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, 2012 AND DECEMBER 31, 2011
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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Report of Independent Accountants

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

We have reviewed the accompanying interim condensed consolidated balance sheet of OJSC Novolipetsk Steel and its subsidiaries ("the Group") as at September 30, 2012, and the related interim condensed consolidated statements of income, of cash flows, and of stockholders' equity and comprehensive income for each of the nine-month periods ended September 30, 2012 and September 30, 2011. These interim condensed consolidated financial statements are the responsibility of the Group's management.

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

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

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group as at December 31, 2011, the related consolidated statements of income, of cash flows, and of stockholders' equity and comprehensive income for the year then ended (not presented herein), and in our report dated March 24, 2012, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as at December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

ZAO PricewaterhouseCoopers Audit

November 8, 2012

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

	Note	As at September 30, 2012	As at December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	2	1,802,885	797,169
Short-term investments		10,726	227,279
Accounts receivable and advances given, net	3	1,558,727	1,572,641
Inventories, net	4	2,819,055	2,828,433
Other current assets		42,333	59,355
Deferred income tax assets		53,768	18,887
		6,287,494	**5,503,764**
Non-current assets			
Long-term investments		13,055	8,420
Property, plant and equipment, net	5	11,458,385	10,569,828
Intangible assets, net		146,286	158,611
Goodwill		778,068	760,166
Deferred income tax assets		239,902	237,113
Other non-current assets		25,358	19,274
		12,661,054	**11,753,412**
Total assets		**18,948,548**	**17,257,176**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	6	1,712,590	1,622,679
Short-term borrowings	7	2,433,534	1,306,263
Current income tax liability		8,628	10,994
		4,154,752	**2,939,936**
Non-current liabilities			
Deferred income tax liability		752,242	713,666
Long-term borrowings	7	2,850,077	3,073,535
Other long-term liabilities		272,880	424,878
		3,875,199	**4,212,079**
Total liabilities		**8,029,951**	**7,152,015**
Commitments and contingencies	15	-	-
Stockholders' equity			
NLMK stockholders' equity			
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at September 30, 2012 and December 31, 2011		221,173	221,173
Statutory reserve		10,267	10,267
Additional paid-in capital		306,391	306,391
Accumulated other comprehensive loss		(1,177,829)	(1,489,442)
Retained earnings		11,603,984	11,098,635
		10,963,986	**10,147,024**
Non-controlling interest		**(45,389)**	**(41,863)**
Total stockholders' equity		**10,918,597**	**10,105,161**
Total liabilities and stockholders' equity		**18,948,548**	**17,257,176**

	Note	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Revenue	12	**9,353,666**	**8,675,117**
Cost of sales			
Production cost		(6,510,018)	(5,617,718)
Depreciation and amortization		(569,121)	(459,988)
		(7,079,139)	**(6,077,706)**
Gross profit		**2,274,527**	**2,597,411**
General and administrative expenses		(335,057)	(365,567)
Selling expenses		(870,643)	(690,591)
Taxes other than income tax		(127,015)	(117,781)
Operating income		**941,812**	**1,423,472**
Loss on disposals of property, plant and equipment		(37,566)	(23,234)
Gains / (losses) on investments, net		(159)	68,981
Interest income		18,468	19,852
Interest expense		(37,959)	-
Foreign currency exchange gain / (loss), net		(10,792)	44,834
Other income / (expenses), net		(34,994)	3,948
Income before income tax		**838,810**	**1,537,853**
Income tax expense		(223,451)	(400,047)
Income, net of income tax		**615,359**	**1,137,806**
Equity in net earnings of associates		333	54,048
Net income		**615,692**	**1,191,854**
Add: Net loss attributable to the non-controlling interest		**1,729**	**12,309**
Net income attributable to NLMK stockholders		**617,421**	**1,204,163**
Income per share – basic and diluted:			
Net income attributable to NLMK stockholders per share (US dollars)	9	0.1030	0.2009
Weighted-average shares outstanding, basic and diluted (in thousands)	9	5,993,227	5,993,227

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

(thousands of US dollars)

Interim condensed consolidated statements of comprehensive income

	Net income	Cumulative translation adjustment	**Comprehensive income**	Non-controlling interest	**Comprehensive income attributable to NLMK stockholders**
For the nine months ended September 30, 2011	1,191,854	(454,868)	**736,986**	6,553	**730,433**
For the nine months ended September 30, 2012	615,692	309,816	**925,508**	(3,526)	**929,034**

Interim condensed consolidated statements of stockholders' equity

		NLMK stockholders						
	Note	**Common stock**	**Statutory reserve**	**Additional paid-in capital**	**Accumulated other compre-hensive loss**	**Retained earnings**	**Non-controlling interest**	**Total stockholders' equity**
Balance at December 31, 2010		**221,173**	**10,267**	**98,752**	**(916,901)**	**10,261,214**	**(120,691)**	**9,553,814**
Net income / (loss)		-	-	-	-	1,204,163	(12,309)	1,191,854
Cumulative translation adjustment		-	-	-	(473,730)	-	18,862	(454,868)
Disposal of assets to an entity under common control	11	-	-	207,639	-	-	-	207,639
Change in non-controlling interest in deconsolidated subsidiaries		-	-	-	-	-	93,566	93,566
Dividends to shareholders	9	-	-	-	-	(520,173)	-	(520,173)
Balance at September 30, 2011		**221,173**	**10,267**	**306,391**	**(1,390,631)**	**10,945,204**	**(20,572)**	**10,071,832**
Balance at December 31, 2011		**221,173**	**10,267**	**306,391**	**(1,489,442)**	**11,098,635**	**(41,863)**	**10,105,161**
Net income / (loss)		-	-	-	-	617,421	(1,729)	615,692
Cumulative translation adjustment		-	-	-	311,613	-	(1,797)	309,816
Dividends to shareholders	9	-	-	-	-	(112,072)	-	(112,072)
Balance at September 30, 2012		**221,173**	**10,267**	**306,391**	**(1,177,829)**	**11,603,984**	**(45,389)**	**10,918,597**

(thousands of US dollars)

	Note	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		**615,692**	**1,191,854**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		569,121	459,988
Loss on disposals of property, plant and equipment		37,566	23,234
Losses / (gains) on investments, net		159	(68,981)
Equity in net earnings of associates		(333)	(54,048)
Deferred income tax (income) / expense		(2,170)	34,284
(Gains) / losses on derivative financial instruments	8	(7,184)	4,819
Other		8,248	91,913
Changes in operating assets and liabilities			
Decrease in accounts receivable		74,681	23,118
Decrease / (increase) in inventories		128,192	(489,604)
Decrease in other current assets		19,218	11,116
Increase in accounts payable and other liabilities		50,187	244,176
(Decrease) / increase in current income tax payable		(2,207)	13,080
Net cash provided by operating activities		**1,491,170**	**1,484,949**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases and construction of property, plant and equipment		(1,157,451)	(1,528,985)
Proceeds from sale of property, plant and equipment		23,861	15,958
Purchases of investments and placement of bank deposits		(33,552)	(270,589)
Withdrawal of bank deposits, proceeds from sale of other investments and loans settled		260,743	691,308
Payments for acquisition of interests in new subsidiaries	10	(156,510)	(41,751)
Net cash used in investing activities		**(1,062,909)**	**(1,134,059)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and notes payable		1,319,717	829,950
Repayment of borrowings and notes payable		(551,416)	(1,171,552)
Capital lease payments		(17,200)	(29,805)
Dividends to shareholders		(115,880)	(247,286)
Proceeds from disposal of assets to the company under common control	11	-	313,246
Net cash provided by / (used in) financing activities		**635,221**	**(305,447)**
Net increase in cash and cash equivalents		**1,063,482**	**45,443**
Effect of exchange rate changes on cash and cash equivalents		(57,766)	36,609
Cash and cash equivalents at the beginning of the year	2	797,169	747,979
Cash and cash equivalents at the end of the period	2	**1,802,885**	**830,031**

(thousands of US dollars)

1 BASIS OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Open Joint Stock Company Novolipetsk Steel (the "Parent Company", or "NLMK") and its subsidiaries (together – the "Group") as at and for the year ended December 31, 2011. The December 31, 2011 condensed consolidated balance sheet information has been derived from the audited consolidated financial statements, however, since it is presented on a condensed basis it does not include all disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

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

Functional and reporting currency

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

The Central Bank of the Russian Federation's Russian ruble to US dollar closing rates of exchange as of the reporting dates and the period weighted average exchange rates for corresponding reporting periods are indicated below.

	RUR / USD		RUR / USD
As at December 31, 2010	30.4769	As at December 31, 2011	32.1961
For the 1st quarter of 2011	29.2698	For the 1st quarter of 2012	30.2642
For the 2nd quarter of 2011	27.9857	For the 2nd quarter of 2012	31.0139
For the 3rd quarter of 2011	29.0461	For the 3rd quarter of 2012	32.0072
As at September 30, 2011	31.8751	As at September 30, 2012	30.9169

Recent accounting pronouncements

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. Under these amendments an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for the Group from January 1, 2012. The Group has adopted ASU 2011-05 starting January 1, 2012, which changed only the presentation of comprehensive income. Subsequently in December 2011, the FASB issued ASU 2011-12: *Comprehensive Income (Topic 220)* which updates and supersedes certain paragraphs in ASU 2011-05. Its adoption had no significant impact on the Group's financial position and results of operations.

In July 2012, the FASB approved ASU 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. The amendments in ASU 2012-02 will allow an entity the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is "more likely than not" that the asset is impaired. The amendments in this Update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Group believes the adoption of ASU 2012-02 will not have an impact on the Group's consolidated financial position and results of operations.

(thousands of US dollars)

2 CASH AND CASH EQUIVALENTS

	As at September 30, 2012	As at December 31, 2011
Cash – Russian rubles	107,649	54,448
Cash – US dollars	754,924	45,820
Cash – other currencies	288,889	66,561
Deposits – Russian rubles	449,577	173,644
Deposits – US dollars	126,786	290,854
Deposits – Euros	68,808	165,806
Other cash equivalents	6,252	36
	1,802,885	**797,169**

3 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at September 30, 2012	As at December 31, 2011
Trade accounts receivable	927,983	944,250
Advances given to suppliers	116,349	154,622
VAT and other taxes receivable	537,587	511,118
Accounts receivable from employees	4,779	2,799
Other accounts receivable	79,070	87,710
	1,665,768	1,700,499
Allowance for doubtful debts	(107,041)	(127,858)
	1,558,727	**1,572,641**

As at September 30, 2012 and December 31, 2011, accounts receivable of $299,815 and $297,902, respectively, served as collateral for certain borrowings (Note 7).

4 INVENTORIES

	As at September 30, 2012	As at December 31, 2011
Raw materials	1,195,686	1,215,944
Work in process	770,557	685,472
Finished goods and goods for resale	939,920	1,021,828
	2,906,163	2,923,244
Provision for obsolescence	(87,108)	(94,811)
	2,819,055	**2,828,433**

As at September 30, 2012 and December 31, 2011, inventories of $687,266 and $641,654, respectively, served as collateral for certain borrowings (Note 7).

(thousands of US dollars)

5 PROPERTY, PLANT AND EQUIPMENT

	As at September 30, 2012	As at December 31, 2011
Land	262,030	201,852
Mineral rights	544,198	522,577
Buildings, land and buildings improvements, machinery and equipment	12,771,206	10,365,267
Vehicles	376,244	324,953
Construction in progress and advances for construction and acquisition of property, plant and equipment	3,691,902	4,630,558
Leased assets	127,777	125,897
Other	143,648	125,585
	17,917,005	16,296,689
Accumulated depreciation	(6,458,620)	(5,726,861)
	11,458,385	**10,569,828**

As at September 30, 2012 and December 31, 2011, property, plant and equipment of $196,682 and $541,928 (net book value), respectively, served as collateral for certain borrowings (Note 7).

The amounts of interest capitalized are $156,574 and $114,402 for the nine months ended September 30, 2012 and September 30, 2011, respectively.

6 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at September 30, 2012	As at December 31, 2011
Trade accounts payable	817,178	818,729
Advances received	160,421	133,402
Taxes payable other than income tax	153,849	143,379
Accounts payable and accrued liabilities to employees	247,625	199,300
Dividends payable	2,148	2,061
Short-term capital lease liability	17,589	14,757
Other accounts payable	313,780	311,051
	1,712,590	**1,622,679**

Other accounts payable as at September 30, 2012 and December 31, 2011 include short-term part of payables for SIF S.A. shares of $142,509 and $145,631, respectively (Note 10).

(thousands of US dollars)

7 SHORT-TERM AND LONG-TERM BORROWINGS

	As at September 30, 2012	As at December 31, 2011
Parent Company		
Loans, EUR denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2012-2019	674,961	757,788
Loans, RUR denominated, with interest rates from 8.5% to 9.2% per annum, mature 2012-2013	648,084	310,958
Bonds, USD denominated, with interest rate 4.95% per annum, mature 2019	500,342	-
Bonds, RUR denominated, with interest rates from 7.75% to 10.75% per annum, mature 2012-2015	1,820,357	1,416,108
Loans, USD denominated, with interest rates from LIBOR +1.2% to 3.86% per annum, mature 2012-2013	376,776	678,077
Companies of the Foreign rolled products segment		
Loans, USD denominated, with interest rates LIBOR +1.625% and PRIME +0.625% per annum, mature 2012-2016	75,338	51,347
Loans, EUR denominated, with interest rates from EURIBOR +0.5% to EURIBOR +3.5% and 4.3% per annum, mature 2012-2020	1,031,273	1,014,160
Other borrowings	-	2
Other companies		
Loans, EUR denominated, with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +1.3% per annum, mature 2012-2020	108,934	107,119
Loans, EUR denominated, with interest rate EURIBOR (6 m) +5.5% per annum, mature 2012-2013	888	1,648
Loan, RUR denominated, with interest rate 10% per annum mature 2017	35,281	30,771
Other borrowings	11,377	11,820
	5,283,611	**4,379,798**
Less: short-term loans and current maturities of long-term loans	(2,433,534)	(1,306,263)
Long-term borrowings	**2,850,077**	**3,073,535**

The Group's long-term borrowings as at September 30, 2012 mature between 2 to 8 years.

Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies are in compliance with debt covenants as of September 30, 2012.

(thousands of US dollars)

8 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Group holds or purchases derivative financial instruments for purposes other than trading to mitigate foreign currency exchange rate risk. Forward contracts are short-term with maturity dates in October-December 2012.

In the first half of 2012, the Group entered into Russian ruble / US dollar cross-currency interest rate swap agreements in conjunction with Russian ruble denominated bonds issued by the Group. As a result, the Group pays US dollars at fixed rates varying from 3.11% to 3.15% per annum and receives Russian rubles at fixed rate 8.95% per annum. Maturity of the swaps is linked to the Russian ruble denominated bonds redemption, appointed on November 2014.

In accordance with ASC No. 820, the fair value of foreign currency derivatives is determined using Level 2 inputs. The inputs used include quoted prices for similar assets or liabilities in an active market.

Fair value of forwards is determined as the sum of the differences between the discounted market forward rate in the settlement month prevailing at September 30, 2012 and the appropriate contract settlement rate, multiplied by the respective notional amount of the contract. Fair value of swaps is determined as the sum of the discounted contractual cash flows in Russian rubles and US dollars as at September 30, 2012.

The amounts recorded represent the US dollar equivalent of the commitments to sell and purchase foreign currencies. The table below summarizes the contractual amounts and positive fair values of the Group's unrealized forward exchange contracts in US dollars.

	As at September 30, 2012		**As at December 31, 2011**	
	Notional amount	Fair value	Notional amount	Fair value
US dollars	100,488	2,582	-	-
Euro	70,438	562	-	-
	170,926	**3,144**	**-**	**-**

The table below summarizes the contractual amounts and negative fair values of the Group's unrealized forward exchange contracts in US dollars.

	As at September 30, 2012		**As at December 31, 2011**	
	Notional amount	Fair value	Notional amount	Fair value
US dollars	17,421	(19)		
Euro	27,026	(233)	-	-
	44,447	**(252)**	**-**	**-**

During the nine months ended September 30, 2012 gains from forward exchange contracts amounted to $4,351, while during the nine months ended September 30, 2011 losses comprised $4,819. These gains and losses were included in "Foreign currency exchange gain / (loss), net" line in the interim condensed consolidated statements of income.

8 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

The table below summarizes the contractual amounts and positive fair values of the Group's unrealized cross-currency interest rate swap agreements in US dollars.

	As at September 30, 2012		As at December 31, 2011	
	Notional amount	Fair value	Notional amount	Fair value
US dollars	98,172	4,532	-	-
	98,172	**4,532**	**-**	**-**

During the nine months ended September 30, 2012 gains from cross-currency interest rate swap agreements amounted to $4,386 and were included in "Foreign currency exchange gain / (loss), net" line in the interim condensed consolidated statements of income.

9 EARNINGS PER SHARE

	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Weighted average number of shares	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	617,421	1,204,163
Basic and diluted net income per share (US dollars)	**0.1030**	**0.2009**

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 2012, the Parent Company declared dividends for the year ended December 31, 2011 of 2 Russian rubles per share for the total of $375,776, including interim dividends for the six months ended June 30, 2011 of 1.4 Russian ruble per share for the total of $263,704 (at the historical rate). Dividends payable amounted to $2,148 at September 30, 2012.

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

10 BUSINESS COMBINATIONS

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco Group. This acquisition is aimed to enhance the Group's competitive strengths on the global market through the expansion of vertical integration of assets, optimization of a product portfolio and geographic diversification.

The purchase price is $600 million. The first tranche of $150 million was paid on June 30, 2011. The remaining tranches are payable in arrears in three equal annual installments. Management has assessed fair value of the purchase consideration for 50% acquired as a result of business combination as $577.3 million.

Management has assessed fair value of 50% shares in SIF S.A. held before the business combination as $289.7 million. Fair value was based on values of assets and liabilities of SIF S.A. determined by an independent appraiser.

The total purchase consideration that includes fair value of purchase consideration for 50% acquired as a result of business combination and the fair value of the previously held interest amounted to $867 million.

The Group also recognized deferred tax assets on SIF S.A. losses carried forward as of approximately $200 million as the result of this consolidation. Most of these losses are in jurisdictions where there is an indefinite carry-forward period. The management anticipates utilization of these losses starting from 2013 and believes these assets will be recovered in the future.

(thousands of US dollars)

10 BUSINESS COMBINATIONS (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in this business combination. The fair values of property, plant and equipment and intangible assets were based on estimates determined by an independent appraiser. Management has determined that resulting goodwill primarily reflects the control premium paid for the acquisition and future synergies from using SIF S.A. assets for marketing Group metal products in Europe and USA.

Cash and cash equivalents	112,806
Accounts receivable and advances given, net	685,842
Inventories, net	1,169,496
Other current assets	26,874
Intangible assets	11,597
Property, plant and equipment	1,735,259
Deferred tax assets	270,670
Other non-current assets	787
Total assets acquired	**4,013,331**
Accounts payable and other liabilities	(1,130,196)
Other current liabilities	(860,231)
Non-current liabilities	(1,065,347)
Deferred income tax liability	(380,240)
Total liabilities assumed	**(3,436,014)**
Net assets acquired	**577,317**
Purchase consideration	867,028
Goodwill	**289,711**

11 DISPOSAL OF ASSETS

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

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

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

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

Sales revenue	243,685
Net income	31,346

(thousands of US dollars)

11 DISPOSAL OF ASSETS (continued)

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

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

12 SEGMENT INFORMATION

Starting from July 2011 the Group changed the composition and the presentation of its reportable segments as a result of a change in the Group's structure (Note 10) and internal organization. Comparative financial information has been adjusted to conform to the presentation of current period amounts.

The Group has four reportable business segments: steel, foreign rolled products, long products and mining. Results of the production of coke and coke-chemical products are now presented within the steel segment in these interim condensed consolidated financial statements. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above four segments meet the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that do not exceed the quantitative thresholds is primarily attributable to two operating segments of the Group. Those segments include insurance and other services. None of these segments has met any of the quantitative thresholds for determining a reportable segment. The investments in equity method investee and equity in net earnings / (losses) of associates are included in the steel segment.

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

Segmental information for the nine months ended September 30, 2012 and their assets as at September 30, 2012 is as follows:

	Steel	**Foreign rolled products**	**Long products**	**Mining**	**All other**	**Totals**	**Inter-segmental operations and balances**	**Consolidated**
Revenue from external customers	5,446,541	2,774,453	918,074	214,172	426	9,353,666	-	9,353,666
Intersegment revenue	1,180,164	1,336	357,708	776,754	-	2,315,962	(2,315,962)	-
Gross profit	**1,352,147**	**(12,074)**	**216,852**	**702,168**	**279**	**2,259,372**	**15,155**	**2,274,527**
Operating income / (loss)	**466,876**	**(229,366)**	**76,086**	**605,504**	**(1,064)**	**918,036**	**23,776**	**941,812**
Income / (loss), net of income tax	**709,826**	**(233,132)**	**(60,036)**	**482,211**	**526**	**899,395**	**(284,036)**	**615,359**
Segment assets, including goodwill	14,969,779	3,897,130	2,763,651	2,223,744	54,440	23,908,744	(4,960,196)	18,948,548

(thousands of US dollars)

12 SEGMENT INFORMATION (continued)

Segmental information for the nine months ended September 30, 2011 and their assets as at December 31, 2011 is as follows:

	Steel	Foreign rolled products	Long products	Mining	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	6,156,675	1,475,179	894,807	147,758	698	8,675,117	-	8,675,117
Intersegment revenue	653,909	196	514,211	931,007	-	2,099,323	(2,099,323)	-
Gross profit	**1,729,889**	**(37,658)**	**179,186**	**808,672**	**266**	**2,680,355**	**(82,944)**	**2,597,411**
Operating income / (loss)	**918,352**	**(174,716)**	**10,030**	**746,266**	**(780)**	**1,499,152**	**(75,680)**	**1,423,472**
Income / (loss), net of income tax	**953,069**	**(171,478)**	**(153,013)**	**662,140**	**(145)**	**1,290,573**	**(152,767)**	**1,137,806**
Segment assets, including goodwill	13,060,968	4,225,510	2,471,958	1,870,993	45,774	21,675,203	(4,418,027)	17,257,176

13 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

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

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management considered impairment provisions by taking into account the economic situation and outlook at the end of the reporting period.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

The major financial risks inherent to the Group's operations are those related to market risk, credit risk and liquidity risk. The objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimize operational and legal risks.

(b) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise of three types of risk: currency risk, interest rate risk and commodity price risk.

13 RISKS AND UNCERTAINTIES (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. To manage this risk the Group analyzes interest rate risks on a regular basis. The Group reduces its exposure to this risk by having a balanced portfolio of fixed and variable rate loans and by hedging of interest rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The export-oriented companies of the Group are exposed to foreign currency risk. To minimize foreign currency risks the export program is designed taking into account potential (forecast) major foreign currencies' exchange fluctuations. The Group diversifies its revenues in different currencies. In its export contracts the Group controls the balance of currency positions: payments in foreign currency are settled with export revenues in the same currency. At the same time standard hedging instruments to manage foreign currency risk might be used.

Commodity price risk

Commodity price risk is a risk arising from possible changes in price of raw materials and metal products, and their impact on the Group's future performance and the Group's operational results.

The Group minimizes its risks, related to production distribution, by having a wide range of geographical zones for sales, which allows the Group to respond quickly to changes in the situation on one or more sales markets on the basis of an analysis of the existing and prospective markets. The Group's sales outside the Russian Federation in monetary terms for the nine months ended September 30, 2012 and September 30, 2011 were 65% and 60% of the total sales, respectively.

One of the commodity price risk management instruments is vertical integration. A high degree of vertical integration allows cost control and effective management of the entire process of production: from mining of raw materials and generation of electric and heat energy to production, processing and distribution of metal products.

(c) Credit risk

Credit risk is the risk when counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management.

The Group structures the levels of credit risk it undertakes by assessing the degree of risk for each counterparty or groups of parties. Such risks are monitored on a revolving basis and are subject to a quarterly, or more frequent, review.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

13 RISKS AND UNCERTAINTIES (continued)

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources.

The Group monitors its risk to a shortage of funds using a regular cash flow forecast. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases. To provide for sufficient cash balances required for settlement of its obligations in time the Group uses detailed budgeting and cash flow forecasting instruments.

(e) Insurance

To minimize risks the Group concludes insurance policies which cover property damages and business interruptions, freightage, general liability and vehicles. In respect of legislation requirements, the Group purchases insurance of civil liability of organizations operating hazardous facilities, compulsory motor third party liability insurance. The Group also buys directors and officers liability insurance, civil liability insurance of the members of self-regulatory organizations, voluntary health insurance for employees of the Group.

14 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850. Balances as at September 30, 2012 and December 31, 2011 and transactions for the nine months ended September 30, 2012 and September 30, 2011 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to an associate (SIF S.A.) and one of its subsidiaries were $726,627 for the nine months ended September 30, 2011. Sales to other related parties were $8,297 and $9,889 for the nine months ended September 30, 2012 and September 30, 2011, respectively.

Accounts receivable from related parties equaled $35,214 and $45,978 as at September 30, 2012 and December 31, 2011, respectively.

Purchases

Purchases from subsidiary of an associate (SIF S.A.) were $978 for the nine months ended September 30, 2011. Purchases from the companies under common control were $499,569 and $264,975 for the nine months ended September 30, 2012 and September 30, 2011, respectively.

Accounts payable to the related parties were $6,882 and $3,453 as at September 30, 2012 and December 31, 2011, respectively.

(b) Financial transactions

Deposits and current accounts of the Group companies in banks under significant influence of the Group's controlling shareholder (OJSC Bank ZENIT and OJSC Lipetskcombank) amounted to $110,566 and $56,395 as at September 30, 2012 and December 31, 2011, respectively. Related interest income from these deposits and current accounts for the nine months ended September 30, 2012 and September 30, 2011 amounted to $994 and $776, respectively.

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 accompanying interim condensed consolidated financial statements.

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

In March 2011, the ICA Court partially (in the amount of about $308 million, at the exchange rate as of September 30, 2012) satisfied the claims of Maxi-Group's non-controlling shareholder against the Parent Company. After this decision the non-controlling shareholder initiated court cases in certain European courts to enforce payment of this claim. In April 2011, the Group's management initiated proceedings to challenge the resolution of the ICA Court, sending an application to the Arbitration Court of Moscow (the court of the first instance). In June 2011, the Arbitration Court of Moscow cancelled the respective resolution of the ICA Court. In August 2011, the Federal Arbitration Court of the Moscow Circuit initiated proceedings regarding cassation appeal filed by the non-controlling shareholder of OJSC Maxi-Group on revocation of the ICA Court decision. In September 2011, Federal Arbitrage Court of Moscow region adjudicated not to change the June decision of the Arbitration Court of Moscow. In November 2011, the Supreme Commercial Court of the Russian Federation registered a claim from the non-controlling shareholder of OJSC Maxi-Group for a supervisory review of the judicial acts of the corresponding courts. In January 2012, the Board of the Supreme Commercial Court adjudicated to refuse for a supervisory review. Accordingly, no accruals in relation to this claim were made in these interim condensed consolidated financial statements.

(c) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reasonably estimated. 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) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $797,646 and $1,396,561 as at September 30, 2012 and December 31, 2011, respectively.

(e) Social commitments

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

(f) 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, including certain operation of intercompany financing of Russian subsidiaries within the Group, that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed, and certain expenses used for profit tax calculation may be excluded from tax returns. 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.

Russian transfer pricing legislation was amended starting from January 1, 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international principles. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (defined by applicable legislation), provided that the transaction price is not arm's length. Management exercises its judgment about whether or not the transfer pricing documentation that the entity has prepared, as required by the new legislation, provides sufficient evidence to support the entity's tax positions. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial position and the results of operations of the Group.

As at September 30, 2012, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

16 SUBSEQUENT EVENTS

Deterioration in the steel markets

In the fourth quarter of 2012, the global economic situation continued to deteriorate and this had a negative impact on steel markets, including European markets, which has resulted in, among other things, a lower level of customer demand for steel products, lower utilization rates and a downturn in steel prices.

In October 2012, the management of NLMK La Louviere, a rolling facility of NLMK Europe Strip Division in Belgium, acquired as a part of business combination (Note 10), issued a press release, which outlined the decreased customer demand, continued losses and a respective need for a plant restructuring to decrease high production costs. The management of the enterprise has developed a restructuring plan covering, among other initiatives, revision of the labor contracts, growth in the labor productivity, and production flexibility, and invited the representatives of the employees for the discussion in order to adopt a plan approved by both parties in December 2012.

The Group's management has performed an evaluation of subsequent events through the period from October 1, 2012 to November 8, 2012, which is the date when these interim condensed consolidated financial statements were available to be issued.