Severstal

Consolidated financial statements
for the year ended December 31, 2006

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Contents

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Independent Auditors' Report

Board of Directors

OAO Severstal

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OAO Severstal (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2006 and 2005, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

We did not audit the consolidated financial statements of Lucchini S.p.A., a 70.8% owned subsidiary since April 2005, for the year ended 31 December 2006 and for the eight-month period ended 31 December 2005, which consolidated financial statements reflect total assets constituting 19.1% and 21.8% as at 31 December 2006 and 2005, respectively, and total revenues constituting 27.0% and 17.7% for the year ended and the eight-month period ended 31 December 2006 and 2005, respectively, of the related consolidated totals. Those consolidated financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lucchini S.p.A., is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained, and the reports of the other auditors, is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006 and 2005, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG Limited.

KPMG Limited

30 March 2007

Severstal

Consolidated income statement
Year ended December 31, 2006

(Amounts expressed in thousands of US dollars, except shares and earnings per share)

	Note	Year ended December 31, 2006	2005
Sales			
Sales - external		11,704,354	9,774,886
Sales - to related parties	15	718,164	656,880
	4	12,422,518	10,431,766
Cost of sales		(8,943,428)	(6,833,056)
Gross profit		3,479,090	3,598,710
Selling, general and administrative expenses		(650,579)	(520,164)
Distribution expenses		(649,122)	(620,505)
Indirect taxes and contributions		(169,451)	(117,434)
Share of associates' losses		(1,193)	(4,190)
Net income from bank lending operations	6	9,394	9,982
Net income from securities operations	7	32,927	27,904
Loss on disposal of property, plant and equipment		(69,989)	(36,770)
Net other operating expenses		(26,954)	(17,387)
Profit from operations		1,954,123	2,320,146
(Impairment)/reversal of impairment of property, plant and equipment	19	(57,736)	65,159
Net gain on restructuring of tax liabilities	27	14,669	174,178
Negative goodwill, net		4,213	7,630
Net other non-operating expenses	8	(53,565)	(52,753)
Profit before financing and taxation		1,861,704	2,514,360
Net financing expense	9	(109,076)	(198,124)
Profit before income tax		1,752,628	2,316,236
Income tax expense	10	(543,513)	(545,668)
Profit from continuing operations		1,209,115	1,770,568
Profit/(loss) from discountinued operations		22,212	(10,784)
Profit for the year		1,231,327	1,759,784
Attributable to:			
shareholders of OAO Severstal		1,180,698	1,695,807
minority interest		50,629	63,977
Weighted average number of shares outstanding during the period (millions of shares)		928.4	912.2
Basic and diluted earnings per share (US dollars)		1.27	1.86

These consolidated financial statements were approved by the Board of Directors on March 30, 2007.

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

Severstal

Consolidated balance sheet
December 31, 2006
(Amounts expressed in thousands of US dollars)

	Note	December 31, 2006	December 31, 2005
Assets			
Current assets:			
Cash and cash equivalents	11	1,700,295	1,327,430
Short-term bank deposits	12	1,147,270	674,512
Short-term financial investments	13	321,842	267,851
Trade accounts receivable	14	1,324,097	1,173,673
Amounts receivable from related parties	15	127,513	173,522
Inventories	16	2,239,647	1,723,732
VAT receivable		338,122	441,354
Income tax receivable		35,856	28,571
Other current assets	17	258,404	181,108
Total current assets		7,493,046	5,991,753
Non-current assets:			
Intangible assets	18	61,666	56,523
Property, plant and equipment	19	10,549,219	8,846,003
Investment in associates	20	354,906	210,652
Long-term financial investments	21	199,940	89,541
Amounts receivable from related parties	15	-	35,095
Assets held for sale		113,516	66,117
Deferred tax assets	10	29,926	35,076
Other non-current assets		3,844	3,105
Total non-current assets		11,313,017	9,342,112
Total assets		18,806,063	15,333,865
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		1,038,338	866,346
Bank customer accounts	22	31,143	98,867
Amounts payable to related parties	23	170,423	486,727
Short-term debt finance	24	954,048	992,612
Income taxes payable		44,322	86,001
Other taxes and social security payable		199,798	257,445
Dividends payable		23,243	12,275
Other current liabilities	25	494,222	361,245
Total current liabilities		2,955,537	3,161,518
Non-current liabilities:			
Long-term debt finance	24	2,048,035	1,931,694
Deferred tax liabilities	10	1,381,785	1,206,080
Retirement benefit liability	26	442,954	338,486
Liabilities related to assets held for sale		1,792	172
Other non-current liabilities	27	298,101	298,811
Total non-current liabilities		4,172,667	3,775,243
Equity:			
Share capital	28	3,311,288	3,311,254
Additional capital		1,165,530	60,367
Revaluation reserve		3,185,281	3,093,608
Foreign exchange differences		786,822	28,073
Accumulated earnings		2,602,345	1,376,103
Total equity attributable to shareholders of parent		11,051,266	7,869,405
Minority interest		626,593	527,699
Total equity		11,677,859	8,397,104
Total equity and liabilities		18,806,063	15,333,865

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

Severstal

Consolidated statement of cash flows
Year ended December 31, 2006
(Amounts expressed in thousands of US dollars)

	Year ended December 31,	
	2006	**2005**
Operating activities:		
Profit before financing and taxation	1,861,704	2,514,360
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization (notes 18 and 19)	963,148	496,597
Impairment/(reversal of impairment) of property, plant and equipment	57,736	(65,159)
Provisions against inventories, receivables and other provisions	(11,641)	27,629
Negative goodwill, net	(4,213)	(7,630)
Loss on disposal of property, plant and equipment	69,989	36,770
Net gain on restructuring of tax liabilities	(14,669)	(174,178)
(Gain)/loss on disposal of subsidiaries and associates	(846)	9,759
Gain on remeasurement and disposal of financial investments	(32,673)	(24,292)
Dividends from associates less share of associates' income	1,193	17,413
Changes in operating assets and liabilities:		
Trade accounts receivable	(16,474)	10,585
Amounts receivable from related parties	92,387	43,006
VAT receivable	140,315	(222,739)
Inventories	(309,296)	(73,542)
Trade accounts payable	57,562	16,323
Bank customer accounts	(74,511)	(28,322)
Amounts payable to related parties	(101,337)	53,386
Other non-current liabilities	10,396	13,114
Other taxes and social security payables	(111,604)	16,797
Assets held for sale	-	(14,512)
Net other changes in operating assets and liabilities	43,883	45,449
Cash generated from operations	2,621,049	2,690,814
Interest paid (excluding banking operations)	(215,081)	(199,177)
Income tax paid	(676,582)	(557,303)
Net cash provided from operating activities	1,729,386	1,934,334
Investing activities:		
Additions to property, plant and equipment	(1,243,831)	(1,204,415)
Additions to intangible assets	(8,808)	(32,322)
Net increase in short-term bank deposits	(431,142)	(133,526)
Additions to financial investments and associates	(1,203,824)	(817,558)
Buy out of minority interests	(70,741)	(115,432)
Net cash (outflow)/inflow on acquisitions of subsidiaries	(281,133)	219,675
Net cash inflow on disposal of subsidiaries	1,588	13,701
Proceeds from disposal of property, plant and equipment	14,023	10,893
Proceeds from disposal of assets held for sale	-	10,313
Proceeds from disposal of financial investments	949,480	816,671
Interest received (excluding banking operations)	105,251	53,911
Cash used for investing activities	(2,169,137)	(1,178,089)
Financing activities:		
Proceeds from debt finance	1,379,209	1,156,982
Proceeds from share issues	1,105,197	-
Repayment of debt finance	(1,495,440)	(1,357,997)
Parent company dividends paid	(269,286)	(277,605)
Minority capital contributions	6,685	37,734
Net other cash flows from financing acitivities	-	(7,742)
Cash provided from/(used for) financing activities	726,365	(448,628)
Effect of exchange rates on cash and cash equivalents	86,251	(70,551)
Net increase in cash and cash equivalents	372,865	237,066
Cash and cash equivalents at beginning of the year	1,327,430	1,090,364
Cash and cash equivalents at end of the year	1,700,295	1,327,430

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

Severstal

Consolidated statement of changes in equity
Year ended December 31, 2006
(Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal						Minority interest	Total
	Share capital	Additional capital	Revaluation reserve	Foreign exchange differences	Accumulated earnings/ (deficit)	Total		
Balances at December 31, 2004	3,311,248	60,367	631,996	191,770	(75,938)	4,119,443	122,250	4,241,693
Profit for the period	-	-	-	-	1,695,807	1,695,807	63,977	1,759,784
Realization of revaluation reserve:								
Disposals	-	-	(13,383)	-	13,383	-	-	-
Depreciation	-	-	(105,030)	-	105,030	-	-	-
Deferred tax on realization	-	-	28,419	-	(28,419)	-	-	-
Revaluation of property, plant & equipment:								
Revaluation	-	-	3,358,502	(6,104)	(50,580)	3,301,818	50,580	3,352,398
Deferred tax on revaluation	-	-	(806,896)	1,465	12,200	(793,231)	(12,200)	(805,431)
Foreign exchange differences	-	-	-	(152,411)	-	(152,411)	(35,065)	(187,476)
Total recognized income and expenses						4,051,983	67,292	4,119,275
Dividends	-	-	-	-	(271,996)	(271,996)	(3,181)	(275,177)
Effect of acquisitions and disposals	6	-	-	(6,647)	(23,384)	(30,025)	341,338	311,313
Balances at December 31, 2005	3,311,254	60,367	3,093,608	28,073	1,376,103	7,869,405	527,699	8,397,104
Profit for the period	-	-	-	-	1,180,698	1,180,698	50,629	1,231,327
Realization of revaluation reserve:								
Disposals	-	-	(40,157)	-	40,157	-	-	-
Depreciation	-	-	(443,492)	-	443,492	-	-	-
Deferred tax on realization	-	-	114,812	-	(114,812)	-	-	-
Revaluation of property, plant & equipment:								
Revaluation	-	-	605,959	-	(44,966)	560,993	44,966	605,959
Deferred tax on revaluation	-	-	(145,449)	-	10,792	(134,657)	(10,792)	(145,449)
Foreign exchange differences	-	-	-	758,749	-	758,749	52,167	810,916
Total recognized income and expenses						2,365,783	136,970	2,502,753
Dividends	-	-	-	-	(278,798)	(278,798)	-	(278,798)
Share issues (note 28)	34	1,105,163	-	-	-	1,105,197	-	1,105,197
Effect of acquisitions and disposals	-	-	-	-	(10,321)	(10,321)	(38,076)	(48,397)
Balances at December 31, 2006	3,311,288	1,165,530	3,185,281	786,822	2,602,345	11,051,266	626,593	11,677,859

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

1. Operations

These consolidated financial statements of OAO Severstal comprise the parent company, OAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in note 29.

Severstal began operations on August 24, 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On September 24, 1993, as part of the Russian privatization program, Severstal was registered as a Joint Stock Company ('OAO') and privatized. Through participating in Severstal's privatization auctions and other purchases, Alexey Mordashov (the "Majority Shareholder") has purchased shares in Severstal such that as at the balance sheet date he controlled, directly or indirectly, 82.37% (December 31, 2005: 82.75%) of Severstal's share capital.

Severstal's GDRs have been quoted on the London Stock Exchange since November 2006. Severstal's shares are quoted on the Russian Trading System and on the Moscow Interbank Currency Exchange ('MICEX'). Severstal's registered office is located at Ul Mira 30, Cherepovets, Russia.

The Group comprises the following segments:

- *Russian Steel* – this segment operates full cycle integrated iron and steel mill and large diameter pipe plant in Russia, has supporting companies for the sale of products in the Russian and international markets and also includes service companies.
- *Severstal North America* – this segment operates full cycle integrated iron and steel mill in the USA and has non-controlling equity interests in the US based steel galvanizing, steel slitting and coking coal production entities.
- *Lucchini* – this segment produces special and high quality steels and quality and specialty long products. Production sites are located in Western Europe, primarily in Italy and France. This segment also includes its distribution network companies, which are located primarily in Western Europe.
- *Metalware segment* – this segment comprises three plants in Russia, two plants in Ukraine and one plant in the United Kingdom containing wire drawing equipment that takes long products (mainly wire) from the Russian Steel and Lucchini segments and external suppliers and turns them into products with a higher value added for the Russian and international markets.
- *Mining segment* – this segment comprises two locations in Russia, where coking coal is produced, one location where iron ore is produced, and one location where pellets are produced. This segment also includes coal refining facilities and other auxiliary businesses.
- *Financing segment* – this segment operates a retail bank.

A segmental analysis of the consolidated balance sheet and income statement is given in note 31.

Recent acquisitions of controlling stakes from the Group's Majority Shareholder

During May and June 2006, the Group acquired controlling stakes in entities of the mining segment and in service companies of the Russian Steel segment from the Group's Majority Shareholder. On October 2, 2006, the Group completed the acquisition from the Group's Majority Shareholder of 50.82% in Lucchini SpA, which, together with its subsidiaries, comprises the Lucchini segment of the Group. These transactions are further discussed in notes 28 and 29 to these consolidated financial statements.

Additional share issues during 2006

During 2006 the Group made two additional share issues. The first share issue was completed in June 2006 to finance acquisition of controlling stakes in entities of the mining segment from the Group's Majority Shareholder. The second share issue was completed in December 2006 as part of the initial public offering of the Parent Company's GDRs on the London Stock Exchange. Additional information on those share issues is disclosed in notes 28 and 29 to these consolidated financial statements.

Economic environment

A large part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Group and the realization and settlement of its assets and liabilities.

International sales of rolled steel from the Group's Russian operations have been the subject of several anti-dumping investigations. The Group has taken steps to address the concerns of such investigations and participates actively in their resolution. A brief description of protective measures effective at Severstal's key export markets is given below:

- Exports of hot-rolled coils and thin sheets from Russia to the USA are restricted by the minimum prices issued quarterly by the US Department of Commerce and quotas. Severstal is the first Russian company, for which since September 2005 minimum prices for certain types of steel plate were established based on the producer's actual cost and finance data.
- The Canadian market of hot-rolled plate is restricted by minimum prices.
- The European Union ('EU') market is protected by quotas. During the last few years quotas have been raised about 2-2.5% each year after adjusting for the effects of EU enlargements. Severstal traditionally gets approximately 35% of the total Russian quota and strives to utilize it fully because the EU market is a key market for Severstal.
- The Chinese market is open to the Russian exporters. No antidumping or safeguard measures are in force.

2. Presentation of the consolidated financial statements

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board, and are prepared under the historic cost convention except that property, plant and equipment; investments designated at fair value through profit and loss; and investments available-for-sale are stated at fair value. The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these consolidated financial statements are set out in note 3.

Going concern basis

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making such estimates, actual results could differ from those estimates.

In particular, information about the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next financial year is described in the following notes:

- Note 26 – Retirement benefit liabilities
- Note 27 – Other non-current liabilities

Functional and presentation currency

The presentation currency of these consolidated financial statements is the US dollar.

The functional currency is determined separately for each of the Group's entities. For all Russian entities, the majority of costs and revenues are denominated in Russian roubles, and accordingly, their functional currency is the Russian rouble. The functional currency of the Group's entities located in North America is the US dollar. The functional currency of the majority of the Group's entities located in Western Europe is the Euro.

Any conversion of amounts in roubles into US dollars should not be construed as a representation that such amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates used, or at any other exchange rate.

Basis of consolidation

Subsidiaries are those enterprises controlled, directly or indirectly, by the Parent Company. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The minority interest represents the minorities' proportion of the net identifiable assets of the subsidiaries, including minorities' share of fair value adjustments on acquisitions.

Associates are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies. These consolidated financial statements include the Group's share of the total recognized gains and losses of associates accounted for on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

Accounting for business combinations of entities under common control

IFRS provides no guidance on accounting for business combinations of entities under common control. Management adopted the accounting policy for such transactions based on the relevant guidance of accounting principles generally accepted in the United States ('US GAAP'). Management believes that this approach and the accounting policy disclosed below are in compliance with IFRS.

Acquisitions of controlling interests in companies that were previously under the control of the same controlling shareholder as the Group have been accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the common controlling shareholder. The assets and liabilities acquired have been recognized at their book values. The components of equity of the acquired companies have been added to the same components within Group equity except that any share capital of the acquired companies has been recorded as part of additional paid in capital. Cash consideration for such acquisitions has been recognized as a liability to or a reduction of receivables from related parties, with a corresponding reduction in equity, from the date the acquired company is included in these consolidated financial statements until the cash consideration is paid. Parent Company shares issued in consideration for the acquired companies are recognized from the moment the acquired companies are included in these financial statements.

Acquisitions by the Majority Shareholder of additional interests in the acquired companies, after control over those companies has been obtained by the Majority Shareholder, are treated as if those additional interests were acquired by the Group. No goodwill is recognized on these transactions. The difference between the share of net assets acquired and the cost of investment is recognized directly in equity.

As part of acquiring the mining assets, during 2006 the Group acquired fixed assets that were leased during 2004 and 2005 by the companies controlled by the Majority Shareholder to the acquired mining companies. These fixed assets are included in these consolidated financial statements from the moment that they were acquired by the companies controlled by the Majority Shareholder. A liability to related parties for purchasing these fixed assets is recorded in these consolidated financial statements from the moment the acquired fixed assets were included in the consolidated financial statements.

3. Summary of the principal accounting policies

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements.

a. Cash and cash equivalents

Cash equivalents are all highly liquid temporary cash investments with original maturity dates of three months or less.

b. Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads. Provisions are recorded against slow moving and obsolete inventories.

c. Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

d. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of each entity at the foreign exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of each entity at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency of the entity at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to functional currency of the entity at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange gains and losses arising on translation are recognized as a part of net financing expense in the income statement.

Presentation and consolidation
For presentation and consolidation purposes all assets and liabilities at the balance sheet date are translated into US dollars at the foreign exchange rate ruling on that date. Revenues and expenses are translated into US dollars using rates approximating the foreign exchange rates ruling on the dates of the transactions. Components of equity are translated into US dollars using rates approximating historic exchange rates ruling on the dates of the transactions. Foreign exchange gains and losses arising on translation into the presentation currency are recognized directly in the statement of changes in equity.

e. Investments

Investments are recognized (derecognized) when the Group obtains (loses) control over the contractual rights inherent in that asset. Investments are accounted for as follows:

- Investments designated at fair value through profit and loss, including investments held for trading, are stated at fair value, with any resultant gain or loss recognized in the income statement.
- Investments held-to-maturity are stated initially at cost. Subsequent to initial recognition they are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period to maturity on an effective interest basis.
- Loans and receivables are stated initially at cost, subject to impairment test, which is done using discounted cash flow techniques. Subsequent to initial recognition they are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period to maturity on an effective interest basis.
- Other investments are classified as available-for-sale and are stated at fair value. A gain or loss on an available-for-sale financial asset is recognized directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest, which is calculated using the effective interest method, is recognized in the income statement. Dividends on an available-for-sale equity instrument are recognized in the income statement.

The fair value of investments is their quoted bid price at the balance sheet date. If a quoted market price at the balance sheet date is not available, the fair value of the instrument is estimated using prices of transactions close to the balance sheet date or, if such prices are also not available, discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be reliably measured by discounted cash flow techniques and other means, are stated at cost less impairment losses.

Additions to financial investments and proceeds from disposals of financial investments are shown separately in the cash flow statement, except for cash inflows and outflows on loans to bank customers, which are shown on a net basis and included, depending on the sign of net change, either in additions to financial investments or in proceeds from disposals of financial investments.

(Tabular amounts expressed in thousands of US dollars)

f. Property, plant and equipment

Property, plant and equipment is periodically revalued to be stated at fair market value. In the case of assets constructed by the Group, related works and direct project overheads are included in cost. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognized in the income statement.

Depreciation is provided so as to write off property, plant and equipment over its expected useful life. Depreciation is calculated using the straight line basis, except for depreciation on vehicles and certain metal-rolling equipment, which is calculated on the basis of mileage and units of production, respectively. The estimated useful lives of assets are reviewed regularly and revised when necessary.

The principal periods over which assets are depreciated are as follows:

Buildings and constructions	20 – 50 years
Plant and machinery	10 – 20 years
Other productive assets	5 – 20 years
Community and infrastructure assets	5 – 50 years

With effect from October 1, 2006 management commissioned an independent appraiser to assess for the purpose of financial reporting the value of its productive property, plant and equipment at Group's iron ore and pellets production entities and at Russian metalware production facilities.

With effect from December 31, 2005 management commissioned an independent appraiser to assess for the purpose of financial reporting the value of its productive property, plant and equipment at key entities of the Russian Steel segment, Severstal North America segment and coal production entities of the Mining segment.

Property, plant and equipment of entities of Lucchini segment was evaluated by an independent appraiser for the purpose of financial reporting on April 30, 2005.

As at the dates of the valuations, accumulated depreciation was offset against cost, and cost was restated to fair market value. Depreciation charge for the subsequent periods is based on estimated remaining useful lives of assets.

A revaluation increase on an item of property, plant and equipment is recognized directly in equity, net of deferred tax, except to the extent that it reverses a previous revaluation decrease recognized in the income statement, in which case it is recognized in the income statement. A revaluation decrease on an item of property, plant and equipment is recognized in the income statement except to the extent that it reverses a previous revaluation increase recognized directly in equity, in which case it is recognized directly in equity.

As the revaluation reserve is realized through depreciation and disposal of the corresponding items of property, plant and equipment the relevant portion of the revaluation reserve, net of deferred tax, is transferred directly into retained earnings.

g. Goodwill and negative goodwill

Goodwill
Goodwill arising on acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill
Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. All negative goodwill is recognized in the income statement as it arises.

h. Asset impairment

The carrying amount of goodwill is tested for impairment annually. The carrying amounts of the Group's other assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses in respect of revalued property, plant and equipment are recognized in the same way as revaluations; other impairment losses are recognised in the income statement.

Calculation of recoverable amount
The recoverable amount of the Group's held-to-maturity investments and loans and receivables, is calculated as the present value of expected future cash flows, discounted at the effective interest rate inherent in the asset. For other assets the recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment
An impairment loss in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

i. Dividends payable

Dividends are recognized as a liability in the period in which they are authorized by the shareholders.

j. Indirect taxes and contributions

Indirect taxes and contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits, value added taxes calculated on revenues and purchases and social security costs calculated on wages and salaries. Social security costs are included in cost of sales, distribution expenses and selling, general and administrative expenses in accordance with the nature of related wages and salaries expenses.

k. Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is calculated by each entity on the pretax income determined in accordance with the tax law of a country, in which the entity is incorporated, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which these assets can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is not recognized in respect of the following:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future;
- if it arises from the initial recognition of an asset or liability that affect neither accounting nor taxable profit,
- initial recognition of goodwill.

l. Debt finance

Debt finance is stated at amortized cost, net of any transaction costs incurred, and includes accrued interest at the balance sheet date. The difference between cost and redemption value is recognized in the income statement over the period of the borrowings on an effective interest basis. Borrowing costs on loans specifically for the purchase or construction of a qualifying asset are capitalized as part of the cost of the asset they are financing.

m. Income recognition

Sales

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Sales include all amounts billed to customers and are stated net of taxes.

Banking income

Interest income is recognized in the income statement as it accrues. Fees relating to the ongoing provision of services to customers are recognized as income in proportion to the service provided in the year.

n. Net financing expense

Net financing expense comprises interest on debt finance, amortization of transaction costs, amortization of discount on discounted assets and liabilities, interest income and foreign exchange gains and losses.

Interest is recognized in the income statement as it accrues, taking into account the effective yield on the asset or liability.

All interest costs incurred in connection with borrowings, which are not directly attributable to the acquisition, construction or production of qualifying assets, are expensed as incurred as part of net financing expense.

o. Net income from securities operations

Net income from securities operations comprises dividend income (except for dividends from equity associates), realized and unrealized gains on financial assets at fair value through profit or loss, realized gains and impairment losses on available for sale and held to maturity investments.

p. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year, assuming that shares issued in consideration for the companies acquired from the Majority Shareholder were issued from the moment these companies are included in these consolidated financial statements.

q. Provisions

Retirement benefits

The Group pays retirement and post-employment medical benefits to former employees. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually by management using the projected unit credit method. In accordance with this method, the Group's net obligation is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Group's obligations. Any actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognized in the current year's income statement.

Decommissioning liability
The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of certain of its production sites. The Group generally estimates provisions related to environmental issues on a case-by-case basis, taking into account applicable legal requirements. A best estimate, based on available information, is calculated, provided that the available information indicates that the loss is probable. Decommissioning liabilities are estimated using existing technology, at current prices, and discounted using a real discount rate.

Other provisions
Other provisions are recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

r. New Standards and Interpretations adopted

Certain new Standards, amendments to Standards and Interpretations are effective for periods beginning on or after January 1, 2006 and accordingly they were adopted in preparing these consolidated financial statements. None of these pronouncements had significant impact on the Group's financial position and results of operations.

s. New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations were not yet effective as at December 31, 2006, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's financial statements.

- IFRS 7 Financial Instruments: Disclosures, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Parent Company's capital.

(Tabular amounts expressed in thousands of US dollars)

4. Sales

Sales by product were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Hot rolled strip	3,398,255	3,279,885
Hot rolled sections and wire rod	2,265,907	1,409,887
Cold rolled sheet	1,341,195	1,468,927
Galvanized and other metallic coated sheet	1,107,989	1,041,711
Rails, wheels and axles	375,271	149,121
Steel castings, forgings and tool steels	236,955	155,047
Cold transformed products	155,285	81,518
Semi finished products	702,632	689,963
Further processed products	513,314	277,905
Wire and wire products	676,294	445,395
Pellets and iron ore	254,197	388,170
Coal and coke	249,883	142,819
Chemical and other by-products	299,711	167,431
Repair services	18,118	21,337
Manufactured equipment	39,919	23,381
Shipping and handling costs billed to customers	516,958	452,066
Other	270,635	237,203
	12,422,518	10,431,766

Sales by delivery destination were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Russian Federation	4,903,616	3,744,332
North America	2,403,863	2,196,762
Europe	4,389,199	2,774,994
China and Central Asia	109,739	566,529
The Middle East	211,389	353,001
South-East Asia	142,486	410,472
Central America	101,265	172,689
Africa	81,361	148,570
South America	79,600	64,417
	12,422,518	10,431,766

(Tabular amounts expressed in thousands of US dollars)

5. Staff costs

Employment costs were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Wages and salaries	(1,261,759)	(965,984)
Social security costs	(301,194)	(247,777)
Retirement benefit costs (see note 26)	(2,385)	(3,806)
	(1,565,338)	(1,217,567)
Actuarial losses recognized (see note 26)	(67,658)	(62,380)
Staff costs	(1,632,996)	(1,279,947)

Key management received the following remuneration during the year, which is included in the above staff costs:

	Year ended December 31, 2006	Year ended December 31, 2005
Wages and salaries	(4,118)	(3,040)
Social security costs	(136)	(108)
Other benefits	(146)	(114)
	(4,400)	(3,262)

In addition, the Parent Company was charged US$ 40.1 million excluding VAT (2005: US$ 35.7 million) of management fees by ZAO Severstal Group, a related party. A significant portion of those fees was paid to executive officers of Severstal (who were employed by ZAO Severstal Group) as compensation.

6. Net income from bank lending operations

	Year ended December 31, 2006	Year ended December 31, 2005
Interest income:		
Placements with other financial institutions	5,154	3,759
Loans to bank customers:		
- external	7,127	5,664
- related parties	1,889	1,304
Interest expense:		
- external	(1,180)	(593)
- related parties	(3,122)	(622)
Loan loss provisions	(474)	470
	9,394	9,982

(Tabular amounts expressed in thousands of US dollars)

7. Net income from securities operations

	Year ended December 31, 2006	2005
Held-for-trading securities		
Profit on disposal	4,471	2,167
Restatement to fair value	(129)	1,458
Held to maturity securities and loans	13,909	4,114
Available-for-sale securities		
Profit on disposal	7,239	29,629
Restatement to fair value	7,183	(13,076)
Dividends received	254	3,612
	32,927	27,904

8. Net other non-operating expenses

	Year ended December 31, 2006	2005
Social expenditure	(33,857)	(28,408)
Charitable donations	(17,060)	(13,283)
Depreciation of community and infrastructure assets	(3,494)	(1,303)
Gain/(loss) on disposal of subsidiaries and associates	846	(9,759)
	(53,565)	(52,753)

9. Net financing expense

	Year ended December 31, 2006	2005
Interest income:		
Third parties	70,881	52,150
Related parties	31,605	12,977
Interest expense:		
Third parties	(236,950)	(195,487)
Related parties	(3,061)	(2,961)
Amortization of transaction costs	(4,869)	(4,577)
Foreign exchange gains/(losses)	33,318	(60,226)
	(109,076)	(198,124)

(Tabular amounts expressed in thousands of US dollars)

10. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31,	
	2006	**2005**
Current tax charge	(609,881)	(588,417)
Corrections to prior year's current tax charge	(13,762)	(7,756)
Deferred tax benefit	80,130	50,505
Income tax expense	(543,513)	(545,668)

The following is a reconciliation of the reported net income tax expense and the amount calculated by applying the Russian statutory tax rate of 24.0% to reported profit before income tax.

	Year ended December 31,	
	2006	**2005**
Profit before income tax	1,752,628	2,316,236
Tax charge at Russian statutory rate - 24%	(420,631)	(555,897)
Profits taxed at different rates	(36,247)	12,786
Corrections to prior year's current tax charge	(13,762)	(7,756)
Net gain on tax restructuring	3,521	41,803
Non-tax deductible expenses, net	(70,877)	(53,567)
Tax-loss carry forwards expired	(17,462)	(67,629)
Changes in non-recognized deferred tax assets	32,375	73,839
Reassessment of deferred tax liabilities	(20,430)	10,753
Income tax expense	(543,513)	(545,668)

Income tax charge for the year ended December 31, 2006 includes tax expense of US$ 0.4 million (2005: nil) related to profits/(losses) of discontinued operations and gains/(losses) on disposals of discontinued operations.

(Tabular amounts expressed in thousands of US dollars)

The composition of, and movements in, the net deferred tax liability based on the temporary differences arising between the fiscal and reporting balance sheets of the consolidated companies, is given below:

	December 31,	
	2006	**2005**
Deferred tax assets:		
Tax-loss carry forwards	48,610	67,123
Property, plant and equipment	18,205	24,477
Provisions	15,707	11,320
Financial investments	2,770	14,530
Other	9,884	30,750
Less: non-recognized deferred tax assets	(65,250)	(113,124)
Net deferred tax assets recognized	29,926	35,076
Deferred tax liabilities:		
Property, plant and equipment	(1,432,740)	(1,240,169)
Provisions	68,511	52,153
Other	(17,556)	(18,064)
Deferred tax liabilities recognized	(1,381,785)	(1,206,080)
Net deferred tax liability	(1,351,859)	(1,171,004)

The movement in the net deferred tax liability is as follows:

	Year ended December 31,	
	2006	**2005**
Opening balance	(1,171,004)	(339,616)
Recognized in income statement	80,130	50,505
Recognized in shareholders' equity	(145,449)	(805,431)
Business combinations	(10,421)	(95,447)
Business de-combinations	-	913
Foreign exchange difference	(105,115)	18,072
Closing balance	(1,351,859)	(1,171,004)

As at December 31, 2006 the Group had cumulative tax-loss carry forwards of US$ 149.1 million that expire as follows: in 2007: US$ 59.7 million; in 2008: US$ 40.6 million; in 2011: US$ 10.3 million and US$ 38.5 million have no expiry date.

Temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US$ 1,088.5 million at December 31, 2006 (December 31, 2005: US$ 733.9 million).

(Tabular amounts expressed in thousands of US dollars)

11. Cash and cash equivalents

	December 31, 2006	December 31, 2005
Petty cash	254	429
Cash at bank	427,217	389,350
Escrow accounts	6,994	18,918
Short term deposits with maturity of less than 3 months	893,829	687,166
Investments in quoted monetary instruments	62,327	88,320
Cash balances of consolidated bank:		
Cash	1,171	823
Nostro accounts at the Central Bank of Russia	110,036	39,781
Nostro accounts at other banks	6,637	16,997
Placements with banks	191,830	85,646
	1,700,295	1,327,430

As described in note 29 to these consolidated financial statements, the Group has a subsidiary OAO Metallurgical commercial bank ("Metcombank"). Nostro accounts of Metcombank at the Central Bank of Russia and at other banks and interbank loans given by Metkombank with an original maturity of three months or less are included in cash and equivalents.

12. Short-term bank deposits

Short-term bank deposits totaled US$ 1,147.3 million at December 31, 2006 (December 31, 2005: US$ 674.5 million) and comprised of deposits with an original maturity of more than three months but remaining period to maturity of less than one year. The majority of such deposits has an original maturity of less than 6 months, and such deposits are used by the Group to earn investment income, while preserving a high liquidity position. Substantially all such deposits can be withdrawn, in case of necessity, prior to the maturity date with no loss in principal but reduced interest income.

(Tabular amounts expressed in thousands of US dollars)

13. Short-term financial investments

	December 31, 2006	December 31, 2005
Held-for-trading securities:		
Promissory notes and bonds of third parties	128,375	72,429
Promissory notes of related parties	5,198	4,772
Quoted equity securities	19,143	1,079
Loans:		
Loans to related parties	75,699	81,133
Loans to third parties	11,912	24,408
Loans to bank customers:		
Third parties	54,991	71,232
Related parties	29,166	15,739
Loan loss provisions	(2,758)	(3,008)
Available-for-sale securities	116	67
	321,842	267,851

Loans given to related parties were provided at interest rates ranging from nil to 15% per annum, and were given to finance working capital and investments.

14. Trade accounts receivable

	December 31, 2006	December 31, 2005
Customers	1,351,041	1,217,316
Allowance for doubtful accounts	(26,944)	(43,643)
	1,324,097	1,173,673

(Tabular amounts expressed in thousands of US dollars)

15. Amounts receivable from related parties

	December 31, 2006	December 31, 2005
Trade accounts receivable	80,134	171,878
Advances issued	34,275	18,158
Other receivables	13,104	18,581
	127,513	208,617
Maturity analysis:		
within one year	127,513	173,522
after more than one year	-	35,095
	127,513	208,617

Sales and income received from related parties were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Sales	718,164	656,880
Banking income	1,889	1,304
Interest income	31,605	12,977
	751,658	671,161

16. Inventories

	December 31, 2006	December 31, 2005
Raw materials and supplies	1,238,129	899,282
Work-in-progress	402,281	319,927
Finished goods	599,237	504,523
	2,239,647	1,723,732

Of the above amounts US$ 146.9 million (December 31, 2005: US$ 193.6 million) are stated at net realizable value, these amounts exclude inventories fully provided against.

During the year ended December 31, 2006, the Group recognized a US$ 22.3 million release of previously accrued inventory provisions. Inventory write-downs were US$ 10.4 million for the year ended December 31, 2005.

(Tabular amounts expressed in thousands of US dollars)

17. Other current assets

	December 31, 2006	December 31, 2005
Advances paid	152,567	111,978
Prepayments	32,762	32,599
Other taxes and social security prepaid	19,564	12,790
Reserves at Central Bank of Russia	12,325	4,938
Other assets	41,186	18,803
	258,404	181,108

18. Intangible assets

	Goodwill	Mineral licences	Other intangible assets	Total
Cost:				
December 31, 2004	1,439	-	9,846	11,285
Additions	-	29,732	2,590	32,322
Business combinations	-	-	24,443	24,443
Disposals	-	-	(271)	(271)
Foreign exchange difference	(1)	(512)	(2,283)	(2,796)
December 31, 2005	1,438	29,220	34,325	64,983
Additions	-	4,717	4,091	8,808
Disposals	-	-	(337)	(337)
Foreign exchange difference	2	2,948	3,722	6,672
December 31, 2006	1,440	36,885	41,801	80,126
Amortization and impairment:				
December 31, 2004	21	-	3,975	3,996
Amortization expense	-	-	4,979	4,979
Disposals	-	-	(264)	(264)
Foreign exchange difference	(1)	-	(250)	(251)
December 31, 2005	20	-	8,440	8,460
Amortization expense	-	1,708	7,285	8,993
Disposals	-	-	(249)	(249)
Foreign exchange difference	2	55	1,199	1,256
December 31, 2006	22	1,763	16,675	18,460
Net book values:				
December 31, 2005	1,418	29,220	25,885	56,523
December 31, 2006	1,418	35,122	25,126	61,666

(Tabular amounts expressed in thousands of US dollars)

19. Property, plant and equipment

The movements in property, plant and equipment are as follows:

	Land and buildings	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Valuation or cost:							
December 31, 2004	1,040,529	2,724,769	184,966	3,950,264	40,743	753,606	4,744,613
Reclassifications	(6,288)	6,908	215	835	(835)	-	-
Adjustment to fair value	627,210	1,537,135	62,729	2,227,074	(36,783)	(95,699)	2,094,592
Additions:							
External	-	-	-	-	-	1,216,875	1,216,875
Interest capitalised	-	-	-	-	-	13,128	13,128
Business combinations	417,874	1,067,527	3,051	1,488,452	-	50,337	1,538,789
Disposals	(5,087)	(66,679)	(10,295)	(82,061)	(1,243)	(12,972)	(96,276)
Business de-combinations	(5,542)	(5,720)	(24)	(11,286)	-	(258)	(11,544)
Transfer to inventories	-	-	-	-	-	(12,060)	(12,060)
Transfers	109,826	595,373	59,452	764,651	22,622	(787,273)	-
Foreign exchange difference	(73,610)	(195,578)	(8,002)	(277,190)	(1,759)	(33,837)	(312,786)
December 31, 2005	2,104,912	5,663,735	292,092	8,060,739	22,745	1,091,847	9,175,331
Reclassifications	(6,938)	6,110	777	(51)	51	-	-
Adjustment to fair value	249,868	73,319	6,601	329,788	(258)	(1,333)	328,197
Additions:							
External	-	-	-	-	-	1,242,910	1,242,910
Interest capitalised	-	-	-	-	-	10,744	10,744
Business combinations	81,452	11,203	917	93,572	687	1,114	95,373
Disposals	(7,387)	(89,254)	(7,762)	(104,403)	(486)	(8,369)	(113,258)
Business de-combinations	-	-	-	-	(394)	-	(394)
Transfer to inventories	-	-	-	-	-	(11,818)	(11,818)
Transfers	395,048	1,260,655	30,982	1,686,685	14,856	(1,701,541)	-
Foreign exchange difference	225,927	575,281	28,824	830,032	2,565	85,483	918,080
December 31, 2006	3,042,882	7,501,049	352,431	10,896,362	39,766	709,037	11,645,165

(Tabular amounts expressed in thousands of US dollars)

	Land and buildings	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Depreciation and impairment:							
December 31, 2004	179,097	886,606	62,487	1,128,190	21,592	113,889	1,263,671
Reclassifications	(3,187)	5,315	(834)	1,294	(1,294)	-	-
Adjustment to fair value	(187,327)	(987,355)	(45,011)	(1,219,693)	(36,700)	(91,876)	(1,348,269)
Depreciation expense	72,601	385,036	32,678	490,315	1,303	-	491,618
Disposals	(1,591)	(35,168)	(5,680)	(42,439)	(1,189)	(2,962)	(46,590)
Business de-combinations	(625)	(2,011)	(10)	(2,646)	-	-	(2,646)
Transfers	402	6,080	656	7,138	17,071	(24,209)	-
Impairment of assets	-	9,385	-	9,385	4,933	11,064	25,382
Foreign exchange difference	(7,678)	(38,452)	(2,761)	(48,891)	(1,134)	(3,813)	(53,838)
December 31, 2005	51,692	229,436	41,525	322,653	4,582	2,093	329,328
Reclassifications	-	1,863	(475)	1,388	(1,388)	-	-
Adjustment to fair value	(39,986)	(150,349)	(47,524)	(237,859)	(1,228)	(411)	(239,498)
Depreciation expense	207,857	698,292	44,512	950,661	3,494	-	954,155
Disposals	(933)	(25,370)	(2,605)	(28,908)	(337)	(1)	(29,246)
Business combinations	1,634	91	277	2,002	3	-	2,005
Business de-combinations	-	-	-	-	(374)	-	(374)
Transfers	29	45	-	74	3,906	(3,980)	-
Impairment of assets	2,733	7,085	77	9,895	2,165	7,412	19,472
Foreign exchange difference	11,266	43,321	4,569	59,156	647	301	60,104
December 31, 2006	234,292	804,414	40,356	1,079,062	11,470	5,414	1,095,946
Net book values:							
December 31, 2005	2,053,220	5,434,299	250,567	7,738,086	18,163	1,089,754	8,846,003
December 31, 2006	2,808,590	6,696,635	312,075	9,817,300	28,296	703,623	10,549,219
Net book values based on cost, less depreciation and impairment:							
December 31, 2005	1,337,243	2,173,457	109,411	3,620,111	16,999	1,093,457	4,730,567
December 31, 2006	1,837,180	3,258,449	148,821	5,244,450	25,413	703,623	5,973,486

Other productive assets include transmission equipment, transportation equipment and tools.

As described in Note 3f, the Group uses the revaluation model of accounting for property, plant and equipment. Management commissions independent appraisers to evaluate the fair value of productive property, plant and equipment. Property, plant and equipment of the key entities of Russian Steel segment, of Severstal North America and of coal production entities of the Mining segment were valued as of December 31, 2005. Property, plant and equipment of iron ore and pellets production entities of the Mining segment and of the Russian production entity of the Metalware segment were valued as of October 1, 2006. Property, plant and equipment of the Lucchini segment were valued as of April 30, 2005. Management considers that the carrying value of property, plant and equipment of all business segments approximate their fair values as of the balance sheet date.

(Tabular amounts expressed in thousands of US dollars)

The following amounts were recognized in the income statement and statement of changes in equity as a result of the revaluations during 2006:

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Adjustment to fair market value during 2006:							
Cost	249,868	73,319	6,601	329,788	(258)	(1,333)	328,197
Accumulated depreciation	39,986	150,349	47,524	237,859	1,228	411	239,498
	289,854	223,668	54,125	567,647	970	(922)	567,695
Adjustment to fair market value:							
Revaluation included in equity:							
revaluation increase	298,510	250,040	54,863	603,413	1,016	1,530	605,959
Revaluation included in income statement:							
impairment	(8,656)	(26,372)	(738)	(35,766)	(46)	(2,452)	(38,264)
	289,854	223,668	54,125	567,647	970	(922)	567,695

The following amounts were recognized in the income statement and statement of changes in equity as a result of the revaluations during 2005:

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Adjustment to fair market value during 2005:							
Cost	627,210	1,537,135	62,729	2,227,074	(36,783)	(95,699)	2,094,592
Accumulated depreciation	187,327	987,433	45,011	1,219,771	36,700	91,876	1,348,347
	814,537	2,524,568	107,740	3,446,845	(83)	(3,823)	3,442,939
Adjustment to fair market value:							
Revaluation included in equity:							
revaluation increase	679,346	2,584,082	109,964	3,373,392	-	-	3,373,392
revaluation decrease	-	(20,993)	(1)	(20,994)	-	-	(20,994)
	679,346	2,563,089	109,963	3,352,398	-	-	3,352,398
Revaluation included in income statement:							
reversal of previous impairment	143,843	11,428	278	155,549	-	-	155,549
impairment	(8,652)	(49,949)	(2,501)	(61,102)	(83)	(3,823)	(65,008)
	135,191	(38,521)	(2,223)	94,447	(83)	(3,823)	90,541
	814,537	2,524,568	107,740	3,446,845	(83)	(3,823)	3,442,939

(Tabular amounts expressed in thousands of US dollars)

The following amounts are recognized in the income statement line "(Impairment)/reversal of impairment of property, plant and equipment":

	Year ended December 31, 2006	2005
Revaluation increase	-	155,549
Revaluation decrease	(38,264)	(65,008)
Other impairment of property, plant and equipment	(19,472)	(25,382)
(Impairment)/reversal of impairment of property, plant and equipment	(57,736)	65,159

20. Investment in associates

The Group's investment in associated companies is described in the tables below. Group structure and certain additional information on investments in associated companies, including ownership percentages, is given in note 29.

	December 31, 2006	2005
Double Eagle Steel Coating Company	28,859	26,409
Spartan Steel Coating LLC	63,818	56,374
Severstal US Holdings LLC	132,076	59,415
Mountain State Carbon LLC	119,472	60,205
Air Liquide Severstal	7,026	3,214
TA Cord	844	2,108
Others	2,811	2,927
	354,906	210,652

The following is summarized financial information, in aggregate, in respect of associates:

	December 31, 2006	2005
Assets	1,269,330	515,409
Liabilities	615,767	85,206
Equity	653,563	430,203

	Year ended December 31, 2006	2005
Revenues	373,765	178,655
Net income/(loss)	3,262	(2,964)

Double Eagle Steel Coating Company and Spartan Steel Coating LLC were associates of the bankrupt Rouge Steel Company, and were acquired on January 30, 2004, when the Group through its subsidiary Severstal North America Inc, acquired the assets and business of Rouge Steel Company.

(Tabular amounts expressed in thousands of US dollars)

Severstal US Holdings LLC, was created by Severstal and its related parties as a holding company for the SeverCorr project – construction of a mini mill in the United States of America. SeverCorr's mini mill is expected to produce approximately 1.5 million tons of high-quality flat-rolled steel on an annual basis. Total financing requirements of this project are approximately US$ 880.0 million, and the project will be financed by Severstal, its related parties, third party equity participants and bank financing. By December 31, 2006, Severstal have contributed to the project US$ 140.5 million and provided a US dollar denominated loan to Severcorr LLC in the amount of US$ 60.0 million. The loan is repayable in 2014 and bears interest at 15% per annum. By December 31, 2006, related parties of Severstal have contributed to the project US$ 85.5 million. Having completed those contributions, Severstal and its related parties have fully fulfilled their financing obligations for this project.

By December 31, 2006, the Group, through its subsidiary Severstal North America Inc, has contributed US$ 120.0 million to the Mountain State Carbon LLC, a joint venture with Wheeling-Pittsburgh Steel Corporation ("Wheeling-Pittsburgh"). Wheeling-Pittsburgh has contributed to the joint venture all of its coking assets in Follansbee, USA, valued at US$ 86.9 million, and US$ 3.1 million in cash. This cash and US$ 30.0 million of additional contributions from Wheeling-Pittsburgh over the next three years will be used to rehabilitate all of the coke batteries of the joint venture and provide the Group's US integrated steel operations a reliable and competitive supply of metallurgical coke. Each partner has a 50% share in Mountain State Carbon LLC from April 2006.

On August 31, 2005, the Group and Air Liquide established a company Air Liquide Severstal for construction of an air liquefaction plant in Cherepovets. The Group is to contribute Euro 7.5 million for 25% ownership plus one share, Air Liquide is to contribute Euro 22.5 million for 75% ownership minus one share. The remaining project financing requirements of Euro 70.0 million will be met through bank loans.

21. Long-term financial investments

	December 31, 2006	December 31, 2005
Loans:		
Accounts at related party financial institutions	50,147	-
Loans to related parties	76,528	43,003
Loans to third parties	30,556	31,936
Loans to bank customers:		
Related parties	7,078	-
Third parties	19,226	-
Available-for-sale securities	10,315	12,614
Held to maturity securities	6,090	1,988
	199,940	89,541

(Tabular amounts expressed in thousands of US dollars)

22. Bank customer accounts

	December 31, 2006	December 31, 2005
Demand deposits	22,103	30,502
Term deposits	9,040	68,365
	31,143	98,867

23. Amounts payable to related parties

	December 31, 2006	December 31, 2005
Trade accounts payable	86,203	120,359
Advances received	699	2,026
Payable for Lucchini acquisition	-	216,483
Other accounts payable	8,898	114,218
Bank demand deposits	58,719	16,302
Bank term deposits	15,904	17,339
	170,423	486,727

Purchases from related parties were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Purchases from associates:		
Non-capital expenditures	141,630	85,420
Purchases from other related parties:		
Non-capital expenditures	1,012,740	647,643
Capital expenditures	130,769	57,413

(Tabular amounts expressed in thousands of US dollars)

24. Debt finance

	December 31, 2006	December 31, 2005
Citibank CLN - Eurobonds 2009	325,000	325,000
Citibank CLN - Eurobonds 2014	375,000	375,000
Other issued bonds	113,934	327,446
Bank financing	1,901,046	1,628,709
Factoring of receivables	224,049	191,732
Other financing	26,163	57,161
Accrued interest	54,748	39,720
Unamortized balance of transaction costs	(17,857)	(20,462)
	3,002,083	2,924,306
Total debt is denominated in the following currencies:		
US dollars	1,210,753	1,287,620
Roubles	342,212	335,381
Euro	1,449,118	1,301,305
	3,002,083	2,924,306
Total debt is contractually repayable after the balance sheet date as follows:		
Less than one year	954,048	992,612
Between one and five years	1,488,594	1,496,325
After more than five years	559,441	435,369
	3,002,083	2,924,306

Debt finance raised from banks and unused long term credit lines are secured by charges over:

- US$ 1,081.0 million (December 31, 2005: US$ 826.7 million) net book value of plant and equipment;
- US$ 1,015.6 million (December 31, 2005: US$ 1,296.2 million) of current assets and revenues from export contracts; and,
- US$ 365.9 million (December 31, 2005: US$ 97.1 million) of financial assets.

A part of the Group's debt financing is subject to certain covenants. The Group complied with all debt covenants during the years ended December 31, 2006 and 2005.

At the balance sheet date the Group had US$ 422.1 million (December 31, 2005: US$ 319.9 million) of unused long term credit lines available to it.

(Tabular amounts expressed in thousands of US dollars)

25. Other current liabilities

	December 31, 2006	December 31, 2005
Advances received	230,432	156,392
Amounts payable to employees	186,141	149,667
Accrued expenses	41,353	19,525
Other liabilities	36,296	35,661
	494,222	361,245

26. Retirement benefit liability

The following assumptions have been used to calculate the retirement benefit liability:

	December 31, 2006	December 31, 2005
Discount rates:		
Russia	6.46%	6.85%
USA	5.75%	5.50%
UK	4.90%	n/a
Italy and France	4.60%	4.0% to 5.0%
Future rates of benefit increase:		
Russia	6.20%	6.20%
USA	n/a	n/a
UK	2.80%	n/a
Italy and France	3.00%	3.0% to 3.5%

The components of the retirement benefit liabilities were as follows:

	December 31, 2006	December 31, 2005
Retirees	433,965	291,373
Other participants:		
Vested	18,304	13,560
Non-vested	96,740	82,724
Present value of the defined benefit obligation	549,009	387,657
Fair value of the plan assets	(106,055)	(49,171)
	442,954	338,486

(Tabular amounts expressed in thousands of US dollars)

The movements in the retirement benefit liabilities were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Net liability at beginning of period	338,486	158,023
Business combinations	10,762	149,110
Contributions made during the year	(34,615)	(34,096)
Amounts recognized in the income statement:		
Return on plan assets	(16,382)	(9,084)
Interest cost	24,962	19,144
Service cost	18,767	12,890
Actuarial losses	67,658	62,380
Foreign exchange loss/(gain)	33,316	(19,881)
Net liability at December 31	442,954	338,486

The retirement benefit expenses that are recognized in the income statement are contained in the caption: ‘Selling, general and administrative expenses’, except for the interest cost, which is recognized in the caption ‘Net financing expense’.

27. Other non-current liabilities

	December 31, 2006	December 31, 2005
Decommissioning liability	128,209	102,885
Restructured tax liabilities	67,731	97,368
Provisions	79,150	68,346
Other	23,011	30,212
	298,101	298,811

Decommissioning liability

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its coal mines. These liabilities have been estimated using existing technology, at current prices, and discounted using a real discount rate of 2%. A substantial part of the decommissioning costs is expected to be incurred between 2020 and 2040.

There are no significant environmental liabilities related to steel production facilities, metalware facilities, iron ore concentrate and pellets production sites.

Restructured tax liabilities

OAO Vorkutaugol and OAO Mine Vorgashorskaya had significant amounts of taxes in arrears, when they were acquired by the Group’s Majority Shareholder in June 2003.

In November 2005, these subsidiaries signed restructuring agreements with the tax authorities. In accordance with these agreements, the principal amounts of taxes, and fines thereon and 15% of tax interest are payable by instalments over four years. If those payments are made on schedule, the remaining 85% of tax interest liability at the date of restructuring will be forgiven. The Group’s management is confident that all payments will be in accordance with the agreed schedules, and accordingly recognized a US$ 200.9 million gain on tax restructuring in the income statement for the year ended December 31, 2005. This gain is comprised of US$ 186.8 million of tax interest, which will be forgiven, and has been derecognized from liabilities, and US$ 14.1 million of discounting of the remaining liabilities using the interest rate of 9.86%. During 2005, tax authorities have accrued US$ 26.7 million of tax interest on tax liabilities being restructured. These amounts were recognized as an expense in the income statement for the year ended December 31, 2005. During 2006, the Group was able to include part of this tax interest into restructuring, recognizing a gain of US$ 14.7 million in the income statement for the year ended December 31, 2006. Restructured tax liabilities are subject to interest rate of 5% per annum, which is included in the caption "Interest expense" since the moment of restructuring.

(Tabular amounts expressed in thousands of US dollars)

Accordingly, net gain on restructuring of tax liabilities is shown in the income statement as following:

	Year ended December 31,	
	2006	**2005**
Tax interest accrued prior to restructuring	-	(26,675)
Gain on restructuring of tax liabilitites	14,669	200,853
Net gain on restructuring of tax liabilities	14,669	174,178

Current portion of restructured tax liabilities is included in the caption 'Other taxes and social security payable'. The total amount of the restructured taxes is presented in the table below:

	December 31,	
	2006	**2005**
Payable within one year	43,553	26,059
Payable after one year	67,731	97,368
	111,284	123,427

Provisions

	December 31,	
	2006	**2005**
Social security claims	28,689	23,020
Other employee related	13,578	12,984
Legal claims	21,917	17,004
Restructuring	5,569	-
Other	9,397	15,338
	79,150	68,346

These provisions represent management's best estimate of the potential losses arising in these cases. The actual outcome of those cases is currently uncertain, and might differ from the recorded provisions.

28. Share capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUR 0.01 each. Authorized share capital of Severstal at December 31, 2005 comprised 551,854,800 shares and was fully issued and paid on that date. At December 31, 2006, Severstal had 1,007,701,355 issued and fully paid shares and 5,062,701,445 authorized but not issued shares.

The nominal amount of initial share capital was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions. The Parent Company did not issue new shares until June 2006.

Share issue in June 2006
The Parent Company issued shares in June 2006 in consideration for the mining companies acquired from related parties. These issued shares were recognized from the date the acquired companies are included in these consolidated financial statements. The Parent Company shares issued in respect of the interests that the Majority Shareholder had at December 31, 2005 and 2004 in the acquired mining companies are recognized in the share capital at that date. Additional share issues are recognized in 2006 and 2005, in respect of ownership interests that the Majority Shareholder acquired in those companies during those periods.

As discussed in note 29, certain shareholders exercised their pre-emptive rights in connection with the share issue for acquisition of mining companies. Total proceeds for such shares issued for cash in June 2006 were US$ 162,179 thousand and comprised of US$ 5 thousand of increase in share capital and US$ 162,174 thousand of increase in share premium.

Share issue in December 2006
In November 2006, the Parent Company completed the listing of its global depositary receipts ('GDRs') on the London Stock Exchange. The Group's Majority Shareholder placed 85,000,000 GDRs in an initial public offering ('IPO') at a price of US$ 12.50 per GDR (one GDR represents one share). The Parent Company was not issuing new shares and has not received any proceeds in connection with this initial public offering.

However, as a part of this process, the Parent Company initiated the issue of up to 85,000,000 additional shares in the fourth quarter of 2006. In accordance with the Russian legislation, shareholders had pre-emptive rights to purchase new shares pro-rata to their shareholding in the Parent Company as at September 14, 2006 – the date of the meeting of the Board of Directors of the Parent Company where the decision to issue additional shares was approved.

On November 14, 2006, the Board of Directors set the price for pre-emptive rights purchases equal to the IPO price less pro rata expenses for the IPO transaction – RUR 322.81 per share (US$ 12.13 at November 14, 2006 exchange rate). The Board of Directors also decided that shares for which pre-emptive rights were not exercised would be offered through open subscription at the IPO price of RUR 332.74 per share (US$ 12.50 at November 14, 2006 exchange rate).

The Group received RUR 24,829 million (US$ 943.0 million at December 18, 2006 exchange rate – the date of closing of share issue) for 76,916,692 shares placed under pre-emptive rights subscription. The Group did not receive applications under the open subscription.

(Tabular amounts expressed in thousands of US dollars)

Consequently, the total value of issued share capital presented in these consolidated financial statements comprises:

	Number of shares, thsd.	US$'000
Nominal share capital at exchange rate on Dec 31, 2004	551,855	198,876
Historic difference	-	3,112,253
Total historic value of statutory share capital on Dec 31, 2004	551,855	3,311,129
Shares issued for acquisition of mining companies	348,337	119
Adjusted share capital at December 31, 2004	900,192	3,311,248
Shares issued for additional stakes in mining companies	17,076	6
Adjusted share capital at December 31, 2005	917,268	3,311,254
Shares issued for cash in June 2006	13,516	5
Shares issued for cash in December 2006	76,917	29
Share capital at December 31, 2006	1,007,701	3,311,288

All shares carry equal voting and distribution rights.

Dividends

The maximum dividend payable is restricted to the total accumulated retained earnings of the Parent Company determined according to Russian law. As at the balance sheet date, reserves available for distribution were US$ 4,667.6 million (December 31, 2005: US$ 3,308.6 million).

On June 9, 2006, the Meeting of Shareholders approved the final dividend of RUR 4.00 (US$ 0.15) per share in respect of 2005. Owners of 551.9 million shares were entitled to this dividend, as the June 2006 share issue was completed later than the date of closing of share register for these dividends.

On September 25, 2006, the Meeting of Shareholders approved an interim dividend of RUR 3.60 (US$ 0.13) per share in respect of the first half of 2006. Owners of 930.8 million shares were entitled to these dividends.

On December 25, 2006, the Meeting of Shareholders approved an interim dividend of RUR 2.00 (US$ 0.075) per share and GDR in respect of the third quarter of 2006 with the record date November 16, 2006. Owners of 930.8 million shares were entitled to these dividends.

(Tabular amounts expressed in thousands of US dollars)

29. Subsidiary and associated companies

The following is a list of the Group's significant subsidiaries and associates and the effective ownership holdings therein:

Company	December 31, 2006	December 31, 2005	Location	Activity
Russian Steel segment:				
Subsidiaries:				
ZAO Severgal	75.0%	75.0%	Russia	Hot dip galvanizing
ZAO Izhorsky Tube Factory	100.0%	100.0%	Russia	Wide pipes
OOO SSM-Tyazhmash	100.0%	100.0%	Russia	Repairs & construction
OAO Domnaremont	82.1%	56.4%	Russia	Repairs & construction
ZAO Firma Stoik	100.0%	100.0%	Russia	Repairs & construction
OAO Metallurgremont	79.8%	79.3%	Russia	Repairs & construction
OOO Energoremont	100.0%	100.0%	Russia	Repairs & construction
OOO Electroremont	93.3%	93.3%	Russia	Repairs & construction
OOO Uralmash MO	100.0%	100.0%	Russia	Engineering & design
OOO AviaCompany Severstal	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	Switzerland*	Steel sales
AS Severstallat	50.5%	50.5%	Latvia*	Steel sales
Latvijas Metals	50.5%	50.5%	Latvia*	Steel sales
Armaturu Servisa Centrs SIA	25.2%	25.2%	Latvia*	Steel service center
Upcroft Limited	100.0%	100.0%	Cyprus*	Holding company***
Varndell Limited	100.0%	100.0%	Cyprus*	Holding company***
Associates:				
Severstal US Holdings LLC **	63.3%	60.0%	USA*	Mini-mill
Severstal North America segment:				
Subsidiaries:				
Severstal North America Inc	100.0%	93.0%	USA	Iron & steel mill
Associates:				
Double Eagle Steel Coating company	50.0%	46.5%	USA	Electro-galvanizing
Spartan Steel Coating LLC	48.0%	44.6%	USA	Hot dip galvanizing
Delaco Processing LLC	49.0%	45.6%	USA	Steel slitting
Mountain State Carbon LLC	50.0%	31.0%	USA	Coking coal

(continued on the next page)

(*) – Russian Steel segment contains Russian production entities, foreign trading companies, which are selling products primarily produced in Russia, and other foreign companies, which either provide services to Russian production entities or are managed from Russia.
(**) – 20.2% and 19.9% of ordinary shares at December 31, 2006 and December 31, 2005, respectively
(***) – Upcroft is holding 19.99% of Lucchini SpA and Varndell is holding 50.8% of Lucchini SpA

(Tabular amounts expressed in thousands of US dollars)

Company	December 31, 2006	December 31, 2005	Location	Activity
Lucchini segment:				
Subsidiaries:				
Lucchini SpA	70.8%	70.8%	France	Holding company
Ascometal SAS	70.8%	70.8%	France	Steel manufacturing
Ascometal GmbH	70.8%	70.8%	Germany	Sales
Ascoforge Safe SAS	70.8%	70.8%	France	Forgings
Bari Fonderie Meridionali SpA	70.8%	70.8%	Italy	Forgings
Bi-Mec Srl	70.8%	70.8%	Italy	Maintenance
GSI Lucchini SpA	49.1%	49.1%	Italy	Steel spheres
Nitruvid SAS	70.8%	70.8%	France	Steel finishing
Lucchini Asia Pacific Pte Ltd	70.8%	70.8%	Singapore	Sales
Lucchini Holland BV	70.8%	70.8%	Netherlands	Investment holding
Lucchini HPS Gmbh	23.5%	46.0%	Germany	Sales
Lucchini Iberia Sl	70.8%	70.8%	Spain	Sales
Lucchini Poland Spzoo	70.8%	70.8%	Poland	Machining
Lucchini Servizi Srl	70.8%	70.8%	Italy	Dormant
Lucchini Sidermeccanica SpA	70.8%	70.8%	Italy	Casting and machining
Lucchini Siderprodukte AG	46.0%	46.0%	Switzerland	Sales
Lucchini Sweden AB	70.8%	70.8%	Sweden	Machining
Lucchini UK Ltd	70.8%	70.8%	UK	Machining
Lucchini USA Inc	70.8%	70.8%	USA	Sales
Servola SpA	70.8%	70.8%	Italy	Asset holding
Sideris Steel SAS	70.8%	70.8%	France	Investment holding
Simmofos Sarl	70.8%	70.8%	France	Asset holding
Sipro HPS AG	-	46.0%	Switzerland	Sales
Vertek Srl	70.8%	70.8%	Italy	Steel finishing
Associates:				
ESPRA SAS	24.8%	24.8%	France	Steel scrap
Logistica Servola Srl	35.4%	35.4%	Italy	Dormant
Setrans Srl	21.2%	21.2%	Italy	Logistics and storage
Tecnologie Ambientali Pulite Srl	17.6%	17.6%	Italy	Environmental services
Companies classified as held for sale:				
Relco Spzoo	70.8%	70.8%	Poland	Land holding
Coimpex Spzoo	28.3%	28.3%	Poland	Land holding

(continued on the next page)

(Tabular amounts expressed in thousands of US dollars)

Company	December 31, 2006	December 31, 2005	Location	Activity
Metalware segment:				
Subsidiaries:				
OAO Severstal-Metiz	97.0%	100.0%	Russia	Steel machining
OAO Dneprometiz	58.2%	nil%	Ukraine	Steel machining
Carrington Wire Ltd	97.0%	nil%	UK	Steel machining
OAO Cherepovets Steel Rolling Mill	n/a	88.8%	Russia	Steel machining
OAO Orlovsky Steel Rolling Mill	n/a	87.2%	Russia	Steel machining
OOO Volgometiz	100.0%	100.0%	Russia	Steel machining
OOO Policher	87.3%	80.0%	Russia	Polymer coatings
Associates:				
OOO ChSPZ MKR	48.5%	44.4%	Russia	Mattress springs
Mining segment:				
Subsidiaries:				
OAO Karelsky Okatysh	90.8%	90.8%	Russia	Iron ore pellets
OAO Olkon	91.8%	91.6%	Russia	Iron ore concentrate
OAO Vorkutaugol	89.2%	88.1%	Russia	Coking coal concentrate
OAO Mine Vorgashorskaya	73.6%	70.2%	Russia	Coking coal concentrate
OAO Mine Pervomaiskaya	99.1%	99.1%	Russia	Coking coal concentrate
OAO Mine Berezovskaya	96.3%	96.0%	Russia	Coking coal concentrate
OAO SShEMK	75.6%	75.6%	Russia	Engineering
OAO Severokuzbasskoe PTU	87.3%	87.3%	Russia	Transportation
OAO Anzhero-Sudzhenskoe PTU	94.4%	94.4%	Russia	Transportation
OAO Pechorugol	99.3%	99.3%	Russia	Holding company
OOO Olkon-Invest	100.0%	100.0%	Russia	Holding company
OOO Terra	100.0%	100.0%	Russia	Holding company
OOO Holding Gornaya Company	100.0%	100.0%	Russia	Holding company
ZAO Impulse-Consult	100.0%	100.0%	Russia	Holding company
OOO Investment Company Kuzbassugol	100.0%	100.0%	Russia	Holding company
Financing and insurance segment:				
Subsidiaries:				
OAO Metallurgical Commercial Bank	72.9%	72.6%	Russia	Banking

In addition, at the balance sheet date, a further 26 (December 31, 2005: 26) subsidiaries and associates, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

Information on carrying amounts, acquisitions and disposals of associated companies is disclosed in Note 20 of these consolidated financial statements.

During 2006, Severstal completed acquisitions of controlling stakes in a number of companies previously controlled by Severstal's Majority Shareholder. These consolidated financial statements take account of such acquisitions as if they had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the common controlling shareholder. These acquisition transactions are described in the following paragraphs.

Acquisition of Lucchini SpA from Majority Shareholder during 2006

On April 26, 2005 Severstal and its related parties (financed by Severstal) subscribed for new ordinary shares issued by Lucchini SpA (Italy), a European steel and metalware products producer, such that Severstal obtained 19.99% of the outstanding share capital of Lucchini SpA for Euro 138.9 million and its related parties obtained 41.9% of Lucchini SpA for Euro 291.1 million. Related parties, financed by Severstal, acquired from third parties additional 8.9% of the outstanding share capital of Lucchini SpA for Euro 68.5 million in May-November 2005.

On October 2, 2006, the Group completed the acquisition from the Group’s Majority Shareholder of 50.82% in Lucchini SpA for Euro 550.0 million, comprising redemption of loans issued by the Group to related parties and a Euro 182.3 million (US$ 234.3 million) cash payment. The Group’s management commissioned a leading international investment bank to appraise the value of this controlling stake and conducted the acquisition at a price determined in accordance with this valuation. This acquisition was undertaken to strengthen the Group’s position in the European market.

Acquisition of Mining companies from Majority Shareholder during 2006

On March 27, 2006, the Meeting of Shareholders of the Parent Company approved the additional share issue to acquire controlling stakes in coal and iron ore mining assets controlled by its Majority Shareholder and approved an independent appraiser.

On March 29, 2006, having received a fairness opinion on the proposed transaction from Citigroup, the Board of Directors approved the independent appraiser’s valuations of the Parent Company shares being issued at RUR 320.74 per share (US$ 11.24 at the exchange rate on the date of valuation - October 1, 2005) and of the mining assets being acquired at RUR 117,202 million (US$ 4,107 million at the exchange date on the date of valuation – October 1, 2005).

On May 29, 2006, an extraordinary shareholder meeting approved the price and other terms of the share issue for acquiring the mining assets and on June 6, 2006, the transaction was completed.

Shareholders of the Parent Company, which were entitled to voting on March 27, 2006 but did not participate in it or voted against the deal, had the right to participate in the additional share issue by purchasing for cash the amount of shares that maintained their current shareholding interest at a price of RUR 320.74 per share. The market price of shares on March 27, 2006 was RUR 384 (US$ 13.79) per share. The Parent Company issued 13,516,489 shares to the shareholders that used these pre-emptive purchase rights.

Acquisition of service and construction companies from Majority Shareholder during 2006

In May 2006, the Group completed the process of purchasing back controlling stakes in certain service and construction companies, which were disposed by the Group on December 31, 2004 to related parties. Purchase prices totalled US$ 60.8 million, which is not significantly different from the amounts received by the Group for disposal of these entities on December 31, 2004.

Acquisition of ZAO Severstal-Resource from Majority Shareholder during 2006

In December 2006, the Group completed the process of acquiring 100% ownership interest in ZAO Severstal-Resource from Severstal’s Majority Shareholder for a negligible consideration. ZAO Severstal-Resource is the management company for the companies of Mining segment.

Acquisition of stake in Severstal North America from related parties during 2006

In December 2006, the Group completed the process of acquiring 7% ownership interest in Severstal North America Inc for US$ 54.5 million.

(Tabular amounts expressed in thousands of US dollars)

Acquisitions of subsidiaries from third parties during 2006

In February 2006, the Group acquired 60% ownership interest (57.9% effective ownership interest) in joint stock company Dneprometiz for US$ 33 million. Severstal also obtained an option to buy an additional 27% stake of the share capital after one year for a consideration in the range from US$ 14.0 to US$ 20.0 million. Dneprometiz produces wire and certain other metalware products at its production facilities located in Ukraine.

In April 2006, the Group acquired 100% of Carrington Wire Ltd., a UK wire and other metalware products producer, for US$ 30.5 million.

These acquisitions were conducted to strengthen the Group's position in the metalware market.

A summary of assets and liabilities acquired from third parties during 2006 and 2005 is presented below:

	2006	2005
Cash and cash equivalents	5,875	657
Trade accounts receivable	26,463	1,311
Inventories	18,841	4,906
Other current assets	7,601	792
Property, plant and equipment	93,368	4,036
Assets held for sale	-	16,365
Trade accounts payable	(33,557)	(199)
Other taxes and social security payable	(70)	(144)
Deferred tax liabilities	(10,421)	-
Retirement benefit liability	(10,762)	-
Debt finance	(8,623)	(841)
Other liabilities	(5,773)	(151)
Net identifiable assets and liabilities acquired	82,942	26,732
Minority interest	(17,792)	-
Severstal's share of net identifiable assets and liabilities acquired	65,150	26,732
Consideration paid	(63,500)	(21,902)
Negative goodwill	1,650	4,830

Reorganization of Metalware segment during 2006

OAO Severstal-Metiz (renamed from ZAO Severstal-Metiz on July 1, 2006) was a holding company that managed the activities of the Metalware segment, provided all administrative services to the companies of the Metalware segment and was the sole sales and procurement organization for the Metalware segment.

During 2005 Severstal transferred to OAO Severstal-Metiz its ownership interests in the metalware companies OAO Cherepovets Steel Rolling Mill ("ChSPZ") and OAO Orlovsky Steel Rolling Mill ("OSPaZ"). Effective January 1, 2006, ChSPZ and OSPaZ legal entities were merged into OAO Severstal-Metiz. As a result of this merger, Severstal's ownership in OAO Severstal-Metiz reduced on January 1, 2006 from 100% to 92.8%. In December 2005, OOO Volgometiz transferred all its principal assets and liabilities to OAO Severstal-Metiz. As a result of these transactions, from January 1, 2006 OAO Severstal-Metiz is the principal operating company of metalware segment.

During 2006, the Group bought additional 3.8% of OAO Severstal-Metiz for US$ 6.3 million and participated in the additional share issue by OAO Severstal-Metiz, increasing its ownership to 97.01% at December 31, 2006. The fair value of net assets of OAO Severstal-Metiz at the time of acquisition was US$ 214.3 million, resulting in recognition of US$ 1.8 million of negative goodwill.

30. Subsequent events

Dividends proposed
On March 30, 2007, the Board of Directors recommended the final dividend for 2006 of RUR 5.00 (US$ 0.19) per share and GDR.

Acquisition of ZAO Vtorchermet
In January 2007, the Group completed the acquisition of ZAO Vtorchermet and its subsidiaries and certain related companies for US$ 45.4 million. ZAO Vtorchermet is a scrap processing and wholesale company, and the majority of its operations is located in Saint Peterburg. Currently, ZAO Vtorchermet exports to Europe substantially all of the scrap that it purchases, and the Group expects to continue this. 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. 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 subsequent period acquisition on the Group's financial position or results of operations.

Disposal of Lucchini Sidermeccanica S.p.A.
On March 29, 2007, the Board of Directors of Lucchini S.p.A., a Group's subsidiary, approved the disposal of 100% shares (representing an effective Group's ownership of 70.8%) in Lucchini Sidermeccanica SpA to the Lucchini family, following a binding offer received from a Lucchini family company. Lucchini S.p.A. would receive approximately Euro 125 million (US$ 167 million at March 29, 2007 exchange rate) for these shares, subject to possible insignificant changes related to final determination of net financial indebtedness, and approximately Euro 68 million (US$ 93 million at March 29, 2007 exchange rate) for the loans previously issued by Lucchini S.p.A. to Lucchini Sidermeccanica S.p.A.

Revenues for the year ended December 31, 2006 and net equity at December 31, 2006 of Lucchini Sidermeccanica S.p.A. and its subsidiaries included in these consolidated financial statements were Euro 249 million (US$ 313 million) and Euro 95 million (US$ 125 million at December 31, 2006 exchange rate), respectively. The transaction is expected to be closed within the second quarter of 2007 and the Group expects to recognize a pre-tax gain on the disposal of Lucchini Sidermeccanica S.p.A. of approximately Euro 30 million (US$ 40 million at March 29, 2007 exchange rate). A fairness opinion from a reputable Italian bank has been obtained by the Board of Directors of Lucchini SpA for the transaction.

(Tabular amounts expressed in thousands of US dollars)

31. Segment information

Segmental income statements for the year ended December 31, 2006:

	Russian Steel segment	Severstal North America	Lucchini segment	Metalware segment	Mining segment	Financing segment	Inter segment transactions	Conso-lidated
Sales								
Sales - external	5,352,801	1,868,426	3,182,119	780,086	520,922	-	-	11,704,354
Sales - to related parties	921,647	-	175,347	58,837	943,555	-	(1,381,222)	718,164
	6,274,448	1,868,426	3,357,466	838,923	1,464,477	-	(1,381,222)	12,422,518
Cost of sales	(4,036,411)	(1,712,355)	(2,829,402)	(741,925)	(1,005,324)	-	1,381,989	(8,943,428)
Gross profit	2,238,037	156,071	528,064	96,998	459,153	-	767	3,479,090
Selling, general and administrative expenses	(267,763)	(27,561)	(186,470)	(31,082)	(135,667)	(2,036)	-	(650,579)
Distribution expenses	(456,340)	-	(56,256)	(43,560)	(92,966)	-	-	(649,122)
Indirect taxes and contributions	(53,568)	-	(64,374)	(2,982)	(48,369)	(158)	-	(169,451)
Share of associates' (losses)/profits	(2,644)	2,971	202	(1,722)	-	-	-	(1,193)
Net income from bank lending operations	-	-	-	-	-	5,322	4,072	9,394
Net income from securities operations	20,525	-	3,713	314	6,934	4,817	(3,376)	32,927
(Loss)/gain on disposal of property, plant and equipment	(46,247)	469	(3,412)	(1,385)	(19,423)	9	-	(69,989)
Net other operating (expenses)/income	(10,078)	1,827	(13,564)	5	(1,409)	907	(4,642)	(26,954)
Profit from operations	1,421,922	133,777	207,903	16,586	168,253	8,861	(3,179)	1,954,123
Impairment of property, plant and equipment	(8,222)	-	(9,778)	(23,364)	(16,372)	-	-	(57,736)
Net gain on restructuring of tax liabilities	-	-	-	-	14,669	-	-	14,669
(Write off of goodwill)/negative goodwill, net	(187)	-	-	1,650	224	-	2,526	4,213
Net other non-operating expenses	(40,867)	-	-	(1,261)	(11,437)	-	-	(53,565)
Profit before financing and taxation	1,372,646	133,777	198,125	(6,389)	155,337	8,861	(653)	1,861,704
Net financing expense	(1,938)	(9,262)	(45,552)	(7,632)	(40,638)	-	(4,054)	(109,076)
Profit before income tax	1,370,708	124,515	152,573	(14,021)	114,699	8,861	(4,707)	1,752,628
Income tax expense	(388,539)	(41,189)	(53,790)	3,022	(60,894)	(2,297)	174	(543,513)
Profit from continuing operations	982,169	83,326	98,783	(10,999)	53,805	6,564	(4,533)	1,209,115
Profit from discountinued operations	-	-	22,212	-	-	-	-	22,212
Profit for the year	982,169	83,326	120,995	(10,999)	53,805	6,564	(4,533)	1,231,327
Additional information:								
depreciation expense	546,196	8,783	117,910	30,619	250,583	64	-	954,155

(Tabular amounts expressed in thousands of US dollars)

Segmental income statements for the year ended December 31, 2005:

	Russian Steel segment	Severstal North America	Lucchini segment[(1)]	Metalware segment	Mining segment	Financing segment	Inter segment transactions	Conso-lidated
Sales								
Sales - external	5,174,637	1,822,573	1,805,903	562,630	409,143	-	-	9,774,886
Sales - to related parties	789,677	-	41,630	56,200	962,520	-	(1,193,147)	656,880
	5,964,314	1,822,573	1,847,533	618,830	1,371,663	-	(1,193,147)	10,431,766
Cost of sales	(3,407,625)	(1,716,332)	(1,586,801)	(556,963)	(729,785)	-	1,164,450	(6,833,056)
Gross profit	2,556,689	106,241	260,732	61,867	641,878	-	(28,697)	3,598,710
Selling, general and administrative expenses	(227,649)	(29,539)	(120,140)	(36,882)	(104,051)	(1,903)	-	(520,164)
Distribution expenses	(509,943)	-	(29,728)	(27,848)	(52,986)	-	-	(620,505)
Indirect taxes and contributions	(26,439)	-	(45,454)	(3,444)	(41,968)	(129)	-	(117,434)
Share of associates' (losses)/profits	(4,969)	2,749	77	(2,047)	-	-	-	(4,190)
Net income from bank lending operations	-	-	-	-	-	6,250	3,732	9,982
Net income from securities operations	20,837	505	1,761	470	3,728	3,461	(2,858)	27,904
Loss/(gain) on disposal of property, plant and equipment	(29,611)	(184)	(1,169)	(1,885)	(3,931)	10	-	(36,770)
Net other operating (expenses)/income	(3,406)	1,981	(12,868)	(273)	(4,352)	1,531	-	(17,387)
Profit from operations	1,775,509	81,753	53,211	(10,042)	438,318	9,220	(27,823)	2,320,146
Reversal of impairment/(impairment) of property, plant and equipment, net	85,249	-	(8,552)	(914)	(10,624)	-	-	65,159
Net gain on restructuring of tax liabilities	-	-	-	-	174,178	-	-	174,178
Negative goodwill	4,830	-	-	-	-	-	2,800	7,630
Net other non-operating expenses	(30,444)	-	-	(4,142)	(8,378)	-	(9,789)	(52,753)
Profit before financing and taxation	1,835,144	81,753	44,659	(15,098)	593,494	9,220	(34,812)	2,514,360
Net financing expense	(129,534)	(12,524)	(27,858)	197	(23,654)	-	(4,751)	(198,124)
Profit before income tax	1,705,610	69,229	16,801	(14,901)	569,840	9,220	(39,563)	2,316,236
Income tax expense	(414,175)	(27,088)	9,166	(2,819)	(117,390)	(2,378)	9,016	(545,668)
Profit from continuing operations	1,291,435	42,141	25,967	(17,720)	452,450	6,842	(30,547)	1,770,568
Loss from discountinued operations	-	-	(10,784)	-	-	-	-	(10,784)
Profit for the year	1,291,435	42,141	15,183	(17,720)	452,450	6,842	(30,547)	1,759,784
Additional information: depreciation expense	234,202	7,159	74,659	19,550	155,902	146	-	491,618

(1) As discussed in note 29, Lucchini S.p.A. is included in these financial statements for eight months from end of April to December 2005.

(Tabular amounts expressed in thousands of US dollars)

Segmental balance sheets as at December 31, 2006:

	Russian Steel segment	Severstal North America	Lucchini segment	Metalware segment	Mining segment	Financing segment	Inter segment balances	Conso-lidated
Assets								
Current assets:								
Cash and cash equivalents	1,242,963	-	225,854	9,584	87,203	309,674	(174,983)	1,700,295
Short-term bank deposits	1,293,364	-	-	41,092	7	-	(187,193)	1,147,270
Short-term financial investments	264,429	-	6,587	1,598	77,839	191,358	(219,969)	321,842
Trade accounts receivable	252,209	128,768	843,737	62,577	36,806	-	-	1,324,097
Amounts receivable from related parties	118,309	1,184	9,601	7,009	61,927	-	(70,517)	127,513
Inventories	946,247	427,502	695,041	102,320	122,757	-	(54,220)	2,239,647
VAT receivable	213,022	-	49,476	30,436	45,188	-	-	338,122
Income tax receivable	9,010	16,361	8,404	294	1,787	-	-	35,856
Other current assets	132,084	17,070	29,320	16,091	50,701	13,138	-	258,404
Total current assets	4,471,637	590,885	1,868,020	271,001	484,215	514,170	(706,882)	7,493,046
Non-current assets:								
Intangible assets	7,086	-	17,408	1,418	35,747	7	-	61,666
Property, plant and equipment	6,435,882	157,824	1,519,357	328,042	2,107,620	475	19	10,549,219
Investment in associates	139,231	212,154	2,656	865	-	-	-	354,906
Long-term financial investments	1,632,668	-	31,934	42,183	2,682	25,705	(1,535,232)	199,940
Amounts receivable from related parties	-	-	-	-	-	-	-	-
Assets held for sale	-	-	113,516	-	-	-	-	113,516
Deferred tax assets	-	-	29,926	-	-	-	-	29,926
Other non-current assets	-	-	2,659	-	1,185	-	-	3,844
Total non-current assets	8,214,867	369,978	1,717,456	372,508	2,147,234	26,187	(1,535,213)	11,313,017
Total assets	12,686,504	960,863	3,585,476	643,509	2,631,449	540,357	(2,242,095)	18,806,063
Liabilities and shareholders' equity								
Current liabilities:								
Trade accounts payable	216,454	116,681	620,668	23,823	60,712	-	-	1,038,338
Bank customer accounts	-	-	-	-	-	396,176	(365,033)	31,143
Amounts payable to related parties	73,372	17,303	36,651	21,460	13,900	74,623	(66,886)	170,423
Short-term debt finance	393,184	10,024	414,480	18,999	99,606	17,755	-	954,048
Income taxes payable	28,880	-	8,921	15	6,506	-	-	44,322
Other taxes and social security payable	38,506	2,357	85,952	3,127	69,851	5	-	199,798
Dividends payable	23,243	-	-	-	-	-	-	23,243
Other current liabilities	286,672	21,672	96,461	35,320	53,911	186	-	494,222
Total current liabilities	1,060,311	168,037	1,263,133	102,744	304,486	488,745	(431,919)	2,955,537
Non-current liabilities:								
Long-term debt finance	1,222,147	138,404	605,827	55,423	242,470	23	(216,259)	2,048,035
Deferred tax liabilities	936,255	77,730	89,662	43,364	248,770	1,152	(15,148)	1,381,785
Retirement benefit liability	133,854	43,574	167,855	24,615	73,056	-	-	442,954
Liabilities related to assets held for sale	-	-	1,792	-	-	-	-	1,792
Other non-current liabilities	218	4,307	93,883	-	199,693	-	-	298,101
Total non-current liabilities	2,292,474	264,015	959,019	123,402	763,989	1,175	(231,407)	4,172,667
Equity	9,333,719	528,811	1,363,324	417,363	1,562,974	50,437	(1,578,769)	11,677,859
Total equity and liabilities	12,686,504	960,863	3,585,476	643,509	2,631,449	540,357	(2,242,095)	18,806,063

(Tabular amounts expressed in thousands of US dollars)

Segmental balance sheets as at December 31, 2005:

	Russian Steel segment	Severstal North America	Lucchini segment	Metalware segment	Mining segment	Financing segment	Inter segment balances	Conso-lidated
Assets								
Current assets:								
Cash and cash equivalents	784,676	-	384,624	3,921	67,316	143,246	(56,353)	1,327,430
Short-term bank deposits	718,705	-	-	18,274	1,071	-	(63,538)	674,512
Short-term financial investments	263,072	-	7,935	15,619	25,922	143,999	(188,696)	267,851
Trade accounts receivable	274,020	166,541	676,208	27,652	29,252	-	-	1,173,673
Amounts receivable from related parties	205,092	970	15,035	9,411	129,276	-	(186,262)	173,522
Inventories	579,076	401,146	633,068	59,457	103,876	-	(52,891)	1,723,732
VAT receivable	317,262	-	50,540	33,797	39,755	-	-	441,354
Income tax receivable	757	-	11,097	914	15,803	-	-	28,571
Other current assets	98,557	22,964	22,824	8,041	23,536	5,186	-	181,108
Total current assets	3,241,217	591,621	1,801,331	177,086	435,807	292,431	(547,740)	5,991,753
Non-current assets:								
Intangible assets	5,731	-	19,787	1,418	29,537	50	-	56,523
Property, plant and equipment	5,810,984	83,863	1,376,460	111,734	1,462,571	391	-	8,846,003
Investment in associates	63,209	142,988	2,335	2,120	-	-	-	210,652
Long-term financial investments	1,271,105	-	31,645	7,601	3,855	-	(1,224,665)	89,541
Amounts receivable from related parties	-	-	13,069	-	22,026	-	-	35,095
Assets held for sale	-	-	66,117	-	-	-	-	66,117
Deferred tax assets	-	-	35,076	-	-	-	-	35,076
Other non-current assets	-	-	2,582	-	523	-	-	3,105
Total non-current assets	7,151,029	226,851	1,547,071	122,873	1,518,512	441	(1,224,665)	9,342,112
Total assets	10,392,246	818,472	3,348,402	299,959	1,954,319	292,872	(1,772,405)	15,333,865
Liabilities and shareholders' equity								
Current liabilities:								
Trade accounts payable	197,978	129,040	496,110	7,354	34,633	-	1,231	866,346
Bank customer accounts	-	-	-	-	-	218,673	(119,806)	98,867
Amounts payable to related parties	390,248	14,149	21,504	10,610	138,590	33,725	(122,099)	486,727
Income taxes payable	30,075	14,183	40,701	104	938	-	-	86,001
Other taxes and social security payable	23,054	1,681	106,584	16,063	110,063	-	-	257,445
Short-term debt finance	244,708	143,818	646,803	20,560	83,511	-	(146,788)	992,612
Dividends payable	12,275	-	-	-	-	-	-	12,275
Other current liabilities	163,370	22,169	114,635	10,587	50,384	100	-	361,245
Total current liabilities	1,061,708	325,040	1,426,337	65,278	418,119	252,498	(387,462)	3,161,518
Non-current liabilities:								
Long-term debt finance	1,430,488	-	490,391	4,483	60,442	-	(54,110)	1,931,694
Deferred tax liabilities	909,382	62,508	91,107	8,462	149,130	466	(14,975)	1,206,080
Retirement benefit liability	79,034	38,888	135,029	21,354	64,181	-	-	338,486
Liabilities related to assets held for sale	-	-	172	-	-	-	-	172
Other non-current liabilities	75	6,452	90,795	-	201,489	-	-	298,811
Total non-current liabilities	2,418,979	107,848	807,494	34,299	475,242	466	(69,085)	3,775,243
Equity	6,911,559	385,584	1,114,571	200,382	1,060,958	39,908	(1,315,858)	8,397,104
Total equity and liabilities	10,392,246	818,472	3,348,402	299,959	1,954,319	292,872	(1,772,405)	15,333,865

32. Commitments and contingencies

a. For litigation, tax and other liabilities

The taxation system and regulatory environment of the Russian Federation are relatively new and characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during the recent years suggest that the regulatory authorities within the Russian Federation are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks. Management believes that it has complied in all material respects with all relevant legislation.

At the balance sheet date, the Russian tax authorities had made claims for taxes, fines and penalties in the amount of approximately US$ 60 million, mostly related to mineral extraction tax and water usage tax by certain of the Group's entities in the Mining segment. Management does not agree with the tax authorities' claims and believes that the Group has complied with existing legislation in all material respects. Management is unable to assess the ultimate outcome of the claims and the outflow of financial sources to settle such claims, if any. Management believes that it has made adequate provisions for other possible tax claims.

b. Long term purchase and sales contracts

In the normal course of business group companies enter into long term purchase contracts for raw materials, and long term sales contracts. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

c. Capital commitments

At the balance sheet date the Group had contractual capital commitments of US$ 291.1 million (December 31, 2005: US$ 435.4 million).

d. Insurance

The Group has insured its property and equipment to compensate for expenses arising from accidents. In addition, the Group has insurance for business interruption on a basis of reimbursement of certain fixed costs. The Group has also insured third party liability in respect of property or environmental damage. However, the Group does not have a full insurance coverage.

e. Guarantees

At the balance sheet date the Group had US$ 22.2 million (December 31, 2005: US$ 23.8 million) of guarantees issued.

(Tabular amounts expressed in thousands of US dollars)

33. Financial instruments

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The Russian Steel, Metalware and Mining segments of the Group have not used derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. The use of Severstal North America and Lucchini segments of derivatives to hedge their interest rates, commodity inputs and foreign exchange rate exposures were not material to these consolidated financial statements. As at December 31, 2006 and December 31, 2005, the Financing segment had no outstanding foreign exchange contracts.

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for the following long-term fixed rate borrowings:

	December 31, 2006		
	Market value	**Book value**	**Difference**
Citibank CLN - Eurobonds 2009	337,857	325,000	12,857
Citibank CLN - Eurobonds 2014	407,616	375,000	32,616
	745,473	700,000	45,473

	December 31, 2005		
	Market value	**Book value**	**Difference**
Citibank CLN - Eurobonds 2009	336,830	325,000	11,830
Citibank CLN - Eurobonds 2014	407,438	375,000	32,438
Other bonds	225,552	223,216	2,336
	969,820	923,216	46,604

The above amounts exclude accrued interest.

Credit risk
The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet and guarantees (see note 32e). The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitors credit risk. At the balance sheet date there was a significant concentration of credit risk in respect of trade accounts receivable from related parties and originated loans to related parties.

Liquidity risk
The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

Foreign exchange rate risk
The Group incurs currency risk when an entity enters into transactions and balances not denominated in its functional currency. The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

(Tabular amounts expressed in thousands of US dollars)

Interest rate risk

Interest rates on the Group's debt finance are either fixed or variable, at a fixed spread over LIBOR or Euribor for the duration of each contract. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the over the expected period until maturity.

The following table indicates weighted average effective interest rates of income-earning financial assets and interest-bearing financial liabilities at the balance sheet dates:

	Rouble	US dollar	Euro
As at December 31, 2006:			
Interest bearing assets			
Short term bank deposits	6.7%	6.1%	3.9%
Placements at financial institutions	4.8%	5.2%	3.3%
Loans to bank customers	9.9%	11.5%	-
Held-for-trading securities	6.0%	-	-
Loans	10.6%	15.0%	-
Interest bearing liabilities			
Bank customer accounts	3.9%	4.7%	2.2%
Bank loans and issued bonds	10.8%	8.2%	4.8%

	Rouble	US dollar	Euro
As at December 31, 2005:			
Interest bearing assets			
Short term bank deposits	5.9%	5.2%	-
Placements at financial institutions	6.2%	2.4%	2.2%
Loans to bank customers	8.8%	11.2%	-
Held-for-trading securities	6.2%	-	-
Loans	9.9%	7.9%	3.9%
Interest bearing liabilities			
Bank customer accounts	4.3%	1.9%	1.3%
Bank loans and issued bonds	9.9%	8.0%	4.9%