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 SEPTEMBER 30, 2006 AND DECEMBER 31, 2005 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

CONTENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of OJSC Novolipetsk Steel

We have reviewed the accompanying interim condensed consolidated balance sheet of OJSC Novolipetsk Steel and its subsidiaries ("the Group") as at September 30, 2006, the related interim condensed consolidated statements of income and cash flows for each of the nine-month periods ended September 30, 2006 and September 30, 2005, and the interim condensed consolidated statement of stockholders' equity and comprehensive income for the nine month period ended September 30, 2006. These interim condensed consolidated financial statements are the responsibility of the Group's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group as of December 31, 2005, and the related consolidated statements of income, cash flows and stockholders' equity and comprehensive income for the year then ended (not presented herein); and in our report dated April 17, 2006, we expressed an unqualified opinion on such financial statements, except for the effects of using appraised values for certain property, plant and equipment as explained in Note 7. As discussed in Note 11(a) to the accompanying interim condensed consolidated financial statements, the Group consummated a common control transfer of DanSteel A/S, a steel-rolling company acquired by the common control party in November 2005, which is accounted for retroactively at book value of the common control party, in a manner similar to a pooling. The accompanying December 31, 2005 condensed consolidated balance sheet reflects this retroactive accounting. We have not audited the accompanying December 31, 2005 condensed consolidated balance sheet.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

December 6, 2006

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

	Note	As at September 30, 2006	As at December 31, 2005
ASSETS			see Note 11(a)
Current assets			
Cash and cash equivalents	2	1,342,436	1,924,148
Short-term investments		53,262	27,040
Accounts receivable, net	3	1,100,058	708,515
Inventories, net	4	750,637	559,250
Other current assets, net	5	299,132	208,920
Restricted cash		10,145	7,979
		3,555,670	**3,435,852**
Non-current assets			
Long-term investments		5,379	31,470
Property, plant and equipment, net	7	3,770,049	2,415,001
Intangible assets, net		201,859	21,086
Goodwill		635,647	173,357
Other non-current assets, net	5	121,489	133,747
		4,734,423	**2,774,661**
Total assets		**8,290,093**	**6,210,513**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	8	977,703	565,983
Short-term borrowings	9	118,663	5,282
Current income tax liability		136,097	40,639
		1,232,463	**611,904**
Non-current liabilities			
Deferred income tax liability		536,765	300,712
Long-term borrowings	9	13,665	45,341
Other long-term liabilities		55,029	45,505
		605,459	**391,558**
Total liabilities		**1,837,922**	**1,003,462**
Commitments and contingencies	15	-	-
Minority interest		**128,942**	**92,576**
Stockholders' equity			
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at September 30, 2006 and December 31, 2005		221,173	221,173
Statutory reserve		10,267	10,267
Additional paid-in capital		1,812	1,812
Accumulated other comprehensive income		485,017	72,129
Retained earnings		5,604,960	4,809,094
		6,323,229	**5,114,475**
Total liabilities and stockholders' equity		**8,290,093**	**6,210,513**

The interim condensed consolidated financial statements as set out on pages 4 to 24 were approved on December 6, 2006.

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

Chief Accountant
Sokolov A.A.

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

	Note	For the nine months ended September 30, 2006	For the nine months ended September 30, 2005
Sales revenue	12	**4,358,488**	**3,362,770**
Cost of sales			
Production cost		(2,055,714)	(1,537,954)
Depreciation and amortization		(250,258)	(209,555)
		(2,305,972)	**(1,747,509)**
Gross profit		**2,052,516**	**1,615,261**
General and administrative expenses		(132,831)	(111,918)
Selling expenses		(207,735)	(47,759)
Taxes other than income tax		(33,749)	(36,513)
Operating income		**1,678,201**	**1,419,071**
Loss on disposals of property, plant and equipment		(4,764)	(6,923)
Gains on investments, net	6(a)	395,341	3,285
Interest income		82,713	72,769
Interest expense		(19,404)	(10,741)
Foreign currency exchange loss, net		(71,979)	(18,970)
Other expense, net		(11,787)	(9,152)
Income from continuing operations before income tax and minority interest		**2,048,321**	**1,449,339**
Income tax		(522,810)	(391,253)
Income from continuing operations before minority interest		**1,525,511**	**1,058,086**
Minority interest		(15,807)	(17,181)
Equity in net earnings of associate		497	3,601
Income from continuing operations		**1,510,201**	**1,044,506**
Discontinued operations	6(b)		
Gain from operations of discontinued subsidiary (including gain on disposal of $225,852)		225,852	1,282
Income tax		(51,334)	-
Income from discontinued operations		**174,518**	**1,282**
Net income		**1,684,719**	**1,045,788**
Income from continuing operations per share (US dollars)			
basic and diluted		0.2520	0.1743
Income from discontinued operations per share (US dollars)			
basic and diluted		0.0291	0.0002
Net income per share (US dollars)			
basic and diluted	10	0.2811	0.1745

(thousands of US dollars)

	Note	For the nine months ended September 30, 2006	For the nine months ended September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		**1,684,719**	**1,045,788**
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest		15,807	17,181
Depreciation and amortization		250,258	209,555
Loss on disposals of property, plant and equipment		4,764	6,923
Gains on investments		(395,341)	(3,285)
Gain from operations of discontinued subsidiary		(225,852)	-
Equity in net earnings of associate		(497)	(3,601)
Deferred income tax (benefit) / expense		(13,470)	12,716
Other movements		26,008	21,097
Changes in operating assets and liabilities			
Increase in accounts receivable		(155,745)	(54,577)
Increase in inventories		(68,914)	(40,712)
Increase in other current assets		(150)	(10,817)
Increase in loans provided by the subsidiary bank		(64,512)	(45,056)
(Decrease) / increase in accounts payable and other liabilities		(117,640)	76,277
Increase / (decrease) in current income tax payable		90,052	(49,198)
Net cash provided by operating activities		**1,029,487**	**1,182,291**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of subsidiaries, net of cash acquired of $14,127	11(b)(c)(d)	(1,348,063)	-
Proceeds from disposal of discontinued operations	6(b)	274,563	-
Proceeds from sale of property, plant and equipment		9,475	8,973
Purchases and construction of property, plant and equipment		(415,320)	(420,908)
Proceeds from sale of investments		450,493	54,617
Purchase of investments		(44,015)	(30,766)
Movement of restricted cash		(1,534)	(2,974)
Net cash used in investing activities		**(1,074,401)**	**(391,058)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and notes payable		12,026	17,045
Repayment of borrowings and notes payable		(126,862)	(6,223)
Payments to controlling shareholders for common control transfer of interests in a new subsidiary	11(a)	(104,000)	-
Dividends to shareholders		(432,376)	(174,643)
Net cash used in financing activities		**(651,212)**	**(163,821)**
Net (decrease) / increase in cash and cash equivalents		**(696,126)**	**627,412**
Effect of exchange rate changes on cash and cash equivalents		114,414	(43,284)
Cash and cash equivalents at the beginning of the period	2	1,924,148	1,348,615
Cash and cash equivalents at the end of the period	2	**1,342,436**	**1,932,743**

(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, 2005 (see Note 11(a))		**221,173**	**10,267**	**1,812**	**72,129**	**4,809,094**	**5,114,475**
Comprehensive income:							
Net income		-	-	-	-	1,684,719	**1,684,719**
Other comprehensive income:							
Net unrealized gain on a change in valuation of investments		-	-	-	(1,187)	-	**(1,187)**
Translation adjustment		-	-	-	414,075	-	**414,075**
Comprehensive income							**2,097,607**
Dividends to shareholders		-	-	-	-	(784,853)	**(784,853)**
Payments to controlling shareholders for common control transfer of subsidiary interests	11(a)	-	-	-	-	(104,000)	**(104,000)**
Balance at September 30, 2006		**221,173**	**10,267**	**1,812**	**485,017**	**5,604,960**	**6,323,229**

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 at and for the year ended December 31, 2005. The December 31, 2005 condensed consolidated balance sheet information has been derived from audited consolidated financial statements subject to unaudited retroactive accounting adjustments described in Note 11(a), however, since it is presented on a condensed basis it does not include all disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

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

Functional and reporting currency

The Group's functional currency, which is considered to be the Russian ruble for all Group entities, except DanSteel A/S (Note 11(a)), was translated into the reporting currency (US dollars) utilizing period-end exchange rates for assets and liabilities, period average weighted exchange rates for consolidated income statement accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*.

The Central Bank of the Russian Federation's closing rates of exchange ruling at September 30, 2006, December 31, 2005, September 30, 2005 and December 31, 2004 were 1 US dollar to 26.7799, 28.7825, 28.4989 and 27.7487 Russian rubles, respectively. The period weighted average exchange rates were 27.3864 and 28.1455 Russian rubles to 1 US dollar for the nine months ended September 30, 2006 and September 30, 2005, respectively.

Recent accounting pronouncements

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

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

(thousands of US dollars)

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

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

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

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

2 CASH AND CASH EQUIVALENTS

	As at September 30, 2006	As at December 31, 2005
Cash – Russian rubles	94,591	124,003
Cash – other currency	38,785	420,194
Deposits – Russian rubles	1,089,356	247,724
Deposits – US dollars	70,642	917,670
Deposits – Euro	40,169	214,378
Other cash equivalents	8,893	179
	1,342,436	**1,924,148**

(thousands of US dollars)

3 ACCOUNTS RECEIVABLE

	As at September 30, 2006	As at December 31, 2005
Trade accounts receivable	685,220	443,978
Advances given to suppliers	115,239	55,589
Taxes receivable	284,322	198,917
Accounts receivable from employees	2,801	1,646
Other accounts receivable	33,222	21,880
	1,120,804	722,010
Allowance for doubtful debts	(20,746)	(13,495)
	1,100,058	**708,515**

As at September 30, 2006 and December 31, 2005, the Group had accounts receivable from Steelco Mediterranian 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 $146,350, $90,041 and $274,910 at September 30, 2006, $155,798, $108,670 and $65,748 at December 31, 2005, respectively.

4 INVENTORIES

	As at September 30, 2006	As at December 31, 2005
Raw materials	490,685	383,832
Work in process	189,075	109,679
Finished goods and goods for resale	97,247	81,232
	777,007	574,743
Provision for obsolescence	(26,370)	(15,493)
	750,637	**559,250**

As at September 30, 2006, raw materials and finished goods of $4,448 were pledged against borrowings (Note 9) (nil as at December 31, 2005).

(thousands of US dollars)

5 OTHER CURRENT AND NON-CURRENT ASSETS

	As at September 30, 2006	As at December 31, 2005
Other current assets		
Short-term loans provided by the subsidiary bank	238,368	163,055
Other current assets	71,771	51,875
	310,139	214,930
Allowance for doubtful loans	(11,007)	(6,010)
Total other current assets	**299,132**	**208,920**
Other non-current assets		
Long-term loans provided by the subsidiary bank	83,857	71,138
Other non-current assets	37,632	62,609
Total other non-current assets	**121,489**	**133,747**

Weighted average interest rates on loans, provided to companies (including other banks) and individuals for the nine months, ended September 30, 2006 by the subsidiary bank of the Group were 11.5% p.a. for loans denominated in Russian rubles and 12.4% p.a. for foreign currency loans.

6 GAINS / (LOSSES) ON INVESTMENTS

(a) Disposal of OJSC Lebedinsky GOK shares

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

The Group recognized a gain on this transaction calculated as the difference between consideration received and carrying value of these shares as at the date of disposal in the amount of $402,963, at weighted average exchange rate for the nine months ended September 30, 2006 (included within gains / (losses) on investments, net (totaling $395,341)) in the interim condensed consolidated statement of income for the nine months ended September 30, 2006.

(b) Disposal of OJSC Combinat KMAruda shares

In August 2006 the Parent Company signed agreement for the disposal of 92.04% of the outstanding common shares of OJSC Combinat KMAruda to third party, for a consideration of $302.5 million. Part of the consideration was settled by interest bearing promissory note of $25 million which is due 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)

6 GAINS / (LOSSES) ON INVESTMENTS (continued)

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 revenues and net income of OJSC Combinat KMAruda for the eight months ended August 31, 2006 were $49,394 and $11,171, respectively ($69,020 and $26,393 accordingly for the nine months ended September 30, 2005 on historical cost basis). The carrying amounts of goodwill, related to OJSC Combinat KMAruda at August 31, 2006 was $17,733.

7 PROPERTY, PLANT AND EQUIPMENT

	As at September 30, 2006	As at December 31, 2005
Land	60,675	56,070
Mineral rights	589,314	522,802
Buildings	1,121,116	715,066
Land and buildings improvements	1,046,519	757,066
Machinery and equipment	4,859,422	4,246,584
Vehicles	268,296	219,431
Construction in progress and advances for construction and acquisition of property, plant and equipment	835,465	467,354
Other	87,893	37,229
	8,868,700	7,021,602
Accumulated depreciation	(5,098,651)	(4,606,601)
Net book value	**3,770,049**	**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 of January 1, 2000. During the nine month ended September 30, 2006 the Group considered that following the additions of subsidiaries and investments in the existing plants on one hand and depreciation of the appraised assets on the other hand the effect on the interim condensed consolidated financial statements for the nine month ended September 30, 2006 is no longer material.

(thousands of US dollars)

7 PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment of $115,034 (net book value) were pledged as collateral for certain borrowings (Note 9).

8 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at September 30, 2006	As at December 31, 2005
Trade accounts payable	134,807	128,180
Advances received	151,641	130,347
Customers' deposits and accounts in the subsidiary bank	152,244	188,265
Taxes payable other than income tax	42,899	25,728
Accounts payable and accrued liabilities to employees	87,658	59,592
Dividends payable	340,605	2,572
Other accounts payable	67,849	31,299
	977,703	**565,983**

9 SHORT-TERM AND LONG-TERM BORROWINGS

Short-term borrowings

	As at September 30, 2006	As at December 31, 2005
Bank of Moscow, RR denominated, 8.25% per annum	33,484	-
Alfa bank, RR denominated, 6.5% - 7.8% per annum	40,362	-
Notes payable	21,762	5,281
Other loans	23,055	1
	118,663	**5,282**

The details of the significant loan balances are summarized below.

Bank of Moscow: Under the terms of the agreement there are number of obligations as regards default provisions and maintenance of certain revenue flows. The loan balance was collateralized by property, plant and equipment (Note 7) and inventories (Note 4).

Alfa bank: Under the terms of the agreement there are number of obligations including limitation of the indebtedness of the borrower.

Unused lines of credit for short-term bank loans in Bank of Moscow comprise $37,464 at September 30, 2006.

9 SHORT-TERM AND LONG-TERM BORROWINGS (continued)

Long-term borrowings

	As at September 30, 2006	As at December 31, 2005
Triport Credit B.V., USD denominated, 5% per annum, not collateralized	13,665	10,276
Other loans	-	29,434
Notes payable	-	5,631
	13,665	**45,341**

The Group's long-term borrowings at September 30, 2006 mature between 2 to 5 years.

10 EARNINGS PER SHARE

	For the nine months ended September 30, 2006	For the nine months ended September 30, 2005
Average number of shares outstanding	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	1,684,719	1,045,788
Basic and diluted net income per share (US dollars)	**0.2811**	**0.1745**

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 Parent Company does not have potentially dilutive shares outstanding.

In June 2006 the Parent Company declared dividends for the year ended December 31, 2005 of 3 Russian ruble per share for the total of $659,573, including interim dividends for the six months ended June 30, 2005 of 1 Russian ruble per share for the total of $210,792. In September 2006 the Parent Company declared interim dividends for six months ended June 30, 2006 of 1.5 Russian ruble per share for the total of $336,072. Dividends payable amount to $340,605 at September 30, 2006 (Note 8).

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS

(a) Acquisition of DanSteel A/S shares

In January 2006, a company under common control outside of 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 interim condensed 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 in such transfer of $63,982 as capital contributions. In January 2006 the Group transferred cash consideration to such common control party of $104,000 which is reflected as distributions to 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)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

	Previously reported and audited	Retroactive adjustment, unaudited	As adjusted, unaudited
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	507,637	63,628	571,265
		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 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 consolidation of DanSteel A/S, revenues and net income of the Group, before recording of the consolidation adjustments, for the nine months ended September 30, 2006 increased by $243,190 and $28,317, respectively.

(b) Acquisition of OJSC Combinat KMAruda shares

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

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

(thousands of US dollars)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

The Group generated positive goodwill of $16,798 on the acquisition of the stake that gives control (25.37%) and negative goodwill of $3,588 on the subsequent acquisition (18%). Negative goodwill was allocated to the acquired assets other than current assets in accordance with SFAS No. 141.

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

Current assets	8,239
Mineral rights	18,661
Property, plant and equipment	15,107
Other non-current assets	8,974
Goodwill	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 further acquired from minority shareholders additional stakes 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 Group's ownership of 92.04%.

As discussed in Note 6(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.

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

(c) Acquisition of coal and coke-chemical assets

In April 2006, the Parent Company concurrently acquired 82.23% of the outstanding common shares of OJSC Altai-koks and 100% of the outstanding common shares of a holding company Kuzbass Asset Holdings Limited, Gibraltar, which owns 100% of Prokopievskugol – group of coal companies, for a consideration of approximately USD 564 million and USD 188 million respectively out of which USD 564 million and USD 99 million were paid as of the date of these interim condensed consolidated financial statements. In accordance with the purchase agreement the Parent Company owes USD 88 million which will be off-set against any purchase price adjustments which are expected to be finalized in the fourth quarter of 2006. The Parent Company is in the process of negotiating purchase price adjustments which are expected to be significant relative to the purchase price but can not be reasonably determined at the date of these interim condensed consolidated financial statements.

In this respect the Group believes that the $88 million due will be off-set by the purchase price adjustments related to each of the companies and has not therefore recorded this as a part of the purchase price with a corresponding increase in the liability and has not accounted for any purchase price adjustments in excess of this amount.

During the nine months ended September 30, 2006 the Parent Company acquired additional stakes of 6.3% and 5.12% in OJSC Altai-koks from minority shareholders for consideration of $34,355 and $37,936, respectively. As a result, the Group's ownership equals 93.64% of the voting shares. The acquired stake of 6.3% was included (taking into account the acquisition date) in the purchase price allocation presented below. The Group recorded goodwill of $25,529 on the 5.12% stake acquired.

These acquisitions were made consistent with the Group's vertical integration strategy, aiming for additional competitive advantages through the stable supply of key raw materials. The acquired companies are consolidated by the Group for the first time as at the effective date of obtaining control which management considers to be April 2006.

Acquisition of OJSC Altai-koks shares

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

The Group is in the process of completing the purchase price allocation and goodwill allocation to reporting units. The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraisers (in relation to the 88.5% stake acquired); resulting goodwill primarily reflects the control premium paid for the acquisitions:

(thousands of US dollars)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

Current assets	62,497
Property, plant and equipment	323,171
Other non-current assets	349
Goodwill	351,284
Total assets acquired	**737,301**
Current liabilities	(132,104)
Deferred income tax liability	(47,209)
Total liabilities assumed	**(179,313)**
Net assets acquired	**557,988**
Less: cash acquired	(113)
Net assets acquired, net of cash acquired	**557,875**

The revenues and net income of OJSC Altai-koks, including the effects of purchase price adjustments, for the nine months ended September 30, 2006 were $271,778 and $11,913, respectively ($360,031 and $4,766 accordingly for the nine months ended September 30, 2005 on historical cost basis).

Acquisition of Prokopievskugol – group of coal companies

Prokopievskugol – group of coal companies is the leader in high-grade coking coal production and processing in the Kemerovo region of Russia. It owns seven mines and three processing plants.

The Group is in the process of completing the purchase price allocation and the following table summarizes the preliminary 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 based on estimates of independent appraisers:

Current assets	40,826
Mineral rights	24,493
Property, plant and equipment	209,803
Other non-current assets	2
Total assets acquired	**275,124**
Current liabilities	(89,923)
Non-current liabilities	(18)
Deferred income tax liability	(45,649)
Total liabilities assumed	**(135,590)**
Net assets acquired	**139,534**
Less: cash acquired	(459)
Net assets acquired, net of cash acquired	**139,075**

(thousands of US dollars)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

The revenues and net loss of Prokopievskugol, including the effects of purchase price adjustments, for the nine months ended September 30, 2006 were $147,100 and $49,629, respectively. Group's management believes that it is not practicable to disclose corresponding information for the nine months ended September 30, 2005 because information suitable for reporting under US GAAP purposes for this period is not available.

(d) Acquisition of LLC VIZ-Stahl

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

Prior to acquisition the Parent Company was a supplier of different steel products for LLC VIZ-Stahl with total sales of $78,681 for the reporting period in 2006 (nil for the nine months ended September 30, 2005).

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

Current assets	159,443
Property, plant and equipment and other non-current assets	380,017
Intangible assets	185,190
Goodwill	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: 10.4 years for customer base and 12.4 years for intellectual industrial property. Carrying value of the acquired intangible assets are $121,312 and $63,878 as at acquisition date, respectively.

The revenues and net income of LLC VIZ-Stahl for the nine months ended September 30, 2006 were $405,853 and $161,276, respectively ($241,073 and $44,998 accordingly for the nine months ended September 30, 2005 on historical cost basis).

(thousands of US dollars)

11 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

Preacquisition tax contingencies

At present LLC VIZ-Stahl is undergoing a tax audit for 2003-2005 for profit tax and VAT which is expected to be finalized later in December 2006. The impact of any tax assessment that may result from the audit cannot be reasonably estimated at the moment, however it may be material (Refer to Note 15(g)). The Group's management believes that it will be possible to reasonably estimate the fair value of applicable preacquisition tax contingencies once the tax audit is finalized and results are communicated to management. Accordingly, at September 30, 2006 no provision for potential tax liabilities was recorded.

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.

12 SEGMENTAL INFORMATION

Following the acquisition of OJSC Altai-koks (Note 11(c)), the Group has three reportable business segments: steel, mining and coke-chemical. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above three segments meet criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

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

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

Information on segmental transactions for the nine months ended September 30, 2006 and their assets as at September 30, 2006 is as follows:

	Steel	**Mining**	**Coke-chemical**	**All other**	**Totals**	**Intersegmental operations and balances**	**Consolidated**
Revenue from external customers	3,988,048	70,392	130,180	169,868	4,358,488	-	4,358,488
Intersegment revenue	10,987	333,912	61,442	58,057	464,398	(464,398)	-
Gross profit	**1,763,321**	**212,625**	**37,757**	**41,843**	**2,055,546**	**(3,030)**	**2,052,516**
Operating income	**1,496,895**	**183,268**	**15,920**	**(9,194)**	**1,686,889**	**(8,688)**	**1,678,201**
Income from continuing operations before minority interest	**1,613,687**	**151,545**	**9,416**	**(6,782)**	**1,767,866**	**(242,355)**	**1,525,511**
Segment assets, including goodwill	5,524,806	1,299,777	854,302	1,115,596	8,794,481	(504,388)	8,290,093

(thousands of US dollars)

12 SEGMENTAL INFORMATION (continued)

Information on segmental transactions for the nine months ended September 30, 2005 and their assets as at December 31, 2005 is as follows:

	Steel	Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	3,160,099	73,636	-	129,035	3,362,770	-	3,362,770
Intersegment revenue	3,281	368,620	-	2,337	374,238	(374,238)	-
Gross profit	**1,310,266**	**247,489**	**-**	**42,228**	**1,599,983**	**15,278**	**1,615,261**
Operating income	**1,154,001**	**227,007**	**-**	**31,056**	**1,412,064**	**7,007**	**1,419,071**
Income from continuing operations before minority interest	**847,832**	**188,304**	**-**	**30,350**	**1,066,486**	**(8,400)**	**1,058,086**
Segment assets, including goodwill	4,582,317	1,071,717	-	706,761	6,360,795	(150,282)	6,210,513

13 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

The Russian Federation economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, 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 was required to convert 10% of its foreign currency earnings into Russian rubles until May 6, 2006 (from May 7, 2006 this requirement was cancelled). 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 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.

13 RISKS AND UNCERTAINTIES (continued)

(c) Commercial risks

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

The Group's sales outside Russian Federation in monetary terms for the nine months ended September 30, 2006 and September 30, 2005 were 57% and 58% of the total sales, respectively.

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

The Group sells to three international traders that account for the majority of its sales outside of Russia. During the nine months ended September 30, 2006 Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK), and Moorfield Commodities Company, UK, purchased 31%, 21% and 22% of the Group's sales outside of Russia, respectively (43%, 25% and 17% during the nine months ended September 30, 2005, respectively). Price fluctuations of sales to these companies are in line with general trends in global price fluctuations. The Group's prices for sales outside of Russia are comparable to the prices of Russian competitors. As at September 30, 2006 and December 31, 2005, 1.199% of the share capital of the Parent Company is held by a company beneficially owned by the shareholders of these traders.

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

14 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to SFAS No. 57, *Related Party Disclosures*. Balances as at September 30, 2006 and December 31, 2005 and transactions for the nine months ended September 30, 2006 and September 30, 2005 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to related parties, either companies under common control or companies under control or significant influence of the Group's management, were $15,691 and $28,084 for the nine months ended September 30, 2006 and September 30, 2005, respectively, which accounts for 0.4% and 0.8% of the total sales revenue. Related accounts receivable equaled $497 and $33,178 as at September 30, 2006 and December 31, 2005, respectively.

Purchases and services

Purchases of raw materials, technological equipment and management services from companies under common control, were $10,614 and $17,686 for the nine months ended September 30, 2006 and September 30, 2005, respectively. Purchases of energy from the companies under significant influence of the Group's management during the nine months ended September 30, 2006 and September 30, 2005 were $128,538 and $106,649, respectively.

Accounts payable to the related parties were $12,552 and $16,726 as at September 30, 2006 and December 31, 2005, respectively.

14 RELATED PARTY TRANSACTIONS (continued)

(b) Financial transactions

The subsidiary bank of the Group had loans receivable from related parties, either associates or companies under control or significant influence of the Group's management, of $5,794 and $10,633 as at September 30, 2006 and December 31, 2005, respectively.

Deposits and current accounts of related parties, either companies under common control or companies under control or significant influence of the Group's management, in the subsidiary bank amounted to $19,663 and $88,090 as at September 30, 2006 and December 31, 2005, respectively.

Deposits and current accounts of Group companies in a bank under significant influence of the Group's management (OJSC Bank Zenit) amounted to $144,182 and $70,967 as at September 30, 2006 and December 31, 2005, respectively. Related interest income from these deposits and current accounts amounted to $4,659 and $9,499 for the nine months ended September 30, 2006 and September 30, 2005, respectively.

The Group granted interest free loans to management in the total amount of $110 and $330 for the nine months ended September 30, 2006 and September 30, 2005, respectively. The aggregate amount of such loans outstanding as at September 30, 2006 and December 31, 2005 was $250 and $514, respectively.

Agent fee for the purchase of the shares in existing subsidiaries (Note 11) from the Company under significant influence of the Group's management for the nine months ended September 30, 2006 amounted to $867.

(c) Contributions to non-governmental pension fund

Total contributions to a non-governmental pension fund under defined contribution plan amounted to $2,025 and $2,060 during the nine months ended September 30, 2006 and September 30, 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.

15 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

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

(b) Litigation

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

15 COMMITMENTS AND CONTINGENCIES (continued)

(d) Insurance

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

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

(e) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $333,773 and $264,903 as at September 30, 2006 and December 31, 2005, respectively.

(f) Social commitments

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

(g) Tax contingencies

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

As at September 30, 2006 management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these interim condensed consolidated financial statements.

(h) Financial guarantees issued

As at September 30, 2006 and December 31, 2005, the Group has issued guarantees to third parties amounting to $1,533 and $540, respectively. 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.

16 SUBSEQUENT EVENTS

In November 2006 the Parent Company and Duferco Group have reached a definitive agreement to create a joint venture company to acquire certain steel production and distribution facilities currently owned by Duferco in Europe and USA. The Group will acquire its 50% interest for approximately $805 million. The transaction is to be completed by the end of 2006.