

OJSC Novolipetsk Steel

30 November 2007

Novolipetsk Steel 9M 2007 US GAAP Results

OJSC Novolipetsk Steel (NLMK), the LSE listed leading Russian steel producer, today announces its consolidated results for 9M 2007.

Highlights:

Strong 9M 2007 financial results:

- Revenues amounted to USD 5,545.6 million (+29% year-on-year)
 - Operating cash flow reached USD 1,979.0 million
 - EBITDA* amounted to USD 2,463.2 million (+35% year-on-year); EBITDA margin was 44% (+1 per cent point year-on-year)
 - Cash and cash equivalents as of 30 September, 2007 amounted to USD 1,388.5 million
- Disposals of non-core assets in accordance with the Group's internal restructuring plan:
- Disposal of stakes in energy assets for USD 78.7 million in February 2007. Proceeds from the transaction were directed to the modernization and development of in-house energy facilities;
 - Disposal of the Company's 54.88% stake in OJSC Lipetskcombank for USD 47.7 million in June 2007.
- Total capex in 9M 2007 reached USD 616.0 million. In Q3 2007, the major projects under way as part of Phase 2 of the Technical Upgrading Programme were as follows:
- EUR 23 million contract signed with Siemens VAI (Germany) to supply two new 160 tonne ladle furnaces for BOF production at the Company's main site in Lipetsk. These will substantially expand NLMK's product mix enabling the Company to better supply the automotive industry, white goods producers and the electrical engineering industry;
 - EUR 33 million contract signed with Sundwig (Germany) to supply an additional pre-painting line, with an annual production capacity of 200,000 tonnes of steel. Commissioning the group's third pre-painting line will lift galvanized steel capacity to 1.1 million tonnes, including 0.6 million tonnes of pre-painted steel.

- Commissioning a new high-tech 300,000 tpy pickling line for hot rolled grain-oriented and carbon steel at the Lipetsk production site. In addition to reducing costs, the company's wastewater discharge into the Voronezh river will be reduced by 800 tpy (or 8%).
- Continuous furnace #4 relined increase production capacity of the hot rolling mill. The project capex is around USD 60 million.

- In November 2007, NLMK has entered into an agreement with Tebian Electric Apparatus Stock Co., Ltd (TBEA), the major Chinese transformer producer, to create a joint Russian-Chinese service centre to process (cutting and packing) and sell transformer and dynamo steels in the city of Shenyang, Lyaolin province, China. The service centre project is aimed at increasing sales volumes and service quality in the rapidly developing Chinese transformer steel market.

- At NLMK's Extraordinary General Meeting held on 28 September, approval was granted for H1 2007 dividends of RUR 1.5 per ordinary share. Funds for dividend payments on Global Depository Shares (GDSs) were transferred to the depository bank on 20 November, 2007. The depository bank makes payment no later than 5 days after the receipt of funds.

Key financials for nine months ended 30 September, 2007

USD, million	Q3 2007 **	Q2 2007	%		9M 2007	9M 2006	%
Revenue	1 936.5	1 858.9	4%		5 545.6	4 285.0	29%
Gross profit	974.9	930.9	5%		2 723.2	2 046.8	33%
Operating income	797.4	744.0	7%		2 181.5	1 676.0	30%
EBITDA*	892.6	822.5	9%		2 463.2	1 827.7	35%
EBITDA margin (%)	46%	44%			44%	43%	
Net profit***	592.5	608.4	-3%		1 657.4	1 684.7	-2%

* EBITDA = Net income (post share of minorities) + income tax ± interest expense/(income) + depreciation ± losses/(gains) on disposals of property, plant and equipment ± losses/(gains) on financial investment ± losses/(gains) from disposal of subsidiaries + accretion expense on asset retirement obligations – gains on loan restructuring

*** 9M 2006 and 9M 2007 and H1 are official reporting periods. Q2 and Q3 2007 numbers are derived by computational method.*

**** Decrease in net profit during the reporting period results from non-operating factors, proceeds from disposal of stake in Lebedinsky GOK and OJSC KMA Ruda as well as Lipetskcombank and Prokopievskugol Group in 2007. (For more information see comments on pp.3-4 and in Consolidate financial results section, p.8)*

Commenting on NLMK's US GAAP 9M 2007 results, Galina Aglyamova, Vice President Finance & CFO, said:

"NLMK has demonstrated strong financial results in 9M 2007. Operating income surged 30% on a year-on-year basis and the EBITDA margin stood at 44%. The company's sound performance was driven by a favorable pricing environment in our core markets, improved sales mix and implementation of a number of important projects within Phase 2 of the Technical Upgrade Programme.

"This year, some negative one-off factors influenced our performance, such as the technical malfunction of blast furnace number six and non-compliance with coal supply terms caused by accidents at major Russian coal mines. Nevertheless, NLMK managed to meet its planned production volumes, demonstrating the sustainability of the Company's business model.

"We expect that NLMK will demonstrate strong financial results for the remainder of 2007 and maintain its position among world's most profitable steelmaking companies."

Management Comments

In recent years, NLMK has maintained its position as one of the most efficient steel producers in the world. The main drivers contributing to the Company's profitability in 9M 2007 were the favorable pricing environment in the steel market and successful implementation of the 2nd phase of the Technical Upgrading Programme of Company's "Sustainable Growth Strategy 2007-2011".

In 9M 2007, NLMK substantially increased sales of high value-added products. The commissioning of the new hot dip galvanizing line enabled the Group to increase the production of hot dip galvanized and pre-painted steel. The consolidation of VIZ-Stal since August 2006 contributed to the growth of electrical steel production to 542,000 tonnes, which is 141,000 tonnes (+35%) higher than in 9M 2006.

Favorable steel market conditions were the main factor that resulted in a substantial growth of sales revenue and financial results as compared to 9M 2006. Thus, sales revenue in 9M 2007 amounted to USD 5,545.6 million (+29% year-on-year), operating profit was USD 2,181.5 million (+30%), EBITDA USD 2,463.2 million (+35%).

The acquisition of Altai-koks in April 2006 and VIZ-Stal in August 2006 also contributed significantly to the growth of consolidated financial results in 9M 2007.

Net profit in 9M 2007 amounted to USD 1,657.4 million, which is 2% behind 9M 2006 results.

Net profit was impacted by asset disposals in 2006 (Lebedinsky GOK and KMA Ruda) as well as in 2007 (Lipetskcombank and Prokopievskugol Group). If the impact of these one-off activities is excluded, the Company's net profit in 9M 2007 would grow by 32%.

The strong pricing environment and increase in sales volumes after the recovery of blast furnace #6 resulted in Q3 2007 sales revenue and operating profit increase of 4% and 7% respectively as compared to Q2 2007.

The USD 15.9 million (3%) decrease in the third quarter net profit was the result of the recognition of the Lipetskcombank and Prokopievskugol Group disposals in the Q2 2007 financial statements.

In 9M 2007, net cash flows received from operating activities amounted to USD 1,979.0 million, which exceeds the 9M 2006 result by 92%. The Group generates strong operating cash flow, demonstrating its high level of financial sustainability.

Steel segment

USD, million	Q3 2007	Q2 2007	%	9M 2007	9M 2006	%
Revenue from external customers	1,770.9	1,679.7	5%	5,049.3	3,991.4	27%
Revenue from intersegmental operations	6.8	5.4	25%	18.5	7.7	142%
Gross profit	767.8	751.8	2%	2,153.1	1,763.3	22%
Operating profit	641.6	611.5	5%	1,773.0	1,496.9	18%
Profit before minorities	525.0	507.8	3%	1,312.0	1,613.7	-19%

The steel segment is the key segment for the Group. The steel segment's share of consolidated revenue from external customers exceeds 90%.

In 9M 2007 the steel segment produced 6.8 million tonnes of steel, 2.4 million tonnes of saleable slabs and 4.0 million tonnes of rolled products.

Revenue from external customers in 9M 2007 amounted to USD 5 049.3 million, which is 27% higher than in 9M 2006, operating profit was USD 1,773.0 million (+18% compared to 9M 2006). The major reasons for this improvement are the increase of prices for main products and the consolidation of VIZ-Stal.

Sales revenue from external customers and operating profit in Q3 2007 were USD 1,770.9 million and 641.6 million respectively, an increase of 5% q-o-q. The main reasons for the sales revenue and operating profit growth were an increase in sales volumes and higher steel prices.

Generally, the steel segment's operating profit is expected to grow year-on-year due to high current prices for steel and fixed prices for ore and the majority of coking coal concentrate supplies through to the year end.

Mining segment

USD, million	Q3 2007	Q2 2007	%	9M 2007	9M 2006	%
Revenue from external customers	28.4	19.9	42%	71.5	70.4	2%
Revenue from intersegmental operations	187.1	195.8	-4%	575.1	333.9	72%
Gross profit	146.7	150.0	-2%	431.4	212.6	103%
Operating profit	129.7	130.6	-1%	384.5	183.3	110%
Profit before minorities	114.0	107.4	6%	325.1	151.5	115%

In 9M 2007, NLMK's mining segment comprised OJSC Stoilensky GOK, OJSC Dolomite and OJSC Stagdok. These companies mainly supply raw materials to NLMK's production facilities in Lipetsk and also sell limited volumes outside the Group.

Iron ore producer Stoilensky GOK, the principal mining company within the Group, produced 8.8 million tonnes of iron-ore concentrate (+0.3 million tonnes or 4% year-on-year) and 1.3 million tonnes of sinter ore (+0.3 million tonnes or 33% year-on-year) in 9M 2007. The mining segment's revenue from external customers grew modestly (2%) and amounted to USD 71.5 million.

Intersegmental sales in 9M 2007 rose by USD 241.2 million reaching USD 575.1 million. This increase resulted from price rises and volumes of iron ore concentrate shipped to NLMK.

The total segment's revenue in Q3 2007, including intersegmental sales, remained at the level of the previous which resulted from stable volumes shipped and iron ore concentrate prices.

As 89% of the mining segment's sales in value terms are internal sales, the segment's share of NLMK's consolidated external revenue in 9M 2007 was 1%.

In this segment we expect significant growth (over 70%) of operating profit year-on-year due to increase in iron ore prices and sales volumes.

Coke-chemical segment

USD, million	Q3 2007	Q2 2007	%	9M 2007	9M 2006	%
Revenue from external customers	115.3	137.7	-16%	358.5	130.2	175%
Revenue from intersegmental operations	48.3	20.3	138%	95.2	61.4	55%
Gross profit	47.3	28.8	64%	99.6	37.8	164%
Operating profit	23.6	5.3	342%	32.1	15.9	101%
Profit before minorities	18.1	2.0	786%	18.2	9.4	93%

* *Coke-chemicals financial results for 9M 2006, recognized since OJSC Altai-Koks consolidation in Q2 2006*

The coke-chemical segment comprises OJSC Altai-koks and its subsidiaries, which were consolidated within the Group from Q2 2006. Altai-koks is one of the leading producers of coke in Russia. In 9M 2007, Altai-koks produced 2.9 million tonnes of 6% moisture coke.

In 9M 2007, the coking segment's revenue from external customers was USD 358.5 million, while operating profit amounted to USD 32.1 million. The year-on-year financial growth is caused by the consolidation of OJSC Altai-Koks from Q2 2006.

The coke-chemical segment's share of 9M 2007 consolidated revenue was 6%.

The 16% decrease in the segment's revenue from external customers in Q3 2007 q-o-q, results from a reduction of coke production and sales volumes resulting from insufficient supplies in the coal market and non-compliance of some suppliers to meet the agreed volumes (c. 180 th. tonnes) as well as to increase coke shipment volumes to NLMK.

The segment's operating profit in Q3 2007 amounted to USD 23.6 million. The four-fold growth in the segment's operating profit results from an increase

in 6% moisture coke average prices from USD 119.1 (FCA) in Q2 2007 up to USD 140.5 (FCA) in the quarter under analysis. The abatement of the coke export tax amounting to 6.5% in mid-July 2007 positively impacted Q3 segment results. In Q3 2007, 43% of total coke sales volume was exported.

High coke prices by the end of the current year given fixed coal prices, ongoing consolidation and rise in sales volume in the internal market will ensure many-fold y-o-y increase in the financial results of coke-chemical segment in 2007.

Other segments

USD, million	Q3 2007	Q2 2007	%	9M 2007	9M 2006	%
Revenue from external customers	21.8	21.6	1%	66.3	93.0	-29%
Revenue from intersegmental operations	1.6	1.3	27%	40.3	57.2	-30%
Gross profit	12.2	10.6	15%	36.6	36.1	1%
Operating profit	5.8	6.1	-4%	-5.6	-11.3	-50%
Profit before minorities	4.2	56.8	-93%	139.9	-7.7	

Revenue from other operating segments primarily includes revenue from three operational units, the results of which do not exceed threshold values. These segments include sea port services, financial services, banking (in H1 2007) and insurance services, as well as coal mining and refinement by the Prokopievskugol Group of Coal Companies (in Q1 2007). In 9M 2007, the gross profit from other segments amounted to USD 36.6 million, remaining the same y-o-y.

Income before minority interests rose in 9M 2007 amounting to USD 139.9 million, which is primarily attributable to the waiver of the Prokopievskugol obligations for the repayment of a loan within the framework of debt restructuring. The additional driver was the recognition of financial results on the disposal of the Prokopievskugol Group of Coal Companies and

Lipetskcombank, recorded in the "Gain from disposal of subsidiaries" line.

In Q3 2007, gross profit from other segments was USD 12.2 million and operating profit was USD 5.8 million.

The decrease in profit before minorities of other segments in Q3 2007 of USD 52.7 million (or 93%) q-o-q results is due to the recognition of Prokopievskugol Group of Coal Companies and Lipetskcombank disposals in Q2 2007.

Consolidated financial results

In 9M 2007, NLMK's sales revenue reached USD 5,545.6 million, an increase of 29% year-on-year. The key factors contributing to the level of revenue and profit were:

- prices increases for the products sold by the Group;
- consolidation of Altai-koks starting April 2006 and VIZ-Stal starting August 2006;
- since March 2006 conditions for the delivery of exported products have changed. The sales price for NLMK's products now also include transportation costs to customers, border terminal or sea port.

Gross profit in 9M 2007 amounted to USD 2,723.2 million, an increase of 33% year-on-year. Operating profit was USD 2,181.5 million, an increase of 30%.

9M 2007 EBITDA amounted to USD 2,463.2 million, an increase of 35% year-on-year. The EBITDA margin for 9M 2007 was 44%, an increase of 1 percentage points compared with 9M 2006.

NLMK Group's net profit in reporting period amounted to USD 1,657.4 million, a decrease of 2% compared with 9M 2006. The decrease of net profit is due to a significant non-recurring income from the sale of stakes in Lebedinsky GOK and OJSC KMA Ruda which were recognized in 9M 2006. If the effect of the non-recurring sale of assets was eliminated, NLMK's net profit growth in 9M 2007 would have been 32%.

In Q3 2007, revenue grew by 4% or USD 77.6 million q-o-q due to the recovery of blast furnace #6 and higher prices on iron, slabs, cold-rolled steel, pre-painted steel and electrical steel. Ongoing efficient policy of hot-rolled steel export sales also contributed to revenue growth.

Gross profit increased by 5% or USD 44.1 million compared with Q2 2007, while operating profit grew by 7% or USD 53.4 million.

Net profit decrease in Q3 2007 of 3% q-o-q results from the recognition of the financial results of the disposal of the Prokopievskugol Group of Coal Companies and Lipetskcombank, amounting to USD 82.1 million.

Consolidated balance sheet

As of 30 September 2007, NLMK's assets reached USD 10,009.1 million,

an increase of 15% compared with 31 December, 2006.

The share of the Company's own capital in the sources used to finance NLMK's operations is permanently high and at the end of 9M 2007 was 83%. The Group's balance sheet structure reflects the financial stability of the company, which is confirmed by NLMK obtaining the highest credit ratings among Russian steelmakers.

NLMK's highly liquid assets substantially exceed the amount of its debt. NLMK's cash and cash equivalents position as of 30 September, 2007 amounted to USD 1 388.5 million.

In 9M 2007, the annualized return on assets (ROA) was 24% and annualized return on equity (ROE) was 29%. These ratios are lower than in 9M 2006 due to the additional non-recurring gain from the divestments of NLMK's interests in Lebedinsky GOK and OJSC KMA Ruda in 2006.

Cash Flow

The strong pricing environment and growth of sales of high value-added products resulted in a significant operating cash flow increase. In 9M 2007, net cash received from operating activities equaled USD 1,979.0 million, a 92% increase compared with 9M 2006.

Strong generation of operating cash flow allows NLMK to finance organic growth from its own cash funds without attracting substantial debt. In 9M 2007, net cash received from operating activities exceeded purchases and construction of property, plant and equipment by 3.2 times.

The cash outflow for investment activities in 9M 2007 amounted to USD 807.0 million. The main cash outflow for investment activities in 9M 2007 was associated with investments in fixed assets (USD 616.0 million).

Net cash flows associated with financial activities in 9M 2007 amounted to USD 511.8 million. The main cash outflows associated with financial activities are payment of dividends to shareholders (USD 347.6 million) and the repayment of short-term credits (USD 259.0 million). The main cash flow from financing activities is associated with the proceeds from the disposal of stakes in energy assets that were classified by the Board of Directors of NLMK as non-core assets. The proceeds from the transaction were USD 78.5 million.

Cash and cash equivalents as at the end of 9M 2007 equaled USD 1,388.5 million.

Outlook

Following minor price adjustments, the market situation stabilized in November. In December, prices are deemed to remain close to the previous month's level despite the seasonality factor.

Temporary underperformance of blast furnace #6 in Q2 and Q3 2007 did not significantly impact the annual planned production volumes.

All the Group's operating segments will increase the financial results of

their operating activities in 2007. Generally, across the Group, we expect 20-25% year-on-year growth in sales revenue and EBITDA. The estimated EBITDA margin in 2007 will roughly correspond to 2006 level, which proves the Company's financial robustness.

In early 2008, we expect a gradual increase in export and internal prices primarily subject to higher raw materials costs and steel demand.

Disclaimer:

This announcement may contain a number of forward-looking statements relating to, among others, the financial condition and results of operations of the Company. Such forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by them and are based on assumptions regarding the Company's present and future business strategies and the environment in which the Company and its subsidiaries operate both now and in the future. Forward-looking statements speak only as at the date of this announcement and save as required by applicable legal and/or regulatory requirements the Company expressly disclaims any obligation to release publicly any updates or revisions to any forward-looking statements.