

OAO Severstal and subsidiaries

Consolidated condensed interim financial statements
for the six months ended June 30, 2008 and 2007

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Independent Auditors' Report

Board of Directors

OA O Severstal

Report on Reviews of Interim Financial Information

Introduction

We have reviewed the accompanying consolidated condensed interim balance sheet of OA O Severstal (the "Company") and its subsidiaries (the "Group") as at 30 June 2008, and the related consolidated condensed interim statements of income for the three- and six-month periods ended 30 June 2008 and 2007 and the related consolidated condensed interim statements of changes in equity and cash flows for the six-month periods ended 30 June 2008 and 2007 (the "consolidated interim financial information"). Management is responsible for the preparation and presentation of this consolidated interim 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 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 interim 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 financial information as at 30 June 2008 and for the three- and six-month periods ended 30 June 2008 and 2007 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

KPMG dismissed.

KPMG Limited

28 August 2008

OAO Severstal and subsidiaries

Consolidated condensed interim income statement Six months ended June 30, 2008 and 2007

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

	Six months ended June 30,		Three months ended June 30,	
	2008 (unaudited)	2007 (restated, unaudited)	2008 (unaudited)	2007 (restated, unaudited)
Sales				
Sales - external	10,121,079	7,347,373	5,976,716	3,821,352
Sales - to related parties	5 426,013	391,221	261,383	224,719
	3 10,547,092	7,738,594	6,238,099	4,046,071
Cost of sales	(7,393,116)	(5,186,477)	(4,227,163)	(2,655,009)
Gross profit	3,153,976	2,552,117	2,010,936	1,391,062
General and administrative expenses	(454,823)	(343,902)	(223,973)	(174,492)
Distribution expenses	(585,708)	(459,498)	(310,043)	(225,969)
Indirect taxes and contributions	(88,622)	(74,716)	(43,119)	(39,569)
Share of associates' (loss)/profit	(1,119)	6,514	(577)	4,101
Net income from securities operations	5,269	8,191	13,333	6,688
Loss on disposal of property, plant and equipment	(27,908)	(18,160)	(13,413)	(8,930)
Net other operating income	9 253,390	7,713	56,205	8,750
Profit from operations	2,254,455	1,678,259	1,489,349	961,641
Impairment of property, plant and equipment	(4,060)	(10,251)	(2,205)	(9,301)
Negative goodwill, net	7 221,467	633	219,301	-
Net other non-operating income	268,350	7,799	300,979	25,768
Profit before financing and taxation	2,740,212	1,676,440	2,007,424	978,108
Interest income	66,177	79,013	37,233	42,248
Interest expense	(182,580)	(137,646)	(91,705)	(69,283)
Foreign exchange difference	7,592	(3,005)	(6,295)	(2,825)
Profit before income tax	2,631,401	1,614,802	1,946,657	948,248
Income tax expense	(639,722)	(435,479)	(406,952)	(245,200)
Profit from continuing operations	1,991,679	1,179,323	1,539,705	703,048
Profit from discontinued operations	-	9,340	-	4,405
Profit for the period	<u>1,991,679</u>	<u>1,188,663</u>	<u>1,539,705</u>	<u>707,453</u>
Attributable to:				
shareholders of OAO Severstal	1,939,674	1,148,019	1,500,968	689,927
minority interest	52,005	40,644	38,737	17,526
Weighted average number of shares outstanding during the period (millions of shares)	1,007.7	1,007.7	1,007.7	1,007.7
Basic and diluted earnings per share (US dollars)	1.92	1.14	1.49	0.68

These consolidated condensed interim financial statements were approved by the Board of Directors on August 28, 2008.

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

OAO Severstal and subsidiaries

Consolidated condensed interim balance sheet

June 30, 2008 and December 31, 2007

(Amounts expressed in thousands of US dollars)

	Note	June 30, 2008 (unaudited)	December 31, 2007 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents		3,056,207	1,619,872
Short-term bank deposits		628,876	665,977
Short-term financial investments		340,826	207,632
Trade accounts receivable		2,700,078	1,719,441
Amounts receivable from related parties	4	133,274	78,304
Inventories		3,813,428	2,609,751
VAT recoverable		309,828	283,746
Income tax recoverable		31,547	75,993
Assets held for sale		6,458	461,197
Other current assets		526,861	325,961
Total current assets		11,547,383	8,047,874
Non-current assets:			
Long-term financial investments		136,910	136,496
Investment in associates and joint ventures		201,533	203,122
Property, plant and equipment		9,682,457	8,216,615
Intangible assets		714,134	611,881
Restricted cash		13,114	13,810
Deferred tax assets		34,885	52,324
Other non-current assets		23,744	38,949
Total non-current assets		10,806,777	9,273,197
Total assets		22,354,160	17,321,071
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		1,922,895	1,207,185
Amounts payable to related parties	4	68,107	58,915
Short-term debt finance		1,419,437	972,701
Income taxes payable		224,557	41,382
Other taxes and social security payable		323,206	200,424
Dividends payable		402,315	107,485
Liabilities related to assets held for sale		-	91,750
Other current liabilities		873,737	610,784
Total current liabilities		5,234,254	3,290,626
Non-current liabilities:			
Long-term debt finance		3,602,973	2,813,011
Deferred tax liabilities		612,200	399,424
Retirement benefit liability		463,072	387,398
Other non-current liabilities		377,299	324,468
Total non-current liabilities		5,055,544	3,924,301
Equity:			
Share capital		3,311,288	3,311,288
Additional capital		1,165,530	1,165,530
Foreign exchange differences		1,581,179	1,145,379
Retained earnings		5,484,140	4,004,459
Hedging reserve		(8,765)	-
Total equity attributable to shareholders of parent		11,533,372	9,626,656
Minority interest		530,990	479,488
Total equity		12,064,362	10,106,144
Total equity and liabilities		22,354,160	17,321,071

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

OAO Severstal and subsidiaries

Consolidated condensed interim statement of cash flows

Six months ended June 30, 2008 and 2007

(Amounts expressed in thousands of US dollars)

	Six months ended June 30,	
	2008 (unaudited)	2007 (restated, unaudited)
Operating activities:		
Profit before financing and taxation	2,740,212	1,676,440
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	502,112	374,966
Impairment of property, plant and equipment	4,060	10,251
Provision for inventories, receivables and other provisions	41,895	(9,677)
Negative goodwill, net	(221,467)	(633)
Loss on disposal of property, plant and equipment	27,908	18,160
Gain on disposal of subsidiaries	(316,464)	(42,332)
Gain on remeasurement and disposal of financial investments	(5,269)	(8,191)
Share of associates' results less dividends from associates	1,119	(6,514)
Changes in operating assets and liabilities:		
Trade accounts receivable	(749,981)	(270,830)
Amounts receivable from related parties	(48,806)	(6,906)
VAT recoverable	(13,345)	117,448
Inventories	(506,128)	82,274
Trade accounts payable	363,984	39,870
Bank customer accounts	-	34,345
Amounts payable to related parties	2,177	152,542
Other taxes and social security payables	98,573	(11,807)
Other non-current liabilities	(21,171)	(23,048)
Assets held for sale	32,286	1,687
Net other changes in operating assets and liabilities	130,566	22,100
Cash generated from operations	2,062,261	2,150,145
Interest paid (excluding banking operations)	(141,581)	(133,905)
Income tax paid	(339,782)	(348,661)
Net cash from operating activities	1,580,898	1,667,579
Investing activities:		
Additions to property, plant and equipment	(885,690)	(700,069)
Additions to intangible assets	(33,451)	(21,497)
Net decrease/(increase) in short-term bank deposits	56,540	(261,557)
Additions to financial investments and associates	(418,442)	(479,253)
Acquisition of minority interests and entities under common control	(80,790)	(170,865)
Net cash outflow on acquisitions of subsidiaries	(978,019)	(145,311)
Net cash inflow on disposals of subsidiaries	670,451	148,334
Proceeds from disposal of property, plant and equipment	-	5,832
Proceeds from disposal of financial investments	421,900	338,107
Interest received (excluding banking operations)	65,062	68,047
Cash from investing activities	(1,182,439)	(1,218,232)
Financing activities:		
Proceeds from debt finance	2,412,325	525,897
Repayment of debt finance	(1,342,250)	(646,373)
Repayments under lease obligations	(8,351)	-
Dividends paid	(116,965)	(191,877)
Cash from financing activities	944,759	(312,353)
Effect of exchange rates on cash and cash equivalents	93,117	17,621
Net increase in cash and cash equivalents	1,436,335	154,615
Cash and cash equivalents at beginning of the period	1,619,872	1,733,414
Cash and cash equivalents at end of the period	3,056,207	1,888,029

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

OAO Severstal and subsidiaries

Consolidated condensed interim statement of changes in equity Six months ended June 30, 2008 and 2007 (Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal					Minority interest	Total	
	Share capital	Additional capital	Foreign exchange differences	Retained earnings	Hedging reserve			Total
Balances at December 31, 2006 as previously reported	3,311,288	1,165,530	535,591	2,983,954	-	7,996,363	557,645	8,554,008
Acquisition of entities under common control (unaudited)	-	-	-	(15,257)	-	(15,257)	14,986	(271)
Balances at December 31, 2006 (unaudited)	3,311,288	1,165,530	535,591	2,968,697	-	7,981,106	572,631	8,553,737
Profit for the period (restated, unaudited)	-	-	-	1,148,019	-	1,148,019	40,644	1,188,663
Foreign exchange differences (restated, unaudited)	-	-	278,128	-	-	278,128	15,082	293,210
Total recognized income and expenses (restated, unaudited)	-	-	-	-	-	1,426,147	55,726	1,481,873
Dividends (unaudited)	-	-	-	(295,011)	-	(295,011)	(9,307)	(304,318)
Effect of acquisitions and disposals (restated, unaudited)	-	-	-	(31,929)	-	(31,929)	(189,585)	(221,514)
Balances at June 30, 2007 (restated, unaudited)	<u>3,311,288</u>	<u>1,165,530</u>	<u>813,719</u>	<u>3,789,776</u>	<u>-</u>	<u>9,080,313</u>	<u>429,465</u>	<u>9,509,778</u>
Balances at December 31, 2007 as previously reported	3,311,288	1,165,530	1,176,321	4,082,834	-	9,735,973	474,706	10,210,679
Acquisition of entities under common control (unaudited)	-	-	(30,942)	(78,375)	-	(109,317)	4,782	(104,535)
Balances at December 31, 2007 (unaudited)	3,311,288	1,165,530	1,145,379	4,004,459	-	9,626,656	479,488	10,106,144
Profit for the period (unaudited)	-	-	-	1,939,674	-	1,939,674	52,005	1,991,679
Fair value adjustments of hedges (unaudited)	-	-	-	-	(12,537)	(12,537)	(3,420)	(15,957)
Deferred tax on fair value adjustments (unaudited)	-	-	-	-	3,772	3,772	954	4,726
Foreign exchange differences (unaudited)	-	-	435,800	-	-	435,800	32,004	467,804
Total recognized income and expenses (unaudited)	-	-	-	-	-	2,366,709	81,543	2,448,252
Dividends (unaudited)	-	-	-	(394,093)	-	(394,093)	(8,179)	(402,272)
Effect of acquisitions and disposals (unaudited)	-	-	-	(65,900)	-	(65,900)	(21,862)	(87,762)
Balances at June 30, 2008 (unaudited)	<u>3,311,288</u>	<u>1,165,530</u>	<u>1,581,179</u>	<u>5,484,140</u>	<u>(8,765)</u>	<u>11,533,372</u>	<u>530,990</u>	<u>12,064,362</u>

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

OA O Severstal and subsidiaries

Notes to the consolidated condensed interim financial statements for the six months ended June 30, 2008 and 2007 *(Amounts expressed in thousands of US dollars, except as otherwise stated)*

1. Accounting policies

These consolidated condensed interim financial statements for OA O 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.

In 2007, management decided to change the accounting policy for property, plant and equipment from the revaluation model to the cost model. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the change in accounting policy was applied retrospectively and comparative figures for the six months ended June 30, 2007 were restated. The aggregate effect of the change is disclosed in the consolidated financial statements for the year ended December 31, 2007.

The accounting policies and methods of computation applied by the Group in these consolidated condensed interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended December 31, 2007.

2. Seasonality

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

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**Notes to the consolidated condensed interim financial statements
for the six months ended June 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

3. Sales

Sales by product were as follows:

	Six months ended		Three months ended	
	June, 30		June 30,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	2,600,642	1,954,103	1,632,561	1,003,951
Long products	2,141,458	1,615,772	1,216,998	841,794
Galvanized and other metallic coated sheet	956,080	680,577	580,527	346,892
Cold-rolled sheet	906,203	633,963	520,715	322,694
Semifinished products	753,975	591,228	455,449	309,934
Metalware products	665,050	490,150	383,935	271,527
Large diameter pipes	432,393	150,173	272,370	87,115
Shipping and handling costs billed to customers	428,979	327,160	236,891	170,983
Pellets and iron ore	272,309	132,729	146,682	64,659
Others tubes and pipes, formed shapes	237,465	188,776	135,181	100,268
Scrap	231,574	125,012	172,400	92,867
Color coated sheet	165,176	148,506	97,039	81,362
Rails, wheels and axles	149,688	190,994	78,572	90,260
Coal and coking coal concentrate	110,703	157,416	60,312	77,675
Gold	70,857	-	26,224	-
Others	424,540	352,035	222,243	184,090
	<u>10,547,092</u>	<u>7,738,594</u>	<u>6,238,099</u>	<u>4,046,071</u>

Sales by delivery destination were as follows:

	Six months ended		Three months ended	
	June, 30		June 30,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Russian Federation	4,488,607	3,267,284	2,667,780	1,840,281
Europe	3,449,652	2,757,409	1,966,991	1,369,333
North America	1,683,506	1,056,383	1,063,028	520,669
The Middle East	332,249	203,788	196,048	85,992
China and Central Asia	203,952	169,779	121,393	82,324
South-East Asia	195,441	146,865	62,795	90,755
Central & South America	142,485	104,905	117,839	47,114
Africa	51,200	32,181	42,225	9,603
	<u>10,547,092</u>	<u>7,738,594</u>	<u>6,238,099</u>	<u>4,046,071</u>

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**Notes to the consolidated condensed interim financial statements
for the six months ended June 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

4. Related party balances

	June 30, 2008 (unaudited)	December 31, 2007
Joint ventures' balances		
Trade accounts payable	17,444	16,353
Other related party balances		
Cash and cash equivalents at related party bank	540,174	239,909
Deposits with related party bank	73,097	18,985
Amounts receivable from other related parties:		
Trade accounts receivable	84,348	43,770
Advances paid	7,458	6,546
Other receivables	41,468	27,988
	133,274	78,304
Short-term financial investments include the following balances with other related parties:		
Loans	10,184	22,205
Promissory notes	28,729	7,457
	38,913	29,662
Long-term financial investments include the following balances with other related parties:		
Loans	39,505	37,147
Held-to-maturity securities and deposits	66,632	62,759
	106,137	99,906
Amounts payable to other related parties:		
Trade accounts payable	27,748	36,886
Advances received	2,993	3,843
Other accounts payable	19,922	1,833
	50,663	42,562
Debt financing includes the following balances with other related parties:		
Short-term debt financing	105,069	36,866
Long-term debt financing	-	1,536
	105,069	38,402

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**Notes to the consolidated condensed interim financial statements
for the six months ended June 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

5. Related party transactions

	Six months ended June, 30		Three months ended June 30,	
	2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
Sales to and income received from other related parties:				
Sales	426,013	391,221	261,383	224,719
Interest income	7,682	8,698	4,340	29
	433,695	399,919	265,723	224,748
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	586	954	257	482
Purchases from joint ventures:				
Non-capital expenditures	101,154	105,738	53,741	55,429
Purchases from other related parties:				
Non-capital expenditures	122,518	407,065	41,048	211,800
Capital expenditures	722	6,801	508	1,773
	224,980	520,558	95,554	269,484

6. Contingent liabilities and commitments

As of June 30, 2008, the Group had capital commitments of US\$ 1,399.7 million (December 31, 2007: US\$ 540.2 million).

There were no significant changes in the Group's contingent liabilities for the six months ended June 30, 2008 and 2007.

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**Notes to the consolidated condensed interim financial statements
for the six months ended June 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

7. Acquisitions and disposals

Acquisitions of subsidiaries 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 SeverCorr. SeverCorr is mini-mill which produces high quality steel for motor-car, construction, pipe and engineering industries.

These consolidated condensed interim financial statements take account of such acquisition as if it had occurred at the beginning of the earliest comparative period presented.

Acquisitions of subsidiaries from third and related parties

In January 2007, the Group completed the acquisition of 84.8% of the share capital of ZAO Vtorchermet and its wholly-owned subsidiaries and certain related companies for a total consideration of US\$ 45.4 million. ZAO Vtorchermet is a scrap processing and wholesale company, and the majority of its operations is located in Saint Petersburg. The acquisition was conducted to secure a reliable source of scrap for the Russian steel mill in case of future changes in the Russian scrap market.

In March 2007, the Group purchased 100% of the share capital of Siderco SpA from the Lucchini family for € 1.35 million (US\$ 1.78 million at the transaction date exchange rate). Management determined that the fair value of the net identifiable assets and liabilities acquired was substantially the same as the book value.

In May 2007, the Group completed the acquisition of 100% of a stevedore company, ZAO Neva-Metall, for US\$ 98.7 million and 100% of the shipping agency ZAO Neva-Metall Trans for US\$ 1.3 million from a related party. The majority of their operations are located in Saint Petersburg. The acquisition was conducted to secure a self-supporting export logistic chain.

In January 2008, the Group acquired a 91.57% 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 acquirees' profit since the acquisition dates included in the Group's profit for the period, as well as the revenue and profit of the acquired entities from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for the period.

In May 2008, the Group acquired a 100% stake in Sparrows Point LLC 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 LLC 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. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, the initial accounting for the acquisition was determined provisionally. Final purchase price allocation is expected to be completed before December 31, 2008.

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.

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**Notes to the consolidated condensed interim financial statements
for the six months ended June 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

A summary of assets and liabilities acquired from third and related parties but excluding acquisitions from the Majority Shareholder during the six months 2008 and 2007 is presented below:

	<u>Six months ended June 30,</u>		<u>Three months ended June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	-	1,869	-	289
Trade accounts receivable	167,647	6,986	167,165	673
Inventories	549,733	12,612	547,451	1,341
Deferred tax assets	223	1,103	-	71
Other current assets	12,174	30,062	8,938	2,685
Property, plant and equipment	711,355	7,983	699,736	4,444
Intangible assets	70,777	13	70,777	13
Financial investments	11,519	-	5,145	-
Trade accounts payable	(249,996)	(1,308)	(249,996)	-
Other taxes and social security payable	-	(883)	-	(174)
Debt finance	-	(17,635)	-	(2,603)
Retirement benefit liability	(47,049)	-	(47,049)	-
Deferred tax liabilities	(125,000)	-	(125,000)	-
Other liabilities	(90,496)	(22,586)	(87,866)	(380)
Net identifiable assets and liabilities acquired	<u>1,010,887</u>	<u>18,216</u>	<u>989,301</u>	<u>6,359</u>
Minority interest	(1,820)	(223)	-	-
Severstal's share of net identifiable assets and liabilities acquired	1,009,067	17,993	989,301	6,359
Consideration paid:				
Consideration in paid in cash	(818,000)	(147,180)	(818,000)	(100,000)
Consideration paid in financial assets	(17,600)	-	-	-
Adjustment to consideration paid	48,000	-	48,000	-
Positive goodwill on acquisition of subsidiaries	<u>-</u>	<u>(129,187)</u>	<u>-</u>	<u>(93,641)</u>
Negative goodwill on acquisition of subsidiaries	<u>221,467</u>	<u>633</u>	<u>219,301</u>	<u>-</u>
Net change in cash and cash equivalents	<u>(818,000)</u>	<u>(145,311)</u>	<u>(818,000)</u>	<u>(99,711)</u>

The gain of US\$219 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 LLC. 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.

In March 2008, management completed the purchase price allocation of ZAO Neva-Metal and ZAO Neva-Metal-Trans acquired in May 2007. 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, 2007
	US\$, million
Goodwill	(47)
Intangible assets	47
Property, plant and equipment	15
Deferred tax liabilities	15

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Acquisitions of minority interest

In March 2007, the Group acquired a 2.01%, a 0.04%, and a 0.05% stake in OAO Karelsky Okatysh, OAO Olkon, and in OAO Vorkutaugol for a total consideration of US\$ 35.4 million, US\$ 0.1 million, and US\$ 0.4 million, respectively.

In May 2007, the Group acquired an additional 9% stake in Lucchini SpA from a Lucchini family company for a total consideration of € 85.2 million (US\$ 114.8 million at the transaction date exchange rate) increasing the Group's share in the capital of Lucchini SpA to 79.8%.

In May 2007, the Group acquired a 25.01% stake in ZAO Severgal for a total consideration of US\$ 20 million increasing the Group's share in the capital of ZAO Severgal to 100%.

In June 2007, the Group acquired a 1.94%, a 0.62%, a 3.56%, a 1.23%, and a 1.02% stake in OAO Karelsky Okatysh, OAO Olkon, OAO Vorkutaugol, OAO Mine Vorgashorskaya, and in OAO Mine Berezovskaya for a total consideration of US\$ 23.5 million, US\$ 1.9 million, US\$ 29.3 million, US\$ 0.6 million, and US\$ 0.7 million, respectively.

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 million. Celtic Resources Holdings Plc is a gold producer which operates gold mines in Kazakhstan. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations. Final purchase price allocation is expected to be completed before December 31, 2008.

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

Disposals of subsidiaries

In June 2007, the Group sold its 100% (effective ownership was 79.8%) of Lucchini Sidermeccanica SpA and its wholly owned subsidiaries (Lucchini UK Ltd, Lucchini Sweden AB and Lucchini Poland Spzoo) to members of the founding Lucchini family for a total consideration of €127.8 million (US\$ 172.5 million at the transaction date exchange rate). To support this transaction an independent fairness opinion of the transaction was obtained from a properly qualified Italian bank.

In April 2008, the Group sold its 97.9%, 99.46% and 100% 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 40.03% participation in Relco Spzoo and Coimpex Spzoo respectively for a total consideration of €12 million (US\$ 18 million at the transaction date exchange rate).

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A summary of assets and liabilities disposed during the six months 2008 and 2007 is presented below:

	<u>Six months ended June 30,</u>		<u>Three months ended June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	-	(24,166)	-	(24,166)
Trade accounts receivable	-	(114,415)	-	(114,415)
Inventories	-	(84,821)	-	(84,821)
Other assets	-	(6,376)	-	(6,376)
Property, plant and equipment	-	(157,244)	-	(157,244)
Intangible assets	-	(2,268)	-	(2,268)
Deferred tax assets	-	(759)	-	(759)
Assets held for sale	(443,021)	-	(443,021)	-
Trade accounts payables	-	169,643	-	169,643
Income tax payable	-	8,939	-	8,939
Other taxes and social security payable	-	8,091	-	8,091
Deferred tax liabilities	-	9,250	-	9,250
Retirement benefit liability	-	15,864	-	15,864
Debt finance	-	30,819	-	30,819
Liabilities held for sale	88,942	-	88,942	-
Other liabilities	-	17,275	-	17,275
Net identifiable assets	(354,079)	(130,168)	(354,079)	(130,168)
Minority interest	92	-	92	-
Sub-total	(353,987)	(130,168)	(353,987)	(130,168)
Consideration in cash	670,451	172,500	670,451	172,500
Net gain on disposal	316,464	42,332	316,464	42,332
Net change in cash and cash equivalents	670,451	148,334	670,451	148,334

Net gain on disposal of subsidiaries is included in other non-operating income.

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**Notes to the consolidated condensed interim financial statements
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8. Segmental information – Income statement

	Six months ended		Three months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales				
Mining segment	1,586,702	1,048,926	888,941	557,123
Russian Steel segment	5,265,335	3,989,833	3,178,967	2,097,887
Lucchini segment	2,280,805	1,996,127	1,223,983	1,018,558
North America	1,653,884	917,093	1,062,576	461,636
IPM	432,393	158,664	272,370	95,606
Metalware segment	642,173	497,085	369,922	272,984
Intersegmental transactions	(1,314,200)	(869,134)	(758,660)	(457,723)
Total	10,547,092	7,738,594	6,238,099	4,046,071
Profit before financing and taxation :				
Mining segment	717,980	174,399	577,045	84,264
Russian Steel segment	1,256,043	1,207,157	937,471	707,332
Lucchini segment	247,846	230,959	148,332	132,798
North America	374,498	30,430	263,218	6,249
IPM	118,405	28,052	83,668	23,992
Metalware segment	75,159	28,624	48,770	22,808
Intersegmental transactions	(49,719)	(23,181)	(51,080)	665
Total	2,740,212	1,676,440	2,007,424	978,108

9. Net other operating income

In January 2008, an explosion occurred on one of Severstal North America's ("SNA") furnaces, blast furnace "B". Following the accident, SNA has ceased blast furnace "B" operation. SNA is insured against property damage and business interruption with a combined gross coverage of US\$ 500 million, subject to customary deductibles. The business interruption covers fixed costs and loss of profits. Management has estimated net recoverable fixed costs and lost profits 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 SNA and Dearborn Industrial Generation ("DIG") has been terminated with a lump sum payment from DIG to compensate SNA for the differential between the contract price and the price SNA will have to pay another electricity supplier for the duration of the original contract. This lump sum payment amounted to US\$ 177 million.

10. Dividends

On June 15, 2007 the Meeting of Shareholders approved annual dividend of 5.0 rubles (US\$ 0.2 at June 15, 2007 exchange rate) per share and per GDR in respect of 2006.

On June 29, 2007 the Meeting of Shareholders approved a dividend of 2.6 rubles (US\$ 0.1 at June 29, 2007 exchange rate) per share and per GDR for the first quarter of 2007.

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Notes to the consolidated condensed interim financial statements for the six months ended June 30, 2008 and 2007 (Amounts expressed in thousands of US dollars, except as otherwise stated)

On June 27, 2008 the Meeting of Shareholders approved 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 a 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.

11. Subsequent events

In July 2008, the Group acquired a 100% stake in WCI Steel Inc. for a total consideration of US\$ 414.9 million. WCI Steel Inc. operates a steel mill in Warren, Ohio, and is an integrated producer of flat-rolled steel products, including high carbon, alloy, ultra high strength, and heavy-gauge galvanized steel. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations. Final purchase price allocation is expected to be completed before December 31, 2008.

The acquiree's loss for the 6 months 2008 is insignificant to the Group's profit for the period. The acquiree's revenue for the 6 months 2008 comprised US\$ 498 million.

In July 2008, Steel Capital SA, a non-related party, issued US dollar denominated loan participation notes in an aggregate principal amount of US\$ 1,250 million for the sole purpose of financing a loan facility between OAO Severstal and Steel Capital SA. The notes are due on July 29, 2013 and bear interest at annual interest rate of 9.75% payable on January 29 and July 29 of each year.

In July 2008, the Group acquired a 100% stake in Redaelli Tecna SpA for an approximate total consideration of €35 million (US\$ 55 million at the transaction date exchange rate). Redaelli Tecna SpA is a manufacturer of high performance wire ropes for industrial hoisting, mining, cableways, material transportation, etc. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations. Final purchase price allocation is expected to be completed before December 31, 2008. Management does not possess accurate information about company's revenue and profit for the 6 months 2008.

In August 2008, the Group acquired a 100% stake in Esmark for an approximate total consideration of US\$ 931.7 million. Esmark is a manufacturer and distributor of flat rolled and other steel products in the United States. With the completion of the tender offer, the Group acquired all of Esmark's business, including the remaining 50% stake in Mountain State Carbon LLC, a blast furnace coking coal production facility in West Virginia. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations. Final purchase price allocation is expected to be completed before December 31, 2008. Management does not possess accurate information about company's revenue and profit for the 6 months 2008.

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Notes to the consolidated condensed interim financial statements for the six months ended June 30, 2008 and 2007

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In August 2008, the Group acquired a 100% stake in Balazhal, a gold mine in East Kazakhstan for a total consideration of US\$ 38.9 million. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations. Final purchase price allocation is expected to be completed within one year starting from the date of acquisition. Management does not possess accurate information about company's revenue and profit for the 6 months 2008.

In August 2008, the Group signed a binding agreement to acquire the business of PBS Coals Corporation for an approximate total consideration of US\$1.3 billion. The transaction is subject to a number of conditions including obtaining all necessary regulatory approvals.

In August 2008, the Group acquired an additional 4.1% stake in SeverCorr from the former management for a total consideration of US\$ 16 million.