

OAO Severstal and subsidiaries

Consolidated interim condensed financial statements
for the six months ended June 30, 2009 and 2008

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Independent Auditors' Report

Board of Directors
OAO Severstal

Introduction

We have reviewed the accompanying consolidated interim condensed statements of financial position of OAO Severstal (the "Company") and its subsidiaries (the "Group") as at 30 June 2009, and the related consolidated interim condensed statements of income and comprehensive income for the three- and six-month periods ended 30 June 2009 and 2008, and the related consolidated interim condensed statements of changes in equity and cash flows for the six-month periods ended 30 June 2009 and 2008, and selected explanatory notes (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our reviews.

Scope of Reviews

We conducted our reviews in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2009 and for the three- and six-month periods ended 30 June 2009 and 2008 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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1 September 2009

OAO Severstal and subsidiaries

Consolidated interim condensed income statements

Six months ended June 30, 2009 and 2008

(Amounts expressed in thousands of US dollars, except as otherwise stated)

	Note	Six months ended June 30,		Three months ended June 30,	
		2009 (unaudited)	2008 (unaudited)*	2009 (unaudited)	2008 (unaudited)*
Sales					
Sales - external		5,572,603	10,624,446	2,822,980	6,312,718
Sales - to related parties	5	75,671	94,468	28,964	47,136
	3	5,648,274	10,718,914	2,851,944	6,359,854
Cost of sales		(5,418,625)	(7,474,129)	(2,659,518)	(4,313,356)
Gross profit		229,649	3,244,785	192,426	2,046,498
General and administrative expenses		(380,993)	(456,213)	(175,860)	(223,719)
Distribution expenses		(382,045)	(603,326)	(198,106)	(321,343)
Indirect taxes and contributions		(77,313)	(89,300)	(40,135)	(42,684)
Share of associates' income/(loss)		4,920	(1,119)	1,161	(577)
Net (loss)/income from securities operations		(9,224)	2,488	(687)	12,496
Loss on disposal of property, plant and equipment		(5,070)	(27,934)	(4,427)	(14,209)
Net other operating (expenses)/income	4	(2,425)	255,517	(1,990)	60,658
(Loss)/profit from operations		(622,501)	2,324,898	(227,618)	1,517,120
Impairment of non-current assets		(44,801)	(4,033)	(18,048)	(2,197)
Negative goodwill		-	198,373	-	196,207
Net other non-operating (expenses)/income		(21,681)	268,390	(10,585)	301,000
(Loss)/profit before financing and taxation		(688,983)	2,787,628	(256,251)	2,012,130
Interest income		50,144	66,225	21,792	37,199
Interest expense		(292,116)	(189,053)	(141,982)	(95,307)
Foreign exchange difference		(214,234)	7,608	167,174	(6,112)
(Loss)/profit before income tax		(1,145,189)	2,672,408	(209,267)	1,947,910
Income tax benefit/(expense)		156,404	(653,333)	(94,017)	(412,090)
(Loss)/profit for the period		(988,785)	2,019,075	(303,284)	1,535,820
Attributable to:					
shareholders of OAO Severstal		(944,317)	1,967,070	(289,526)	1,497,268
non-controlling interests		(44,468)	52,005	(13,758)	38,552
Weighted average number of shares outstanding during the period (millions of shares)		1,005.2	1,007.7	1,005.2	1,007.7
Basic and diluted (loss)/earnings per share (US dollars)		(0.94)	1.95	(0.29)	1.49

* These amounts reflect adjustments made in connection with completion of purchase price allocation and acquisitions from Majority Shareholder.

These consolidated interim condensed financial statements were approved by the Board of Directors on September 1, 2009.

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of comprehensive income

Six months ended June 30, 2009 and 2008

(Amounts expressed in thousands of US dollars)

	Six months ended June 30,		Three months ended June 30,	
	2009 (unaudited)	2008 (unaudited)*	2009 (unaudited)	2008 (unaudited)*
(Loss)/profit for the period	(988,785)	2,019,075	(303,284)	1,535,820
Other comprehensive (loss)/income				
Foreign exchange difference	(307,702)	479,176	383,905	28,479
Changes in fair value of cash flow hedges	(5,933)	(15,957)	1,155	19,644
Revaluation of available-for-sale investments	10,815	-	(1,154)	-
Amortization of fair value adjustment upon acquisition of subsidiary to previously held interest	(610)	-	139	-
Income tax relating to components of other comprehensive (loss)/income	(2,321)	4,726	(1,285)	(4,389)
Other comprehensive (loss)/income for the period, net of tax	(305,751)	467,945	382,760	43,734
Total comprehensive (loss)/income for the period	(1,294,536)	2,487,020	79,476	1,579,554
Attributable to:				
shareholders of OAO Severstal	(1,251,773)	2,405,477	68,040	1,537,872
non-controlling interests	(42,763)	81,543	11,436	41,682

* These amounts reflect adjustments made in connection with completion of purchase price allocation and acquisitions from Majority Shareholder.

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of financial position

June 30, 2009 and December 31, 2008

(Amounts expressed in thousands of US dollars)

	<u>Note</u>	<u>June 30, 2009</u> <u>(unaudited)</u>	<u>December 31, 2008</u> <u>(unaudited)*</u>
Assets			
Current assets:			
Cash and cash equivalents		2,247,172	2,653,742
Short-term bank deposits		331,601	818,545
Short-term financial investments		37,139	112,782
Trade accounts receivable		1,500,011	1,942,268
Accounts receivable from related parties	6	13,146	63,831
Inventories		3,122,444	4,278,554
VAT recoverable		354,151	360,838
Income tax recoverable		102,797	172,947
Other current assets		293,051	280,082
Assets held for sale		16,844	8,872
Total current assets		<u>8,018,356</u>	<u>10,692,461</u>
Non-current assets:			
Long-term financial investments		82,157	69,982
Investments in associates and joint ventures		122,541	104,142
Property, plant and equipment		9,518,650	9,863,590
Intangible assets		1,335,618	1,455,600
Restricted cash		44,477	21,703
Deferred tax assets		365,627	234,640
Other non-current assets		41,515	41,615
Total non-current assets		<u>11,510,585</u>	<u>11,791,272</u>
Total assets		<u>19,528,941</u>	<u>22,483,733</u>
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		1,142,548	1,526,818
Accounts payable to related parties	6	12,717	71,960
Short-term debt finance	7	1,693,200	1,977,513
Income tax payable		11,995	45,860
Other taxes and social security payable		180,635	210,992
Dividends payable		6,023	128,715
Other current liabilities		652,492	805,623
Total current liabilities		<u>3,699,610</u>	<u>4,767,481</u>
Non-current liabilities:			
Long-term debt finance	7	5,815,815	6,278,004
Deferred tax liabilities		420,552	489,274
Retirement benefit liabilities		761,779	779,296
Other non-current liabilities		592,484	616,792
Total non-current liabilities		<u>7,590,630</u>	<u>8,163,366</u>
Equity:			
Share capital		3,311,288	3,311,288
Treasury shares		(26,303)	(26,303)
Additional capital		1,165,530	1,165,530
Foreign exchange differences		(224,586)	81,958
Retained earnings		3,546,141	4,496,508
Other reserves		17,585	18,497
Total equity attributable to shareholders of parent		<u>7,789,655</u>	<u>9,047,478</u>
Non-controlling interests		<u>449,046</u>	<u>505,408</u>
Total equity		<u>8,238,701</u>	<u>9,552,886</u>
Total equity and liabilities		<u>19,528,941</u>	<u>22,483,733</u>

* These amounts reflect adjustments made in connection with completion of purchase price allocation (Note 8).

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of cash flows Six months ended June 30, 2009 and 2008 (Amounts expressed in thousands of US dollars)

	Six months ended June 30,	
	2009 (unaudited)	2008 (unaudited)*
Operating activities:		
(Loss)/profit before financing and taxation	(688,983)	2,787,628
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	456,424	509,789
Impairment of non-current assets	44,801	4,033
Provision for inventories, receivables and other provisions	(185,548)	38,943
Negative goodwill	-	(198,373)
Loss on disposal of property, plant and equipment	5,070	27,934
Gain on disposal of subsidiaries and associates	-	(316,464)
Loss/(gain) on remeasurement and disposal of financial investments	9,224	(2,488)
Share of associates' results less dividends from associates	(4,920)	1,119
Changes in operating assets and liabilities:		
Trade accounts receivable	371,101	(808,942)
Amounts receivable from related parties	46,000	(23,446)
VAT recoverable	9,401	(10,902)
Inventories	1,230,577	(525,157)
Trade accounts payable	(327,193)	365,616
Amounts payable to related parties	(49,905)	2,856
Other taxes and social security payables	(19,305)	105,140
Other non-current liabilities	(46,424)	(23,287)
Assets held for sale	(6,641)	32,286
Net other changes in operating assets and liabilities	(171,903)	123,807
Cash generated from operations	671,776	2,090,092
Interest paid	(292,264)	(147,424)
Income tax paid	(24,844)	(340,368)
Net cash from operating activities	354,668	1,602,300
Investing activities:		
Additions to property, plant and equipment	(466,023)	(886,973)
Additions to intangible assets	(10,837)	(33,451)
Net decrease in short-term bank deposits	376,282	61,465
Additions to financial investments and associates	(128,024)	(423,677)
Acquisitions of non-controlling interests and entities under common control	(15,112)	(80,790)
Net cash outflow on acquisitions of subsidiaries	-	(978,019)
Net cash inflow on disposals of subsidiaries	-	670,451
Proceeds from disposal of property, plant and equipment	16,571	51
Proceeds from disposal of financial investments	143,721	427,961
Interest received	52,005	65,062
Dividends received	5,821	-
Cash from investing activities	(25,596)	(1,177,920)
Financing activities:		
Proceeds from debt finance	1,962,556	2,415,472
Repayment of debt finance	(2,564,421)	(1,358,117)
Repayments under lease obligations	(10,265)	(8,351)
Dividends paid	(115,619)	(116,965)
Cash from financing activities	(727,749)	932,039
Effect of exchange rates on cash and cash equivalents	(7,893)	94,804
Net (decrease)/increase in cash and cash equivalents	(406,570)	1,451,223
Cash and cash equivalents at beginning of the period	2,653,742	1,622,542
Cash and cash equivalents at end of the period	2,247,172	3,073,765

* These amounts reflect adjustments made in connection with completion of purchase price allocation and acquisitions from Majority Shareholder.

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of changes in equity Six months ended June 30, 2009 and 2008 (Amounts expressed in thousands of US dollars)

	Attributable to shareholders of OAO Severstal						Non- controlling interests	Total	
	Share capital	Treasury shares	Additional capital	Foreign exchange differences	Retained earnings	Other reserves	Total		
Balances at December 31, 2007	3,311,288	-	1,165,530	1,145,499	3,951,116	-	9,573,433	500,353	10,073,786
Dividends (unaudited)	-	-	-	-	(394,093)	-	(394,093)	(8,179)	(402,272)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	(65,900)	-	(65,900)	(21,862)	(87,762)
Total comprehensive income for the period (unaudited)*	-	-	-	447,172	1,967,070	(8,765)	2,405,477	81,543	2,487,020
Balances at June 30, 2008 (unaudited)*	3,311,288	-	1,165,530	1,592,671	5,458,193	(8,765)	11,518,917	551,855	12,070,772
Balances at December 31, 2008 (unaudited)*	3,311,288	(26,303)	1,165,530	81,958	4,496,508	18,497	9,047,478	505,408	9,552,886
Dividends (unaudited)	-	-	-	-	-	-	-	(3,552)	(3,552)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	(6,050)	-	(6,050)	(10,047)	(16,097)
Total comprehensive loss for the period (unaudited)	-	-	-	(306,544)	(944,317)	(912)	(1,251,773)	(42,763)	(1,294,536)
Balances at June 30, 2009 (unaudited)	3,311,288	(26,303)	1,165,530	(224,586)	3,546,141	17,585	7,789,655	449,046	8,238,701

* These amounts reflect adjustments made in connection with completion of purchase price allocation and/(or) acquisitions from Majority Shareholder.

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

OA0 Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements for the six months ended June 30, 2009 and 2008

(Amounts expressed in thousands of US dollars, except as otherwise stated)

1. Accounting policies and estimates

These consolidated interim condensed financial statements of OA0 Severstal and subsidiaries ('the Group') have been prepared in accordance with International Financial Reporting Standards ('IFRS'), IAS 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board.

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended December 31, 2008, except that the Group has adopted those new/revised standards mandatory for financial annual periods beginning on or after January 1, 2009. The changes in accounting policies resulting from adoption of the new or revised standards are discussed below.

Change in accounting policy for capitalization of borrowing costs

As of January 1, 2009, the Group has adopted revised IAS 23 "Borrowing costs" and ceased expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of this standard, the policy has been adopted prospectively. Therefore, borrowing costs have been capitalized on qualifying assets with a commencement date on or after January 1, 2009. Accordingly, the adoption of the new policy has no effect on prior years.

New accounting policy for capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized and amortized over the useful life of the asset. Other borrowing costs are recognized as an expense in the reporting period incurred. Interest is capitalized at a rate based on the Group's weighted average cost of borrowing or at the rate on project specific debt, where applicable.

Change in accounting policy for segment reporting

In 2009, the Group has implemented new IFRS 8 "Operating segments" which requires segment disclosure based on the internal reporting system. The comparative information has been presented as if the implementation was adopted at the beginning of the earliest comparative period presented.

New accounting policy for segment reporting

Group's reportable segments are strategic business units that offer different products and/(or) operate in different geographical regions. They are managed separately because each segment uses specific technology and/(or) exists in specific marketing conditions. Following the requirements of IFRS 8 "Operating segments", the Group has changed the presentation and disclosure of segment information by combining the previously reportable segments: Russian Steel, Metalware and IPM segments in one segment, Russian Steel (Note 9).

The accounting policies of the reportable segments are the same as those used in preparation of the Group's consolidated financial statements.

OAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements for the six months ended June 30, 2009 and 2008

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Change in estimates

In 2009, the management has reviewed and reassessed the useful lives of fixed assets at Russian Steel, Severstal Resource and Lucchini in order to better reflect the economic pattern of consumption of the future economic benefits. The effect of the change in estimate for the six months ended June 30, 2009, is not material.

2. Seasonality

There are no material seasonal effects in the business activities of the Group.

3. Sales

Sales by product were as follows:

	Six months ended June 30,		Three months ended June 30,	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	1,255,257	2,631,394	611,810	1,649,229
Galvanized and other metallic coated sheet	840,093	978,877	445,122	599,755
Cold-rolled sheet	713,088	915,701	360,434	527,802
Long products	637,590	2,202,733	278,263	1,259,093
Metalware products	417,408	672,679	216,142	389,687
Large diameter pipes	342,229	432,393	214,499	272,370
Shipping and handling costs billed to customers	264,055	434,721	133,005	240,244
Gold	209,721	70,857	103,839	26,224
Semifinished products	186,947	753,975	75,389	455,449
Rails, wheels and axles	147,180	149,688	73,597	78,572
Color coated sheet	125,554	186,797	76,917	115,430
Other tubes and pipes, formed shapes	106,941	249,851	59,739	144,628
Coal and coking coal concentrate	97,251	110,703	45,535	60,312
Pellets and iron ore	75,822	272,309	41,389	146,682
Scrap	18,403	231,574	10,346	172,400
Others	210,735	424,662	105,918	221,977
	<u>5,648,274</u>	<u>10,718,914</u>	<u>2,851,944</u>	<u>6,359,854</u>

Sales by delivery destination were as follows:

	Six months ended June 30,		Three months ended June 30,	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
North America	2,005,421	1,683,506	970,571	1,063,028
Russian Federation	1,499,120	4,651,654	841,466	2,783,884
Europe	1,287,268	3,458,372	599,137	1,972,642
China and Central Asia	432,103	203,952	220,496	121,393
South-East Asia	132,144	195,441	91,978	62,795
The Middle East	129,291	332,249	57,181	196,048
Africa	119,144	51,255	49,311	42,225
Central & South America	43,783	142,485	21,804	117,839
	<u>5,648,274</u>	<u>10,718,914</u>	<u>2,851,944</u>	<u>6,359,854</u>

OAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements for the six months ended June 30, 2009 and 2008

(Amounts expressed in thousands of US dollars, except as otherwise stated)

4. Net other operating (expenses)/income

	<u>Six months ended June 30,</u>		<u>Three months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Gain on termination of a supply contract	-	177,000	-	-
Insurance proceeds	-	77,500	-	56,500
Other	(2,425)	1,017	(1,990)	4,158
	<u>(2,425)</u>	<u>255,517</u>	<u>(1,990)</u>	<u>60,658</u>

In January 2008, an explosion occurred on one of Severstal's Dearborn, Inc. (former Severstal North America, Inc.) furnaces, blast furnace "B". Following the accident, Severstal Dearborn, Inc., ("Dearborn") has ceased blast furnace "B" operation. Dearborn is insured against property damage and business interruption with a combined gross coverage of US\$500.0 million, subject to customary deductibles. The business interruption covers fixed costs and loss of profits. Management has estimated net recoverable fixed costs in the period from the accident until June 30, 2008 at US\$77.5 million (US\$21.0 million until March 31, 2008) which amount has been recognized as other operating income.

In February 2008, a long-term electricity supply contract between Severstal Dearborn and Dearborn Industrial Generation ("DIG") has been terminated with a lump sum payment from DIG to compensate Dearborn for the differential between the contract price and the price Dearborn will have to pay another electricity supplier for the duration of the original contract. This lump sum payment amounted to US\$177.0 million.

5. Related party transactions

	<u>Six months ended June 30,</u>		<u>Three months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Sales and income received from other related parties:				
Sales	75,671	94,468	28,964	47,136
Interest income	7,072	7,682	3,758	4,254
	<u>82,743</u>	<u>102,150</u>	<u>32,722</u>	<u>51,390</u>
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	25,706	586	15,075	257
Purchases from joint ventures:				
Non-capital expenditures	22,159	101,154	11,928	53,741
Purchases from other related parties:				
Non-capital expenditures	40,490	122,892	6,159	41,321
Capital expenditures	15,948	750	9,997	508
	<u>104,303</u>	<u>225,382</u>	<u>43,159</u>	<u>95,827</u>

OAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements for the six months ended June 30, 2009 and 2008

(Amounts expressed in thousands of US dollars, except as otherwise stated)

6. Related party balances

	June 30, 2009 (unaudited)	December 31, 2008
Joint ventures' balances		
Short-term trade accounts receivable	4,608	6,766
Short-term trade accounts payable	3,418	5,267
Other related party balances		
Cash and cash equivalents at related party bank	280,486	322,865
Deposits with related party bank and pension fund	87,540	115,488
Accounts receivable from other related parties:		
Trade accounts receivable	5,837	21,030
Advances paid	1,696	4,812
Other accounts receivable	1,005	31,223
Short-term loans	12,857	2,952
Short-term promissory notes	5,416	18,951
Long-term loans	19,399	19,155
Held-to-maturity securities and deposits	-	1,485
	46,210	99,608
Short-term trade accounts payable to other related parties:		
Trade accounts payable	8,037	38,644
Advances received	433	1,353
Short-term payables for acquisition of subsidiaries	-	10,211
Other accounts payable	829	16,485
	9,299	66,693
Debt finance includes the following balances with other related parties:		
Short-term debt finance	31,388	32,186
Long-term debt finance	19	1,675
	31,407	33,861

The amounts outstanding are expected to be settled in cash. The Group did not hold any collateral for amounts owed by related parties.

7. Debt finance

In February 2009, the Group has repaid its US\$325.0 million Eurobonds – 2009, upon the maturity.

8. Acquisitions and disposals

Acquisitions from Majority Shareholder

In January 2008, the Group completed the acquisition of a 100% stake in Baracom Limited for a total consideration of US\$84.4 million. Baracom Limited owns 79.9% of the voting stock of the holding structure which controls 74.2% of Severstal Columbus, LLC (former SeverCorr, LLC). Severstal Columbus is a mini-mill which produces high quality steel for motor-car, construction, pipe and engineering industries.

OAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements for the six months ended June 30, 2009 and 2008

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Acquisitions from third parties during the six months ended June 30, 2008

In January 2008, the Group acquired a 91.6% stake in OAO StalMag for a total consideration of US\$17.6 million. OAO StalMag is a ferroniobium producer which production will be used by the Group's entities.

The acquiree's profit since the acquisition date included in the Group's profit for the period, as well as the revenue and profit of the acquired entity from the beginning of the period to the date of final acquisition are insignificant to the Group's revenue and profit for the period.

In May 2008, the Group acquired a 100% stake in Severstal Sparrows Point, LLC ("Sparrows Point"), for a total consideration of US\$818 million, subject to certain adjustments of US\$48 million, resulting in a final consideration paid of US\$770 million. Sparrows Point is an integrated steel plant on the East Coast of USA with its own deep water port and rail connection to the main East Coast rail networks.

The acquiree's profit since the acquisition dates included in the Group's profit for the period, as well as loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for the period. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$766.1 million.

A summary of assets and liabilities acquired from third and related parties but excluding acquisitions from the Majority Shareholder during the six months ended June 30, 2008, is presented below:

	Six months	Three months
	ended June 30, 2008	
Trade accounts receivable	117,983	117,501
Inventories	549,733	547,451
Deferred tax assets	223	-
Other current assets	73,783	70,547
Property, plant and equipment	711,357	699,738
Intangible assets	70,777	70,777
Financial investments	11,518	5,144
Trade accounts payable	(249,851)	(249,851)
Retirement benefit liabilities	(49,734)	(49,734)
Deferred tax liabilities	(125,000)	(125,000)
Other liabilities	(122,996)	(120,366)
Net identifiable assets and liabilities acquired	987,793	966,207
Non-controlling interests	(1,820)	-
Severstal's share of net identifiable assets and liabilities acquired	985,973	966,207
Consideration paid:		
Consideration paid in cash	(818,000)	(818,000)
Consideration paid in financial assets	(17,600)	-
Adjustment to consideration paid	48,000	48,000
Negative goodwill on acquisition of subsidiaries	198,373	196,207
Net change in cash and cash equivalents	(818,000)	(818,000)

The gain of US\$197.0 million was recognized in the income statement as negative goodwill as a result of the difference between purchase price and fair market value of the acquired net assets of Sparrows Point. This difference arose primarily due to Severstal's competitive position in negotiations based on exclusive USW's (United Steelworkers of America) support in bidding and time restrictions in the administered sales process.

OAo Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements for the six months ended June 30, 2009 and 2008

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Final purchase price allocation

During the six months ended June 30, 2009, management completed the purchase price allocation of Redaelli Tecna SpA and PBS Coals Ltd, acquired during July – November 2008. The effect of the final purchase price allocation on these consolidated financial statements is the following:

	Increase/(decrease) compared to the provisional purchase price allocation at December 31, 2008
	US\$, thousand
Property, plant and equipment	(4,715)
Intangible assets	1,114
Deferred tax assets	7,148
Income tax payable	(1,098)
Deferred tax liabilities	(20,053)
Other liabilities	25,502
Foreign exchange differences	(1,854)
Retained earnings	1,050

The comparative information at December 31, 2008, has been adjusted as if the accounting for the business combination had been completed at the acquisition date.

Acquisitions of non-controlling interests

In January 2008, the Group completed the acquisition of a 100% stake in Celtic Resources Holdings Plc. by acquiring the remaining 13.7% stake in the company for a total consideration of US\$44.0 million. Celtic Resources Holdings is a mining company based in Dublin, Ireland, which owns and operates gold mines, including the Suzdal Mine (Alel JSC) and Zherek Mine (Zherek LLP) in Kazakhstan.

In April 2008, the Group acquired an additional 9.4% stake in Columbus from the former management and a 34.6% stake in OAO Dneprometiz from third parties for a total consideration of US\$40 million.

In June 2009, the Group acquired an additional 3.5% stake in High River Gold Mines, Ltd. for a total consideration of US\$9.5 million.

In June 2009, the Group completed the acquisition of a 100% stake in Columbus by acquiring the remaining 8.2% stake in the company from the former management for a total consideration of US\$14.9 million.

Disposals of subsidiaries during the six months ended June 30, 2008

In April 2008, the Group sold its 97.9%, 99.5% and 100.0% participation in OAO Mine Berezovskaya, OAO Mine Pervomaiskaya and ZAO Zhernovskaya-3 respectively to ArcelorMittal for a total consideration of US\$ 652 million.

In June 2008, the Group sold its 100% and 40.0% participation in Relco Spzoo and Coimpex Spzoo respectively for a total consideration of US\$18 million.

OA0 Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements for the six months ended June 30, 2009 and 2008

(Amounts expressed in thousands of US dollars, except as otherwise stated)

A summary of assets and liabilities disposed during the six months ended June 30, 2008 is presented below:

	<u>Six months</u>	<u>Three months</u>
	<u>ended June 30, 2008</u>	
Assets held for sale	(443,021)	(443,021)
Liabilities held for sale	88,942	88,942
Net identifiable assets	<u>(354,079)</u>	<u>(354,079)</u>
Non-controlling interests	92	92
Sub-total	<u>(353,987)</u>	<u>(353,987)</u>
Consideration in cash	<u>670,451</u>	<u>670,451</u>
Net gain on disposal	<u>316,464</u>	<u>316,464</u>
Net change in cash and cash equivalents	<u><u>670,451</u></u>	<u><u>670,451</u></u>

9. Segmental information

The Group has four reportable segments: Russian Steel, Severstal Resource, Severstal North America and Lucchini.

Russian Steel produces a wide range of products, including hot-rolled sheets, profiles, large-diameter pipes, and cold-rolled coated sheets encompassing special-grade sheets for the automotive industry, hot-rolled plates, metalware and long products on steel production facilities located in the Russian Federation. It sells steel products on domestic Russian market, serving the needs of the Russian automotive, construction, shipbuilding, oil and gas, engineering and other industries, as well as on the international market.

Severstal Resource (former Mining segment) has its extraction facilities in Russia, Kazakhstan, USA, Burkina Faso and Lyberia producing iron ore, coal and gold.

Severstal North America produces high-quality flat-rolled products, including hot-rolled, cold-rolled, electrogalvanized, hot-dip galvanized and tin plated steel, for customers in the automotive, converter, container, pipe and tube, building and construction, service centre and other markets in North America region. Severstal North America's production facilities are located in the USA.

Lucchini comprises several plants and service centers, located in Western Europe, primarily in Italy and France. It produces special and high quality steel and quality and specialty long products. This segment also includes its distribution network companies, which are located primarily in Western Europe.

OAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements for the six months ended June 30, 2009 and 2008

(Amounts expressed in thousands of US dollars, except as otherwise stated)

The following is an analysis of the Group's sales and (loss)/profit before financing and taxation by segment:

	<u>Six months ended June 30,</u>		<u>Three months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Sales				
Russian Steel	2,496,784	6,256,491	1,339,674	3,813,603
Severstal Resource	779,723	1,308,532	414,981	681,282
Severstal North America	1,883,748	1,653,884	911,677	1,062,576
Lucchini	841,370	2,280,805	386,373	1,223,983
Intersegment transactions	(353,351)	(780,798)	(200,761)	(421,590)
	<u>5,648,274</u>	<u>10,718,914</u>	<u>2,851,944</u>	<u>6,359,854</u>
(Loss)/profit before financing and taxation				
Russian Steel	186,992	1,519,179	167,774	1,078,010
Severstal Resource	(18,833)	691,534	23,162	560,527
Severstal North America	(631,149)	351,404	(299,772)	240,124
Lucchini	(217,153)	247,846	(137,876)	148,332
Intersegment transactions	(8,840)	(22,335)	(9,539)	(14,863)
	<u>(688,983)</u>	<u>2,787,628</u>	<u>(256,251)</u>	<u>2,012,130</u>

The following is an analysis of the Group's total assets by segment:

	<u>June 30, 2009</u>	<u>December 31,</u>
	<u>(unaudited)</u>	<u>2008</u>
		<u>(unaudited)*</u>
Total segment assets		
Russian Steel	13,038,614	14,099,191
Severstal Resource	3,143,846	3,448,679
Severstal North America	5,477,842	6,159,120
Lucchini	3,469,369	4,040,213
Intersegment balances	(5,600,730)	(5,263,470)
	<u>19,528,941</u>	<u>22,483,733</u>

* These amounts reflect adjustments made in connection with completion of purchase price allocation.

10. Dividends

On June 27, 2008, the Meeting of Shareholders approved the annual dividend of 4.0 rubles (US\$ 0.2 at June 27, 2008 exchange rate) per share and per GDR in respect of 2007.

On June 27, 2008, the Meeting of Shareholders approved an interim dividend of 5.2 rubles (US\$ 0.2 at June 27, 2008 exchange rate) per share and per GDR for the first quarter of 2008.

On June 15, 2009, the Meeting of Shareholders approved the decision not to pay the annual dividend in respect of 2008.

11. Capital commitments

As of June 30, 2009, the Group had capital commitments of US\$935.8 million (December 31, 2008: US\$1,275.3 million).