OJSC NOVOLIPETSK STEEL

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

AS AT JUNE 30, 2005 AND DECEMBER 31, 2004 AND FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of OJSC Novolipetsk Steel

We have reviewed the accompanying condensed consolidated balance sheets of OJSC Novolipetsk Steel and its subsidiaries ("the Group") as of June 30, 2005 and December 31, 2004, and the related condensed consolidated statements of income for each of the six-month periods ended June 30, 2005 and June 30, 2004 and the condensed consolidated statements of cash flows for each of the six-month periods ended June 30, 2005 and June 30, 2004. These interim financial statements are the responsibility of the Group's management.

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

As discussed in Note 6 to the interim condensed consolidated financial statements, the carrying value 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.

Based on our review, except for the effects of using the appraisal to determine the carrying value for certain property, plant and equipment as discussed in the preceding paragraph, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers

Moscow, Russian Federation

September 23, 2005

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

	Note	As at June 30, 2005	As at December 31, 2004
ASSETS			
Current assets			
Cash and cash equivalents	2	1,772,657	1,348,615
Short-term investments		17,952	21,153
Accounts receivable, net	3	696,982	588,562
Inventories, net	4	542,248	475,303
Other current assets, net	5	170,391	148,748
Restricted cash		7,570	5,094
		3,207,800	**2,587,475**
Non-current assets			
Long-term investments		58,354	51,425
Property, plant and equipment, net	6	2,275,232	2,257,628
Intangible assets, net		18,809	21,594
Goodwill		174,024	179,815
Other non-current assets, net	5	93,290	67,984
		2,619,709	**2,578,446**
Total assets		**5,827,509**	**5,165,921**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	7	664,037	455,042
Current income tax liability		20,713	78,638
Short-term capital lease liability		-	232
		684,750	**533,912**
Non-current liabilities			
Deferred income tax liability		293,125	305,472
Other long-term liabilities	8	35,447	19,946
Long-term capital lease liability		-	313
		328,572	**325,731**
Total liabilities		**1,013,322**	**859,643**
Commitments and contingencies	14	-	-
Minority interest		**81,068**	**85,787**
Stockholders' equity			
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at June 30, 2005 and December 31, 2004		221,173	221,173
Statutory reserve		10,267	10,267
Additional paid-in capital		680	680
Other comprehensive income		88,710	242,387
Retained earnings		4,412,289	3,745,984
		4,733,119	**4,220,491**
Total liabilities and stockholders' equity		**5,827,509**	**5,165,921**

The interim condensed consolidated financial statements as set out on pages 4 to 16 were approved on September 23, 2005.

Acting General Director
Anisimov I.N.

Acting Chief Accountant
Gryzlov A.V.

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

	Note	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Sales revenue	11	**2,377,146**	**1,977,055**
Cost of sales			
Production cost		(1,027,940)	(855,790)
Depreciation and amortization		(140,284)	(108,643)
		(1,168,224)	**(964,433)**
Gross profit		**1,208,922**	**1,012,622**
General and administrative expenses		(44,539)	(30,036)
Selling expenses		(32,106)	(27,288)
Taxes other than income tax		(25,411)	(20,538)
Operating income		**1,106,866**	**934,760**
Loss on disposals of property, plant and equipment		(6,639)	(5,009)
(Loss) / gain on investments		(4,143)	22,179
Interest income		46,813	19,693
Interest expense		(6,903)	(5,980)
Foreign currency exchange loss, net		(11,466)	(16,482)
Other income / (expense), net		4,877	(10,246)
Income before income tax and minority interest		**1,129,405**	**938,915**
Income tax		(281,614)	(218,292)
Income before minority interest		**847,791**	**720,623**
Equity in net earnings of associates		2,800	-
Minority interest		(12,200)	(3,164)
Net income		**838,391**	**717,459**
Income from continuing operations per share (US dollars)			
basic and diluted	9	0.1399	0.1197
Net income per share (US dollars)			
basic and diluted	9	0.1399	0.1197

(thousands of US dollars)

	Note	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Net cash provided by operating activities		**738,078**	**534,126**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		7,561	3,518
Purchases and construction of property, plant and equipment		(265,437)	(92,064)
Proceeds from sale of investments		24,415	133,797
Purchase of investments		(20,852)	(126,110)
Acquisition of subsidiaries, net of cash acquired of $38,109	10	-	(151,063)
Movement of restricted cash		(2,707)	(1,190)
Net cash used in investing activities		**(257,020)**	**(233,112)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and notes payable		8,218	251
Repayment of borrowings and notes payable		(2,226)	(19,936)
Capital lease payments		-	(8,997)
Payments to controlling shareholders for common control transfer of interests in a new subsidiary, net of cash of $1,070 received in transferred subsidiary	10	-	(509,005)
Dividends to shareholders		(7,661)	-
Net cash used in financing activities		**(1,669)**	**(537,687)**
Net increase / (decrease) in cash and cash equivalents		**479,389**	**(236,673)**
Effect of exchange rate changes on cash and cash equivalents		(55,347)	13,023
Cash and cash equivalents at the beginning of the period	2	1,348,615	729,641
Cash and cash equivalents at the end of the period	2	**1,772,657**	**505,991**

1 BASIS OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

These unaudited interim condensed consolidated financial statements should be read in conjunction with the open joint stock company Novolipetsk Steel (the "Parent Company", or NLMK) and its subsidiaries (together – the "Group") audited consolidated financial statements as of and for the year ended December 31, 2004. The December 31, 2004 condensed consolidated balance sheet information has been derived from audited consolidated financial statements, however, since it is presented on a condensed basis it does not include all the disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

In the opinion of the Group's management, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the period reported herein. All such adjustments are of a normal recurring nature. These interim condensed consolidated financial statements contain disclosure of significant subsequent events as of the date these statements were approved, September 23, 2005. The financial results of the period reported herein is not necessarily indicative of future financial results.

Functional and reporting currency

The Group's functional currency, which is considered to be the Russian ruble, was translated into the reporting currency (US dollars) utilizing period-end exchange rates for assets and liabilities, period average exchange rates for consolidated income statement accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52.

The Central Bank of the Russian Federation's closing rates of exchange ruling at June 30, 2005, December 31, 2004, June 30, 2004 and December 31, 2003 were 1 US dollar to 28.6721, 27.7487, 29.0274 and 29.4545 Russian rubles, respectively. The period weighted average exchange rates were 27.9595 and 28.7802 Russian rubles to 1 US dollar for the six months ended June 30, 2005 and June 30, 2004, respectively.

Recent accounting pronouncements

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. The interpretation requires entities to record a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The term "conditional asset retirement obligation" refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The interpretation shall be effective no later than December 31, 2005. The Group believes that the adoption of this interpretation in 2005 will not have a material impact on its consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. This Statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The Statement shall be effective for accounting changes made in fiscal years beginning after December 15, 2005. The Group believes that the adoption of this interpretation will not have a material impact on its consolidated financial statements.

(thousands of US dollars)

2 CASH AND CASH EQUIVALENTS

	As at June 30, 2005	**As at December 31, 2004**
Cash – Russian rubles	192,770	269,860
Cash – foreign currency	2,007	2,437
Deposits – Russian rubles	404,488	39,822
Deposits – US dollars	701,014	709,457
Deposits – Euro	472,311	310,782
Other cash equivalents	67	16,257
	1,772,657	**1,348,615**

Irrevocable letters of credit in the amount of $11,376 and $16,642 as at June 30, 2005 and December 31, 2004, respectively, issued for the construction and acquisition of property, plant and equipment, were included in non-current assets and classified as advances for construction and acquisition of property, plant and equipment (Note 6).

3 ACCOUNTS RECEIVABLE

	As at June 30, 2005	**As at December 31, 2004**
Trade accounts receivable	422,851	357,948
Advances given to suppliers	60,355	57,260
Taxes receivable	194,466	157,736
Accounts receivable from employees	1,330	1,192
Other accounts receivable	28,478	22,765
	707,480	596,901
Allowance for doubtful debts	(10,498)	(8,339)
	696,982	**588,562**

As at June 30, 2005 and December 31, 2004, the Group had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade, UK and Moorfield Commodities Company, UK, each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors totaled $184,501, $106,261 and $58,054 at June 30, 2005 and $140,265, $102,908 and $50,342 at December 31, 2004, respectively.

(thousands of US dollars)

4 INVENTORIES

	As at June 30, 2005	As at December 31, 2004
Raw materials	376,113	333,414
Work in process	105,289	102,692
Finished goods and goods for resale	66,951	47,054
	548,353	483,160
Provision for obsolescence	(6,105)	(7,857)
	542,248	**475,303**

5 OTHER CURRENT AND NON-CURRENT ASSETS

	As at June 30, 2005	As at December 31, 2004
Other current assets		
Short-term loans provided by OJSC Lipetskcombank	153,504	131,267
Other current assets	20,231	20,047
	173,735	151,314
Allowance for doubtful loans	(3,344)	(2,566)
Total other current assets	**170,391**	**148,748**
Other non-current assets		
Long-term loans provided by OJSC Lipetskcombank	45,905	37,500
Other non-current assets	47,385	30,484
Total other non-current assets	**93,290**	**67,984**

The loans are provided to customers and other banks by the subsidiary bank of the Group. The interest rates on outstanding loans to customers as at June 30, 2005 range from 7% per annum to 22% per annum for loans denominated in Russian rubles and from 8% per annum to 16% per annum for foreign currency loans.

(thousands of US dollars)

6 PROPERTY, PLANT AND EQUIPMENT

	As at June 30, 2005	As at December 31, 2004
Land	46,598	46,466
Mineral rights	485,629	500,996
Buildings	687,434	715,759
Land and buildings improvements	759,682	798,892
Machinery and equipment	4,178,617	4,320,088
Vehicles	207,059	205,297
Construction in progress and advances for construction and acquisition of property, plant and equipment	394,181	254,271
Leased assets	-	862
Other	38,100	38,787
	6,797,300	6,881,418
Accumulated depreciation	(4,522,068)	(4,623,790)
Net book value	**2,275,232**	**2,257,628**

According to US GAAP, the Group's property, plant and equipment should be reported at their actual historical depreciated cost. However, due to the absence of reliable US GAAP accounting records and impairment calculations, the book value of certain property, plant and equipment was determined with the assistance of an independent appraiser, which management considers provided the best basis for the recognition and depreciation of such items. The appraiser provided US dollar estimates of the fair value, determined on the basis of depreciated replacement cost, which the Group has recorded as its property, plant and equipment balance as of January 1, 2000. As at June 30, 2005 and December 31, 2004, the net book value of these items amounted to 25% and 28% of total net book value of property, plant and equipment, respectively.

Construction in progress as at June 30, 2005 and December 31, 2004 includes an irrevocable letters of credit issued for acquisition and construction of property, plant and equipment (Note 2).

7 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at June 30, 2005	As at December 31, 2004
Trade accounts payable	103,630	78,651
Advances received	118,776	127,776
Customers' deposits and accounts in the subsidiary bank	175,074	156,176
Taxes payable other than income tax	30,133	19,044
Accounts payable and accrued liabilities to employees	57,004	51,628
Dividends payable	166,474	6,332
Notes payable	3,218	5,312
Other accounts payable	9,728	10,123
	664,037	**455,042**

8 OTHER LONG-TERM LIABILITIES

	As at June 30, 2005	As at December 31, 2004
Customers' deposits in the subsidiary bank	27,036	16,150
Notes and loans payable	8,411	3,796
	35,447	**19,946**

9 EARNINGS PER SHARE

	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Average number of shares		
before restatement for dilution	5,993,227,240	1,881,111,855
after restatement	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	838,391	717,459
Basic and diluted net income per share (US dollars)	**0.1399**	**0.1197**

Basic net income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period.

The Parent Company does not have potentially dilutive shares outstanding.

In May 2005 the Parent Company declared dividends for the year ended December 31, 2004 of 1.8 Russian ruble per share for the total of $385,556, including interim dividends for the nine months ended September 30, 2004 of 1 Russian ruble per share ($214,081). Dividends payable amount to $166,474 at June 30, 2005 (Note 7). The substantial amount of dividends was paid out by Parent Company before August 18, 2005.

10 BUSINESS COMBINATIONS

(a) OJSC Stoilensky GOK

In March 2004 companies under the common control of the controlling shareholders of the Parent Company transferred to the Parent Company 59.8% and in November 2004 – 31.1% of the outstanding common shares of OJSC Stoilensky GOK. In these interim condensed consolidated financial statements, the Group accounted for these transfers retrospectively, in a manner similar to pooling by reflecting the controlling shareholders' book value of their acquisition cost in such transfers of $598,735 as capital contributions. Cash consideration for the transfer of 59.8% of OJSC Stoilensky GOK to such control parties of $509,005 were reflected in the interim condensed consolidated cash flow statement for the period ended June 30, 2004 as distributions to controlling shareholders. The Group's ownership of the common shares of OJSC Stoilensky GOK as at June 30, 2005 and December 31, 2004 is 96.98%.

(b) OJSC TMTP

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

(thousands of US dollars)

11 SEGMENTAL INFORMATION

The Group has two reportable business segments: steel and mining. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above two 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 attributable to two operating segments of the Group. Those segments include the trade seaport services business, represented by OJSC TMTP and its subsidiaries (starting June 30, 2004 – Note 10(b)), and finance business, comprising banking and insurance services to commercial and retail customers. None of these segments has met any of the quantitative thresholds for determining reportable segments.

The Group accounts for intersegmental sales and transfers as if the sales or transfers were to third parties.

The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income before minority interest.

Segmental information for the six months ended June 30, 2005 is as follows:

	Steel	Mining	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	2,227,903	58,865	90,378	2,377,146	-	2,377,146
Intersegmental revenue	2,032	275,067	1,279	278,378	(278,378)	-
Gross profit	**978,557**	**196,906**	**26,837**	**1,202,300**	**6,622**	**1,208,922**
Operating income	**898,835**	**184,089**	**22,037**	**1,104,961**	**1,905**	**1,106,866**
Income before minority interest	**692,258**	**147,555**	**20,266**	**860,079**	**(12,288)**	**847,791**
Segment assets, including goodwill	4,325,523	1,034,850	707,161	6,067,534	(240,025)	5,827,509

Segmental information for the six months ended June 30, 2004 is as follows:

	Steel	Mining	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	1,883,524	92,797	734	1,977,055	-	1,977 055
Intersegmental	1,522	34,603	-	36,125	(36,125)	-
Gross profit /(loss)	**961,742**	**51,012**	**(36)**	**1,012,718**	**(96)**	**1,012,622**
Operating income /(loss)	**893,951**	**39,722**	**(171)**	**933,502**	**(1,259)**	**934,760**
Income before minority interest	**694,383**	**28,772**	**828**	**723,983**	**(3,360)**	**720,623**
Segment assets, including goodwill	3,124,867	849,415	438 900	4,413,181	(122,582)	4,290,599

12 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 is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

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

(b) Convertibility of Russian ruble

Exchange restrictions and controls exist relating to converting Russian rubles into other currencies. At present, the Russian ruble is not a convertible currency outside of the Russian Federation and, further, the Group is required to convert 10% of its hard currency earnings into Russian rubles starting 2005 (25% before 2005). Future movements in the exchange rate between the Russian ruble and the US dollar will affect the carrying value of the Group's US dollar denominated monetary assets and liabilities. Such movements may also affect the Group's ability to realize non-monetary assets presented in US dollars in these interim condensed consolidated financial statements. Accordingly, any translation of ruble amounts to US dollars should not be construed as a representation that such ruble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

(c) Commercial risks

The Group minimizes its sales risks by having a wide range of geographical zones for sales, which allows the Group to respond quickly to 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 exports in monetary terms for the six months ended June 30, 2005 and June 30, 2004 were 65% and 63% of the total sales, respectively.

The Group relies on export sales to generate foreign currency earnings. As the Group exports a significant portion of its production, it is exposed to foreign currency risk as well as global economic and political risks. Due to its foreign currency denominated assets and liabilities, the Group is subject to the risk arising from foreign exchange rate fluctuations. The Group's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes.

The Group sells to three international traders that account for the majority of its export sales. During the six months ended June 30, 2005 Steelco Mediterranean Ltd., Cyprus, Tuscany Intertrade (UK), and Moorfield Commodities Company, UK, purchased 44%, 24% and 16% of the Group's export sales, respectively (39%, 34% and 18% during the six months ended June 30, 2004, respectively).

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.

13 RELATED PARTY TRANSACTIONS

Related party relationships are determined with reference to SFAS No. 57, *Related Party Disclosures*. Balances as at June 30, 2005 and December 31, 2004 and transactions for the six months ended June 30, 2005 and June 30, 2004 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to related parties, either the companies under common control of the controlling shareholders of the Parent Company ("the Companies under common control"), or companies under control or significant influence of the Group's management, were $13,717 and $25,888 for the six months ended June 30, 2005 and June 30, 2004, respectively. Related accounts receivable equaled $10,491 and $6,501 as at June 30, 2005 and December 31, 2004, respectively.

Purchases and services

Purchases of raw materials, technological equipment, energy and management services from related parties, either the Companies under common control or companies under control or significant influence of the Group's management, were $68,220 and $100,695 for the six months ended June 30, 2005 and June 30, 2004, respectively.

During the six months ended June 30, 2004, the Group made payments to one of the Companies under common control, acting as an agent between the Group and railroad companies, for the transportation of raw materials and the Group's products. The payments included both railroad tariff (transferred to railroad companies) and agent fee, retained by the agent. The agent fee and purchases of other materials amounted to $5,594 for the six months ended June 30, 2004.

Accounts payable to the related parties were $3,218 and $2,044 as at June 30, 2005 and December 31, 2004, respectively.

(b) Financial transactions

The subsidiary bank of the Group had loans receivable from Companies under common control of $6,121 and $7,538 as at June 30, 2005 and December 31, 2004, respectively.

Deposits and current accounts of related parties, either the Companies under common control or companies under the control or significant influence of the Group's management, in the subsidiary bank amounted to $60,825 and $28,642 as at June 30, 2005 and December 31, 2004, respectively.

Deposits and current accounts of Group companies in a bank under significant influence of the Group's management amounted to $117,785 as at June 30, 2005.

In 2004 the Group leased property, plant and equipment under capital lease arrangements with one of the Companies under common control. The amount of capital lease liabilities incurred during the six months ended June 30, 2004 was $19,278. The capital lease liabilities to the related party as at December 31, 2004 amounted to $545. As at June 30, 2005 all capital lease transactions with related party were discontinued.

The Group granted interest-free loans to management, in the total amount of $197 and $35 for the six months ended June 30, 2005 and June 30, 2004, respectively. Total amount of interest-free loans receivable from top management amounted to $226 and $60 as at June 30, 2005 and December 31, 2004, respectively.

(c) Contributions to non-governmental pension fund

Total contributions to a non-governmental pension fund amounted to $1,375 and $1,281 for the six months ended June 30, 2005 and June 30, 2004, respectively. The Group has the right to appoint and dismiss top management of the fund as the major contributor to its capital. The Group has no long-term commitments to provide funding, guarantees, or other support to the fund.

14 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

The Group's export trading activities are subject to, from time to time, compliance reviews of importers' regulatory authorities and considered within anti-dumping investigation frameworks. The Group takes steps to addressing 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 regulations in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage or remediation.

(d) Insurance

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

The Group has entered into insurance contracts to insure property, plant and equipment; land transport; an aircraft and purchased accident and health insurance; inter-city motor vehicle passenger insurance and medical insurance for employees. Furthermore, the Group has purchased operating entities civil liability coverage for dangerous production units.

(e) Capital commitments

Outstanding agreements in connection with equipment supply and construction works amounted to approximately \$304,000 and \$52,000 as at June 30, 2005 and December 31, 2004, respectively.

(f) Social commitments

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

14 COMMITMENTS AND CONTINGENCIES (continued)

(g) Tax contingencies

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

As at June 30, 2005 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these interim condensed consolidated financial statements.

(h) Financial guarantees issued

As at June 30, 2005 and December 31, 2004 the Group has issued guarantees to third parties amounting to $360 and $1,365. No amount has been accrued in the interim condensed consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

15 SUBSEQUENT EVENTS

In August 2005, the Board of Directors of the Parent Company proposed interim dividends for the six-month period ended June 30, 2005 of 1 Russian ruble per share in the total amount of Russian rubles 5,993,227 thousand ($209,026 at the exchange rate as at June 30, 2005). The final amount of dividends is subject to the approval by the extraordinary General Stockholders' Meeting.

In August 2005, the Parent Company acquired the license for exploration and production of coal in Zhernovskoe coal deposit (Kemerovo region), following an auction process. Advance payments for the license amounting to $38,419 were recorded as part of Advances for construction and acquisition of property, plant and equipment as at June 30, 2005 (Note 6).