



**MECHEL REPORTS NINE MONTHS 2006 RESULTS**

— Revenue of \$3,142 million —  
 — Operating income of \$483 million —  
 — Net income of \$372 million, \$2.76 per ADR or \$0.92 per diluted share —

**Moscow, Russia – November 28, 2006** – Mechel OAO (NYSE: MTL), a leading Russian integrated mining and steel group, today announced results for the nine months ended September 30, 2006.

**Highlights for the period ended September 30, 2006:**

- Achieved record financial results for the third quarter
- Net profit for the nine months of 2006 almost equaled to net profit for full year 2005
- Improved performance of its Romanian steel operations

| US\$ thousand        | 3Q 2006   | 2Q 2006   | 1Q 2006 | 3Q06 vs. 2Q06 | 3Q 2005 | 3Q06 vs. 3Q05 (% change) |
|----------------------|-----------|-----------|---------|---------------|---------|--------------------------|
| Revenue              | 1,215,137 | 1,072,998 | 853,518 | 142,139       | 831,175 | 46.2%                    |
| Net operating income | 273,499   | 150,480   | 58,996  | 123,019       | 89,631  | 205.1%                   |
| Net operating margin | 22.5%     | 14.0%     | 6.9%    | 8.5%          | 10.8%   |                          |
| Net income           | 190,453   | 118,784   | 62,881  | 71,669        | 71,093  | 167.9%                   |
| EBITDA               | 323,799   | 210,331   | 134,411 | 113,468       | 146,275 | 121.4%                   |
| EBITDA margin        | 26.6%     | 19.6%     | 15.7%   |               | 17.6%   |                          |

| US\$ thousand        | 9M 2006   | 9M 2005   | 9M 2006 vs. 9M 2005 (% change) |
|----------------------|-----------|-----------|--------------------------------|
| Revenue              | 3,141,653 | 2,910,394 | 7.9%                           |
| Net operating income | 482,975   | 452,027   | 6.8%                           |
| Net operating margin | 15.4%     | 15.5%     |                                |
| Net income           | 372,116   | 314,717   | 18.2%                          |
| EBITDA (1)           | 668,539   | 569,016   | 17.5%                          |
| EBITDA margin        | 21.3%     | 19.6%     |                                |

(1) See Attachment A.

Alexey Ivanushkin, Mechel's Chief Operating Officer, commented: "The third quarter of 2006 was the best quarter in Mechel's history, as we achieved outstanding financial and operating results. For the second consecutive quarter, we reported significantly improved performance, demonstrating our ability to execute on our strategy of improving the overall efficiency of our operations. We also benefited from the ongoing recovery we've seen in our markets, increasing production volumes to meet growing market demand. Moreover, we are now confident that our performance over the full year will show substantial improvement over last year's levels, as consolidated net profit for the nine months is already close to the result of the whole last year."

**Consolidated Results**

Net revenue for the nine months of 2006 amounted to \$3.1 billion, as compared to \$2.9 billion in the nine months of 2005. Operating income was \$483 million, or 15.4% of net revenue, compared to operating income of \$452 million, or 15.5% of net revenue, in the nine months of 2005. The main contributing factors were market movement and consequent selling prices growth for all major product groups, as well as decreasing cast per tonne on some of our core product groups.

For the nine months of 2006, Mechel reported consolidated net income of \$372 million, or \$2.76 per ADR (\$0.92 per diluted share), compared to consolidated net income of \$315 million, or \$2.34 per ADR (\$0.78 per diluted share) for the nine months of 2005.

Consolidated EBITDA was \$668.5 million for the period, compared to \$569 million a year ago, reflecting the favorable pricing environment and disciplined approach to costs. Please see the attached tables for a reconciliation of consolidated EBITDA to net income.

### Mining Segment Results

| US\$ thousand                    | 3Q 2006 | 2Q 2006 | 1Q 2006 | 3Q 2006<br>vs.<br>2Q 2006<br>(% change) |
|----------------------------------|---------|---------|---------|---|
| Revenues from external customers | 361,904 | 324,018 | 289,459 | 11.7%                                   |
| Intersegment sales               | 94,645  | 75,756  | 75,871  | 24.9%                                   |
| Operating income                 | 94,095  | 67,127  | 29,289  | 40.2%                                   |
| Net income                       | 61,118  | 50,514  | 27,467  | 21.0%                                   |
| EBITDA                           | 114,813 | 88,977  | 58,000  | 29.0%                                   |
| EBITDA margin (2)                | 25.2%   | 22.3%   | 15.9%   |   |

| US\$ thousand                    | 9M 2006 | 9M 2005 | 9M 2006 vs. 9M 2005<br>(% change) |
|----------------------------------|---------|---------|-----------------------------------|
| Revenues from external customers | 975,381 | 823,548 | 18.4%                             |
| Intersegment sales               | 246,272 | 252,857 | (2.6%)                            |
| Operating income                 | 190,511 | 341,282 | (44.2%)                           |
| Net income                       | 139,099 | 266,582 | (47.8%)                           |
| EBITDA                           | 261,791 | 379,409 | (31.0%)                           |
| EBITDA margin (2)                | 21.4%   | 35.3%   |                                   |

(2) EBITDA margin is calculated out of consolidated revenues of the segment, including intersegment sales.

### Mining Segment Output

| Product              | 3Q 2006<br>(thous. tonnes) | 2Q 2006<br>(thous. tonnes) | 1Q 2006<br>(thous. tonnes) | 3Q 2006<br>vs.<br>2Q 2006<br>(% change) |
|----------------------|----------------------------|----------------------------|----------------------------|---|
| Coal                 | 4,284                      | 4,083                      | 4,011                      | 4.9%                                    |
| Coking coal          | 2,441                      | 2,272                      | 2,225                      | 7.4%                                    |
| Steam coal           | 1,843                      | 1,811                      | 1,786                      | 1.8%                                    |
| Iron ore concentrate | 1,357                      | 1,264                      | 1,127                      | 7.4%                                    |
| Nickel               | 3.6                        | 3.6                        | 3.4                        | --                                      |

| <b>Product</b>       | <b>9M 2006<br/>(thous. tonnes)</b> | <b>9M 2005<br/>(thous. tonnes)</b> | <b>9M 2006 vs. 9M 2005<br/>(% change)</b> |
|----------------------|------------------------------------|------------------------------------|---|
| Coal                 | 12,378                             | 11,670                             | 6.1%                                      |
| Coking coal          | 6,938                              | 6,472                              | 7.2%                                      |
| Steam coal           | 5,440                              | 5,198                              | 4.7%                                      |
| Iron ore concentrate | 3,748                              | 3,374                              | 11.1%                                     |
| Nickel               | 10.53                              | 9                                  | 17%                                       |

Mining segment revenue from external customers for the nine months of 2006 totaled \$975.4 million, or 31% of consolidated net revenue, an increase of 18% over segment revenue from external customers of \$823.5 million, or 28%, of consolidated net revenue, for the nine months of 2005.

Operating income in the mining segment for the nine months of 2006 totaled \$190.5 million, or 15.6% of segment revenues, compared to total operating income of \$341 million, or 31.7% of segment revenues a year ago.

EBITDA in the mining segment in the nine months of 2006 was \$261.8 million compared to \$379.4 million for the same period in the prior year. The EBITDA margin of the mining segment during the nine months of 2006 was 21.4% compared to 35.3% for the comparable nine month period in 2005. The key driver of the change in the EBITDA margin of the segment was a decline in average prices for almost all products.

Average realized prices in the third quarter of 2006 rose by 27% for iron ore concentrate, 29% for nickel, 3% for coking and 1% for steam coal, from levels of the second quarter 2006, and changed 33.4%, 82.7%, (1.1)% and (17.8)%, respectively from the levels of the third quarter 2005 (all prices are quoted on an FCA basis).

Mr. Ivanushkin commented on the results of the mining segment: "During the third quarter we saw increasing price levels and strong demand for our mining products. This supported the healthy growth in the output of the segment. Our iron ore production is on track to reach record production levels of 5 million tonnes this year, a goal we had not expected to achieve until 2007. In addition, we capitalized on unusually high nickel prices, increasing production in response to growing demand. Moving forward we will be revising our nickel operations to further enhance their efficiency and increase output. In 2007, we expect a stable environment for our main products, and we remain committed to our strategy of increasing sales volumes, controlling costs, and tapping new markets to enhance the mining segment's performance in the future."

### **Steel Segment Results**

| <b>US\$ thousand</b>             | <b>3Q 2006</b> | <b>2Q 2006</b> | <b>3Q 2006<br/>vs.<br/>2Q 2006<br/>(% change)</b> |
|----------------------------------|----------------|----------------|---|
| Revenues from external customers | 853,235        | 748,978        | 13.9%   |
| Intersegment sales               | 5,112          | 4,543          | 12.5%   |
| Operating income                 | 179,406        | 83,351         | 115.2%  |
| Net income                       | 129,337        | 68,265         | 89.5%   |
| EBITDA                           | 208,990        | 121,348        | 72.2%   |
| EBITDA margin (2)                | 24.3%          | 16.1%          |   |

| <b>US\$ thousand</b>             | <b>9M 2006</b> | <b>9M 2005</b> | <b>9M 06 vs. 9M 05</b> |
|----------------------------------|----------------|----------------|------------------------|
| Revenues from external customers | 2,166,273      | 2,086,846      | 79,427                 |
| Intersegment sales               | 14,829         | 44,214         | (29,385)               |
| Operating income                 | 292,464        | 110,745        | 181,719                |
| Net income                       | 233,016        | 48,135         | 184,881                |
| EBITDA                           | 406,748        | 189,607        | 217,141                |
| EBITDA margin                    | 18.6%          | 8.9%           | 9.7%                   |

(2) EBITDA margin is calculated out of consolidated revenues of the segment, including intersegment sales.

### **Steel Segment Output**

| <b>Product</b>  | <b>3Q 2006<br/>(thous. tonnes)</b> | <b>2Q 2006<br/>(thous. tonnes)</b> | <b>3Q 2006<br/>vs.<br/>2Q 2006<br/>(% change)</b> |
|-----------------|------------------------------------|------------------------------------|---|
| Coke            | 585                                | 552                                | 6.0%  |
| Pig iron        | 952                                | 908                                | 4.8%  |
| Steel           | 1,560                              | 1,498                              | 4.1%  |
| Rolled products | 1,247                              | 1,209                              | 3.1%  |
| Hardware        | 163                                | 154                                | 5.8%  |

| <b>Product</b>  | <b>9M 2006<br/>(thous. tonnes)</b> | <b>9M 2005<br/>(thous. tonnes)</b> | <b>9M 2006 vs. 9M 2005<br/>(% change)</b> |
|-----------------|------------------------------------|------------------------------------|---|
| Coke            | 1,663                              | 1,963                              | (15.3%)                                   |
| Pig iron        | 2,680                              | 2,475                              | 8.3%                                      |
| Steel           | 4,425                              | 4,420                              | 0.1%                                      |
| Rolled products | 3,523                              | 3,450                              | 2.1%                                      |
| Hardware        | 451                                | 441                                | 2.3%                                      |

Romanian assets demonstrated recovery trends as compared to previous periods, gaining net income of \$2 million, while net loss for 2005 amounted to \$57.8 million.

Revenue from external customers in Mechel's steel segment for the nine months of 2006 increased by 3.8% to \$2.2 billion from \$2.0 billion in the first nine months of 2005, and represented 69% of consolidated net revenue.

In the nine months of 2006, the steel segment's operating income was \$292.5 million, or 13.4% of total segment revenues, compared to operating income of \$110.7 million, or 5.2% of total segment revenues a year ago. EBITDA in the steel segment in the nine months of 2006 was \$406.7 million. The EBITDA margin of the steel segment was 18.6%, significantly improving from 8.9% from a year ago levels, and levels of 2005 of 9.4%.

Average realized prices for rebar for domestic sales grew by 17.1%, for semi-finished products for export sales— by 9.0 % in the 2006 third quarter, as opposed to the second quarter of this year and 22.0% and 26.1%, compared to the first quarter, respectively.

Mechel continued its cost savings program in the steel segment during the quarter. The new sinter plant in Chelyabinsk was fully commissioned during the period. The savings from sinter plant were \$26.7 million for the nine months of 2006, expected savings for the full-year 2006 are \$50.7 million.

Mr. Ivanushkin commented: "We continued to capitalize on the improving steel market conditions in the third quarter, while working to optimize the segment's costs and capacity utilization. Answering to

growing demand, we also increased sales volumes on a number of steel products, and grew sales within the strong premium domestic market to 59% in the third quarter from 50% in the second quarter of 2006. We have also recently commissioned a new coke battery at our Chelyabinsk facility, and will shortly commission a new concasting machine. We expect additional savings from these projects to be reflected in operations next year. Looking into 2007, we believe that we are well positioned to sell into the continuously growing Russian steel market, and we anticipate that our efforts to increase profitability and lower costs will further help raise the segment's margins"

### **Recent Highlights**

- In November, Mechel put into operation a new coke battery at Chelyabinsk. Annual coke output at CMP is expected to increase by approximately 500 thousand tonnes once the new coke battery's full capacity is achieved. Mechel invested \$40 million in the coke battery's construction.
- In September, Mechel announced the commissioning of the Olzherasskaya Mine, a part of the Southern Kuzbass coal company. Commissioning of the Olzherasskaya Mine will allow Southern Kuzbass OAO to increase its coal output by 1.8 million tonnes in 2007. Production in 2006 is expected to be 0.6 million tonnes. The new mine's annual capacity is 3.0 million tonnes and production is expected to reach this level in 2010. Mechel invested \$100 million in the mine's construction.
- In October, Mechel announced the acquisition of a controlling stake in Moscow Coke and Gas Plant OAO (Moskoks). The acquisition is in line with Mechel's strategy of further developing its mining segment, expanding the company's presence in coal and coke-chemical markets and strengthening operational synergies. Moscow Coke and Gas Plant OAO, located in the Moscow region, has economically advantageous geographical position and stable sales markets. Products are sold domestically and shipped abroad, in particular to Ukraine and European Union countries.

Mr. Ivanushkin commented: "This year demonstrated our ability to adapt to different market conditions, and while the beginning of the year was challenging for us, we managed to carry on with the cost saving programs to improve performance of both segments, during the second and third quarters we made most of the rise on our main markets, achieving record financial results. We remain positive on the outlook for 2007, and while we recognize that the markets may not be as strong as during the last three quarters of 2006, with our attention directed at further cost-efficiency, and targeted investments we will be ready to flexibly react to the changing conditions."

### **Financial Position**

For the nine months of 2006, CAPEX totaled \$344 million, out of which \$207 million was invested in the mining segment and \$137 million in the steel segment.

Mechel spent \$194.5 million on acquisitions in the nine months of 2006, including \$175 million on acquisition of OAO Moskoks and \$14.9 million on minority shares acquisitions in different subsidiaries.

As of September 30, 2006, total debt<sup>3</sup> was \$626 million. Cash and cash equivalents amounted to \$184 million at the end of the period, and net debt amounted to \$442 million (net debt is defined as total debt outstanding less cash and cash equivalents).

\* One American Depositary Share is equivalent to three diluted shares.

(3) Total debt is comprised of short-term borrowings and long-term debt

The management of Mechel will host a conference call today at 10 a.m. New York time (3 p.m. London time, 6 p.m. Moscow time) to review Mechel's financial results and comment on current operations. The call may be accessed via the Internet at <http://www.mechel.com/investors/fresults/index.wbp>.

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Mechel is one of the leading Russian mining and metals companies. Mechel unites producers of coal, iron ore, nickel, steel, rolled products, and hardware. Mechel products are marketed domestically and internationally.

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*Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of Mechel, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements. We refer you to the documents Mechel files from time to time with the U.S. Securities and Exchange Commission, including our Form 20-F. These documents contain and identify important factors, including those contained in the section captioned "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" in our Form 20-F, that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, the achievement of anticipated levels of profitability, growth, cost and synergy of our recent acquisitions, the impact of competitive pricing, the ability to obtain necessary regulatory approvals and licenses, the impact of developments in the Russian economic, political and legal environment, volatility in stock markets or in the price of our shares or ADRs, financial risk management and the impact of general business and global economic conditions.*

## Attachments to the 9M 2006 Earnings Press Release

### Attachment A

*Non-GAAP financial measures.* This press release includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

*Earnings Before Interest, Depreciation and Amortization (EBITDA) and EBITDA margin.* EBITDA represents earnings before interest, depreciation and amortization. EBITDA margin is defined as EBITDA as a percentage of our net revenues. Our EBITDA may not be similar to EBITDA measures of other companies; is not a measurement under accounting principles generally accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of operations. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions and other investments and our ability to incur and service debt. While interest, depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our EBITDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the metals and mining industry. EBITDA can be reconciled to our consolidated statements of operations as follows:

| US\$ thousands                           | 9m 2006 | 9m 2005 |
|--|---------|---------|
| Net income                               | 372,116 | 314,717 |
| Add:                                     |         |         |
| Depreciation, depletion and amortization | 140,680 | 115,375 |
| Interest expense                         | 33,518  | 43,669  |
| Income taxes                             | 122,225 | 95,255  |
| Consolidated EBITDA                      | 668,539 | 569,016 |

EBITDA margin can be reconciled as a percentage to our Revenues as follows:

| US\$ thousands | 9m 2006   | 9m 2005   |
|----------------|-----------|-----------|
| Revenue, net   | 3,141,653 | 2,910,394 |
| EBITDA         | 668,539   | 569,016   |
| EBITDA margin  | 21.28%    | 19.55%    |

**Mechel OAO**  
**Consolidated balance sheets**  
**as of September 30, 2006 and December 31, 2005**  
*(in thousands of U.S. dollars, except share amounts)*

|   | <u>September<br/>30,2006</u> | <u>December 31, 2005</u> |
|---|------------------------------|--------------------------|
| <b>Assets</b>   |                              |                          |
| Cash and cash equivalents   | \$ 184 423                   | \$ 311 775               |
| Accounts receivable, net of allowance for doubtful accounts   | 207 434                      | 140 649                  |
| Due from related parties  | 1 069                        | 4 473                    |
| Inventories   | 538 053                      | 496 658                  |
| Deferred cost of inventory in transit   | 13 608                       | 49 893                   |
| Current assets of discontinued operations   | -                            | 88                       |
| Deferred income taxes   | 10 665                       | 8 965                    |
| Prepayments and other current assets  | 336 894                      | 346 981                  |
| <b>Total current assets</b>   | <b>1 292 146</b>             | <b>1 359 482</b>         |
| Long-term investments in related parties  | 433 094                      | 408 709                  |
| Other long-term investments   | 322 317                      | 16 148                   |
| Non-current assets of discontinued operations   | 103                          | 97                       |
| Intangible assets, net  | 7 713                        | 7 590                    |
| Property, plant and equipment, net  | 1 847 231                    | 1 508 984                |
| Mineral licenses, net   | 263 866                      | 242 006                  |
| Deferred income taxes   | 10 377                       | 17 487                   |
| Goodwill  | 45 270                       | 39 580                   |
| <b>Total assets</b>   | <b>\$ 4 222 118</b>          | <b>\$ 3 600 083</b>      |
| <b>Liabilities and Shareholders' Equity</b>   |                              |                          |
| Short-term borrowings and current portion of long-term debt   | \$ 276 520                   | \$ 389 411               |
| Accounts payable and accrued expenses:  |                              |                          |
| Advances received   | 96 238                       | 47 367                   |
| Accrued expenses and other current liabilities  | 77 277                       | 79 405                   |
| Taxes and social charges payable  | 148 404                      | 144 715                  |
| Trade payable to vendors of goods and services  | 154 566                      | 210 228                  |
| Due to related parties  | 2 313                        | 2 937                    |
| Current liabilities of discontinued operations  | 487                          | 109                      |
| Asset retirement obligation   | 4 573                        | 4 236                    |
| Deferred income taxes   | 21 503                       | 26 557                   |
| Deferred revenue  | 16 390                       | 55 267                   |
| Pension obligations   | 9 093                        | 8 189                    |
| Dividends payable   | -                            | -                        |
| Finance lease liabilities   | 4 078                        | 887                      |
| <b>Total current liabilities</b>  | <b>811 442</b>               | <b>969 308</b>           |
| Long-term debt, net of current portion  | 349 964                      | 45 615                   |
| Restructured taxes and social charges payable, net of current portion   | 14 374                       | 33 866                   |
| Due to related parties  | 36 341                       | -                        |
| Asset retirement obligations, net of current portion  | 58 593                       | 54 816                   |
| Pension obligations, net of current portion   | 49 453                       | 43 510                   |
| Deferred income taxes   | 121 649                      | 105 481                  |
| Finance lease liabilities, net of current portion   | 37 683                       | 9 179                    |
| Other long-term liabilities   | 1 267                        | -                        |
| Minority interests  | 136 037                      | 127 834                  |
| <b>Shareholders' Equity</b>   |                              |                          |
| Common shares (10 Russian rubles par value; 497,969,086 shares authorised, 416,270,745 shares issued; 406,522,184 and 403,118,680 shares outstanding at September 30, 2006 and December 31, 2005, respectively) | 133 507                      | 133 507                  |
| Treasury shares, at cost (13,152,065 common shares as of December 31, 2005)   | -                            | ( 4 187)                 |
| Additional paid-in capital  | 402 636                      | 321 864                  |
| Accumulated other comprehensive income  | 169 394                      | 42 046                   |
| Retained earnings   | 1 899 778                    | 1 717 244                |
| Total shareholders' equity  | 2 605 315                    | 2 210 474                |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 4 222 118</b>          | <b>\$ 3 600 083</b>      |



**Mechel OAO**  
**Consolidated statement of operations**  
**for the nine months ended September 30, 2006 and September 30, 2005**  
*(in thousands of U.S. dollars, except earnings per share)*

|  |    | <b>For the nine<br/>months ended<br/>September 30,<br/>2006</b> |    | <b>For the nine<br/>months ended<br/>September 30,<br/>2005</b> |
|--|----|---|----|---|
| Revenue, net   | \$ | 3 141 653   | \$ | 2 910 394   |
| Cost of goods sold   |    | ( 2 069 499)  |    | ( 1 852 054)  |
| <b>Gross margin</b>  |    | <b>1 072 154</b>  |    | <b>1 058 340</b>  |
| Selling, distribution and operating expenses:  |    |   |    |   |
| Selling and distribution expenses  |    | ( 321 884)  |    | ( 341 689)  |
| Taxes other than income tax  |    | ( 76 852)   |    | ( 70 427)   |
| Accretion expense  |    | ( 2 247)  |    | ( 1 806)  |
| Provision for doubtful accounts  |    | ( 395)  |    | ( 7 580)  |
| General, administrative and other operating expenses   |    | ( 187 801)  |    | ( 184 811)  |
| Total selling, distribution and operating expenses   |    | <b>( 589 179)</b>   |    | <b>( 606 313)</b>   |
| Operating income   |    | <b>482 975</b>  |    | <b>452 027</b>  |
| Other income and (expense):  |    |   |    |   |
| Income from equity investees   |    | ( 3 911)  |    | 9 979   |
| Interest income  |    | 6 553   |    | 9 327   |
| Interest expense   |    | ( 33 518)   |    | ( 43 669)   |
| Other income, net  |    | 6 423   |    | 21 721  |
| Foreign exchange gain (loss)   |    | 42 373  |    | ( 35 231)   |
| Total other income and (expense)   |    | <b>17 920</b>   |    | <b>( 37 873)</b>  |
| Income before income tax, minority interest, discontinued operations, extraordinary gain and change in accounting principles |    | 500 895   |    | 414 154   |
| Income tax expense   |    | ( 122 224)  |    | ( 95 255)   |
| Minority interest in (income) loss of subsidiaries   |    | ( 6 488)  |    | ( 3 779)  |
| <b>Income from continuing operations</b>   |    | <b>372 182</b>  |    | <b>315 120</b>  |
| Loss from discontinued operations, net of tax  |    | ( 66)   |    | ( 403)  |
| <b>Net income</b>  |    | <b>372 116</b>  |    | <b>314 717</b>  |
| Currency translation adjustment  |    | 122 096   |    | ( 39 812)   |
| Adjustment of available-for-sale securities  |    | 5 252   |    | -   |
| <b>Comprehensive income</b>  | \$ | <b>499 464</b>  | \$ | <b>274 905</b>  |
| Basic and diluted earnings per share:  |    |   |    |   |
| Earnings per share from continuing operations  | \$ | 0,92  | \$ | 0,78  |
| Loss per share effect of discontinued operations   |    | ( 0,00)   |    | ( 0,00)   |
| Net income per share   | \$ | 0,92  | \$ | 0,77  |
| Dividends declared per share   |    | 0,45  |    | 0,49  |
| Weighted average number of common shares outstanding   |    | 406 522 184   |    | 403 118 680   |

**Consolidated statements of cash flow**  
**for the nine months ended September 30, 2006 and September 30, 2005**  
*(in thousands of U.S. dollars)*

|  | <b>For the nine months<br/>ended September 30,<br/>2006</b> | <b>For the nine months<br/>ended September<br/>30, 2005</b> |
|--|---|---|
| <b>Cash Flows from Operating Activities</b>  |   |   |
| Net income   | \$ 372 116  | \$ 314 717  |
| Adjustments to reconcile net income to net cash provided by operating activities:                  |   |   |
| Depreciation   | 127 006   | 106 368   |
| Depletion and amortization   | 13 674  | 9 007   |
| Foreign exchange (gain) loss   | ( 42 373)   | 35 231  |
| Deferred income taxes  | ( 1 058)  | ( 9 193)  |
| Provision for doubtful accounts  | 395   | 7 580   |
| Inventory write-down   | ( 120)  | 1 943   |
| Accretion expense  | 2 247   | 1 806   |
| Minority interest  | 6 488   | 3 779   |
| Income from equity investments   | 3 911   | ( 9 979)  |
| Non-cash interest on long-term tax and pension liabilities   | 12 564  | 8 176   |
| Loss on sale of property, plant and equipment  | 244   | 957   |
| Gain on sale of long-term investments  | ( 1 223)  | ( 1 669)  |
| Loss from discontinued operations  | 66  | 403   |
| Gain on accounts payable with expired legal term   | ( 414)  | ( 2 755)  |
| Gain on forgiveness of fines and penalties   | ( 5 582)  | ( 15 863)   |
| Amortization of capitalized costs on bonds issue   | 668   | 1 171   |
| Pension service cost and amortization of prior year service cost                                   | 2 034   | 818   |
| Stock-based compensation expense   | 209   | -   |
| Changes in working capital items, net of effects from acquisition of new subsidiaries:             |   |   |
| Accounts receivable  | ( 60 872)   | 17 712  |
| Inventories  | ( 68 884)   | 111 745   |
| Trade payable to vendors of goods and services   | ( 59 972)   | 5 910   |
| Advances received  | 43 996  | ( 13 016)   |
| Accrued taxes and other liabilities  | 6 983   | 24 123  |
| Settlements with related parties   | 40 401  | 13 936  |
| Current assets and liabilities of discontinued operations  | ( 238)  | ( 259)  |
| Deferred revenue and cost of inventory in transit, net   | ( 2 592)  | ( 1 354)  |
| Other current assets   | 35 586  | ( 57 787)   |
| Dividends received   | 1 994   | -   |
| <b>Net cash provided by operating activities</b>   | <b>427 254</b>  | <b>553 507</b>  |
| <b>Cash Flows from Investing Activities</b>  |   |   |
| Acquisition of subsidiaries, less cash acquired  | ( 2 153)  | ( 3 497)  |
| Acquisition of minority interest in subsidiaries   | ( 14 898)   | ( 69 198)   |
| Investment in Moscow Coke Plant  | ( 175 465)  | -   |
| Investment in Yakutugol  | -   | ( 411 182)  |
| Investments in other non-marketable securities   | ( 2 007)  | ( 7 039)  |
| Proceeds from disposal of non-marketable equity securities   | 3 746   | 1 389   |
| Proceeds from disposals of property, plant and equipment   | 2 563   | 1 838   |
| Purchases of mineral licenses  | ( 6 310)  | ( 91 012)   |
| Purchases of property, plant and equipment   | ( 337 894)  | ( 303 804)  |
| <b>Net cash (used in) provided by investing activities</b>   | <b>( 532 418)</b>   | <b>( 882 505)</b>   |
| <b>Cash Flows from Financing Activities</b>  |   |   |
| Proceeds from short-term borrowings  | 854 891   | 763 040   |
| Repayment of short-term borrowings   | ( 982 475)  | ( 938 222)  |
| Dividends paid   | ( 189 582)  | ( 194 154)  |
| Proceeds from long-term debt   | 286 253   | 3 124   |
| Repayment of long-term debt and long-term portion of restructured taxes and social charges payable | ( 1 766)  | ( 12 536)   |
| Proceeds from disposal of treasury stock   | 1 248   | -   |
| Repayment of obligations under finance lease   | ( 5 784)  | -   |
| <b>Net cash (used in) provided by financing activities</b>   | <b>( 37 215)</b>  | <b>( 378 748)</b>   |
| Effect of exchange rate changes on cash and cash equivalents                                       | 15 027  | ( 4 776)  |
| Net (decrease) increase in cash and cash equivalents   | ( 127 352)  | ( 712 522)  |
| <b>Cash and cash equivalents at beginning of year</b>  | <b>311 775</b>  | <b>1 024 761</b>  |
| <b>Cash and cash equivalents at end of year</b>  | <b>\$ 184 423</b>   | <b>\$ 312 239</b>   |

