affiliates.

Report of the Independent Auditors

PRICEWATERHOUSECOOPERS

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

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, 2007, 2006 and 2005, 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 audit 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 years ended December 31, 2007 and 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 the consolidated results of its operations and its cash flows for the year 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, 2007, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
April 18, 2008

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, 2007, 2006 and 2005 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.

Consolidated balance sheets

as at December 31, 2007, 2006 and 2005

(All amounts in thousands of US dollars, except for share data)	Note	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
ASSETS				see Note 25(b)
Current assets				
Cash and cash equivalents	4	1,154,641	665,213	1,924,148
Short-term investments	6	153,462	37,261	27,040
Accounts receivable and advances given, net	7	1,696,451	1,150,492	708,515
Inventories, net	8	1,236,433	856,940	559,250
Other current assets, net	9(a)	147,191	331,322	208,920
Restricted cash	5	–	8,372	7,979
		4,388,178	**3,049,600**	**3,435,852**
Non-current assets				
Long-term investments, net	6	818,590	810,350	31,470
Property, plant and equipment, net	10	6,449,877	3,988,128	2,415,001
Intangible assets, net	11(b)	189,084	199,030	21,086
Goodwill	11(a)	1,189,459	559,703	173,357
Other non-current assets	9(c)	40,754	110,179	133,747
		8,687,764	**5,667,390**	**2,774,661**
Total assets		**13,075,942**	**8,716,990**	**6,210,513**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	12	1,394,934	664,319	565,983
Short-term borrowings	13(a)	1,536,570	248,782	5,282
Current income tax liability		70,686	80,350	40,639
		3,002,190	**993,451**	**611,904**
Non-current liabilities				
Deferred income tax liability	20	585,567	537,647	300,712
Long-term borrowings	13(a)	73,225	48,153	45,341
Other long-term liabilities	14	316,616	194,872	45,505
		975,408	**780,672**	**391,558**
Total liabilities		**3,977,598**	**1,774,123**	**1,003,462**
Commitments and contingencies	29	–	–	–
Minority interest	16	**106,813**	**133,425**	**92,576**
Stockholders' equity				
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2007, 2006 and 2005	17(a)	221,173	221,173 2	21,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		52,395	1,812	1,812
Accumulated other comprehensive income		1,181,546	589,986	72,129
Retained earnings		7,526,150	5,986,204	4,809,094
		8,991,531	**6,809,442**	**5,114,475**
Total liabilities and stockholders' equity		**13,075,942**	**8,716,990**	**6,210,513**

The consolidated financial statements as set out on pages 57 to 98 were approved on April 18, 2008.

The accompanying notes constitute an integral part of these consolidated financial statements.

Consolidated statements of income

for the years ended December 31, 2007, 2006 and 2005

(All amounts in thousands of US dollars, except for earnings per share amounts)	Note	**For the year ended December 31, 2007**	For the year ended December 31, 2006	For the year ended December 31, 2005
				see Note 25(b)
Sales revenue	26	**7,719,061**	**6,045,625**	**4,375,806**
Cost of sales				
Production cost		(3,569,331)	(2,716,434)	(2,048,828)
Depreciation and amortization		(407,699)	(357,941)	(282,876)
		(3,977,030)	**(3,074,375)**	**(2,331,704)**
Gross profit		**3,742,031**	**2,971,250**	**2,044,102**
General and administrative expenses		(214,836)	(188,648)	(101,351)
Selling expenses	3(u)	(442,657)	(325,361)	(62,371)
Taxes other than income tax		(79,977)	(57,215)	(36,356)
Accretion expense on asset retirement obligations	15	(6,190)	(19,765)	–
Impairment losses		–	(136,916)	–
Operating income		**2,998,371**	**2,243,345**	**1,844,024**
Loss on disposals of property, plant and equipment		(27,285)	(3,582)	(11,579)
(Losses) / gains on investments, net	21(a)	(23,522)	400,696	2,771
Interest income		99,751	111,789	98,708
Interest expense		(31,417)	(29,692)	(15,377)
Foreign currency exchange, net		80,495	(74,975)	(9,805)
Gain from disposal of subsidiaries	18	83,122	–	–
Other expenses, net		(22,688)	(26,526)	(16,468)
Income from continuing operations before income tax and minority interest		**3,156,827**	**2,621,055**	**1,892,274**
Income tax	20	(837,003)	(706,605)	(497,273)
Income from continuing operations before minority interest		**2,319,824**	**1,914,450**	**1,395,001**
Minority interest	16	(23,490)	(25,773)	(21,080)
Equity in net earnings / (net losses) of associate		(50,312)	501	3,701
Income from continuing operations		**2,246,022**	**1,889,178**	**1,377,622**
Discontinued operations				
Gain from operations of discontinued subsidiary	18(a)			
(including gain on disposal of $227,524 in 2006)	21(b)	1,261	228,499	3,773
Income tax		–	(51,714)	–
Income from discontinued operations		**1,261**	**176,785**	**3,773**
Net income		**2,247,283**	**2,065,963**	**1,381,395**
Income from continuing operations per share (US dollars)				
basic and diluted		0.3748	0.3152	0.2299
Income from discontinued operations per share (US dollars)				
basic and diluted		0.0002	0.0295	0.0006
Net income per share (US dollars)				
basic and diluted	19	0.3750	0.3447	0.2305

The accompanying notes constitute an integral part of these consolidated financial statements.

Consolidated statements of cash flows

for the years ended December 31, 2007, 2006 and 2005

(thousands of US dollars)	Note	**For the year ended December 31, 2007**	For the year ended December 31, 2006	For the year ended December 31, 2005
				see Note 25(b)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		**2,247,283**	**2,065,963**	**1,381,395**
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest	16	24,592	25,773	21,080
Depreciation and amortization		407,699	357,941	282,876
Loss on disposals of property, plant and equipment		27,285	3,582	11,579
Losses / (gains) on investments, net	21(a)	23,522	(400,696)	(2,771)
Gain on disposal of discontinued subsidiary	21(b)	(83,122)	(227,524)	–
Gain from operations of discontinued subsidiary		(1,261)	–	–
Equity in (net earnings) / net losses of associate		50,312	(501)	(3,701)
Deferred income tax expense / (benefit)	20	37,925	(38,732)	(3,677)
Stock-based compensation	28(f)	–	–	1,132
Impairment losses		–	136,916	–
Accretion expense on asset retirement obligations	15	6,190	19,765	–
Other		16,348	21,386	(3,984)
Changes in operating assets and liabilities				
Increase in accounts receivable		(92,033)	(141,359)	(91,585)
Increase in inventories		(200,074)	(159,995)	(53,270)
Increase in other current assets		(43,633)	(16,905)	(33,208)
Increase in loans provided by the subsidiary bank		(106,260)	(69,776)	(69,142)
Increase / (decrease) in accounts payable and other liabilities		242,830	(23,125)	121,031
(Decrease) / increase in current income tax payable		(33,700)	32,376	(33,990)
Net cash provided by operating activities		**2,523,903**	**1,585,089**	**1,523,765**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash acquired of $14,127	25	–	(1,347,545)	–
Purchases of equity investments	6(c)	–	(805,503)	–
Cash acquired in business combination	25(a)	24,038	–	–
Proceeds from adjustment of the original purchase price of subsidiaries		37,089	–	–
Proceeds from disposal of discontinued operations	21(b)	–	302,526	–
Proceeds from sale of property, plant and equipment		12,278	15,565	10,706
Purchases and construction of property, plant and equipment		(957,719)	(618,677)	(580,198)
Proceeds from sale of investments		11,606	465,274	72,872
Purchase of investments	25(a)	(199,469)	(54,758)	(42,722)
Loan issued		(134,300)	–	–
Disposal of subsidiaries, net of cash disposed of $106,800		(60,063)	–	–
Movement of restricted cash	5	(1,020)	339	(3,122)
Net cash used in investing activities		**(1,267,560)**	**(2,042,779)**	**(542,464)**

The accompanying notes constitute an integral part of these consolidated financial statements.

Consolidated statements of cash flows continued

for the years ended December 31, 2007, 2006 and 2005

(thousands of US dollars)	Note	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
				see Note 25(b)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		268,844	224,870	20,143
Repayment of borrowings and notes payable		(451,802)	(183,305)	(13,866)
Capital lease payments		(3,066)	(379)	–
Proceeds from disposal of assets to the company under common control		78,469	–	–
Contributions from controlling shareholders		–	–	33,185
Payments to controlling shareholders for common control transfer of interests in new subsidiaries	25(b)	–	(104,000)	–
Dividends paid to previous shareholders of acquired subsidiary		–	(83,547)	–
Dividends paid to minority shareholders of existing subsidiaries		(19,146)	(20,228)	(1,390)
Dividends to shareholders		(702,983)	(766,646)	(384,973)
Net cash used in financing activities		**(829,684)**	**(933,235)**	**(346,901)**
Net increase / (decrease) in cash and cash equivalents		**426,659**	**(1,390,925)**	**634,400**
Effect of exchange rate changes on cash and cash equivalents		62,769	131,990	(58,867)
Cash and cash equivalents at the beginning of the period	4	665,213	1,924,148	1,348,615
Cash and cash equivalents at the end of the period	4	**1,154,641**	**665,213**	**1,924,148**
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income tax		702,688	611,408	434,885
Interest		26,318	28,781	13,623
Non-cash operating activities:				
Offset of income tax payable with VAT receivable		111,271	99,115	96,427
Non-cash investing activities:				
Capital lease liabilities incurred	22	448,731	8,460	–
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	25	–	–	30,797
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of $25,047 in 2007 and $14,127 in 2006	25	533,468	1,347,545	–

The accompanying notes constitute an integral part of these consolidated financial statements.

Consolidated statement of stockholders' equity and comprehensive income

for the years ended December 31, 2007, 2006 and 2005

(thousands of US dollars)	Note	Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balance at December 31, 2004		**221,173**	**10,267**	**680**	**242,387**	**3,745,984**	**4,220,491**
Comprehensive income:							
Net income (see Note 25(b))		–	–	–	–	1,381,395	1,381,395
Other comprehensive income:							
Net unrealized gain on a change in valuation of investments		–	–	–	7	–	7
Cumulative translation adjustment	2(b)	–	–	–	(170,265)	–	(170,265)
Comprehensive income							**1,211,137**
Stock-based compensation	28(f)	–	–	1,132	–	–	1,132
Dividends to shareholders	17(b)	–	–	–	–	(382,267)	(382,267)
Transfers of subsidiary interests from controlling shareholders	25(b)	–	–	–	–	63,982	63,982
Balance at December 31, 2005 (see Note 25(b))		**221,173**	**10,267**	**1,812**	**72,129**	**4,809,094**	**5,114,475**
Comprehensive income:							
Net income		–	–	–	–	2,065,963	2,065,963
Other comprehensive income:							
Net unrealized loss on a change in valuation of investments		–	–	–	(1,177)	–	(1,177)
Cumulative translation adjustment	2(b)	–	–	–	519,034	–	519,034
Comprehensive income							**2,583,820**
Dividends to shareholders	17(b)	–	–	–	–	(784,853)	(784,853)
Payments to controlling shareholders for common control transfer of subsidiary interests	25(b)	–	–	–	–	(104,000)	(104,000)
Balance at December 31, 2006		**221,173**	**10,267**	**1,812**	**589,986**	**5,986,204**	**6,809,442**
Comprehensive income:							
Net income		–	–	–	–	2,247,283	2,247,283
Other comprehensive income:							
Cumulative translation adjustment, attributable to associate		–	–	–	15,562	–	15,562
Cumulative translation adjustment	2(b)	–	–	–	575,998	–	575,998
Comprehensive income							**2,838,843**
Dividends to shareholders	17(b)	–	–	–	–	(707,337)	(707,337)
Earnings from disposal of assets to the company under common control	18(a) 28(d)	–	–	50,583	–	–	50,583
Balance at December 31, 2007		**221,173**	**10,267**	**52,395**	**1,181,546**	**7,526,150**	**8,991,531**

The accompanying notes constitute an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

as at and for the years ended December 31, 2007, 2006 and 2005

1. Background

OJSC Novolipetsk Steel (the "Parent Company") and its subsidiaries (together – the "Group") is one of the largest iron and steel groups in the Russian Federation with facilities that allow it 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, long products, hot-rolled steel, cold-rolled steel, galvanized cold-rolled sheet and cold-rolled sheet with polymeric coatings and also electro-technical 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 a less significant sea port operating segment (Note 26).

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 subsidiaries' 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 blast furnace coke, cupola coke, nut coke and small-sized coke.
- Steel rolling company LLC VIZ-Stal (acquired in 2006). The principal business activity of this company is the production of cold-rolled grain-oriented and non-oriented steel.
- OJSC Maxi-Group and its subsidiaries (acquired in 2007). The principal business activities of these companies are the collection and recycling of iron scrap, steel-making and production of long products.
- 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, shipment of cargo to sea transport and vice versa.

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

- Joint Venture with Duferco Group – established in 2006 on the basis of Steel Invest & Finance (Luxembourg) S.A. ("SIF S.A.") in which both parties hold a 50% interest. SIF S.A. holds 100% interests or majority votes in 24 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 centres (Note 6(c)).
- Danish steel rolling company DanSteel A/S (acquired in 2006). The principal business activity of this company is the 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 companies. 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 functional currency of the foreign subsidiaries is their local currency. 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 statement of income 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 $575,998, $519,034 and ($170,265) as at December 31, 2007, 2006 and 2005, 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, 2007, 2006 and 2005 were 1 US dollar to 24.5462, 26.3311 and 28.7825 Russian rubles, respectively. The annual weighted average exchange rates were 25.5770, 27.1852 and 28.2864 Russian rubles to 1 US dollar for the years ended December 31, 2007, 2006 and 2005, 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 programmes; depreciation and amortization lives; 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 the 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 / purchases and services provision / 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 and 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.

3. Significant accounting policies continued

(i) Property, plant and equipment

Owned assets

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

Property, plant and equipment also include 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 costs are capitalized against qualifying assets as part of property, plant and equipment.

Such interest costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction is interrupted for an extended period or when the asset is substantially complete. Further interest costs are charged to the statement of income.

Where funds are borrowed specifically for the purpose of acquiring or constructing a qualifying asset, the amount of interest costs eligible for capitalization on that asset is the actual interest cost incurred on the borrowing during the period.

Where funds are made available from general borrowings and used for the purpose of acquiring or constructing qualifying assets, the amount of interest costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on these assets.

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 ("EITF") 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 and land. The range of the estimated useful lives is as follows:

Buildings and constructions	20 – 45 years
Machinery and equipment	2 – 40 years
Vehicles	5 – 25 years

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

(j) Leasing

Leasing transactions are classified according to the lease agreements which specify the rewards and risks associated with the leased property. Leasing transactions in which the Group is the lessee are classified into capital leases and operating leases. In a capital lease, the Group receives the major portion of economic benefit of the leased property and recognizes the asset and associated liability on its balance sheet. All other transactions in which the Group is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

(k) 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 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.

(l) 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.

(m) Derivative instruments

The Group uses foreign currency derivative instruments to manage its exposure to foreign exchange risk. Forwards and options are used to reduce the effects of fluctuations in the foreign exchange rates and corresponding effects on business transactions denominated in foreign currencies. The Group has not elected to designate derivative instruments as qualifying for hedge accounting treatment. As a result, the changes in fair value of all derivatives are recognized immediately in results of operations in “Foreign currency exchange, net” line.

(n) 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 are 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.

(o) 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.

(p) Borrowing activities

The Group’s general-purpose funding is principally obtained from commercial paper and short-term and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums.

(q) 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.

(r) 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

3. Significant accounting policies continued

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.

(s) Dividends

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

(t) 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.

(u) Shipping and handling

Starting in 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 revised delivery terms agreed with customers. The related shipping and handling expense is reported in selling expenses. Previously, arrangements for product delivery were entirely the responsibility of customers.

(v) 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)).

(w) Non-cash transactions

Non-cash settlements represent offset transactions between customers and suppliers, when exchange equivalents are 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.

(x) Recent accounting pronouncements

Accounting changes

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments* ("SFAS No. 155") which amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 155 allows any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133 to be carried at fair value in its entirety, with changes in fair value recognized in earnings. In addition, SFAS No. 155 requires that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or contain an embedded derivative. This Statement also eliminates a prior restriction on the types of passive derivatives that a qualifying special purpose entity is permitted to hold. The Statement is applicable to new or modified financial instruments for 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 adoption of SFAS No. 155 in 2007 did not have a material impact on the Group's 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 for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 156 in 2007 did not have a material impact on the Group's consolidated financial statements.

In April 2006, the FASB issued FASB Staff Position 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 adoption of FSP FIN 46(R)–6 in 2007 did not have a material impact on the Group's 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. The Group adopted FIN 48 as at January 1, 2007. The adoption of this new pronouncement did not have any material impact on the Group's consolidated financial statements. The Group adopted FIN 48 as at January 1, 2007. As a result of the implementation of FIN 48, no uncertain tax positions were identified. The applicable tax law does not require interest to be paid on an underpayment of income taxes. The Group records any related penalties as a part of taxes other than income tax in the consolidated statement of income. The Group currently does not have a liability for tax penalties.

New pronouncements

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

In September 2006, the FASB issued FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ("SFAS No. 158")*. The Group has adopted the recognition provisions of SFAS No. 158 as at December 31, 2006, which require that the funded status of defined benefit pension and other benefit plans be fully recognized on the balance sheet. The adoption of SFAS No. 158 had no effect on the recognition of pension-related costs in the income statement. Overfunded plans are recognized as an asset and underfunded plans are recognized as a liability. The initial impact of the standard due to unrecognized prior service costs or credits and net actuarial gains or losses as well as subsequent changes in the funded status are recognized as changes to accumulated other comprehensive income in shareholders' equity. Adoption of SFAS No. 158 had no effect on the accrued liabilities to employees.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ("SFAS No. 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. SFAS No. 159 will become effective for the Group on January 1, 2008. The Group is currently evaluating the potential impact, if any, that the adoption of SFAS No. 159 will have on its consolidated financial statements.

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

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

In April 2007, the FASB issued FSP FIN 39-1, *Amendment of FASB Interpretation No. 39* ("FSP FIN 39-1"). FSP FIN 39-1 modifies FIN 39, *Offsetting of Amounts Related to Certain Contracts* and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Group believes that the adoption of FSP FIN 39-1 will not have material effect on its consolidated financial statements.

3. Significant accounting policies continued

On May 2, 2007, the FASB issued FSP No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* ("FSP FIN 48-1"), which amends FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), to provide guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under the FSP FIN 48-1, a tax position is considered to be effectively settled if the taxing authority completed its examination, the enterprise does not plan to appeal and it is remote that the taxing authority would re-examine the tax position in the future. FSP FIN 48-1 is effective retroactively to January 1, 2007. The adoption of FSP FIN 48-1 did not have a material impact on the Group's consolidated financial statements.

(y) 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 four 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 electro-technical steel;
- long products segment, comprising a number of steel-production facilities combined in a single production system from iron scrap collection and recycling to steel-making, production of long products, reinforcing rebar and metalware;
- 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 blast furnace 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

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Cash – Russian rubles	124,773	113,380	124,003
Cash – other currency	23,165	44,852	420,194
Deposits – Russian rubles	947,322	466,254	247,724
Deposits – US dollars	20,486	1,612	917,670
Deposits – Euro	38,656	37,227	214,378
Other cash equivalents	239	1,888	179
	1,154,641	**665,213**	**1,924,148**

5. Restricted cash

Restricted cash balances as at December 31, 2007, 2006 and 2005 totalled nil, $8,372 and $7,979, respectively, and represented obligatory cash reserves, placed with the Central Bank of the Russian Federation by the subsidiary bank (Note 18(c)) in accordance with statutory requirements applicable to credit institutions.

6. Investments

Balance sheet classification of investments:

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Short-term investments and current portion of long-term investments	153,462	37,261	27,040
Long-term investments, net	818,590	810,350	31,470
Total investments, net	**972,052**	**847,611**	**58,510**

6. Investments continued

(a) Trading securities

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Investments in shares	–	10,098	3,990
Corporate bonds	–	13,575	7,971
Eurobonds	–	–	7,759
Government bonds	–	4,767	6,401
Subfederal bonds	–	7,134	220
Other	–	1,398	699
	–	**36,972**	**27,040**

Short-term investments are represented by a loan issued to SIF S.A. (Note 28(b)) and other loans issued for third parties.

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

The income generated from trading securities for the years ended December 31, 2006 and 2005 amounted to $1,628 and $439, respectively.

(b) Available-for-sale securities

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Russian government and other bonds with annual coupon rates ranging from 3% to 9.4%			
Acquisition cost	–	295	590
Gross unrealized losses	–	(6)	(31)
Deposit certificates with interest rates ranging from 5.2% p.a.to 20% p.a.	–	–	–
Fair value	–	**289**	**559**

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

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Due within one year	–	289	–
Due in one to five years	–	–	559
Due after five years	–	–	–
	–	**289**	**559**

6. Investments continued

(c) Investments in associates

(thousands of US dollars)	As at December 31, 2007 Ownership	As at December 31, 2006 Ownership	As at December 31, 2005 Ownership	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Steel Invest & Finance (Luxembourg) S.A.	**50.00%**	50.00%	–	**817,942**	805,463	–
OJSC Lipetsky Gipromez	–	43.44%	43.44%	–	9	8
OJSC Combinat KMAruda	–	–	32.89%	–	–	16,034
				817,942	805,472	16,042

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

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

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

The purchase price paid by the Group in December 2006 for its interest in SIF S.A. was $805 million.

As at December 31, 2007 the difference between the cost of the Group's investment and the amount of acquired equity in SIF S.A.'s net assets, appraised at fair value, amounted to $24,181 and was accounted for as if SIF S.A. was a consolidated subsidiary.

The investments in SIF S.A. are accounted for by the Group under the equity method (Note 3(h)), from the date of obtaining significant influence over the operating activities of SIF S.A. by the Group, which management considers to be December 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. In addition, in February 2008 the Group entered into a call option agreement, under which it may acquire one additional share in SIF S.A. and thus increase its stake to that of a controlling shareholding, as discussed in Note 30(b).

Because SIF S.A.'s fiscal year end is September 30, 2007, the Group records its share of the earnings of SIF S.A. from its most recent consolidated financial statements as at September 30, 2007 adjusted for the effect of material intervening transactions up to December 31, 2007. Starting January 1, 2009 fiscal year will be the calendar year.

Summarized financial information for equity-method investment in SIF S.A., is as follows:

(thousands of US dollars)	As at September 30, 2007
Current assets	**1,766,295**
Non-current assets	**1,104,397**
Total assets	**2,870,692**
Current liabilities	**1,285,679**
Non-current liabilities	**747,225**
Total liabilities	**2,032,904**
Equity	**837,788**

The revenues and net income of SIF S.A. for the twelve months, ended September 30, 2007 amount to $3,532,612 and $102,282, respectively.

At December 31, 2007 Group's retained earnings included a loss of $(50,312) related to SIF S.A.

In 2007 the Group's sales to SIF S.A. and its subsidiary were $185,009 (Note 28(a)).

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's shares increasing its stake to a controlling interest (Note 25(c)). In August 2006 the Group sold the entire interest in OJSC Combinat KMAruda (Note 21(b)).

(d) Non-marketable securities

(thousands of US dollars)	**As at December 31, 2007 Ownership**	As at December 31, 2006 Ownership	As at December 31, 2005 Ownership	**As at December 31, 2007**	As at December 31, 2006	As at December 31, 2005
Non-marketable securities, net of current portion:						
OJSC Lebedinsky GOK	**–**	–	11.96%	**–**	–	9,456
OJSC Lipetskenergo	**–**	14.11%	14.11%	**–**	162	148
OJSC Lipetsk power generating company	**–**	–	14.11%	**–**	–	2,719
OJSC Lipetsk energy management company	**–**	–	14.11%	**–**	–	0.2
OJSC TGK-4	**–**	2.68%	–	**–**	2,972	–
OJSC Lipetsk energy sales company	**–**	14.11%	14.11%	**–**	36	33
OJSC Lipetsk mains systems	**–**	14.11%	14.11%	**–**	400	366
OJSC Lipetskoblgaz	**–**	19.40%	19.40%	**–**	778	712
Other				**687**	919	788
				687	5,267	14,222
Provision for other than temporary diminution in value				**(39)**	(389)	(353)
				648	4,878	13,869

In 2006 the Group sold an 11.96% share in OJSC Lebedinsky GOK to a third party for $400 million (Note 21(a)).

The interest in OJSC TGK-4 was acquired by the Parent Company as a result of a 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 following a reorganization of OJSC Lipetskenergo in 2005. There was no cash outflow from the Group as a result of this transaction.

In December 2006 the Group concluded an agreement for the sale of its energy assets to a related party and subsequently sold them in February 2007 (Note 18(a)).

6. Investments continued

(e) Long-term bank deposits

Long-term bank deposits amounted to $1,000 as at December 31, 2005.

7. Accounts Receivable and Advances Given

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Trade accounts receivable	**996,669**	667,369	443,978
Advances given to suppliers	**313,550**	97,458	55,589
Taxes receivable	**416,696**	311,993	198,917
Accounts receivable from employees	**5,968**	2,838	1,646
Other accounts receivable	**207,181**	84,287	21,880
	1,940,064	1,163,945	722,010
Allowance for doubtful debts	**(243,613)**	(13,453)	(13,495)
	1,696,451	1,150,492	708,515

As at December 31, 2007, 2006 and 2005, the Group had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus and Moorfield Commodities Company, UK, each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors totalled $194,648 and $473,841 at December 31, 2007, $159,826 and $236,514 at December 31, 2006, $155,798 and $65,748 at December 31, 2005, respectively.

As at December 31, 2006 and 2005, the Group also had accounts receivable from Tuscany Intertrade (UK) which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by this debtor totalled $104,155 and $108,670 at December 31, 2006 and 2005, respectively.

As at December 31, 2007 the Group had other accounts receivable of $73,051 from companies for which a 100% allowance was recorded. These accounts receivable were acquired by the Group through a business combination (Note 25(a)).

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 (Note 25(d)), which is included in other accounts receivable.

8. Inventories

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Raw materials	**756,983**	554,126	383,832
Work in process	**310,832**	199,243	109,679
Finished goods and goods for resale	**209,878**	129,421	81,232
	1,277,693	882,790	574,743
Provision for obsolescence	**(41,260)**	(25,850)	(15,493)
	1,236,433	856,940	559,250

As at December 31, 2007, inventories of $82,920 were pledged against borrowings (Note 13(b)).

9. Other Current and Non-Current Assets

(a) Other current assets

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Short-term loans provided by the subsidiary bank	–	254,544	163,055
Other current assets	**147,191**	90,292	51,875
	147,191	344,836	214,930
Allowance for doubtful loans	–	(13,514)	(6,010)
	147,191	331,322	208,920

(b) Forward contracts

Included in other current assets as at December 31, 2007 and 2006 are fair values of unrealized forward exchange and option contracts, amounting to $68,392 and $6,323, respectively. The table below summarizes by major currency the contractual amounts and fair values of the Group's unrealized forward exchange and option contracts in US dollars. Fair value is determined as the sum of the differences between discounted market forward rate for appropriate month, prevailing at December 31, 2007 and appropriate contract settlement rate, multiplied by respective notional amount of the contract. The amounts represent the US dollar equivalent of commitments to sell foreign currencies during the next twelve months. There were no commitments to purchase foreign currencies in 2007 and 2006.

(thousands of US dollars)	As at December 31, 2007		As at December 31, 2006		As at December 31, 2005	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	**1,767,295**	**63,247**	1,451,076	6,075	–	–
Euro	**707,389**	**5,145**	191,315	248	–	–
	2,474,684	**68,392**	1,642,391	6,323	–	–

During 2007 and 2006, gain / (loss) from realized forward exchange and option contracts amounted to $37,911 and $(107), respectively, included in "Foreign currency exchange, net" line.

(c) Other non-current assets

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Long-term loans provided by the subsidiary bank	–	80,435	71,138
Other non-current assets	**40,754**	29,744	62,609
	40,754	110,179	133,747

10. Property, Plant and Equipment

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Land	**88,353**	77,191	56,070
Mineral rights	**616,620**	583,962	522,802
Asset retirement cost	**–**	24,277	–
Buildings	**1,428,223**	1,201,439	715,066
Land and buildings improvements	**1,339,274**	1,204,403	757,066
Machinery and equipment	**5,841,034**	5,030,473	4,246,584
Vehicles	**333,209**	278,711	219,431
Construction in progress and advances for construction and acquisition of property, plant and equipment	**2,197,131**	773,388	467,354
Leased assets (Note 22)	**457,191**	8,460	–
Other	**79,393**	76,763	37,229
	12,380,428	9,259,067	7,021,602
Accumulated depreciation	**(5,930,551)**	(5,270,939)	(4,606,601)
	6,449,877	3,988,128	2,415,001

According to US GAAP, the Group's property, plant and equipment should be reported at their actual historical depreciated cost. However, due to the absence of reliable US GAAP accounting records and impairment calculations, the book value of certain property, plant and equipment was determined with the assistance of an independent appraiser, which management considers provided the best basis for the recognition and depreciation of such items. The appraiser provided US dollar estimates of the fair value, determined on the basis of depreciated replacement cost, which the Group has recorded as its property, plant and equipment balance as at January 1, 2000. As at December 31, 2007, 2006 and 2005, the net book value of these items amounted to 6%, 12% and 21% of the total net book value of property, plant and equipment, respectively. During 2006 the Group considered that as a result of significant additions to property, plant and equipment since the date of the appraisal, in combination with the cumulative effect of depreciation of the appraised assets, any possible effect on the consolidated financial statements as at December 31, 2007 and 2006 is no longer material.

In August 2005, the Group acquired a licence for exploration and mining of Zhernovskoe coal deposit, expiring in 2025. The carrying value of this licence as at December 31, 2007 is $39,639.

The other major part of mineral rights relate to mining segment, and was acquired by the Group in 2004 through a business combination. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2007, property, plant and equipment of $390,816 were pledged against borrowings (Note 13).

11. Goodwill and Other Intangible Assets

(a) Goodwill

(thousands of US dollars)	
Balance as at December 31, 2004	**179,815**
Cumulative translation adjustment	(6,458)
Balance as at December 31, 2005	**173,357**
Acquired in new subsidiaries (Note 25)	370,020
Disposal of subsidiary	(17,749)
Cumulative translation adjustment	34,075

(thousands of US dollars)

Balance as at December 31, 2006	**559,703**
Acquired in new subsidiaries (Note 25)	592,171
Cumulative translation adjustment	37,585
Balance as at December 31, 2007	**1,189,459**

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Preliminary estimated goodwill arising from the acquisition of a controlling interest in OJSC Maxi-Group and its subsidiaries in 2007 amounted to $592,171 and was allocated to the long products segment. Goodwill arising from the acquisition of a controlling and minority interests in OJSC Altai-koks and its subsidiaries in 2006 amounted to $295,110 and was allocated to the coke-chemical segment. Goodwill arising from the acquisition of a controlling interest in LLC VIZ-Stahl and its subsidiaries in 2006 amounted to $58,112 and was allocated to the steel segment. Goodwill arising from the acquisition of a controlling interest in OJSC Combinat KMAruda in 2006 amounted to $16,798 and was allocated to the mining segment (Note 26).

The Group performed a test for impairment of goodwill at December 31, 2007, 2006 and 2005 which indicated no impairment at such dates.

(b) Other intangible assets

	Subsidiary	Total useful life, months	**Gross book value as at December 31, 2007**	Gross book value as at December 31, 2006	Gross book value as at December 31, 2005
	Note 25				
Industrial intellectual property	LLC VIZ-Stahl	149	**69,614**	64,895	–
Customer base	LLC VIZ-Stahl	125	**132,207**	123,575	–
Customers relationships (oil)	OJSC TMTP	66	**12,740**	11,876	10,865
Customers relationships (dry cargo)	OJSC TMTP	66	**14,113**	13,156	12,036
Customers relationships	DanSteel A/S	72	**5,351**	4,988	4,563
			234,025	218,490	27,464
Accumulated amortization			**(44,941)**	(19,460)	(6,378)
			189,084	199,030	21,086

The intangible assets were acquired in business combinations (Note 25) and met the criteria for separate recognition outlined in SFAS No. 141. They were recorded under the provisions of SFAS No. 141 at fair values at the date of acquisition, based on their appraised value.

	Amortization expense
Aggregate amortization expense	
For the year ended December 31, 2007	(25,481)
Estimated amortization expense in the subsequent periods	
2008	(24,067)
2009	(24,067)
2010	(19,185)
2011	(19,030)
2012	(18,293)

12. Accounts Payable and Other Liabilities

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Trade accounts payable	**266,640**	130,396	128,180
Advances received	**165,624**	121,654	130,347
Customers' deposits and accounts in the subsidiary bank	**–**	201,638	188,265
Taxes payable other than income tax	**65,322**	66,297	25,728
Accounts payable and accrued liabilities to employees	**159,578**	104,591	59,592
Dividends payable	**4,877**	4,602	2,572
Short-term capital lease liability (Note 22)	**32,273**	1,379	–
Other accounts payable	**700,620**	33,762	31,299
	1,394,934	664,319	565,983

As at December 31, 2007 the Group had accounts payable of $555,578 to Mr Maximov (minority shareholder of OJSC Maxi-Group) in respect of the purchase from him of his shares in OJSC Maxi-Group, which is included in other accounts payable (Note 25(a)).

13. Short-term and Long-term Borrowings

In 2007, the Group acquired a controlling stake in OJSC Maxi-Group (Note 25(a)). Maxi-Group companies had certain debt which was in breach of restrictive covenants (Note 13(b)).

(a) Short-term and long-term borrowings

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Maxi-Group			
Russian rubles			
Loans with interest rates of 10.3% – 16.5% per annum, mature 2008 – 2014	**545,420**	–	–
Loans with interest rates of 13.2% – 14.5% per annum, mature 2008	**57,035**	–	–
Bonds with interest rates of 11.25% – 12.3% per annum, mature 2008	**81,743**	–	–
Bonds with interest rates of 11.25% per annum, mature 2009	**11,913**	–	–
Other borrowings	**122,359**		
US dollars			
Loans with interest rates of 9.1% – 13.5% per annum, mature 2009 – 2010	**110,498**	–	–
Loans with interest rates of LIBOR (1 m) +3.75% per annum, mature 2009 – 2010	**85,652**	–	–
Loans with interest rates of LIBOR (1 m) +3.75% per annum – LIBOR (6 m) +5.5% per annum, mature 2008	**86,244**	–	–
Other borrowings	**10,250**	–	–
Euro			
Loans with interest rates of EURIBOR (6 m) +1.3% – EURIBOR (6 m) +5.0% per annum, mature 2008 – 2017	**244,511**	–	–
Loans with interest rates of 3.4% per annum, mature 2011	**11,702**	–	–
Loans with interest rates of LIBOR (3 m) +6% per annum, mature 2008	**488**	–	–
Other borrowings	**4,094**	–	–
	1,371,909	–	–

13. Short-term and Long-term Borrowings

(thousands of US dollars)	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Other companies			
Loans, RUR denominated, 5.6% – 9.6% per annum	**218,057**	83,970	10,276
Loans, US$ denominated, 5% – 6.9% per annum	**19,677**	168,855	5,937
Loans, Euro denominated, 5.25% per annum	**–**	15,805	–
Other borrowings	**152**	28,305	34,410
	1,609,795	296,935	50,623
Less: short-term loans and current maturities of long-term loans	**(1,536,570)**	(248,782)	(5,282)
Long-term borrowings	**73,225**	48,153	45,341

Included in short-term loans and current maturities of long-term loans of $1,536,570 above are loans with breaches of certain covenants of $874,457 (Note 13(b)).

The Group's long-term borrowings at December 31, 2007 mature between 2 to 8 years.

The payment scheduled for long-term loans is as follows:

(thousands of US dollars)	
2009	52,580
2010	14,113
2011	1,359
2012	733
2013	733
Remainder	3,707
	73,225

(b) Loans' covenants and restructuring of Maxi-Group borrowings

Loans' covenants

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

Loan agreements of approximately $840 million contain certain debt covenants, that impose restrictions as to the purposes for which the loans may be utilized, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain subjective acceleration clauses in relation to unfavourable economic conditions and performance of the borrowers, as well as covenants triggered by borrower's failure to fulfill the contractual obligations.

Approximately $570 million of these loans contain additional restrictive covenants, including commencement of court proceedings in respect of borrowers or their management, default or cross-default provisions. Also, these covenants permit the respective banks to direct debit the accounts opened by the debtors with the banks for the purpose of repayment of the borrowing.

Loan agreements of approximately $370 million contain covenants which restrict future assets pledges, and contain certain requirements as to the execution of trade contracts, compliance with tax and legal obligations, and maintenance of the required level of cash inflows through the accounts opened with the lending banks. Approximately $212 million of the loans impose restrictions in relation to dividend payments. Approximately $210 million of the loan agreements contain restrictive covenants relating to interest coverage and net value of tangible assets, minimum equity and consolidated total debt/EBITDA ratio.

As at December 31, 2007 loans of $339,469 were collateralized with guarantee letters and other guarantees issued by companies which are the related parties of OJSC Maxi-Group's minority shareholder and OJSC Maxi-Group (Note 28(g)). As at December 31, 2007 loans of $281,081 were collateralized with the shares of Maxi-Group companies.

13. Short-term and Long-term Borrowings continued

Breach of covenants

Due to the breach of certain terms of the pledge agreements underlying these bank loans, long-term loans of $148,241 were reclassified as short-term loans. In addition, due to the breach of certain restrictive covenants, long-term loans of $132,030 were also reclassified as short-term loans. As a result of this breach the lenders can request payment of $874,457 of short-term loans upon notice, including loans with original short-term maturities of $594,186.

None of the bank loans where the breach of loan's covenants existed at December 31, 2007 has been called by the lenders either at December 31, 2007 or during the subsequent period through the date of these consolidated financial statements.

The Group's management believes that measures undertaken and preliminary agreements achieved will allow the Group to avoid subsequent breaches of covenants and to restore to original terms of payment.

Restructuring of borrowings

Immediately following the acquisition of Maxi-Group the Parent Company commenced the restructuring of the borrowings of the Maxi-Group entities. The process of restructuring was not complete at the date of these consolidated financial statements. From the date of the binding agreement up to the reporting date the following major arrangements were carried out:

- Stabilization loans of $400 million were granted by the Parent Company to Maxi-Group entities for repayment of overdue borrowings and increase of working capital;
- With the Parent Company's assistance and guarantees, loans of approximately $32 million as at December 31, 2007 and of approximately $182 million during the first quarter 2008 were restructured.

After the balance sheet date, the Group has reached preliminary agreements with major Russian banks for the purpose of further optimization of the Maxi-Group loan portfolio on a market basis by:

- increasing of long-term borrowings share in loan portfolio;
- decrease in the number of creditors.

It is expected by management that the restructuring will be finished in the second half of 2008 and result in changing of present covenants and loans maturities.

14. Other Long-term Liabilities

(thousands of US dollars)	**As at December 31, 2007**	As at December 31, 2006	As at December 31, 2005
Customers' deposits in subsidiary bank	**–**	53,547	45,377
Long-term capital lease liability (Note 22)	**316,558**	6,690	–
Asset retirement obligations (Note 15)	**–**	134,635	–
Other long-term liabilities	**58**	–	128
	316,616	194,872	45,505

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:

(thousands of US dollars)

Balance as at December 31, 2005	**–**
Liabilities recognized on acquisition	114,229
Accretion expense on asset retirement obligations	19,765
Cumulative translation adjustment	641
Balance as at December 31, 2006	**134,635**
Accretion expense on asset retirement obligations	6,190
Disposal of asset retirement obligations (Note 18(b))	(142,378)
Cumulative translation adjustment	1,553
Balance as at December 31, 2007	**–**

For the purposes of calculation a discount rate of 17.9% was applied to future cash flows.

16. Minority Interest

(thousands of US dollars)

Balance as at December 31, 2004	**85,787**
Minority's share in subsidiaries' net income	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' net income	25,773
Acquisitions of new subsidiaries (Note 25)	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

16. Minority Interest continued

(thousands of US dollars)

Balance as at December 31, 2006	**133,425**
Minority's share in subsidiaries' net income	23,490
Acquisitions of new subsidiaries (Note 25)	(17,144)
Purchase of the minority interest in existing subsidiaries	(2,686)
Dividends paid to minority shareholder of existing subsidiaries	(12,906)
Disposal of a stake in non-wholly owned subsidiaries (Note 18(a),(c))	(26,424)
Cumulative translation adjustment	9,058
Balance as at December 31, 2007	**106,813**

17. Stockholders' Equity

(a) Stock

As at December 31, 2007, 2006 and 2005, 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 Shareholders' 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, 2007, 2006 and 2005 the retained earnings of the Parent Company, in accordance with the legislative requirements of the Russian Federation, available for distribution amounted to $6,972,850, $5,645,329 and $4,137,791, converted into US dollars using exchange rates at December 31, 2007, 2006 and 2005, respectively.

The dividend policy, which was approved by the 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 an average rate of dividend payments during the five-year cycle of at least 30% of net income, both determined in accordance with US GAAP.

In September 2007 the Parent Company declared interim dividends for the six months ended June 30, 2007 of 1.5 Russian rubles per share for the total of $360,142. Dividends payable amount to $4,877 at December 31, 2007 (Note 12).

In June 2007 the Parent Company declared dividends for the year ended December 31, 2006 of 3 Russian rubles per share for the total of $683,267, including interim dividends for the six months ended June 30, 2006 of 1.5 Russian rubles per share for the total of $336,072.

In June 2006 the Parent Company declared dividends for the year ended December 31, 2005 of 3 Russian rubles per share for the total of $659,573, including interim dividends for the six months ended June 30, 2005 of one Russian ruble per share for the total of $210,792. 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 rubles per share for the total of $385,556, including interim dividends for the nine months ended September 30, 2004 of one Russian ruble per share ($214,081). In September 2005 the Parent Company declared interim dividends for the six months ended June 30, 2005 of one Russian ruble per share for the total of $210,792. Dividends payable amount to $2,572 at December 31, 2005 (Note 12).

18. Disposals of Assets

(a) Disposal of energy assets

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

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

(thousands of US dollars)

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

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

(thousands of US dollars)

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

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

The aforementioned assets were disposed of at the following prices (as at the transaction date):

- LLC Lipetskaya municipal energy company, a share of 51.00% in stake – $3.76 million;
- OJSC Lipetskenergo, an interest of 14.11%, ordinary shares – $15.85 million;
- OJSC Lipetsk energy sales company, an interest of 14.11%, ordinary shares – $0.42 million;
- OJSC TGK-4, an interest of 2.68%, ordinary shares – $39.23 million;
- OJSC Lipetsk mains systems, an interest of 14.11%, ordinary shares – $3.63 million;
- OJSC Lipetskoblgaz, an interest of 19.39%, ordinary shares – $15.79 million.

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

18. Disposals of Assets continued

(b) Disposal of Prokopyevskugol Group

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 Prokopyevsk (Kemerovo Region), for the sales of the Group's coal producing companies, the Prokopyevskugol group. Under the agreement, the total consideration for the assets transferred was one US dollar. The closing of the transaction was completed in the beginning of April 2007. A pre-tax gain on this transaction of $57,577 was recognized by the Group, and included within the "Gain from disposal of subsidiaries" line in the consolidated statement of income for the year ended December 31, 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 the decision to sell the Prokopyevskugol Group. Given the fact that proper attention to social aspects is a key issue of such restructuring, the Group management accepted the offer referred to above.

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. In March 2007 the third party waived its right to claim the loan from Prokopyevskugol Group entirely (a related income tax effect of $33,413 was accrued by the Group and included in the "Income tax" line). A net pre-tax gain on this operation of $30,028 was recognized by the Group, and included within the "Other expenses, net" line in the consolidated statement of income for the year ended December 31, 2007.

During December 2006 and January 2007 the Group entered into supply agreements for coal concentrate with the Prokopyevskugol Group companies for the period up to the end of 2007. The Group's management assumes that similar relations might be continued in the future. Accordingly, the operations of Prokopyevskugol Group companies in these consolidated financial statements are recognized within continuing operations of the Group within other segments.

The carrying amounts of the major classes of assets and liabilities of Prokopyevskugol Group companies at April 2, 2007 were as follows (in relation to 100% stake):

(thousands of US dollars)	
Current assets	44,364
Non-current assets	114,401
Total assets	**158,765**
Current liabilities	(40,947)
Non-current liabilities	(175,395)
Total liabilities	**(216,342)**
Negative net assets	**(57,577)**

Information on the Prokopyevskugol Group companies' transactions, before intercompany eliminations, for the period from January 1, 2007 to April 2, 2007 is as follows:

Sales revenue	37,865
Net income (including gain, less tax, on entire waiving by a third party of the right to claim the loan totalled $106,400)	74,412

(c) Disposal of subsidiary bank
In June 2007, the Group completed the sale, to a related party (OJSC Bank Zenit) (Note 28(d)), of its full share in OJSC Lipetskcombank (54.88%) for a total consideration of $47,662. A pre-tax gain on this transaction of $24,097 was recognized by the Group, and included within the "Gain from disposal of subsidiaries" line in the consolidated statement of income for the year ended December 31, 2007.

Due to the fact that a significant part of the Group's cash transactions is carried out through OJSC Lipetskcombank, including employees' payroll bank accounts servicing for several Group companies, the Group's management assumes operations with this bank might be continued in the future. Accordingly, operations of OJSC Lipetskcombank in these consolidated financial statements are recognized within continuing operations of the Group within other segments.

The carrying amounts of the major classes of assets and liabilities of OJSC Lipetskcombank at June 29, 2007 are as follows (in relation to the 100% stake):

(thousands of US dollars)

Current assets	509,508
Non-current assets	86,031
Total assets	**595,539**
Current liabilities	(507,642)
Non-current liabilities	(44,759)
Total liabilities	**(552,401)**
Net assets	**43,138**

Information on OJSC Lipetskcombank transactions, for the period from January 1, 2007 to June 29, 2007 is as follows:

Income	33,823
Net loss	(237)

This transaction was carried out 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 interest in OJSC Lipetskkcombank was classified as a non-core asset.

19. Earnings Per Share

	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Weighted average number of shares	**5,993,227,240**	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	**2,247,283**	2,065,963	1,381,395
Basic and diluted net income per share (US dollars)	**0.3750**	0.3447	0.2305

The basic net income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period, after giving retroactive effect to any stock splits.

The average shares outstanding for the purposes of basic and diluted earnings per share information were 5,993,227,240 for the years ended December 31, 2007, 2006 and 2005.

The Parent Company does not have potentially dilutive shares outstanding.

20. Income tax

(thousands of US dollars)	**For the year ended December 31, 2007**	For the year ended December 31, 2006	For the year ended December 31, 2005
Current income tax expense	**799,078**	745,337	500,950
Deferred income tax expense / (benefit): origination and reversal of temporary differences	**37,925**	(38,732)	(3,677)
Total income tax expense	**837,003**	706,605	497,273

The corporate income tax rate dominantly applicable to the Group was 24% in 2007, 2006 and 2005.

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

(thousands of US dollars)	**For the year ended December 31, 2007**	For the year ended December 31, 2006	For the year ended December 31, 2005
Income from continuing operations before income tax	**3,156,827**	2,621,055	1,892,274
Income tax at applicable tax rate	**757,638**	629,053	454,146
Increase in income tax resulting from:			
non-deductible expenses	**79,365**	77,552	43,127
Total income tax expense	**837,003**	706,605	497,273

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

(thousands of US dollars)	**as at December 31, 2007**	as at December 31, 2006	as at December 31, 2005
Deferred tax assets			
Accounts payable and other liabilities	**23,160**	17,922	8,486
Non-current liabilities	**64,367**	16,779	88
Accounts receivable	**5,349**	1,250	1,066
Other	**2,881**	1,821	381
	95,757	37,772	10,021
Deferred tax liabilities			
Property, plant and equipment	**(507,459)**	(470,630)	(274,927)
Intangible assets	**(46,788)**	(51,579)	(7,806)
Inventories	**(21,338)**	(20,159)	(12,906)
Other	**(105,739)**	(33,051)	(15,094)
	(681,324)	(575,419)	(310,733)
Total deferred tax liability	**(585,567)**	(537,647)	(300,712)

21. Gains on Investments

(a) Disposal of OJSC Lebedinsky GOK shares

In January 2006, the Parent Company sold to third parties 11.96% of the outstanding common shares of OJSC Lebedinsky GOK for a consideration of $400,000; the 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.

The Group recognized a gain on this transaction calculated as the difference between the 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 the "(Losses) / gains on investments, net" line (totalling $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 an interest bearing promissory note of $25 million which was due and settled in December 2006. 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):

(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 the 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 the 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 amount of goodwill, related to OJSC Combinat KMAruda at August 31, 2006 was $17,733.

22. Capital and Operational Leases

(thousands of US dollars)	Capital leases
Future minimum lease payments	
2008	74,875
2009	115,313
2010	89,948
2011	78,483
2012	72,231
Remainder	78,508
Total minimum lease payments	**509,358**
Less: amount representing estimated executory costs (including taxed payable by the lessor) and profit thereon, included in total minimum lease payments	(24,383)
Net lease payments	**484,975**
Less: amount representing interest	(136,144)
Present value of minimum lease payments	**348,831**
Less: short-term capital lease liability	(32,273)
Long-term capital lease liability	**316,558**

The average capital lease contract term is five years.

The discount rate used for calculation of the present value of the minimum lease payments was 10.5% for assets received in 2007 and 2006.

Capital lease charges of $6,333 and $860 were recorded in the consolidated statement of income for the years ended December 31, 2007 and 2006, respectively.

The majority of the fixed assets held under the capital lease arrangements as at December 31, 2007 were acquired by the Group through a business combination (Note 25(a)).

At December 31, 2007 and 2006, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

(thousands of US dollars)	**As at December 31, 2007**	As at December 31, 2006	As at December 31, 2005
Machinery and equipment	**323,126**	–	–
Vehicles	**134,065**	8,460	–
	457,191	8,460	–
Accumulated depreciation	**(39,432)**	(690)	–
Net value of property, plant and equipment obtained under capital lease arrangements	**417,759**	7,770	–

The Group incurred expenses in respect of operational leases of $11,251, $10,538 and $9,363 in 2007, 2006 and 2005, respectively.

23. Non-cash transactions

Approximately $74,000, $16,900 and $7,300 of the Group's 2007, 2006 and 2005 revenues, respectively, were settled in the form of mutual offset against the liability to pay for goods 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 2007 and 2006 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 years ended December 31, 2007 and 2006, were $448,731 and $8,460, respectively (Note 22).

24. Fair value of financial instruments

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

The Group's management believes that the carrying values of cash, trade and other receivables, trade and other payables, and loans approximate to a reasonable estimate of their fair value due to their short-term maturities. Carrying values of bonds were estimated based on current market rates.

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

25. Business combinations and common control transfers

(a) **Acquisition of OJSC Maxi-Group shares**

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

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

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

25. Business combinations and common control transfers continued

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

(thousands of US dollars)	
Current assets	648,687
Property, plant and equipment	1,717,073
Other non-current assets	530
Preliminary goodwill (Note 11(a))	592,171
Total assets acquired	**2,958,461**
Current liabilities	(1,095,333)
Non-current liabilities	(1,334,052)
Deferred income tax liability	(4,217)
Total liabilities assumed	**(2,433,602)**
Minority interest	33,656
Net assets acquired	**558,515**
Less: cash acquired	(25,047)
Net assets acquired, net of cash acquired	**533,468**

The Group's management believes that it is not practicable to disclose information about revenues and net results for the eleven months ended November 30, 2007 and 2006, respectively, because information suitable for reporting under US GAAP purposes for these periods is not available.

(b) Acquisition of DanSteel A/S shares

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

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

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

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

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

(c) 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 a 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.

25. Business combinations and common control transfers continued

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 an independent appraiser (in relation to the 43.37% stake acquired):

(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 21(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.

(d) 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 coal assets 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 a 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.

During the year ended December 31, 2007 the Parent Company acquired additional stakes of 0.51% in OJSC Altai-koks from minority shareholders for a consideration of $1,829.

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 were consolidated by the Group for the first time from the effective date of obtaining control which management considers to be April 2006. Subsequently, after further evaluation of the future perspectives of the Prokopievskugol Group, the Group made a decision to dispose of this investment (Note 18(b)).

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 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 established by an independent appraiser. Resulting goodwill primarily reflects the control premium paid for the acquisitions:

(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**

Acquisition of Prokopievskugol – group of coal companies

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

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 established by an independent appraiser:

(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**

25. Business combinations and common control transfers continued

(e) 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 the Group's vertical integration strategy, aiming for increasing production volumes of high-value-added products. The acquired company was 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 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 established by independent appraiser:

(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 the customer base and 149 months for industrial intellectual 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.

26. Segmental information

Following the acquisition of Maxi-Group (Note 25(a)), the Group has four reportable business segments: steel, long products, mining and coke-chemical. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above four segments meet criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to three operating segments of the Group. Those segments include the trade sea port services business, finance business, comprising banking and insurance services, and coal mining and refining (Note 18). 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, 2007 is as follows:

(thousands of US dollars)	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	6,946,050	62,262	105,442	517,308	87,999	7,719,061	–	7,719,061
Intersegment revenue	24,432	–	783,422	167,408	41,904	1,017,166	(1,017,166)	–
Depreciation and amortization	(265,335)	(4,177)	(80,306)	(40,460)	(17,421)	(407,699)	–	(407,699)
Gross profit	**2,891,787**	**8,792**	**588,204**	**205,744**	**48,583**	**3,743,110**	**(1,079)**	**3,742,031**
Operating income	**2,362,820**	**1,555**	**523,245**	**113,563**	**4,744**	**3,005,927**	**(7,556)**	**2,998,371**
Interest income	30,173	6,914	51,292	–	18,530	106,909	(7,158)	99,751
Interest expense	(11,177)	(16,023)	(378)	(4,270)	(6,727)	(38,575)	7,158	(31,417)
Income tax	(585,917)	(492)	(131,643)	(25,573)	(40,748)	(784,373)	(52,630)	(837,003)
Income / (loss) from continuing operations before minority interest	**1,772,543**	**(31,752)**	**443,108**	**78,769**	**155,582**	**2,418,250**	**(98,426)**	**2,319,824**
Segment assets, including goodwill	7,904,615	2,898,515	1,953,223	1,034,930	328,219	14,119,502	(1,043,560)	13,075,942
Capital expenditures	(794,160)	(37,858)	(98,876)	(8,860)	(17,965)	(957,719)	–	(957,719)

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

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

26 Segmental information continued

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

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

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 27(c)) and the Group, for goods sold, and also based on the country of the customers' registration for services provided. It does not reflect the geographical location of the international traders. The Group's total revenue from external customers by geographical area for the years ended December 31, 2007, 2006 and 2005, is as follows:

(thousands of US dollars)	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Russia	2,903,267	2,473,645	1,769,399
European Union	1,542,051	1,083,585	646,326
Middle East, including Turkey	1,122,438	798,862	571,331
North America	304,871	647,712	306,996
Asia and Oceania	995,709	440,331	847,605
Other regions	850,725	601,490	234,149
	7,719,061	**6,045,625**	**4,375,806**

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

As disclosed in Note 27(c), the Group sells to three international traders that accounted for a majority of the Group's sales outside the Russian Federation in 2007, 2006 and 2005.

27. Risks and uncertainties

(a) Operating environment of the Group

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

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

(b) Convertibility of Russian ruble

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

(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 the Russian Federation in monetary terms for the years ended December 31, 2007, 2006 and 2005 were 62%, 59% and 60% of the total sales, respectively.

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

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

The Group sells to three international traders that account for the majority of its sales outside Russia. In 2007, Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus and Tuscany Intertrade (UK), purchased 40%, 23%, and 6% of the Group's sales outside Russia, respectively (2006: 27%, 28% and 19%; 2005: 17%, 41% and 26%). Price fluctuations of sales to these companies are in line with general trends in global price fluctuations. The Group's prices for sales outside Russia are comparable to the prices of Russian competitors. As at December 31, 2007, 2006 and 2005, 1.02%, 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.

In 2007, Novexco (Cyprus) Limited and Novex Trading (Swiss) S.A. acquired the trading business of Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus and Tuscany Intertrade (UK), the international traders that were major export traders of Group's products for several years. All business operations related to these trading companies and the client base of the abovementioned companies were transferred to the acquirers (Note 30(a)).

27. Risks and uncertainties continued

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, 2007 is as follows:

(thousands of US dollars)	US dollar	Euro	Other currencies
Cash and cash equivalents	30,545	42,217	9,545
Accounts receivable and advances given	557,996	536,055	155
Short-term investments	–	146,390	–
Other current assets	–	–	125
Other non-current assets	20	4,582	58
Accounts payable and other liabilities	(8,992)	(48,396)	(764)
Short-term and long-term borrowings	(292,644)	(260,795)	–
Other long-term liabilities	–	–	(7)

28. Related party transactions

Related parties relationships are determined with reference to SFAS No. 57, Related Party Disclosures. Balances as at December 31, 2007, 2006 and 2005 and transactions for the years ended December 31, 2007, 2006 and 2005 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to associate (SIF S.A.) and its subsidiary were $185,009 for the year ended December 31, 2007. Sales to other related parties were $7,358, $20,094 and $38,436 for the years ended December 31, 2007, 2006 and 2005, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equalled $18,953 as at December 31, 2007. Accounts receivable from other related parties equaled $1,993, $1,539 and $33,178 as at December 31, 2007, 2006 and 2005, respectively.

Purchases and services

Purchases of raw materials, technological equipment and management services from the Companies under common control, were $7,151, $16,272 and $22,247 for the years ended December 31, 2007, 2006 and 2005, respectively. Purchases of energy from the companies under significant influence of the Group's management (OJSC Lipetsk energy sales company and other companies, which originated from reorganization of OJSC Lipetskenergo (Note 6(d))), were $61,213, $162,826 and $140,005 for the years ended December 31, 2007, 2006 and 2005, respectively.

Accounts payable to the related parties were $27,958, $2,666 and $16,726 as at December 31, 2007, 2006 and 2005, respectively.

(b) Financial transactions

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

The subsidiary bank of the Group (which was disposed of in June 2007 (Note 18(c))) had loans receivable from related parties, either associates or companies under control or significant influence of the Group's management, of $8,864 and $10,633 as at December 31, 2006 and 2005, 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 and $88,090 as at December 31, 2006 and 2005, respectively (Note 18(c)).

Deposits and current accounts of the Group companies in banks under significant influence of the Group's management (OJSC Bank Zenit and OJSC Lipetskkcombank) amounted to $257,615, $76,114 and $70,967 as at December 31, 2007, 2006 and 2005, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2007, 2006 and 2005 amounted to $9,341, $6,310 and $10,235, respectively.

The Group granted interest free loans to management in the total amount of $386 and $817 for the years ended December 31, 2006 and 2005, respectively. The aggregate amount of such loans outstanding as at December 31, 2007, 2006 and 2005 was $151, $467 and $514, respectively.

Agent fee for the purchase of the shares in subsidiaries (Note 25) from the Company under significant influence of the Group's management for the years ended December 31, 2007 and 2006 amounted to $42 and $867.

(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 25(b)).

(d) Common control transfers and transfers to related parties and disposal of investments

In June 2007, the Parent Company sold, to a related party (OJSC Bank Zenit), its shares in a subsidiary bank for $47,662 and recorded income, less related tax, of $15,895 on this transaction in the consolidated statement of income (Note 18(c)).

In February 2007, the Parent Company sold, to a common control company, its full interests in various energy companies for $78,683 and recorded net income of $50,583 on this transaction in additional paid-in capital (Note 18(a)).

In January 2006, the Group transferred cash consideration to the common control party outside the Group of $104,000 for the transfer of 100% of the outstanding common shares of DanSteel A/S to the Parent Company, which is reflected as distributions to the controlling shareholders (Note 25(b)).

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

Total contributions to a non-governmental pension fund amounted to $12,363, $2,736 and $2,729 in 2007, 2006 and 2005, respectively. The Group has the right to appoint and dismiss top management of the fund as the major contributor to its capital. The Group has no long-term commitments to provide funding, guarantees or other support to the fund.

(f) 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. The respective shares were pledged to secure the payment. This purchase price was initially payable by December 31, 2006 with no interest charged on the outstanding debt. Subsequently, the due date was prolonged until December 31, 2007. The payment was done and revenue from the sale of a part of the shares by companies beneficially owned by certain members of its Board of Directors and management of the Group was a source of liability settlement back to the controlling shareholder. As a result the controlling shareholder acquired back previously sold 86,816,000 shares. There were no new shares sold under such arrangements during 2007 and 2006.

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 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%.

(g) Maxi-Group transactions with its related parties

Sales

Maxi-Group sales to related parties of OJSC Maxi-Group's minority shareholder and OJSC Maxi-Group (together – the "Related parties of OJSC Maxi-Group") were $17,419 for the one month ended December 31, 2007.

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

Purchases and services

Purchases of raw materials, technological equipment and services from the Related parties of OJSC Maxi-Group were $5,257 for the one month ended December 31, 2007.

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

Financial transactions

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

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

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

29. Commitment and contingences

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

(e) Capital commitments
Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $1,635,623, $396,801 and $264,903 as at December 31, 2007, 2006 and 2005, respectively.

(f) Social commitments
The Group makes contributions to mandatory and voluntary social programmes. The Group's social assets, as well as local social programmes, 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 programmes 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, 2007 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, 2007, 2006 and 2005, the Group has issued guarantees to third parties amounting to $118,619, $1,667 and $540. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

30. Subsequent Events

(a) Acquisition of international traders

In December 2007 the Group has reached an agreement to acquire 100% of the shares in trading companies Novexco (Cyprus) Limited and Novex Trading (Swiss) S.A., which from December 2007 conduct the business previously operated by Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus, and Tuscany Intertrade (UK) (Note 27(c)). The Purchase price is approximately 77 million Euro (about $113 million as at December 31, 2007). The closing is expected to be after regulatory approval in 2008.

(b) SIF S.A. put and call option

In February 2008 the Parent Company has agreed to modify the terms of its put and call option agreement with Duferco Group established in December 2006 (Note 6(c)) in accordance to which the Group:

- Has a perpetual option to acquire one share of SIF S.A. at the per share price of the Original Transaction and thus increase its participation in SIF S.A. to a controlling (50% plus one share);
- Effective from December 18, 2010 the Group will have a perpetual option to buy, and Duferco will have a perpetual option to sell, all of Duferco's interest in SIF S.A. at a price based on the change in the consolidated shareholders equity of SIF S.A. starting October 2006 to the exercise date.

The option agreement is in line with Group's strategy to better control strategic assets in its portfolio. Presently the Group has no current intention to increase its stake in the joint venture which is 50% as at December 31, 2007.

(c) Subsequent payments for the acquired assets

In January 2008 the Parent Company made a first payment to Mr Maximov totaling $299,928, as at the transaction date, for the assets acquired in December 2007 (Note 25(a)).

(d) Dividends

In April 2008, the Board of Directors of the Parent Company proposed dividends for the year ended December 31, 2007 of 3 Russian rubles per share in the total amount of Russian rubles 17,979,682 thousand ($732,483 at the exchange rate as at December 31, 2007, including interim dividends for the six months ended June 30, 2007 of 1.5 Russian ruble per share for the total of $360,142, translated at the historical date). The final amount of dividends is subject to the approval by the Annual General Shareholders' Meeting.

Notes

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