OAO Severstal and subsidiaries

Consolidated financial statements
for the year ended December 31, 2007

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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 sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit 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 is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that during the year the Group changed its accounting policy for property, plant and equipment. The reason for and the effects of the change are described in Note 3c to these consolidated financial statements.

KPMG Limited.

KPMG Limited

14 March 2008

OAO Severstal and subsidiaries

Consolidated income statement
Year ended December 31, 2007
(Amounts expressed in thousands of US dollars, except as otherwise stated)

		Year ended December 31,		
	Note	2007	2006 (restated)	2005 (restated)
Sales				
Sales - external		14,543,043	11,723,318	9,786,057
Sales - to related parties	15	701,868	725,714	665,589
	4	15,244,911	12,449,032	10,451,646
Cost of sales		(10,541,571)	(8,601,227)	(6,831,138)
Gross profit		4,703,340	3,847,805	3,620,508
General and administrative expenses		(691,210)	(654,987)	(524,662)
Distribution expenses		(909,510)	(697,308)	(657,684)
Indirect taxes and contributions		(153,614)	(142,109)	(95,343)
Share of associates' loss		(89,397)	(1,193)	(4,190)
Net income from securities operations	6	25,564	28,263	24,443
Loss on disposal of property, plant and equipment		(35,280)	(39,292)	(36,780)
Net other operating expenses		(7,520)	(27,109)	(20,344)
Profit from operations		2,842,373	2,314,070	2,305,948
Impairment of property, plant and equipment	19	(29,109)	(57,736)	(111,384)
Net gain on restructuring of tax liabilities	26	-	14,669	174,178
Negative goodwill, net		12,223	4,213	7,630
Net other non-operating expenses	7	(58,576)	(53,536)	(52,753)
Profit before financing and taxation		2,766,911	2,221,680	2,323,619
Interest income	8	172,937	102,402	65,134
Interest expense	8	(288,293)	(244,977)	(203,057)
Foreign exchange difference		2,900	33,324	(60,231)
Profit before income tax		2,654,455	2,112,429	2,125,465
Income tax expense	9	(681,269)	(635,298)	(500,907)
Profit from continuing operations		1,973,186	1,477,131	1,624,558
Profit from discountinued operations	29	433	32,849	602
Profit for the year		1,973,619	1,509,980	1,625,160
Attributable to:				
shareholders of OAO Severstal		1,936,423	1,454,198	1,561,182
minority interest		37,196	55,782	63,978
Weighted average number of shares outstanding during the period (millions of shares)		1,007.7	928.4	912.2
Basic and diluted earnings per share (US dollars)		1.92	1.57	1.71

These consolidated financial statements were approved by the Board of Directors on March 14, 2008.

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

OAO Severstal and subsidiaries

Consolidated balance sheet
December 31, 2007

(Amounts expressed in thousands of US dollars)

	Note	December 31, 2007	December 31, 2006 (restated)	December 31, 2005 (restated)
Assets				
Current assets:				
Cash and cash equivalents	10	1,546,881	1,701,022	1,327,887
Short-term bank deposits	11	665,977	1,147,270	674,512
Short-term financial investments	12	267,633	321,842	267,851
Trade accounts receivable	13	1,674,618	1,324,585	1,174,193
Amounts receivable from related parties	14	162,719	127,703	173,808
Inventories	16	2,537,470	2,222,372	1,725,528
VAT recoverable		283,745	339,392	442,297
Income tax recoverable		75,993	35,904	28,671
Assets held for sale	29	461,196	-	-
Other current assets	17	321,362	259,208	181,685
Total current assets		7,997,594	7,479,298	5,996,432
Non-current assets:				
Long-term financial investments	21	152,866	199,940	89,541
Investment in associates and joint ventures	20	589,092	354,906	210,652
Property, plant and equipment	19	7,292,811	6,470,385	5,319,568
Intangible assets	18	611,261	61,666	56,523
Assets held for sale	29	-	113,516	66,117
Deferred tax assets	9	52,324	30,150	35,076
Amounts receivable from related parties	14	-	-	35,095
Other non-current assets		21,474	3,844	3,105
Total non-current assets		8,719,828	7,234,407	5,815,677
Total assets		16,717,422	14,713,705	11,812,109
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		1,090,884	1,038,901	866,629
Bank customer accounts	22	-	31,143	98,867
Amounts payable to related parties	14	58,915	175,740	491,957
Short-term debt finance	23	972,079	957,564	996,125
Income taxes payable		41,381	44,348	86,001
Other taxes and social security payable		200,424	199,963	257,678
Dividends payable		107,485	23,243	12,275
Liabilities related to assets held for sale	29	91,750	-	-
Other current liabilities	24	600,580	506,848	379,218
Total current liabilities		3,163,498	2,977,750	3,188,750
Non-current liabilities:				
Long- term debt finance	23	2,354,823	2,048,035	1,931,694
Deferred tax liabilities	9	374,636	403,076	356,739
Retirement benefit liability	25	387,398	442,954	338,486
Liabilities related to assets held for sale	29	-	1,792	172
Other non-current liabilities	26	226,388	286,090	281,075
Total non-current liabilities		3,343,245	3,181,947	2,908,166
Equity:				
Share capital	27	3,311,288	3,311,288	3,311,254
Additional capital		1,165,530	1,165,530	60,367
Foreign exchange differences		1,176,321	535,591	34,368
Retained earnings		4,082,834	2,983,954	1,818,475
Total equity attributable to shareholders of parent		9,735,973	7,996,363	5,224,464
Minority interest		474,706	557,645	490,729
Total equity		10,210,679	8,554,008	5,715,193
Total equity and liabilities		16,717,422	14,713,705	11,812,109

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

OAO Severstal and subsidiaries

Consolidated statement of cash flows
Year ended December 31, 2007
(Amounts expressed in thousands of US dollars)

	Year ended December 31,		
	2007	**2006 (restated)**	**2005 (restated)**
Operating activities:			
Profit before financing and taxation	2,766,911	2,221,680	2,323,619
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization (Notes 18 and 19)	802,695	603,740	496,597
Impairment of property, plant and equipment	29,109	57,736	111,384
Provision for inventories, receivables and other provisions	52,542	(11,641)	27,629
Negative goodwill, net	(12,223)	(4,213)	(7,630)
Loss on disposal of property, plant and equipment	35,280	39,292	36,780
Net gain on restructuring of tax liabilities (Note 26)	-	(14,669)	(174,178)
(Gain)/loss on disposal of subsidiaries and associates	(31,507)	(846)	9,759
Gain on remeasurement and disposal of financial investments	(25,564)	(28,263)	(24,443)
Share of associates' results less dividends from associates	89,397	1,193	17,413
Changes in operating assets and liabilities:			
Trade accounts receivable	(334,967)	(16,474)	10,585
Amounts receivable from related parties	25,083	92,387	43,006
VAT recoverable	96,603	140,315	(222,739)
Inventories	(189,848)	(291,466)	(73,542)
Trade accounts payable	58,704	57,562	16,323
Bank customer accounts	36,500	(74,511)	(28,322)
Amounts payable to related parties	80,316	(101,337)	53,386
Other taxes and social security payables	(63,729)	(111,604)	16,797
Other non-current liabilities	(107,185)	10,396	13,114
Assets held for sale	(1,856)	-	(14,512)
Net other changes in operating assets and liabilities	42,490	52,044	60,245
Cash generated from operations	3,348,751	2,621,321	2,691,271
Interest paid (excluding banking operations)	(230,791)	(215,081)	(199,177)
Income tax paid	(802,871)	(676,582)	(557,303)
Net cash from operating activities	2,315,089	1,729,658	1,934,791
Investing activities:			
Additions to property, plant and equipment	(1,561,911)	(1,243,831)	(1,204,415)
Additions to intangible assets	(27,194)	(8,808)	(32,322)
Net decrease/(increase) in short-term bank deposits	580,706	(431,142)	(133,526)
Additions to financial investments and associates	(1,303,537)	(1,203,824)	(817,558)
Acquisition of minority interests and entities under common control	(232,447)	(294,249)	108,466
Net cash outflow on acquisitions of subsidiaries	(644,094)	(57,625)	(4,223)
Net cash inflow on disposals of subsidiaries	235,978	1,588	13,701
Proceeds from disposal of property, plant and equipment	32,926	14,023	10,893
Proceeds from disposal of assets held for sale	-	-	10,313
Proceeds from disposal of financial investments	787,037	949,480	816,671
Interest received (excluding banking operations)	150,569	105,251	53,911
Cash from investing activities	(1,981,967)	(2,169,137)	(1,178,089)
Financing activities:			
Proceeds from debt finance	2,794,285	1,379,209	1,156,982
Proceeds from share issue	-	1,105,197	-
Repayment of debt finance	(2,623,463)	(1,495,440)	(1,357,997)
Repayments under lease obligations	(3,915)	-	-
Dividends paid	(736,156)	(269,286)	(277,605)
Minority capital contributions	-	6,685	37,734
Net other cash flows from financing activities	-	-	(7,742)
Cash from financing activities	(569,249)	726,365	(448,628)
Effect of exchange rates on cash and cash equivalents	81,986	86,249	(70,551)
Net increase/(decrease) in cash and cash equivalents	(154,141)	373,135	237,523
Cash and cash equivalents at beginning of the period	1,701,022	1,327,887	1,090,364
Cash and cash equivalents at end of the period	1,546,881	1,701,022	1,327,887

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

OAO Severstal and subsidiaries
Consolidated statement of changes in equity
Year ended December 31, 2007
(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	Retained earnings	Total		
Balances at December 31, 2004 as previously reported	3,311,248	60,367	631,996	191,770	(75,938)	4,119,443	122,250	4,241,693
Acquisition of entities under common control	-	-	-	538	(3,385)	(2,847)	1,409	(1,438)
Change in accounting policy (Note 3c)	-	-	(631,996)	-	631,996	-	-	-
Balances at December 31, 2004 as restated	3,311,248	60,367	-	192,308	552,673	4,116,596	123,659	4,240,255
Profit for the year (restated)	-	-	-	-	1,561,182	1,561,182	63,978	1,625,160
Foreign exchange differences	-	-	-	(151,293)	-	(151,293)	(35,065)	(186,358)
Total recognized income and expenses						1,409,889	28,913	1,438,802
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 (restated)	3,311,254	60,367	-	34,368	1,818,475	5,224,464	490,729	5,715,193
Profit for the year (restated)	-	-	-	-	1,454,198	1,454,198	55,782	1,509,980
Foreign exchange differences	-	-	-	501,223	-	501,223	49,210	550,433
Total recognized income and expenses						1,955,421	104,992	2,060,413
Dividends	-	-	-	-	(278,798)	(278,798)	-	(278,798)
Share issues	34	1,105,163	-	-	-	1,105,197	-	1,105,197
Effect of acquisitions and disposals	-	-	-	-	(9,921)	(9,921)	(38,076)	(47,997)
Balances at December 31, 2006 (restated)	3,311,288	1,165,530	-	535,591	2,983,954	7,996,363	557,645	8,554,008
Profit for the year	-	-	-	-	1,936,423	1,936,423	37,196	1,973,619
Foreign exchange differences	-	-	-	640,730	-	640,730	56,583	697,313
Total recognized income and expenses						2,577,153	93,779	2,670,932
Dividends	-	-	-	-	(801,462)	(801,462)	(11,982)	(813,444)
Effect of acquisitions and disposals	-	-	-	-	(36,081)	(36,081)	(164,736)	(200,817)
Balances at December 31, 2007	3,311,288	1,165,530	-	1,176,321	4,082,834	9,735,973	474,706	10,210,679

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

1. Operations

These consolidated financial statements of OAO Severstal and subsidiaries comprise the parent company, OAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in note 28.

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, 2006 and 2005: 82.37% and 82.75%, respectively) 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:

- *Mining segment* – this segment comprises gold mining in one location in Kazakhstan and the following operations in Russia: coking coal production in two locations, one location where iron ore is produced, one location where pellets are produced, gold mining in two locations and also coal refining facilities and other auxiliary businesses.
- *Russian Steel* – this segment operates a full cycle integrated iron and steel mill, has supporting companies for the sale of products in the Russian and international markets and also includes service companies.
- *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.
- *Severstal North America* – this segment operates a full cycle integrated iron and steel mill in USA and has joint control and non-controlling equity interests in US based steel galvanizing, steel slitting and coking coal production entities.
- *Izhora Pipe Mill (hereinafter – 'IPM', previously referred to as 'ITZ')* – this segment operates a large pipe mill in Russia, which was reported together with Russian Steel segment prior to 2007.
- *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.
- *Financing segment* – this segment operated a retail bank until November 2007 when the bank was disposed off. This transaction was accounted for as a discontinued operation. The transaction is further discussed in Note 29 to these consolidated financial statements.

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

Acquisitions of controlling stakes from the Group's Majority Shareholder

In July 2007, the Group acquired from the Group's Majority Shareholder a 100% stake in each of the companies OOO Petrovtormet and OOO Severstalskrap-Komi, and a 75.01% and a 75.1% stake in OAO Arhangelskii vtormet and in OAO Murmanskvtormet, respectively.

These transactions are further discussed in note 28 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 and quantities issued quarterly by the US Department of Commerce and quotas.
- Exports of hot-rolled plates from Russia to the USA are restricted by the minimum prices established based on the producer's actual cost and profit on the domestic market. Severstal is the first Russian company, for which since September 2005 the hot-rolled plates market is open.
- The Canadian market of hot-rolled plate was restricted by minimum prices in 2007. However from January 9, 2008 this restriction was cancelled.
- The European Union ('EU') market is protected by quotas. During the last few years quotas have been raised consistently after adjusting for the effects of EU enlargements, equaling 2.272 mln. tons in 2007. 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.

Basis of measurement

The consolidated financial statements are prepared under the historic cost convention except that 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.

Critical accounting judgments and estimates

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving raw materials and spare parts;
- decommissioning liabilities;
- retirement benefit liabilities;
- deferred income tax assets; and
- contingencies.

Useful economic lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Impairment of assets

The Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowances for doubtful accounts

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Provision for obsolete inventory

The Group makes a provision for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realizable value. Estimates of net realizable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Decommissioning Liability

The Group reviews its decommissioning liability, representing site restoration provisions, at each balance sheet date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the balance sheet date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

Retirement Benefit Liability

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, expected rate of return on plan assets, etc.).

Deferred Income Tax Assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the income statement.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

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.

The translation into the presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rates at the dates of each balance sheet presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are recognized as a separate component in equity,

Any conversion of amounts 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.

Adoption of new and revised IFRS

As of January 1, 2007, the Group has adopted IFRS 7 "Financial Instruments: Disclosures" which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 "Presentation of Financial Statements".

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments (see note 33) and management of capital (see note 27).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 "Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"; IFRIC 8 "Scope of IFRS 2"; IFRIC 9 "Reassessment of Embedded Derivatives"; and IFRIC 10 "Interim Financial Reporting and Impairment". The adoption of these Interpretations did not affect the Group's financial statements.

New accounting pronouncements

At the date of authorization of these financial statements, the following Interpretations were in issue but not yet effective:

- IAS 1 (Revised) "Presentation of Financial Statements";
- IAS 23 (Revised) "Borrowing Costs";
- IAS 27 (Revised) "Consolidated and Separate Financial Statements";
- IFRS 2 "Share-based payments";
- IFRS 3 (Revised) "Business Combinations";
- IFRS 8 "Operating Segments";
- IFRIC 11 "IFRS 2: Group and Treasury Share Transactions";
- IFRIC 12 "Service Concession Arrangements";
- IFRIC 13 "Customer Loyalty Programmes"; and
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

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

The impact of adoption of these standards and interpretations in the preparation of consolidated financial statement in future periods is currently being assessed by management. No material effect on the Group's financial statements is anticipated.

Reclassifications

In order to conform with the current year presentation the following reclassifications to the prior years were made:

	2006 Increase/(decrease)	2005 Increase/(decrease)
Cost of sales	(22,192)	(17,562)
General and administrative expenses	4,812	5,294
Distribution expenses	44,987	34,230
Indirect taxes and contributions	(27,184)	(21,962)
Net other operating expenses	(423)	-

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. Basis of consolidation

Subsidiaries

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 the minorities' share of fair value adjustments on acquisitions.

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

Investments in associates

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.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method.

Where the Group transacts with its jointly controlled entities, profits and losses are eliminated to the extent of the Group's interest in the joint venture.

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.

Goodwill

Goodwill arising on the acquisition of a subsidiary, associate or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill in respect of subsidiaries is disclosed as an intangible asset and goodwill relating to associates and jointly controlled entities is included within the carrying value of the investments in these entities.

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

Where an investment in subsidiary, associate or jointly control entity is made, any excess of the Group's share in the fair value acquiree's of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognized in the income statement immediately.

b. 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 are translated to the functional currency of the entity at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses arising on translation are recognized in the income statement.

c. Property, plant and equipment

Change in accounting policy for property, plant and equipment

In 2007, management decided to change the accounting policy for property, plant and equipment from the revaluation model to the cost model. Management believes that the change to the cost model provides reliable financial information which is more relevant for the users of the financial statements primarily due to the fact that Severstal's competitors use the cost model to account for property, plant and equipment. Accordingly, the change enhances comparability with competitors.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the change in accounting policy has been applied retrospectively and comparative figures have been restated. The effect of the change on the comparative figures is:

	December 31, 2006	December 31, 2005
Decrease in inventory	(19,582)	-
Decrease in property, plant and equipment	(4,081,303)	(3,528,892)
Decrease in deferred tax liabilities	978,712	849,255
Decrease in equity attributable to shareholders of parent	3,052,185	2,641,627
Decrease in minority interest	69,988	38,010

	Year ended December 31,	
	2006	2005
Decrease in cost of sales	340,457	-
Decrease in loss on disposal of property, plant and equipment	31,777	-
Decrease/(increase) in impairment of property, plant and equipment	29	(176,543)
(Increase)/decrease in income tax expense	(93,918)	42,370
Increase/(decrease) in profit for the year	278,345	(134,173)
Increase/(decrease) in basic and diluted earnings per share (US Dollars)	0.30	(0.15)

There were no changes in profit for the year or total equity relating to periods before 2005.

The Group did not obtain the fair values of its property, plant and equipment as of December 31, 2007. Accordingly, it was not practicable to determine the effects on the current and future years of the change in accounting policy.

New accounting policy for property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. 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

d. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement as part of interest expense.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

e. Intangible assets (excluding goodwill)

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

f. 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.

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.

g. 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.

h. Financial assets

Financial assets include cash and cash equivalents, investments, and loans and receivables.

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the carrying value of a financial asset held at amortized cost and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial instruments, which are managed and performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment.

AFS financial assets

Available for sale financial assets are those non-derivative financial assets that are not classified as financial assets at FVTPL or held-to-maturity and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity with the exception of impairment losses, which are recognised directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the equity is included in the income statement for the period.

Dividends on AFS equity instruments are recognised in the income statement when the Group’s right to receive the dividends is established.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

i. Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial instruments, which are managed and performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. 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.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized in the income statement.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

j. Dividends payable

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

k. 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.

l. 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 the 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.

m. Provisions

Retirement benefit liability

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 high quality corporate bonds for UK, USA, France and Italy and on government bonds for Russia 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.

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

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 Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; 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.

Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

o. Interest income

Interest income is recognized in the income statement on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

p. Interest expense

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

q. 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.

r. 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.

s. Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale or other type of disposal at the balance sheet date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

The comparative income statement is presented as if the operation had been discontinued from the beginning of the comparative period.

Assets and liabilities of a disposal group are presented in the balance sheet separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the balance sheet.

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

4. Sales

Sales by product were as follows:

	Year ended December 31,		
	2007	2006	2005
Hot-rolled strip and plate	3,681,592	3,435,545	3,443,571
Long products	3,097,933	2,301,550	1,436,830
Galvanized and other metallic coated sheet	1,307,317	1,105,521	1,051,370
Cold-rolled sheet	1,258,641	1,328,063	1,540,951
Semifinished products	1,101,902	939,351	879,627
Metalware products	1,002,180	833,877	574,458
Shipping and handling costs billed to customers	644,000	537,411	174,156
Large diameter pipes	530,726	-	-
Others tubes and pipes, formed shapes	391,708	320,413	210,590
Rails, wheels and axles	321,751	375,270	149,121
Pellets and iron ore	304,825	242,697	337,516
Scrap	301,482	26,513	19,500
Color coated sheet	281,071	148,458	-
Coal and coking coal concentrate	264,753	249,280	143,140
Others	755,030	605,083	490,816
	15,244,911	12,449,032	10,451,646

Sales by delivery destination were as follows:

	Year ended December 31,		
	2007	2006	2005
Russian Federation	6,744,113	4,912,642	3,785,133
Europe	5,308,680	4,390,786	2,751,196
North America	1,889,280	2,406,090	2,198,248
The Middle East	450,360	215,056	353,286
China and Central Asia	353,550	138,016	569,898
South-East Asia	291,052	143,553	408,228
Central & South America	151,281	156,685	237,087
Africa	56,595	86,204	148,570
	15,244,911	12,449,032	10,451,646

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

5. Staff costs

Employment costs were as follows:

	Year ended December 31,		
	2007	2006	2005
Wages and salaries	(1,505,630)	(1,262,613)	(964,528)
Social security costs	(414,462)	(301,407)	(247,524)
Retirement benefit costs (Note 25)	(7,719)	(2,385)	(3,806)
	(1,927,811)	(1,566,405)	(1,215,858)
Actuarial gains/(losses) recognized (Note 25)	37,056	(67,658)	(62,380)
Staff costs	(1,890,755)	(1,634,063)	(1,278,238)

For the year ended December 31, 2007, key management's remuneration totalled US$ 57.2 million (2006: US$ 44.5 million; 2005: US$ 39.0 million). As a part of the above amounts US$ 40.1 million and US$ 35.7 million were paid to the Group's related party, ZAO Severstal Group that employed executive officers of Severstal and seconded them to Severstal during the years ended December 31, 2006 and 2005 respectively.

6. Net income from securities operations

	Year ended December 31,		
	2007	2006	2005
Held-for-trading securities			
Profit on disposal	-	153	133
Restatement to fair value	3,864	401	1,160
Held-to-maturity securities and loans			
Restatement to fair value (discounting)	3,577	13,909	4,209
Available-for-sale securities			
Profit on disposal	11,849	6,376	28,405
Reversal of impairment/(impairment)	4,012	7,183	(13,076)
Dividends received	2,262	241	3,612
	25,564	28,263	24,443

7. Net other non-operating expenses

	Year ended December 31,		
	2007	2006	2005
Social expenditure	(42,468)	(33,857)	(28,408)
Charitable donations	(41,276)	(17,060)	(13,283)
Depreciation of community and infrastructure assets	(6,339)	(3,465)	(1,303)
Gain/(loss) on disposal of subsidiaries and associates	31,507	846	(9,759)
	(58,576)	(53,536)	(52,753)

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

8. Financing

	Year ended December 31,		
	2007	2006	2005
Interest income:			
Third parties	148,752	70,835	52,150
Related parties	24,185	31,567	12,984
	172,937	102,402	65,134
Interest expense:			
Third parties	(277,622)	(236,950)	(195,517)
Related parties	(1,663)	(3,158)	(2,963)
Amortization of transaction costs	(9,008)	(4,869)	(4,577)
	(288,293)	(244,977)	(203,057)

9. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31,		
	2007	2006	2005
Current tax charge	(783,070)	(608,760)	(586,708)
Corrections to prior year's current tax charge	15,416	(13,152)	(7,176)
Deferred tax benefit/(expense)	86,385	(13,386)	92,977
Income tax expense	(681,269)	(635,298)	(500,907)

The following table is a reconciliation of the reported net income tax expense and the amount calculated by applying the Russian statutory tax rate of 24 % to reported profit before income tax.

	Year ended December 31,		
	2007	2006	2005
Profit before income tax	2,654,455	2,112,429	2,125,465
Tax charge at Russian statutory rate - 24%	(637,069)	(506,983)	(510,112)
Profits taxed at different rates	(35,784)	(36,247)	12,786
Corrections to prior years's current tax charge	15,416	(13,152)	(7,176)
Net gain on tax restructuring	-	3,521	41,803
Non-tax deductible expenses, net	(37,843)	(76,920)	(55,171)
Tax-loss carry forwards expired	(18,494)	(17,462)	(67,629)
Changes in non-recognized deferred tax assets	32,505	32,375	73,839
Reassessment of deferred tax liabilities	-	(20,430)	10,753
Income tax expense	(681,269)	(635,298)	(500,907)

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

Income tax charge for the year ended December 31, 2007 includes tax expense of US$ 1.3 million (2006: US$ 2.7 million, 2005: US$ 2.4 million) related to profits from discontinued operations (see note 29) and tax expense of US$ 9.0 million related to gains on disposals of discontinued operations (2006: nil, 2005: nil).

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,		
	2007	**2006**	**2005**
Deferred tax assets:			
Tax-loss carry forwards	33,382	48,610	67,123
Property, plant and equipment	21,565	18,205	24,477
Provisions	25,689	15,707	11,320
Financial investments	-	2,770	14,530
Other	6,198	10,108	30,750
Less:non-recognized deferred tax assets	(34,510)	(65,250)	(113,124)
Deferred tax assets	52,324	30,150	35,076
Deferred tax liabilities:			
Property, plant and equipment	(435,436)	(456,466)	(390,914)
Provisions	82,524	65,859	52,153
Tax-loss carry forwards	15,991	-	-
Other	(37,715)	(12,469)	(17,978)
Deferred tax liabilities	(374,636)	(403,076)	(356,739)

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

	Year ended December 31,		
	2007	**2006**	**2005**
Opening balance	(372,926)	(321,663)	(339,616)
Recognized in income statement	86,385	(13,386)	92,977
Business combinations	3,461	(10,421)	(95,447)
Business de-combinations	8,491	-	913
Reclassified to assets held for sale	(24,913)	-	-
Foreign exchange difference	(22,810)	(27,456)	19,510
Closing balance	(322,312)	(372,926)	(321,663)

As at December 31, 2007 the Group had not recognized cumulative tax-loss carry forwards of US$ 104.7 million that expire as follows: in 2008: US$ 44.4 million; and US$ 60.3 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$ 1,905.7 million at December 31, 2007 (December 31, 2006: US$ US$ 1,088.5 million; December 31, 2005, US$ 733.9 million respectively).

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

10. Cash and cash equivalents

	December 31,		
	2007	2006	2005
Petty cash	607	254	429
Cash at bank	1,181,536	427,944	389,807
Escrow accounts	82	6,994	18,918
Short-term deposits with maturity of less than 3 months	364,656	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
	1,546,881	1,701,022	1,327,887

As described in note 28 to these consolidated financial statements, as at December 31, 2006 and December 31, 2005 the Group had 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 Metcombank with an original maturity of three months or less were included in cash and equivalents as at December 31, 2006 and 2005 respectively.

11. Short-term bank deposits

Short-term bank deposits totaled US$ 666.0 million at December 31, 2007 (December 31, 2006: US$ 1,147.3 million, 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 have 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.

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

12. Short-term financial investments

	December 31,		
	2007	2006	2005
Held-for-trading securities:			
Promissory notes and bonds of third parties	26,834	128,375	72,429
Promissory notes of related parties	7,457	5,198	4,772
Quoted equity securities	56,003	19,143	1,079
Other securities	56,270	-	-
Loans:			
Loans to related parties	82,205	75,699	81,133
Loans to third parties	38,046	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	818	116	67
	267,633	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.

13. Trade accounts receivable

	December 31,		
	2007	2006	2005
Customers	1,701,268	1,351,529	1,217,836
Allowance for doubtful accounts	(26,650)	(26,944)	(43,643)
	1,674,618	1,324,585	1,174,193

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

14. Related party balances

	December 31,		
	2007	2006	2005
Joint ventures' balances			
Trade accounts payable	16,353	12,675	5,929
Other related party balances			
Cash and cash equivalents at related party banks	239,909	542	33,046
Deposits with related party banks	18,985	-	-
Amounts receivable from other related parties:			
Trade accounts receivable	43,770	80,296	172,164
Advances paid	90,961	34,299	18,158
Other receivables	27,988	13,108	18,581
Short-term loans	82,205	75,699	81,133
Short-term promissory notes	7,457	5,198	4,772
Short-term loans to bank customers	-	29,166	15,739
Long-term loans	37,147	76,528	43,003
Long-term loans to bank customers	-	7,078	-
Held-to-maturity securities and deposits	79,129	56,237	1,988
	368,657	377,609	355,538
Amounts payable to other related parties:			
Trade accounts payable	36,886	73,528	114,448
Advances received	3,843	732	2,026
Payable for Lucchini acquisition	-	-	216,483
Other accounts payable	1,833	14,182	119,430
Bank demand deposits	-	58,719	16,302
Bank term deposits	-	15,904	17,339
	42,562	163,065	486,028
Debt financing includes the following balances with other related parties:			
Short-term debt financing	36,866	4,893	27,059
Long-term debt financing	1,536	7,500	74
	38,402	12,393	27,133

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

15. Related party transactions

	Year ended December 31,		
	2007	2006	2005
Sales and income received from other related parties:			
Sales	701,868	725,714	665,589
Interest income	24,185	31,567	12,984
	726,053	757,281	678,573
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	1,810	1,878	7,956
Purchases from joint ventures:			
Non-capital expenditures	218,912	139,752	77,464
Purchases from other related parties:			
Non-capital expenditures	666,137	1,012,740	647,643
Capital expenditures	8,572	130,769	57,413
	674,709	1,143,509	705,056

16. Inventories

	December 31,		
	2007	2006	2005
Raw materials and supplies	1,346,320	1,239,119	899,758
Work-in-progress	459,051	389,660	319,992
Finished goods	732,099	593,593	505,778
	2,537,470	2,222,372	1,725,528

Of the above amounts US$ 162.2 million (December 31, 2006: US$ 146.9 million, December 31, 2005: US$ 193.6 million) are stated at net realizable value.

During the year ended December 31, 2007, the Group recognized a US$ 24.9 million release and a US$ 25.5 million accrual of inventory obsolescence provision. (December 31, 2006: US$ 32.2 million and US$ 8.2 million respectively; December 31, 2005: US$ 20.8 million and US$ 1.0 million respectively).

17. Other current assets

	December 31,		
	2007	2006	2005
Advances paid and prepayments	232,998	185,767	144,892
Other taxes and social security prepaid	16,359	19,578	12,809
Reserves at Central Bank of Russia	-	12,325	4,938
Other assets	72,005	41,538	19,046
	321,362	259,208	181,685

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

18. Intangible assets

	Goodwill	Mineral licences	Software	Other intangible assets	Total
Cost:					
December 31, 2004	1,439	-	4,871	4,975	11,285
Additions	-	29,732	2,590	-	32,322
Business combinations	-	-	22,407	2,036	24,443
Disposal	-	-	(271)	-	(271)
Foreign exchange difference	(1)	(512)	(1,599)	(684)	(2,796)
December 31, 2005	1,438	29,220	27,998	6,327	64,983
Additions	-	4,717	1,473	2,618	8,808
Disposals	-	-	-	(337)	(337)
Foreign exchange difference	2	2,948	3,033	689	6,672
December 31, 2006	1,440	36,885	32,504	9,297	80,126
Additions	-	11,884	12,546	5,625	30,055
Business combinations	505,501	164	-	58,140	563,805
Disposals	-	-	(6,161)	(966)	(7,127)
Reclassified to assets held for sale	-	(34,254)	-	-	(34,254)
Business de-combinations	-	-	(6,224)	(4,728)	(10,952)
Foreign exchange difference	4,336	2,729	2,701	3,157	12,923
December 31, 2007	511,277	17,408	35,366	70,525	634,576
Amortization and impairment:					
December 31, 2004	21	-	-	3,975	3,996
Amortization expense	-	-	4,979	-	4,979
Disposals	-	-	(264)	-	(264)
Foreign exchange difference	(1)	-	(157)	(93)	(251)
December 31, 2005	20	-	4,558	3,882	8,460
Amortization expense	-	1,708	5,045	2,240	8,993
Disposals	-	-	-	(249)	(249)
Foreign exchange difference	2	55	823	376	1,256
December 31, 2006	22	1,763	10,426	6,249	18,460
Amortization expense	-	2,070	3,229	3,308	8,607
Disposals	-	-	(6,161)	(396)	(6,557)
Reclassified to assets held for sale	-	(3,602)	-	-	(3,602)
Business combinations	-	29	-	12,338	12,367
Business de-combinations	-	-	(3,924)	(3,923)	(7,847)
Foreign exchange difference	2	214	844	827	1,887
December 31, 2007	24	474	4,414	18,403	23,315
Net book values:					
December 31, 2005	1,418	29,220	23,440	2,445	56,523
December 31, 2006	1,418	35,122	22,078	3,048	61,666
December 31, 2007	511,253	16,934	30,952	52,122	611,261

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

19. Property, plant and equipment

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

	Land and buildings	Plant and machinery	Other productive assets	Community and infrastructure assets	Construction-in-progress	Total assets
Cost:						
December 31, 2004	1,041,866	2,725,924	186,909	40,743	753,664	4,749,106
Reclassifications	(6,288)	6,908	215	(835)	-	-
Additions:						
External	-	-	-	-	1,216,875	1,216,875
Interest capitalised	-	-	-	-	13,128	13,128
Business combinations	417,874	1,067,527	3,051	-	50,337	1,538,789
Disposals	(5,087)	(66,679)	(10,294)	(1,243)	(12,972)	(96,275)
Business de-combinations	(5,542)	(5,720)	(24)	-	(258)	(11,544)
Transfer to other assets	-	-	-	-	(12,060)	(12,060)
Transfers	109,826	595,373	59,452	22,622	(787,273)	-
Foreign exchange difference	(73,628)	(195,505)	(8,031)	(1,759)	(33,840)	(312,763)
December 31, 2005	1,479,021	4,127,828	231,278	59,528	1,187,601	7,085,256
Reclassifications	(3,170)	6,769	(4,676)	1,077	-	-
Additions:						
External	-	-	-	-	1,243,514	1,243,514
Interest capitalised	-	-	-	-	10,129	10,129
Business combinations	81,452	11,203	917	687	1,728	95,987
Disposals	(8,789)	(199,593)	(20,782)	(765)	(22,244)	(252,173)
Business de-combinations	-	-	-	(394)	-	(394)
Transfer to other assets	-	-	-	-	(11,907)	(11,907)
Transfers	401,347	1,259,628	35,821	15,809	(1,712,605)	-
Foreign exchange difference	164,215	415,750	22,769	6,063	90,446	699,243
December 31, 2006	2,114,076	5,621,585	265,327	82,005	786,662	8,869,655
Reclassifications	9,978	(26,117)	6,669	9,470	-	-
Additions:						
External	-	-	-	-	1,594,681	1,594,681
Interest capitalised	-	-	-	-	4,101	4,101
Business combinations	77,829	108,055	2,501	631	9,563	198,579
Disposals	(11,318)	(187,234)	(11,885)	(14,613)	(6,256)	(231,306)
Business de-combinations	(53,885)	(154,917)	(4,262)	(2,277)	(4,981)	(220,322)
Reclassified to assets held for sale	(182,171)	(166,972)	(13,863)	(152)	(56,508)	(419,666)
Transfer to other assets	-	(7,793)	-	-	(23,729)	(31,522)
Transfers	183,703	1,126,899	74,378	26,683	(1,411,663)	-
Foreign exchange difference	167,214	452,205	24,806	7,583	60,669	712,477
December 31, 2007	2,305,426	6,765,711	343,671	109,330	952,539	10,476,677

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

	Land and buildings	Plant and machinery	Other productive assets	Community and infrastructure assets	Construction-in-progress	Total assets
Depreciation and impairment:						
December 31, 2004	180,364	887,179	62,523	21,592	113,889	1,265,547
Reclassifications	(3,187)	5,315	(834)	(1,294)	-	-
Depreciation expense	72,601	385,036	32,678	1,303	-	491,618
Disposals	(1,591)	(37,181)	(5,680)	(1,188)	(2,962)	(48,602)
Business de-combinations	(625)	(2,011)	(10)	-	-	(2,646)
Transfers	402	6,080	659	17,071	(24,212)	-
Impairment of assets	8,662	80,367	2,489	5,046	14,820	111,384
Foreign exchange difference	(7,660)	(36,387)	(2,757)	(1,133)	(3,676)	(51,613)
December 31, 2005	248,966	1,288,398	89,068	41,397	97,859	1,765,688
Reclassifications	(3,640)	5,515	(1,678)	(197)	-	-
Depreciation expense	112,891	448,901	29,490	3,465	-	594,747
Business combinations	1,634	91	277	3	-	2,005
Disposals	(3,718)	(169,249)	(14,274)	(561)	(11,056)	(198,858)
Business de-combinations	-	-	-	(374)	-	(374)
Transfers	7,952	2,165	3	5,003	(15,123)	-
Impairment of assets	10,454	33,169	1,824	2,605	9,684	57,736
Foreign exchange difference	27,274	131,173	8,846	4,189	6,844	178,326
December 31, 2006	401,813	1,740,163	113,556	55,530	88,208	2,399,270
Reclassifications	1,583	(4,650)	565	2,502	-	-
Depreciation expense	139,192	614,696	33,861	6,339	-	794,088
Business combinations	23,541	26,970	1,051	17	-	51,579
Disposals	(2,714)	(148,664)	(9,227)	(1,309)	(1,186)	(163,100)
Business de-combinations	(6,806)	(51,376)	(1,312)	(1,869)	(69)	(61,432)
Reclassified to assets held for sale	(22,223)	(63,321)	(5,190)	(17)	(6,043)	(96,794)
Transfers	3,215	304	58	4,956	(8,533)	-
Impairment of assets	2,112	15,226	(36)	2,441	9,366	29,109
Foreign exchange difference	40,491	167,022	11,027	4,751	7,855	231,146
December 31, 2007	580,204	2,296,370	144,353	73,341	89,598	3,183,866
Net book values:						
December 31, 2005	1,230,055	2,839,430	142,210	18,131	1,089,742	5,319,568
December 31, 2006	1,712,263	3,881,422	151,771	26,475	698,454	6,470,385
December 31, 2007	1,725,222	4,469,341	199,318	35,989	862,941	7,292,811

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

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

20. Investment in associates and joint ventures

The Group's investment in associated and joint ventures companies is described in the tables below. Group structure and certain additional information on investments in associated and joint ventures companies, including ownership percentages, is given in note 28.

	December 31,		
	2007	2006	2005
Associates			
Severstal US Holdings LLC	386,105	132,076	59,415
Air Liquide Severstal	7,537	7,026	3,214
TA Cord	-	844	2,108
Others	1,276	2,811	2,927
Joint ventures			
Double Eagle Steel Coating Company	22,936	28,859	26,409
Spartan Steel Coating LLC	53,978	63,818	56,374
Mountain State Carbon LLC	117,260	119,472	60,205
	589,092	354,906	210,652

The following is summarized financial information in respect of associates and joint ventures:

	December 31,		
	2007	2006	2005
Assets	1,797,458	1,269,330	515,409
Liabilities	965,270	615,767	85,206
Equity	832,188	653,563	430,203

	Year ended December 31,		
	2007	2006	2005
Revenues	440,272	373,765	178,655
Net income/(loss)	(105,326)	3,262	(2,964)

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. By December 31, 2007, Severstal have contributed to the project US$ 461.6 million and provided a US dollar denominated loan to SeverCorr LLC in the amount of US$ 60.0 million. The loan is repayable in 2008 and bears interest at 15% per annum. By December 31, 2007, related parties of Severstal have contributed to the project US$ 81.8 million. Having completed those contributions, Severstal and its related parties have fully fulfilled their financing obligations for this project.

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

By December 31, 2006, the Group, through its subsidiary Severstal North America Inc, had contributed US$ 120.0 million to the Mountain State Carbon LLC, a joint venture with Wheeling-Pittsburgh Steel Corporation ("Wheeling-Pittsburgh"). Wheeling-Pittsburgh had 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 to 2009 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.

21. Long-term financial investments

	December 31,		
	2007	**2006**	**2005**
Loans:			
Loans to related parties	37,147	76,528	43,003
Loans to third parties	10,305	30,556	31,936
Loans to bank customers:			
Related parties	-	7,078	-
Third parties	-	19,226	-
Available-for-sale securities	26,285	10,315	12,614
Held-to-maturity securities and deposits	79,129	56,237	1,988
	152,866	199,940	89,541

22. Bank customer accounts

	December 31,		
	2007	**2006**	**2005**
Demand deposits	-	22,103	30,502
Term deposits	-	9,040	68,365
	-	31,143	98,867

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

23. Debt finance

	December 31, 2007	2006	2005
Citibank CLN - Eurobonds 2009	325,000	325,000	325,000
Citibank CLN - Eurobonds 2014	375,000	375,000	375,000
Other issued bonds	-	113,934	327,446
Bank financing	2,357,588	1,901,046	1,628,709
Factoring of receivables	201,909	224,049	191,732
Other financing	51,046	29,679	60,674
Accrued interest	40,355	54,748	39,720
Unamortized balance of transaction costs	(23,996)	(17,857)	(20,462)
	3,326,902	3,005,599	2,927,819
Total debt is denominated in the following currencies:			
US Dollars	1,501,465	1,210,753	1,287,620
Roubles	391,196	345,728	338,894
Euro	1,432,490	1,449,118	1,301,305
Other currencies	1,751	-	-
	3,326,902	3,005,599	2,927,819
Total debt is contractually repayable after the balance sheet date as follows:			
Less than one year	972,079	957,564	996,125
Between one and five years	1,659,450	1,488,594	1,496,325
After more than five years	695,373	559,441	435,369
	3,326,902	3,005,599	2,927,819

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

- US$ 210.4 million (December 31, 2006: US$ 221.3 million; December 31, 2005: US$ 129.4 million) net book value of plant and equipment;
- US$ 515.7 million (December 31, 2006: US$ 1,015.6 million; December 31, 2005: US$ 1,296.2 million) of current assets and revenues from export contracts; and,
- US$ 243.4 million (December 31, 2006: 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, including equity ratios, during the years ended December 31, 2007, 2006 and 2005.

At the balance sheet date the Group had US$ 983.7 million (December 31, 2006: US$ 422.1 million; December 31, 2005: US$ 319.9 million) of unused long term credit lines available to it.

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

24. Other current liabilities

	December 31, 2007	December 31, 2006	December 31, 2005
Amounts payable to employees	246,448	186,431	149,757
Advances received	214,405	230,696	156,494
Provisions (Note 26)	43,974	12,011	17,736
Accrued expenses	24,123	41,396	19,525
Lease liabilities	9,926	2,579	1,964
Other liabilities	61,704	33,735	33,742
	600,580	506,848	379,218

25. Retirement benefit liability

The Group provides for its employees the following retirement benefits, which are actuarially calculated as defined benefit obligation: lump sums payable to employees on retirement, monthly pensions, jubilee benefits, invalidity and death lump sums, burial expenses compensations and other benefits.

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

	December 31, 2007	December 31, 2006	December 31, 2005
Discount rates:			
Russia	6.47%	6.46%	6.85%
USA	5.25%	5.75%	5.50%
UK	3.10%	4.90%	n/a
Italy and France	5.10% to 5.45%	4.60%	4.0% to 5.0%
Future rates of benefit increase:			
Russia	5.8% to 6.2%	6.20%	6.20%
USA	0.00%	0.00%	0.00%
UK	3.40%	2.80%	n/a
Italy and France	2.0% to 3.0%	3.00%	3.0% to 3.5%

Rates shown for USA are the post-retirement healthcare trend rates. Due to a new labor contract at Severstal North America the following healthcare trend rates apply to the hourly plan:

2007: 9%
2008: 9%
2009: 8%
2010: 0%

Hourly plan liability that is incurred to these rates is US$ 35.2 million.

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

Present value of the defined benefit obligation with the deduction of fair value of the plan assets is recognized as retirement benefit liability at the balance sheet.

	December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Present value of the defined benefit obligation	495,713	549,009	387,657	208,325	61,152
Fair value of the plan assets	(108,315)	(106,055)	(49,171)	(50,302)	(29,127)
Retirement benefit liability	387,398	442,954	338,486	158,023	32,025

The components of the retirement benefit liabilities are as follows:

	December 31,		
	2007	**2006**	**2005**
Retirees	172,244	140,658	103,915
Other participants:			
Vested	126,890	203,334	133,443
Non-vested	196,579	205,017	150,299
Total	495,713	549,009	387,657

The movements in the defined benefit obligation are as follows:

	Year ended December 31,		
	2007	**2006**	**2005**
Opening balance	549,009	387,657	208,325
Business combinations/(de-combinations)	(33,612)	39,328	149,110
Reclassified to assets held for sale	(9,260)	-	-
Benefits paid	(55,238)	(33,547)	(36,241)
Interest cost	27,589	24,962	19,144
Service cost	18,640	18,767	12,890
Actuarial (gain)/loss	(37,497)	68,573	56,139
Foreign exchange loss/(gain)	36,082	43,269	(21,710)
Closing balance	495,713	549,009	387,657

The movements in the plan assets are as follows:

	Year ended December 31,		
	2007	**2006**	**2005**
Opening balance	106,055	49,171	50,302
Business combinations/(de-combinations)	(10,122)	28,566	-
Contributions made during the year	11,534	13,424	16,641
Benefits paid	(14,852)	(12,356)	(18,787)
Return on assets	10,921	16,382	9,084
Actuarial gain/(loss)	(441)	915	(6,241)
Foreign exchange gain/(loss)	5,220	9,953	(1,828)
Closing balance	108,315	106,055	49,171

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

Defined benefit obligation analysis is as follows:

	Year ended December 31,		
	2007	2006	2005
Wholly unfunded	258,926	284,485	238,098
Partly funded	236,787	264,524	149,559
Total	495,713	549,009	387,657

Plan assets analysis is as follows:

	December 31,		
	2007	2006	2005
Equity instruments	44,448	44,450	20,625
Government bonds	28,548	28,850	20,009
Corporate bonds	14,964	14,178	-
Deposits	3,037	1,980	3,132
Cash	1,170	1,417	511
Other investments	16,148	15,180	4,894
Total	108,315	106,055	49,171

The Group's best estimate of contributions expected to be paid to the plan during the year 2008 is US$ 8.5 million. Expected rate of return on plan assets was 17.0% for Russia and 4.95% for United Kingdom during 2007. Actual rate of return on plan assets was 16.1% for Russia and 4.95% for United Kingdom during 2007.

The retirement benefit expenses recognized in the income statement are contained in the caption: 'General and administrative expenses', except for the interest cost, which is recognized in the caption 'Interest expense'.

26. Other non-current liabilities

	December 31,		
	2007	2006	2005
Decommissioning liability	108,762	128,209	102,885
Restructured tax liabilities	24,978	67,731	97,368
Provisions	66,859	67,139	50,610
Lease liabilities	14,610	13,742	9,498
Other	11,179	9,269	20,714
	226,388	286,090	281,075

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.

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

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 accrued an additional 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.

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

	Year ended December 31,		
	2007	2006	2005
Tax interest accrued prior to restructuring	-	-	(26,675)
Gain on restructuring of tax liabilities	-	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,		
	2007	2006	2005
Payable within one year	20,960	43,553	26,059
Payable after one year	24,978	67,731	97,368
	45,938	111,284	123,427

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

Provisions

The current portion of provisions is included in the caption 'Other current liabilities'. The total amount of the provisions is presented in the table below:

	December 31,		
	2007	**2006**	**2005**
Social security claims	30,259	28,689	23,020
Other employee related	16,075	13,578	12,984
Legal claims	27,423	21,917	17,004
Restructuring	8,284	5,569	-
Environmental claim	24,416	6,052	9,657
Other	4,376	3,345	5,681
	110,833	79,150	68,346

	December 31,		
	2007	**2006**	**2005**
Payable within one year	43,974	12,011	17,736
Payable after one year	66,859	67,139	50,610
	110,833	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.

27. 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, 2007 and 2006, Severstal had 1,007,701,355 issued and fully paid 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.

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

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

	Number of shares, thsd.	US$'000
Share capital at December 31, 2005	917,268	3,311,254
Share capital at December 31, 2006	1,007,701	3,311,288
Share capital at December 31, 2007	1,007,701	3,311,288

All shares carry equal voting and distribution rights.

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This policy includes compliance with certain externally imposed minimum capital requirements. The Group's management constantly monitors profitability and leverage ratios and compliance with the minimum capital requirements. The Group uses the return on assets ratio which is defined as profit from operations divided by total assets (averaged over the measurement period) and the leverage ratio calculated as net debt, comprising of long-term and short-term indebtedness less cash, cash equivalents and short-term bank deposits, divided by shareholder's equity. The level of dividends is also monitored by the Board of Directors of the Group.

There were no changes in the Group's approach to capital management during the year.

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$ 5,894.9 million (December 31, 2006: US$ 4,667.6 million; December 31, 2005: US$ 3,308.6 million).

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

On June 29, 2007 the Meeting of Shareholders approved a dividend of 2.6 rubles (US$ 0.1 at June 29, 2007 exchange rate) per share and per GDR for the first quarter of 2007 with the record date of May 18, 2007.

On September 28, 2007 the Meeting of Shareholders approved a dividend of 10.0 rubles (US$ 0.4 at September 28, 2007 exchange rate) per share and per GDR for the first half of 2007.

On December 20, 2007 the Meeting of Shareholders approved a dividend of 2.5 rubles (US$ 0.1 at December 20, 2007 exchange rate) per share and per GDR in respect of the third quarter of 2007.

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

28. Subsidiaries, associates and joint ventures

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

	December 31,				
Company	**2007**	**2006**	**2005**	**Location**	**Activity**
Russian Steel segment:					
Subsidiaries:					
ZAO Severgal	100.0%	75.0%	75.0%	Russia	Hot dip galvanizing
ZAO Severstal SMZ-Kolpino	100.0%	n/a	n/a	Russia	Steel constructions
ZAO Severstal TPZ-Sheksna	100.0%	n/a	n/a	Russia	Steel constructions
ZAO Severstal Steel Solutions	100.0%	n/a	n/a	Russia	Steel constructions
OOO SSM-Tyazhmash	100.0%	100.0%	100.0%	Russia	Repairs&construction
OAO Domnaremont	82.7%	82.1%	56.4%	Russia	Repairs&construction
ZAO Firma Stoik	100.0%	100.0%	100.0%	Russia	Repairs&construction
OAO Metallurgremont	79.8%	79.8%	79.3%	Russia	Repairs&construction
OOO Energoremont	100.0%	100.0%	100.0%	Russia	Repairs&construction
OOO Electroremont	93.3%	93.3%	93.3%	Russia	Repairs&construction
Victory Industries, Inc	100.0%	100.0%	n/a	USA	Repairs&construction
OOO Uralmash MO	n/a	100.0%	100.0%	Russia	Engineering
OOO AviaCompany Severstal	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	100.0%	Switzerland*	Steel sales
AS Severstallat	50.5%	50.5%	50.5%	Latvia*	Steel sales
Latvijas Metals	50.5%	50.5%	50.5%	Latvia*	Steel sales
ZAO SeverStalBel	80.6%	n/a	n/a	Belarus*	Steel sales
Severstal-Ukraine LLC.	51.0%	n/a	n/a	Ukraine*	Steel sales
Armaturu Servisa Centrs SIA	25.2%	25.2%	25.2%	Latvia*	Steel service center
ZAO Neva-Metall Trans	100.0%	n/a	n/a	Russia	Shipping operations
ZAO Neva-Metall	100.0%	n/a	n/a	Russia	Shipping operations
Upcroft Limited	100.0%	100.0%	100.0%	Cyprus*	Holding company***
Varndell Limited	100.0%	100.0%	100.0%	Cyprus*	Holding company***
Associates:					
Severstal US Holdings LLC**	85.0%	63.3%	60.0%	USA*	Holding company
Severstal North America segment:					
Subsidiaries:					
Severstal North America Inc	100.0%	100.0%	93.0%	USA	Iron & steel mill
Associates:					
Delaco Processing LLC	49.0%	49.0%	45.6%	USA	Steel slitting
Joint ventures:					
Spartan Steel Coating LLC	48.0%	48.0%	44.6%	USA	Hot dip galvanizing
Double Eagle Steel Coating company	50.0%	50.0%	46.5%	USA	Electro-galvanizing
Mountain State Carbon LLC	50.0%	50.0%	31.0%	USA	Coking coal

(*) – 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.
(**) – 20.1% of ordinary shares at December 31,2007 (December 31, 2006: 20.2 %; December 31, 2005: 19.9%)
(***) – Upcroft is holding 29.0% of Lucchini SpA and Varndell is holding 50.8% of Lucchini SpA

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

Lucchini segment:

Subsidiaries:					
Lucchini SpA	79.8%	70.8%	70.8%	France	Holding company
Ascometal SAS	79.8%	70.8%	70.8%	France	Steel manufacturing
Ascometal GmbH	79.8%	70.8%	70.8%	Germany	Sales
Ascoforge Safe SAS	n/a	70.8%	70.8%	France	Forgings
Bari Fonderie Meridionali SpA	79.8%	70.8%	70.8%	Italy	Forgings
Bi-Mec Srl	79.8%	70.8%	70.8%	Italy	Maintenance
GSI Lucchini SpA	55.3%	49.1%	49.1%	Italy	Steel spheres
Nitruvid SAS	n/a	70.8%	70.8%	France	Steel finishing
Lucchini Asia Pacific Pte Ltd	79.8%	70.8%	70.8%	Singapore	Sales
Lucchini Holland BV	79.8%	70.8%	70.8%	Netherlands	Investment holding
Lucchini HPS GmbH	n/a	23.5%	46.0%	Germany	Sales
Lucchini Iberia SI	79.8%	70.8%	70.8%	Spain	Sales
Lucchini Poland Spzoo	n/a	70.8%	70.8%	Poland	Machining
Lucchini Servizi Srl	79.8%	70.8%	70.8%	Italy	Dormant
Lucchini Sidermeccanica SpA	n/a	70.8%	70.8%	Italy	Casting and machining
Lucchini Siderprodukte AG	51.9%	46.0%	46.0%	Switzerland	Sales
Lucchini Sweden AB	n/a	70.8%	70.8%	Sweden	Machining
Lucchini UK Ltd	n/a	70.8%	70.8%	UK	Machining
Luchini USA Inc	79.8%	70.8%	70.8%	USA	Sales
Servola SpA	79.8%	70.8%	70.8%	Italy	Asset holding
Sideris Steel SAS	79.8%	70.8%	70.8%	France	Investment holding
Simmofos Sarl	79.8%	70.8%	70.8%	France	Asset holding
Sipro HPS AG	n/a	n/a	46.0%	Switzerland	Sales
Vertek Srl	79.8%	70.8%	70.8%	Italy	Steel finishing
Siderco SpA	79.8%	n/a	n/a	Italy	Slag processor
Associates:					
ESPRA SAS	27.9%	24.8%	24.8%	France	Steel scrap
Logistica Servola Srl	39.9%	35.4%	35.4%	Italy	Dormant
Setrans Srl	n/a	21.2%	21.2%	Italy	Logistics and storage
Tecnologie Ambientali Pulite Srl	19.9%	17.6%	17.6%	Italy	Enviromental services
GICA SA	19.9%	n/a	n/a	Switzerland	Carbon dioxide trading
Companies classified as held for sale:					
Relco Spzoo	79.8%	70.8%	70.8%	Poland	Land holding
Coimpex Spzoo	31.9%	28.3%	28.3%	Poland	Land holding

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

Metalware segment:					
Subsidiaries:					
OAO Severstal-Metiz	97.0%	97.0%	100.0%	Russia	Steel machining
OAO Dneprometiz	58.2%	58.2%	nil%	Ukraine	Steel machining
Carrington Wire Ltd	97.0%	97.0%	nil%	UK	Steel machining
OAO Cherepovets Steel Rolling Mill	n/a	n/a	88.8%	Russia	Steel machining
OAO Orlovsky Steel Rolling Mill	n/a	n/a	87.2%	Russia	Steel machining
OOO Volgometiz	n/a	100.0%	100.0%	Russia	Steel machining
OOO Policher	n/a	87.3%	80.0%	Russia	Polymer coatings
OOO UniFence	97.0%	n/a	n/a	Russia	Steel machining
OOO ChSPZ MKR (UniSpring)	97.0%	48.5%	44.4%	Russia	Mattress springs
Mining segment:					
Subsidiaries:					
OAO Karelsky Okatysh	94.8%	90.8%	90.8%	Russia	Iron ore pellets
OAO Olkon	92.7%	91.8%	91.6%	Russia	Iron ore concentrate
OAO Vorkutaugol	93.1%	89.2%	88.1%	Russia	Coking coal concentrate
OAO Mine Vorgashorskaya	75.0%	73.6%	70.2%	Russia	Coking coal concentrate
OAO Mine Pervomaiskaya	99.4%	99.1%	99.1%	Russia	Coking coal concentrate
OAO Mine Berezovskaya	97.5%	96.3%	96.0%	Russia	Coking coal concentrate
OAO SShEMK	75.6%	75.6%	75.6%	Russia	Engineering
OAO Severokuzbasskoe PTU	87.3%	87.3%	87.3%	Russia	Transportation
OAO Anzhero-Sudzhenskoe PTU	94.4%	94.4%	94.4%	Russia	Transportation
ZAO Vtorchermet	84.8%	n/a	n/a	Russia	Processing scrap
ZAO Rospromresursy	100.0%	n/a	n/a	Russia	Processing scrap
OAO Murmanskvtormet	75.1%	n/a	n/a	Russia	Processing scrap
OAO Arhangelskii vtormet	75.0%	n/a	n/a	Russia	Processing scrap
OOO Nerengri-Metallik	100.0%	n/a	n/a	Russia	Gold mining
ZAO Rudnik Aprelkovo	100.0%	n/a	n/a	Russia	Gold mining
Celtic Resources Holdings Plc	86.3%	n/a	n/a	Ireland	Gold mining
OOO SPB-Giproshakht	100.0%	n/a	n/a	Russia	Engineering
OAO Pechorugol	n/a	99.3%	99.3%	Russia	Holding company
OOO Olkon-Invest	n/a	100.0%	100.0%	Russia	Holding company
OOO Terra	n/a	100.0%	100.0%	Russia	Holding company
OOO Holding Gornaya Company	100.0%	100.0%	100.0%	Russia	Holding company
ZAO Impulse-Consult	n/a	100.0%	100.0%	Russia	Holding company
OOO Investment Company Kuzbassugol	n/a	100.0%	100.0%	Russia	Holding company
Financing segment:					
Subsidiaries:					
OAO Metallurgical Commercial Bank	n/a	72.9%	72.6%	Russia	Banking
IPM segment:					
Subsidiaries:					
ZAO Izhora Pipe Mill	100.0%	100.0%	100.0%	Russia	Wide pipes

In addition, at the balance sheet date, a further 34 (December 31, 2006: 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 2007, 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.

Acquisitions of Mining companies from Majority Shareholder during 2007

In July 2007, the Group acquired a 100% stake in OOO Petrovtormet and OOO Severstalskrap-Komi, for a total consideration of US$ 0.02 million and US$ 0.2 million, respectively, and a 75.01% and a 75.1% stake in OAO Arhangelskii vtormet and in OAO Murmanskvtormet, for a total consideration of US$ 2.2 million and US$ 2.9 million, respectively. OAO Arhangelskii vtormet, OAO Murmanskvtormet, OOO Petrovtormet and OOO Severstalskrap-Komi were acquired from the controlling shareholder and comparatives were restated in accordance with the Group's accounting policy.

The acquirees' profit since the acquisition dates included in the Group's profit for the period, as well as the revenue and profit of the acquired entities from the beginning of the period to the dates of acquisition, individually and in the aggregate, are insignificant to the Group's revenue and profit for the period.

Acquisitions of subsidiaries from third and related parties during 2007

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

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

In May 2007, the Group completed the acquisition of 100% of a stevedore company, ZAO Neva-Metall, for US$ 98.7 million and 100% of the shipping agency ZAO Neva-Metall Trans for US$ 1.3 million from a related party. The majority of their operations are located in Saint Petersburg. The acquisition was conducted to secure a self-supporting export logistic chain. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations. Final purchase price allocation is expected to be completed during the first quarter of the year 2008.

In July 2007, the Group acquired a 100% stake in each of the companies OOO Georesurs, OOO Severstal-Vtormet, and OOO SPB-Giproshakht for a total consideration of US$ 2.1 million, US$ 24.9 million, and US$ 6.3 million, respectively.

In October 2007, the Group acquired a 100% stake in OOO Nerengri-Metallik and a 100% stake in ZAO Mine Aprelkovo for a total consideration of US$ 105 million and US$ 153 million, respectively. OOO Nerengri-Metallik mines gold from the Tabornoye deposit in the Sakha-Yakutiya Republic, ZAO Mine Aprelkovo mines from the Pogromnoye gold deposit in the Chita Region. Both deposits are operated as open-pit mines with gold extracted utilizing heap leaching technology. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations. Final purchase price allocation is expected to be completed within one year starting from the date of acquisition.

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

The acquirees' profit since the acquisition dates included in the Group's profit for the period, as well as the revenue and profit of the acquired entities from the beginning of the period to the dates of acquisition, individually and in the aggregate, are insignificant to the Group's revenue and profit for the period.

During August – December 2007, the Group acquired an 86.3% stake in Celtic Resources Holdings Plc. for a total consideration of US$ 264.6 million. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations. Final purchase price allocation is expected to be completed within one year starting from the date of acquisition.

The acquirees' profit since the acquisition dates included in the Group's profit for the period, is insignificant to the Group's profit for the period. The acquirees' revenue and profit from the beginning of the period to the dates of acquisition comprised US$ 62 million and US$ 7 million respectively.

A summary of assets and liabilities acquired from third and related parties but excluding acquisitions from the Majority Shareholder during 2007, 2006 and 2005 is presented below:

	2007	2006	2005
Cash and cash equivalents	25,665	5,875	657
Trade accounts receivable	14,462	26,463	1,311
Inventories	46,902	18,841	4,906
Deferred tax assets	3,461	-	-
Other current assets	88,106	7,601	792
Property, plant and equipment	147,000	93,982	4,036
Intangible assets	45,937	-	-
Assets held for sale	14,644	-	16,365
Trade accounts payable	(14,007)	(33,557)	(199)
Other taxes and social security payable	(8,641)	(70)	(144)
Deferred tax liabilities	-	(10,421)	-
Retirement benefit liability	-	(10,762)	-
Debt finance	(63,223)	(8,623)	(841)
Other liabilities	(64,156)	(6,387)	(151)
Net identifiable assets and liabilities acquired	236,150	82,942	26,732
Minority interest	(25,329)	(17,792)	-
Severstal's share of net identifiable assets and liabilities acquired	210,821	65,150	26,732
Consideration paid:			
Consideration in cash	(669,759)	(63,500)	(4,880)
Consideration in financial assets	(33,321)	-	(17,022)
Positive goodwill on acquisition of subsidiaries	(505,501)	-	-
Negative goodwill on acquisition of subsidiaries	12,223	1,650	4,830
Negative goodwill on minority buy-out	-	2,563	2,800
Net change in cash and cash equivalents	(644,094)	(57,625)	(4,223)

Acquisitions of minority interest

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

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

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

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

Disposals of subsidiaries during 2007

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

In July 2007, the Group sold 100% (effective ownership was 79.8%) of Nitruvid SAS to an independent third party for a total consideration of € 6.5 million (US$ 8.9 million at the transaction date exchange rate).

In October 2007, the Group sold its 100% (effective ownership was 79.8%) participation in Ascoforge Safe SAS to an independent third party for a total consideration of one Euro (US$ 1.3 at the transaction date exchange rate).

In November 2007, the Group sold its 73.1% of OAO Metallurgical Commercial Bank to a company controlled by Severstal's Majority Shareholder for a total consideration of US$ 43.0 million.

In December 2007, the Group sold 100% of OOO URALMASH-Metallurgicheskoe Oborudovanie to an independent third party for a total consideration of US$ 14.9 million.

As part of the realization of the disposal plan identified in 2003, in August, 2005 the Group sold interest in Huta LW Spzoo and its subsidiaries to Arcelor. The proceeds comprised an immediate cash payment and a deferred consideration of € 61.42 million (US$ 72.95 million at December 31, 2005 exchange rate) that was received by the Group in August, 2007.

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

A summary of assets and liabilities disposed during 2007, 2006 and 2005 is presented below:

	2007	2006	2005
Cash and cash equivalents	(235,220)	-	-
Trade accounts receivable	(151,658)	-	-
Inventories	(108,238)	(476)	-
Financial investments	(237,408)	-	-
Other assets	(30,537)	(531)	-
Property, plant and equipment	(158,890)	(20)	(8,898)
Intangible assets	(3,105)	-	-
Deferred tax assets	(759)	-	-
Assets held for sale	-	-	(217,908)
Trade accounts payable	205,171	-	-
Bank customer accounts	345,753	-	-
Income tax payable	9,375	-	-
Other taxes and social security payable	13,369	57	-
Deferred tax liabilities	9,250	-	913
Retirement benefit liability	23,490	-	-
Debt finance	66,108	-	-
Liabilities held for sale	-	-	138,809
Other liabilities	30,743	74	3,190
Net identifiable assets	(222,556)	(896)	(83,894)
Minority interest	16,315	154	8,928
Sub-total	(206,241)	(742)	(74,966)
Consideration in cash	239,308	1,588	13,701
Deferred consideration	-	-	72,952
Adjustment to fair value of deferred consideration	-	-	(21,446)
Selling costs	(1,560)	-	-
Net gain/(loss) on disposal	31,507	846	(9,759)
Deferred consideration received	83,842	-	-
Group's cash and cash equivalents in Metcombank	149,608	-	-
Net change in cash and cash equivalents	235,978	1,588	13,701

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

29. Discontinued operations and assets held for sale

The Group's discontinued operations consist of OAO Metallurgical Commercial Bank (presented the Group's Financing segment) which was disposed of in November 2007, and Lucchini companies which are classified as held for sale as at December 31, 2007, December 31, 2006 and December 31, 2005. The post-tax loss on the disposal of OAO Metallurgical Commercial Bank amounted to US$ 10.2 million.

The results of discontinued operations and net cash flows were as follows:

	Year ended December 31,		
	2007	**2006**	**2005**
Revenue	831	8,675	74,506
Expenses	(2,914)	(3,365)	(81,537)
Other income/expenses	3,821	30,212	10,011
Profit before income tax	1,738	35,522	2,980
Income tax expense	(1,305)	(2,673)	(2,378)
Profit for the year	433	32,849	602
Net cash (used in)/generated from operating activities	(64,446)	148,650	(112,737)
Net cash (used in)/generated from financing activities	-	17,779	(974)

The Group's assets held for sale balances are mostly represented by Kuzbass coal mines, a group of subsidiaries, which the Group intends to dispose of in first half of 2008, and Lucchini and Metalware segment's companies.

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

The major classes of assets and liabilities of the disposal group measured at the lower of carrying amount and fair value less costs to sell at December 31, 2007, 2006 and 2005 were as follows:

	December 31,		
	2007	**2006**	**2005**
Current assets:			
Cash and cash equivalents	6,199	5,986	89
Short-term financial investments	18,550	-	-
Trade accounts receivable	2,365	100	80
Amounts receivable from related parties	2,732	-	-
Inventories	9,182	-	-
VAT recoverable	1,808	-	-
Income tax recoverable	422	3	4
Other current assets	5,160	-	-
Total current assets	46,418	6,089	173
Non-current assets:			
Long-term financial investments	2,540	514	-
Investment in associates	1	1,395	-
Property, plant and equipment	332,632	19,375	14,438
Intangible assets	30,710	50	-
Deferred tax assets	24,913	11	-
Other non-current assets	23,982	86,082	51,506
Total non-current assets	414,778	107,427	65,944
Total assets	461,196	113,516	66,117
Current liabilities:			
Trade accounts payable	7,938	-	-
Other taxes and social security payable	3,862	-	-
Other current liabilities	6,980	-	-
Total current liabilities	18,780	-	-
Non-current liabilities:			
Retirement benefit liability	9,260	-	-
Other non-current liabilities	63,710	1,792	172
Total non-current liabilities	72,970	1,792	172
Total liabilities	91,750	1,792	172

30. Subsequent events

In January 2008, an explosion occurred on one of Severstal North America's ("SNA") furnaces, blast furnace "B". As a result of the accident SNA has stopped production at this facility. SNA is carrying out an internal investigation and estimation of losses. Blast furnace "B" is the smaller of SNA's two furnaces and is used to produce pig iron for subsequent conversion into steel. "B" furnace's daily production was 1,800 tons. SNA's primary blast furnace "C", a newly rebuilt facility, was not affected by the accident. At the date of these consolidated financial statements it is not possible to quantify any potential loss.

In January 2008, a fire occurred at blast furnace №5 of Severstal's steel plant in Cherepovets. A preliminary investigation showed that the fire might had been the result of dispersal and subsequent ignition of the furnace's roofing material caused by opening of the third Cowper stove in the upper part of the furnace. On February 2, 2008 blast furnace №5 resumed operations and restored its normal production capacity. At the date of these consolidated financial statements it is not possible to quantify any potential loss.

In January 2008, the Group acquired assets of a Polish steel-pipe producer Technologia Buczek, which was declared bankrupt, for the total consideration of PLN 54.1 million (US$ 21.8 million at the transaction date exchange rate). As a part of the above assets Severstal purchased a 100% stake in the freight company SAMKOL and a 50.72% stake in the tube manufacturing company Buczek Automotive. These assets were bought by the Group's Latvian unit, Severstallatt, which plans to develop production and distribution of steel products in Poland.

In January 2008, the supplier of electricity with whom SNA had a long-term purchase contract decided to terminate the contract and pay a lump sum penalty to compensate SNA for the differential between the contract price and the price of electricity SNA will have to pay another supplier for the duration of the original contract. This penalty payment amounted to US$ 177 million which was paid in February 2008.

In January 2008, the Group acquired a 100% stake in Baracom Limited from its Majority Shareholder for US$ 84.4 million. Baracom owns 79.9% of the voting stock of the holding structure, which controls 74.2% of SeverCorr. Accordingly, starting from January 2008 SeverCorr will be included in the Group's consolidated financial statements.

In January 2008, the Group acquired the remaining 13.7% stake in Celtic Resources Holdings Plc for US$ 44 million.

The acquirees' profit since the acquisition dates is insignificant to the Group's profit for the period.

In March 2008, the Board of Directors recommended the final dividend for 2007 of RUR 4.00 (US$ 0.17) per share and GDR.

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

31. Segment information

Segmental income statements for the year ended December 31, 2007:

	Mining segment	Russian Steel segment	Lucchini segment	Severstal North America	IPM	Metalware segment	Financing segment	Inter segment transactions	Conso-lidated
Sales									
Sales - external	1,029,407	6,690,697	3,624,913	1,691,818	550,715	955,493	-	-	14,543,043
Sales - to related parties	1,167,458	1,278,328	131,595	53	-	56,216	-	(1,931,782)	701,868
	2,196,865	7,969,025	3,756,508	1,691,871	550,715	1,011,709	-	(1,931,782)	15,244,911
Cost of sales	(1,497,487)	(4,837,325)	(3,194,377)	(1,664,065)	(379,824)	(871,799)	-	1,903,306	(10,541,571)
Gross profit	699,378	3,131,700	562,131	27,806	170,891	139,910	-	(28,476)	4,703,340
General and administrative expenses	(149,755)	(279,485)	(188,016)	(30,626)	(9,509)	(37,030)	-	3,211	(691,210)
Distribution expenses	(180,788)	(542,904)	(117,998)	-	(29,075)	(44,341)	-	5,596	(909,510)
Indirect taxes and contributions	(64,964)	(46,763)	(32,188)	-	(4,440)	(5,259)	-	-	(153,614)
Share of associates' (losses)/profits	-	(95,637)	(548)	5,338	-	1,450	-	-	(89,397)
Net income from securities operations	33	21,164	10,827	-	-	22	-	(6,482)	25,564
(Loss)/gain on disposal of property, plant and equipment	(12,219)	(31,799)	(508)	(3,485)	(53)	12,283	-	501	(35,280)
Net other operating (expenses)/income	(9,912)	8,815	(17,343)	2,556	(692)	8,857	-	199	(7,520)
Profit from operations	281,773	2,165,091	216,357	1,589	127,122	75,892	-	(25,451)	2,842,373
Impairment of property, plant and equipment	(3,058)	(5,451)	(15,895)	-	-	(4,705)	-	-	(29,109)
Negative goodwill, net	11,599	-	507	-	-	117	-	-	12,223
Net other non-operating (expenses)/income	(20,608)	(39,178)	24,374	-	(18)	(2,828)	-	(20,318)	(58,576)
Profit before financing and taxation	269,706	2,120,462	225,343	1,589	127,104	68,476	-	(45,769)	2,766,911
Interest income	10,996	182,619	21,978	855	45	823	-	(44,379)	172,937
Interest expense	(70,339)	(124,870)	(72,793)	(12,418)	(27,601)	(7,649)	-	27,377	(288,293)
Foreign exchange difference	(3,447)	10,544	(535)	-	(2,850)	(1,096)	-	284	2,900
Profit before income tax	206,916	2,188,755	173,993	(9,974)	96,698	60,554	-	(62,487)	2,654,455
Income tax (expense)/benefit	(45,684)	(540,509)	(64,808)	9,247	(20,080)	(22,312)	-	2,877	(681,269)
Profit from continuing operations	161,232	1,648,246	109,185	(727)	76,618	38,242	-	(59,610)	1,973,186
Profit/(loss) from discountinued operations	-	-	(15,660)	-	-	-	16,093	-	433
Profit for the year	161,232	1,648,246	93,525	(727)	76,618	38,242	16,093	(59,610)	1,973,619
Additional information:									
depreciation expense	203,409	332,536	196,569	14,492	23,370	23,712	-	-	794,088
capital expenditures	394,047	494,780	199,267	483,342	23,335	29,965	-	-	1,624,736
intersegment sales (incl. in sales to related parties)	1,142,654	647,880	131,595	-	-	9,653	-	(1,931,782)	-

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

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

	Mining segment	Russian Steel segment	Lucchini segment	Severstal North America	IPM	Metalware segment	Financing segment	Inter segment transactions	Conso-lidated
Sales									
Sales - external	539,886	5,352,801	3,182,119	1,868,426	-	780,086	-	-	11,723,318
Sales - to related parties	951,105	964,694	175,347	-	-	58,837	-	(1,424,269)	725,714
	1,490,991	6,317,495	3,357,466	1,868,426	-	838,923	-	(1,424,269)	12,449,032
Cost of sales	(965,799)	(3,804,762)	(2,807,210)	(1,711,899)	(24)	(736,568)	-	1,425,035	(8,601,227)
Gross profit	525,192	2,512,733	550,256	156,527	(24)	102,355	-	766	3,847,805
General and administrative expenses	(137,299)	(264,884)	(191,282)	(27,561)	(2,879)	(31,082)	-	-	(654,987)
Distribution expenses	(96,165)	(456,340)	(101,243)	-	-	(43,560)	-	-	(697,308)
Indirect taxes and contributions	(48,369)	(52,742)	(37,190)	-	(826)	(2,982)	-	-	(142,109)
Share of associates' (losses)/profits	-	(2,644)	202	2,971	-	(1,722)	-	-	(1,193)
Net income/(loss) from securities operations	7,087	20,605	3,713	-	(80)	314	-	(3,376)	28,263
(Loss)/gain on disposal of property, plant and equipment	(11,642)	(24,147)	(3,412)	469	(407)	(153)	-	-	(39,292)
Net other operating (expenses)/income	(1,079)	(12,518)	(13,141)	1,827	2,440	5	-	(4,643)	(27,109)
Profit from operations	237,725	1,720,063	207,903	134,233	(1,776)	23,175	-	(7,253)	2,314,070
Impairment of property, plant and equipment	(16,372)	(8,222)	(9,778)	-	-	(23,364)	-	-	(57,736)
Net gain on restructuring of tax liabilities	14,669	-	-	-	-	-	-	-	14,669
Negative goodwill/(goodwill impairment), net	224	(187)	-	-	-	1,650	-	2,526	4,213
Net other non-operating expenses	(11,408)	(40,867)	-	-	-	(1,261)	-	-	(53,536)
Profit before financing and taxation	224,838	1,670,787	198,125	134,233	(1,776)	200	-	(4,727)	2,221,680
Interest income	11,090	99,440	11,589	4,485	67	898	-	(25,167)	102,402
Interest expense	(48,706)	(137,554)	(58,778)	(13,747)	-	(7,306)	-	21,114	(244,977)
Foreign exchange difference	(3,197)	37,553	1,638	-	(1,445)	(1,225)	-	-	33,324
Profit before income tax	184,025	1,670,226	152,574	124,971	(3,154)	(7,433)	-	(8,780)	2,112,429
Income tax (expense)/benefit	(82,101)	(459,753)	(53,790)	(41,355)	87	1,440	-	174	(635,298)
Profit from continuing operations	101,924	1,210,473	98,784	83,616	(3,067)	(5,993)	-	(8,606)	1,477,131
Profit from discountinued operations	-	-	22,212	-		-	6,565	4,072	32,849
Profit for the year	101,924	1,210,473	120,996	83,616	(3,067)	(5,993)	6,565	(4,534)	1,509,980
Additional information:									
depreciation expense	190,495	252,028	117,911	8,327	724	25,262	-	-	594,747
capital expenditures	350,863	554,357	126,687	82,778	127,413	10,144	60	20	1,252,322
intersegment sales (incl. in sales to related parties)	853,045	392,710	169,371	-	-	9,143	-	(1,424,269)	-

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

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

	Mining segment	Russian Steel segment	Lucchini segment	Severstal North America	IPM	Metalware segment	Financing segment	Inter segment transactions	Conso-lidated
Sales									
Sales - external	420,314	5,174,637	1,805,903	1,822,573	-	562,630	-	-	9,786,057
Sales - to related parties	971,229	789,677	41,630	-	-	56,200	-	(1,193,147)	665,589
	1,391,543	5,964,314	1,847,533	1,822,573	-	618,830	-	(1,193,147)	10,451,646
Cost of sales	(745,429)	(3,405,374)	(1,569,239)	(1,716,332)	(2,251)	(556,963)	-	1,164,450	(6,831,138)
Gross profit	646,114	2,558,940	278,294	106,241	(2,251)	61,867	-	(28,697)	3,620,508
General and administrative expenses	(105,158)	(225,159)	(125,434)	(29,539)	(2,490)	(36,882)	-	-	(524,662)
Distribution expenses	(55,935)	(509,943)	(63,958)	-	-	(27,848)	-	-	(657,684)
Indirect taxes and contributions	(41,968)	(26,380)	(23,492)	-	(59)	(3,444)	-	-	(95,343)
Share of associates' (losses)/profits	-	(4,969)	77	2,749	-	(2,047)	-	-	(4,190)
Net income/(loss) from securities operations	3,728	20,841	1,761	505	(4)	470	-	(2,858)	24,443
(Loss)/gain on disposal of property, plant and equipment	(3,931)	(29,668)	(1,169)	(184)	57	(1,885)	-	-	(36,780)
Net other operating (expenses)/income	(4,966)	(3,868)	(12,868)	1,981	462	(273)	-	(812)	(20,344)
Profit from operations	437,884	1,779,794	53,211	81,753	(4,285)	(10,042)	-	(32,367)	2,305,948
Impairment of property, plant and equipment, net	(10,624)	(91,139)	(8,552)	-	(155)	(914)	-	-	(111,384)
Net gain on restructuring of tax liabilities	174,178	-	-	-	-	-	-	-	174,178
Negative goodwill, net	-	4,830	-	-	-	-	-	2,800	7,630
Net other non-operating expenses	(8,378)	(30,428)	-	-	(16)	(4,142)	-	(9,789)	(52,753)
Profit before financing and taxation	593,060	1,663,057	44,659	81,753	(4,456)	(15,098)	-	(39,356)	2,323,619
Interest income	2,848	62,959	6,524	718	127	1,601	-	(9,643)	65,134
Interest expense	(25,146)	(127,274)	(41,787)	(13,242)	(5)	(1,514)	-	5,911	(203,057)
Foreign exchange difference	(1,385)	(64,457)	7,404	-	(881)	111	-	(1,023)	(60,231)
Profit before income tax	569,377	1,534,285	16,800	69,229	(5,215)	(14,900)	-	(44,111)	2,125,465
Income tax (expense)/benefit	(117,377)	(372,111)	9,166	(27,088)	306	(2,819)	-	9,016	(500,907)
Profit from continuing operations	452,000	1,162,174	25,966	42,141	(4,909)	(17,719)	-	(35,095)	1,624,558
Profit/(loss) from discountinued operations	-	-	(10,784)	-	-	-	6,842	4,544	602
Profit for the year	452,000	1,162,174	15,182	42,141	(4,909)	(17,719)	6,842	(30,551)	1,625,160
Additional information:									
depreciation expense	156,048	233,939	74,659	7,159	263	19,550	-	-	491,618
capital expenditures	349,788	705,131	62,946	13,059	100,541	37,248	33	(19,549)	1,249,197
intersegment sales (incl. in sales to related parties)	805,523	338,440	35,961	-	-	13,223	-	(1,193,147)	-

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

Segmental balance sheets as at December 31, 2007:

	Mining segment	Russian Steel segment	Lucchini segment	Severstal North America	IPM	Metalware segment	Financing segment	Inter segment balances	Conso-lidated
Assets									
Current assets:									
Cash and cash equivalents	143,372	846,727	507,714	-	2,195	46,873	-	-	1,546,881
Short-term bank deposits	-	665,977	-	-	-	-	-	-	665,977
Short-term financial investments	25,385	878,286	23,127	-	-	435	-	(659,600)	267,633
Trade accounts receivable	76,727	339,708	813,534	108,102	280,862	55,685	-	-	1,674,618
Amounts receivable from related parties	50,350	214,889	2,836	2,831	101	2,671	-	(110,959)	162,719
Inventories	157,397	1,162,096	694,939	457,735	51,477	102,821	-	(88,995)	2,537,470
VAT recoverable	65,097	150,191	32,384	-	5,565	30,508	-	-	283,745
Income tax recoverable	16,292	34,447	12,245	12,504	-	505	-	-	75,993
Assets held for sale	436,541	448	17,718	-	-	6,489	-	-	461,196
Other current assets	82,645	148,375	35,169	18,793	17,389	18,991	-	-	321,362
Total current assets	1,053,806	4,441,144	2,139,666	599,965	357,589	264,978	-	(859,554)	7,997,594
Non-current assets:									
Long-term financial investments	7,344	1,938,219	21,656	-	-	738	-	(1,815,091)	152,866
Investment in associates and joint ventures	-	393,635	1,278	194,179	-	-	-	-	589,092
Property, plant and equipment	1,347,398	3,360,437	1,495,614	611,378	307,577	178,562	-	(8,155)	7,292,811
Intangible assets	480,108	104,463	19,045	5,865	272	1,508	-	-	611,261
Assets held for sale	-	-	-	-	-	-	-	-	-
Deferred tax assets	11,611	2,770	37,943	-	-	-	-	-	52,324
Amounts receivable from related parties	-	-	-	-	-	-	-	-	-
Other non-current assets	1,008	4,225	2,948	100	5	13,188	-	-	21,474
Total non-current assets	1,847,469	5,803,749	1,578,484	811,522	307,854	193,996	-	(1,823,246)	8,719,828
Total assets	2,901,275	10,244,893	3,718,150	1,411,487	665,443	458,974	-	(2,682,800)	16,717,422
Liabilities and shareholders' equity									
Current liabilities:									
Trade accounts payable	57,082	204,713	610,982	185,830	7,250	25,027	-	-	1,090,884
Bank customer accounts	-	-	-	-	-	-	-	-	-
Amounts payable to related parties	4,219	90,263	5,766	18,395	31,884	14,302	-	(105,914)	58,915
Short-term debt finance	709,051	327,157	328,391	15,671	70,455	34,198	-	(512,844)	972,079
Income taxes payable	8,790	9,437	15,065	-	2,301	5,788	-	-	41,381
Other taxes and social security payable	61,915	41,733	87,071	1,662	3,333	4,710	-	-	200,424
Dividends payable	-	107,485	-	-	-	-	-	-	107,485
Liabilities related to assets held for sale	91,599	-	151	-	-	-	-	-	91,750
Other current liabilities	87,446	323,674	130,020	20,175	3,000	35,636	-	629	600,580
Total current liabilities	1,020,102	1,104,462	1,177,446	241,733	118,223	119,661	-	(618,129)	3,163,498
Non-current liabilities:									
Long-term debt finance	391,878	945,176	650,105	308,937	414,344	6,213	-	(361,830)	2,354,823
Deferred tax liabilities	53,849	189,251	85,194	60,843	158	4,386	-	(19,045)	374,636
Retirement benefit liability	71,821	118,701	138,504	48,601	-	9,771	-	-	387,398
Liabilities related to assets held for sale	-	-	-	-	-	-	-	-	-
Other non-current liabilities	140,135	1,674	79,471	5,108	-	-	-	-	226,388
Total non-current liabilities	657,683	1,254,802	953,274	423,489	414,502	20,370	-	(380,875)	3,343,245
Equity	1,223,490	7,885,629	1,587,430	746,265	132,718	318,943	-	(1,683,796)	10,210,679
Total equity and liabilities	2,901,275	10,244,893	3,718,150	1,411,487	665,443	458,974	-	(2,682,800)	16,717,422

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

Segmental balance sheets as at December 31, 2006:

	Mining segment	Russian Steel segment	Lucchini segment	Severstal North America	IPM	Metalware segment	Financing segment	Inter segment balances	Conso-lidated
Assets									
Current assets:									
Cash and cash equivalents	87,930	1,231,164	225,854	-	11,799	9,584	309,674	(174,983)	1,701,022
Short-term bank deposits	7	1,292,345	-	-	1,019	41,092	-	(187,193)	1,147,270
Short-term financial investments	77,839	260,631	6,587	-	3,798	1,598	191,358	(219,969)	321,842
Trade accounts receivable	37,294	252,193	843,737	128,768	16	62,577	-	-	1,324,585
Amounts receivable from related parties	62,117	133,764	9,601	1,184	4	7,009	-	(85,976)	127,703
Inventories	125,019	895,066	695,041	427,502	45,732	102,320	-	(68,308)	2,222,372
VAT recoverable	46,458	187,872	49,476	-	25,150	30,436	-	-	339,392
Income tax recoverable	1,835	9,010	8,404	16,361	-	294	-	-	35,904
Other current assets	51,505	126,811	29,320	17,070	5,273	16,091	13,138	-	259,208
Total current assets	490,004	4,388,856	1,868,020	590,885	92,791	271,001	514,170	(736,429)	7,479,298
Non-current assets:									
Long-term financial investments	2,682	1,471,353	31,934	-	-	42,183	25,705	(1,373,917)	199,940
Investment in associates and joint ventures	-	139,231	2,656	212,154	-	865	-	-	354,906
Property, plant and equipment	1,289,236	3,048,161	1,519,357	149,721	292,420	177,808	475	(6,793)	6,470,385
Intangible assets	35,747	7,086	17,408	-	-	1,418	7	-	61,666
Assets held for sale	-	-	113,516	-	-	-	-	-	113,516
Deferred tax assets	224	-	29,926	-	-	-	-	-	30,150
Amounts receivable from related parties	-	-	-	-	-	-	-	-	-
Other non-current assets	1,185	-	2,659	-	-	-	-	-	3,844
Total non-current assets	1,329,074	4,665,831	1,717,456	361,875	292,420	222,274	26,187	(1,380,710)	7,234,407
Total assets	1,819,078	9,054,687	3,585,476	952,760	385,211	493,275	540,357	(2,117,139)	14,713,705
Liabilities and shareholders' equity									
Current liabilities:									
Trade accounts payable	61,275	209,341	620,668	116,681	7,113	23,823	-	-	1,038,901
Bank customer accounts	-	-	-	-	-	-	396,176	(365,033)	31,143
Amounts payable to related parties	19,217	72,894	36,651	17,303	15,937	21,460	74,623	(82,345)	175,740
Short-term debt finance	103,122	441,665	414,480	10,024	1,737	18,999	17,755	(50,218)	957,564
Income taxes payable	6,532	28,880	8,921	-	-	15	-	-	44,348
Other taxes and social security payable	70,016	38,035	85,952	2,357	471	3,127	5	-	199,963
Dividends payable	-	23,243	-	-	-	-	-	-	23,243
Other current liabilities	54,526	244,409	108,472	21,672	42,263	35,320	186	-	506,848
Total current liabilities	314,688	1,058,467	1,275,144	168,037	67,521	102,744	488,745	(497,596)	2,977,750
Non-current liabilities:									
Long-term debt finance	242,470	1,041,131	605,827	138,404	267,099	55,423	23	(302,342)	2,048,035
Deferred tax liabilities	59,792	188,886	89,662	74,805	-	7,308	1,152	(18,529)	403,076
Retirement benefit liability	73,056	133,854	167,855	43,574	-	24,615	-	-	442,954
Liabilities related to assets held for sale	-	-	1,792	-	-	-	-	-	1,792
Other non-current liabilities	199,693	218	81,872	4,307	-	-	-	-	286,090
Total non-current liabilities	575,011	1,364,089	947,008	261,090	267,099	87,346	1,175	(320,871)	3,181,947
Equity	929,379	6,632,131	1,363,324	523,633	50,591	303,185	50,437	(1,298,672)	8,554,008
Total equity and liabilities	1,819,078	9,054,687	3,585,476	952,760	385,211	493,275	540,357	(2,117,139)	14,713,705

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

Segmental balance sheets as at December 31, 2005:

	Mining segment	Russian Steel segment	Lucchini segment	Severstal North America	IPM	Metalware segment	Financing segment	Inter segment balances	Conso-lidated
Assets									
Current assets:									
Cash and cash equivalents	67,773	779,419	384,624	-	5,257	3,921	143,246	(56,353)	1,327,887
Short-term bank deposits	1,071	718,705	-	-	-	18,274	-	(63,538)	674,512
Short-term financial investments	25,922	262,996	7,935	-	76	15,619	143,999	(188,696)	267,851
Trade accounts receivable	29,772	274,020	676,208	166,541	-	27,652	-	-	1,174,193
Amounts receivable from related parties	129,562	205,092	15,035	970	-	9,411	-	(186,262)	173,808
Inventories	105,672	578,093	633,068	401,146	983	59,457	-	(52,891)	1,725,528
VAT recoverable	40,698	296,206	50,540	-	21,056	33,797	-	-	442,297
Income tax recoverable	15,903	757	11,097	-	-	914	-	-	28,671
Other current assets	24,113	85,268	22,824	22,964	13,289	8,041	5,186	-	181,685
Total current assets	440,486	3,200,556	1,801,331	591,621	40,661	177,086	292,431	(547,740)	5,996,432
Non-current assets:									
Long-term financial investments	3,855	1,310,784	31,645	-	-	7,601	-	(1,264,344)	89,541
Investment in associates and joint ventures	-	63,209	2,335	142,988	-	2,120	-	-	210,652
Property, plant and equipment	1,080,768	2,543,161	1,376,460	75,304	131,750	111,734	391	-	5,319,568
Intangible assets	29,537	5,731	19,787	-	-	1,418	50	-	56,523
Assets held for sale	-	-	66,117	-	-	-	-	-	66,117
Deferred tax assets	-	-	35,076	-	-	-	-	-	35,076
Amounts receivable from related parties	22,026	-	13,069	-	-	-	-	-	35,095
Other non-current assets	523	-	2,582	-	-	-	-	-	3,105
Total non-current assets	1,136,709	3,922,885	1,547,071	218,292	131,750	122,873	441	(1,264,344)	5,815,677
Total assets	1,577,195	7,123,441	3,348,402	809,913	172,411	299,959	292,872	(1,812,084)	11,812,109
Liabilities and shareholders' equity									
Current liabilities:									
Trade accounts payable	34,916	176,328	496,110	129,040	21,650	7,354	-	1,231	866,629
Bank customer accounts	-	-	-	-	-	-	218,673	(119,806)	98,867
Amounts payable to related parties	143,820	390,240	21,504	14,149	8	10,610	33,725	(122,099)	491,957
Short-term debt finance	87,024	243,765	646,803	143,818	943	20,560	-	(146,788)	996,125
Income taxes payable	938	30,075	40,701	14,183	-	104	-	-	86,001
Other taxes and social security payable	110,296	23,014	106,584	1,681	40	16,063	-	-	257,678
Dividends payable	-	12,275	-	-	-	-	-	-	12,275
Other current liabilities	50,621	163,148	132,371	22,169	222	10,587	100	-	379,218
Total current liabilities	427,615	1,038,845	1,444,073	325,040	22,863	65,278	252,498	(387,462)	3,188,750
Non-current liabilities:									
Long-term debt finance	60,442	1,369,878	490,391	-	100,289	4,483	-	(93,789)	1,931,694
Deferred tax liabilities	56,822	155,177	91,107	59,598	82	8,462	466	(14,975)	356,739
Retirement benefit liability	64,181	79,034	135,029	38,888	-	21,354	-	-	338,486
Liabilities related to assets held for sale	-	-	172	-	-	-	-	-	172
Other non-current liabilities	201,489	75	73,059	6,452	-	-	-	-	281,075
Total non-current liabilities	382,934	1,604,164	789,758	104,938	100,371	34,299	466	(108,764)	2,908,166
Equity	766,646	4,480,432	1,114,571	379,935	49,177	200,382	39,908	(1,315,858)	5,715,193
Total equity and liabilities	1,577,195	7,123,441	3,348,402	809,913	172,411	299,959	292,872	(1,812,084)	11,812,109

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$ 32 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.

On July 26, 2007 Lucchini SpA received notice by the Tuscan regional fiscal authorities for storing waste from the steel making process in the Piombino steel making facilities. In the notice the authorities specified the potential amount of penalties of €52.5 million (US$ 76.9 million at December 31, 2007 exchange rate). Management has cooperated fully with the authorities and presented the mitigating submissions which should substantially reduce the initial amounts indicated by the authorities. Consequently, these financial statements contain provisions for this issue in accordance with management assessments performed.

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$ 411.7 million (December 31, 2006: 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$ 143.2 million (December 31, 2006: US$ 22.2 million; December 31, 2005: US$ 23.8 million) of guarantees issued.

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

33. Financial instruments

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The Russian Steel, Metalware, IPM 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, 2007, 2006 and 2005, the Financing segment had no outstanding derivatives.

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, 2007		
	Market value	**Book value**	**Difference**
Citibank CLN - Eurobonds 2009	330,513	325,000	5,513
Citibank CLN - Eurobonds 2014	398,781	375,000	23,781
	729,294	700,000	29,294

	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.

The market value of the Group's Eurobonds was determined based on London Stock Exchange quotations.

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

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.

The maximum exposure to credit risk for trade receivables including trade receivables from related parties at the reporting date was:

	December 31,		
	2007	**2006**	**2005**
Available-for-sale financial assets	27,103	10,431	12,681
Held-to-maturity securities and deposits	745,106	1,203,507	676,500
Held-for-trading securities	146,564	152,716	78,280
Loans and receivables	2,099,792	1,833,516	1,697,950
Cash and cash equivalents	1,546,881	1,701,022	1,327,887
	4,565,446	4,901,192	3,793,298

The maximum exposure to credit risk for trade receivables including trade receivables from related parties at the reporting date by geographic region was:

	December 31,		
	2007	**2006**	**2005**
Russian Federation	502,174	249,086	318,725
Europe	981,440	921,789	742,949
North America	128,198	162,896	207,926
The Middle East	38,397	23,241	21,498
South-East Asia	13,214	4,293	7,049
Central and South America	1,604	6,678	4,744
China and Central Asia	19,018	19,084	11,800
Africa	34,343	17,814	31,666
	1,718,388	1,404,881	1,346,357

The maximum exposure to credit risk for trade receivables including trade receivables from related parties at the reporting date by type of customer was:

	December 31,		
	2007	**2006**	**2005**
Wholesale customers	270,298	284,553	354,950
Retail customers	88	4,463	3,312
End-user customers	1,298,692	954,812	835,824
Producers	106,512	137,602	104,957
Other customers	42,798	23,451	47,314
	1,718,388	1,404,881	1,346,357

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

Impairment losses

The aging of trade receivables including trade receivables from related parties at the reporting date was:

	December 31, 2007		2006		2005	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	1,065,731	(2,512)	891,505	(2,667)	842,773	(698)
Past due 0-30 days	502,650	(3,061)	365,751	(6,957)	289,436	(4,213)
Past due 31-90 days	125,033	(3,245)	132,621	(4,736)	135,059	(3,664)
Past due 91-180 days	27,335	(20,348)	21,745	(8,053)	61,979	(23,652)
Past due 180-365 days	11,947	(397)	12,513	(605)	12,708	(2,207)
More than one year	21,575	(6,320)	7,690	(3,926)	48,045	(9,209)
	1,754,271	(35,883)	1,431,825	(26,944)	1,390,000	(43,643)

The impairment allowance at December 31, 2007 includes recognized impairment allowance in respect of trade receivables from related parties for the total amount of US$ 9.2 million (2006: nil; 2005: nil).

The movement in allowance for impairment in respect of trade receivables including trade receivables from related parties during the year was as follows:

	Year ended December 31, 2007	2006	2005
Balance at 1 January	(26,944)	(43,643)	(60,448)
Impairment loss recognised	(9,716)	(9,027)	(5,039)
Impairment loss reversed	-	27,268	20,840
Impairment loss-other movements	777	(1,542)	1,004
Balance at 31 December	(35,883)	(26,944)	(43,643)

The allowance account in respect of trade receivables including trade receivables from related parties is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

No impairment allowance was recognized by the Group in respect of other financial assets.

At the balance sheet date there was a significant concentration of credit risk in respect of trade accounts receivable from related parties, originated loans to related parties and deposits in related parties.

Trade receivables from related parties

The Group's most significant customer, a related party ZAO TD Severstal-invest, accounts for US$ 30.1 million of trade receivables carrying amount at December 31, 2007 (US$ 55.1 million and US$ 55.3 million at December 31, 2006 and December 31, 2005 respectively).

Originated short-term loans to related parties

The Group's most significant related party in 2007, SeverCorr LLC, accounted for US$ 60 million of the short-term loans receivable carrying amount at December 31, 2007.

The Group's most significant related parties in 2006, OOO Impuls-Consult and ZAO TD Severstal-invest, accounted for US$ 46 million and US$ 7.8 million of the short-term loans receivable carrying amount at December 31, 2006 respectively.

The Group's most significant related parties in 2005, OOO Monolit, OAO Promstroybank and ZAO TD Severstal-invest, accounted for US$ 46.5 million, US$ 7.7 million and US$ 6 million of the short-term loans receivable carrying amount at December 31, 2005.

Originated long-term loans to related parties

The Group's most significant related parties in 2007, OAO Metcombank and ZAO TD Severstal-invest, accounted for US$ 13 million and US$ 19.7 million of the long-term loans receivable carrying amount at December 31, 2007 respectively.

The Group's most significant related party in 2006, SeverCorr LLC, accounted for US$ 60 million of the long-term loans receivable carrying amount at December 31, 2006.

The Group's most significant related party in 2005, Baracom Limited, accounted for US$ 38 million of the long-term loans receivable carrying amount at December 31, 2005.

Long-term deposits in related parties

The Group's most significant related party in 2007, NPF Stalfond, accounted for US$ 62.4 million of the long-term deposits carrying amount at December 31, 2007 (US$ 50.1 million at December 31, 2006).

Liquidity risk

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due by preparing an annual budgets, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following are the contractual maturities of financial liabilities, excluding estimated interest payments and excluding the impact of netting agreements:

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

December 31, 2007

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	3,286,547	(3,286,547)	(936,440)	(683,314)	(971,420)	(695,373)
Finance lease liabilities	24,536	(24,536)	(9,926)	(8,860)	(4,042)	(1,708)
Trade and other payables	1,837,796	(1,837,796)	(1,801,639)	(36,157)	-	-
	5,148,879	(5,148,879)	(2,748,005)	(728,331)	(975,462)	(697,081)

December 31, 2006

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	2,950,851	(2,950,851)	(902,816)	(273,713)	(1,214,881)	(559,441)
Finance lease liabilities	16,321	(16,321)	(2,579)	(3,406)	(8,602)	(1,734)
Trade and other payables	1,790,478	(1,790,478)	(1,713,478)	(55,207)	(21,793)	-
Bank customer accounts	31,143	(31,143)	(31,143)	-	-	-
	4,788,793	(4,788,793)	(2,650,016)	(332,326)	(1,245,276)	(561,175)

December 31, 2005

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	2,888,099	(2,888,099)	(956,405)	(187,681)	(1,308,644)	(435,369)
Finance lease liabilities	11,462	(11,462)	(1,964)	(2,923)	(6,575)	-
Trade and other payables	2,026,193	(2,026,193)	(1,908,111)	(85,227)	(32,855)	-
Bank customer accounts	98,867	(98,867)	(98,867)	-	-	-
	5,024,621	(5,024,621)	(2,965,347)	(275,831)	(1,348,074)	(435,369)

* The above amounts exclude accrued interest

Currency 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.

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

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	December 31, 2007					
	Euro	**USD**	**GBP**	**CHF**	**CAD**	**Other**
Available-for-sale financial assets	-	530	-	-	-	-
Held-to-maturity securities and deposits	373,225	120,686	-	-	-	-
Held-for-trading securities	-	210	-	-	-	-
Loans and receivables	108,018	210,627	14,265	1,326	5,192	14
Cash and cash equivalents	185,692	348,020	115	734	2,045	2,680
Debt finance	(453,993)	(1,318,029)	-	-	-	-
Finance lease liabilities	(1,396)	(7,080)	-	-	-	-
Trade and other payables	(17,879)	(97,717)	(13,001)	(4,249)	(5,829)	(346)
Net exposure	193,667	(742,753)	1,379	(2,189)	1,408	2,348

	December 31, 2006					
	Euro	**USD**	**GBP**	**CHF**	**CAD**	**Other**
Available-for-sale financial assets	-	70	-	-	-	-
Held-to-maturity securities and deposits	351,448	198,205	-	-	-	-
Held-for-trading securities	-	-	-	-	-	-
Loans and receivables	61,593	151,404	37,689	1,051	14,156	-
Cash and cash equivalents	158,841	432,877	983	356	2,815	2,894
Debt finance	(428,811)	(1,200,729)	-	-	-	-
Finance lease liabilities	(685)	(3,161)	-	-	-	-
Trade and other payables	(28,126)	(124,671)	(17,994)	(2,937)	(1,891)	(943)
Net exposure	114,260	(546,005)	20,678	(1,530)	15,080	1,951

	December 31, 2005					
	Euro	**USD**	**GBP**	**CHF**	**CAD**	**Other**
Available-for-sale financial assets	-	67	-	-	-	-
Held-to-maturity securities and deposits	-	477,901	-	-	-	-
Held-for-trading securities	-	-	-	-	-	-
Loans and receivables	109,888	105,135	8,927	547	8,791	-
Cash and cash equivalents	181,883	356,228	429	231	5,151	2,589
Debt finance	(164,111)	(1,279,302)	-	-	-	-
Finance lease liabilities	-	-	-	-	-	-
Trade and other payables	(223,441)	(91,234)	(1,405)	(56,052)	(1,096)	(311)
Net exposure	(95,781)	(431,205)	7,951	(55,274)	12,846	2,278

Sensitivity analysis

A 10 percent strengthening of the following currencies against the functional currency at December 31, 2007 would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and no translation difference into the presentation currency is included. The analysis is performed on the same basis for 2006 and 2005.

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

	Year ended December 31,		
	2007	**2006**	**2005**
Net profit or loss			
Euro	14,331	8,561	4,145
USD	(56,012)	(40,785)	(34,021)
GBP	(22)	1,415	533
CHF	(166)	(116)	(4,201)
CAD	94	1,010	861
Other	178	148	173

A 10 percent weakening of the following currencies against the functional currency at December 31, 2007 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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 favorable to the over the expected period until maturity.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	December 31,		
	2007	**2006**	**2005**
Fixed rate instruments			
Financial assets	4,130,846	4,518,134	3,411,984
Financial liabilities	(3,273,207)	(3,337,636)	(3,594,992)
	857,639	1,180,498	(183,008)
Variable rate instruments			
Financial assets	434,600	383,058	381,314
Financial liabilities	(1,916,027)	(1,505,905)	(1,469,349)
	(1,481,427)	(1,122,847)	(1,088,035)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006 and 2005.

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

	Net profit or loss	
	100 bp increase	**100 bp decrease**
December 31, 2007		
Variable rate instruments		
Financial assets	2,912	(2,912)
Financial liabilities	(13,459)	13,459
Cash flow sensitivity (net)	(10,547)	10,547
December 31, 2006		
Variable rate instruments		
Financial assets	2,745	(2,745)
Financial liabilities	(10,545)	10,545
Cash flow sensitivity (net)	(7,800)	7,800
December 31, 2005		
Variable rate instruments		
Financial assets	2,647	(2,647)
Financial liabilities	(10,377)	10,377
Cash flow sensitivity (net)	(7,730)	7,730