OAO Severstal
and subsidiaries

Consolidated financial statements
for the years ended December 31, 2008, 2007 and 2006

OAO Severstal and subsidiaries

Consolidated financial statements
for the years ended December 31, 2008, 2007 and 2006

Contents

ZAO KPMG
Naberezhnaya Tower Complex, Block C
18 Krasnopresnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

Board of Directors

OAO Severstal

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OAO Severstal (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2008, 2007 and 2006, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained 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 2008, 2007 and 2006, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

5 March 2009

OAO Severstal and subsidiaries

Consolidated income statements
Years ended December 31, 2008, 2007 and 2006

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

	Note	Year ended December 31, 2008	2007 (restated)	2006 (restated)
Sales				
Sales - external		22,138,418	15,352,404	12,511,561
Sales - to related parties	12	254,299	150,984	211,275
	4	22,392,717	15,503,388	12,722,836
Cost of sales		(16,486,030)	(10,821,582)	(8,873,553)
Gross profit		5,906,687	4,681,806	3,849,283
General and administrative expenses		(1,030,140)	(766,890)	(633,705)
Distribution expenses		(1,117,776)	(942,533)	(729,906)
Indirect taxes and contributions		(178,829)	(154,070)	(142,484)
Share of associates' (loss)/profit		(3,400)	6,240	1,451
Net (loss)/gain from securities operations	6	(96,753)	25,564	28,271
Loss on disposal of property, plant and equipment		(43,826)	(35,525)	(38,524)
Net other operating income/(expenses)	7	790,180	(7,266)	(23,174)
Profit from operations		4,226,143	2,807,326	2,311,212
Impairment of non-current assets	8	(1,540,263)	(28,895)	(57,820)
Net gain on restructuring of tax liabilities	27	-	-	14,669
Negative goodwill	30	292,685	12,223	4,213
Net other non-operating income/(expenses)	9	238,945	(58,676)	(53,551)
Profit before financing and taxation		3,217,510	2,731,978	2,218,723
Interest income	10	155,233	166,639	110,096
Interest expense	10	(505,716)	(325,580)	(255,962)
Foreign exchange difference		(279,068)	3,206	33,054
Profit before income tax		2,587,959	2,576,243	2,105,911
Income tax expense	11	(520,373)	(700,153)	(635,094)
Profit from continuing operations		2,067,586	1,876,090	1,470,817
Profit from discontinued operations	29	-	433	32,849
Profit for the year		2,067,586	1,876,523	1,503,666
Attributable to:				
shareholders of OAO Severstal		2,034,008	1,849,531	1,447,505
minority interest		33,578	26,992	56,161
Weighted average number of shares outstanding during the period (millions of shares)		1,007.2	1,007.7	928.4
Basic and diluted earnings per share (US dollars)		2.02	1.84	1.56

These consolidated financial statements were approved by the Board of Directors on March 05, 2009.

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

OAO Severstal and subsidiaries

Consolidated balance sheets
December 31, 2008, 2007 and 2006
(Amounts expressed in thousands of US dollars)

	Note	December 31, 2008	December 31, 2007 (restated)	December 31, 2006 (restated)
Assets				
Current assets:				
Cash and cash equivalents	14	2,653,742	1,622,542	1,743,395
Short-term bank deposits	15	818,545	666,327	1,147,270
Short-term financial investments	16	112,782	215,494	306,285
Trade accounts receivable	17	1,942,268	1,769,038	1,397,144
Accounts receivable from related parties	13	63,831	47,193	73,619
Inventories	18	4,278,554	2,720,634	2,342,098
VAT recoverable		360,838	284,122	357,088
Income tax recoverable		172,947	81,963	40,399
Other current assets	19	280,082	318,961	266,225
Assets held for sale	29	8,872	465,341	-
Total current assets		10,692,461	8,191,615	7,673,523
Non-current assets:				
Long-term financial investments	20	69,982	112,959	114,933
Investments in associates and joint ventures	21	104,142	202,987	222,830
Property, plant and equipment	22	9,868,305	8,289,116	6,970,865
Intangible assets	23	1,454,486	687,067	61,666
Restricted cash		21,703	13,810	57,406
Deferred tax assets	11	227,492	64,185	34,211
Other non-current assets		41,615	39,084	20,016
Assets held for sale	29	-	-	113,516
Total non-current assets		11,787,725	9,409,208	7,595,443
Total assets		22,480,186	17,600,823	15,268,966
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		1,526,818	1,211,373	1,108,831
Accounts payable to related parties	13	71,960	91,547	260,809
Short-term debt finance	24	1,977,513	1,129,216	1,081,965
Income taxes payable		46,958	41,323	44,822
Other taxes and social security payable		210,992	199,349	201,743
Dividends payable		128,715	107,485	23,243
Other current liabilities	25	805,619	620,369	554,544
Liabilities related to assets held for sale	29	4	91,750	-
Total current liabilities		4,768,579	3,492,412	3,275,957
Non-current liabilities:				
Long- term debt finance	24	6,278,004	2,813,166	2,264,191
Deferred tax liabilities	11	509,327	509,409	398,164
Retirement benefit liabilities	26	779,296	387,398	442,954
Other non-current liabilities	27	591,290	324,652	359,598
Liabilities related to assets held for sale	29	-	-	1,792
Total non-current liabilities		8,157,917	4,034,625	3,466,699
Equity:				
Share capital	28	3,311,288	3,311,288	3,311,288
Treasury shares		(26,303)	-	-
Additional capital		1,165,530	1,165,530	1,165,530
Foreign exchange differences		83,812	1,145,499	537,075
Retained earnings		4,495,458	3,951,116	2,939,334
Other reserves		18,497	-	-
Total equity attributable to shareholders of parent		9,048,282	9,573,433	7,953,227
Minority interest		505,408	500,353	573,083
Total equity		9,553,690	10,073,786	8,526,310
Total equity and liabilities		22,480,186	17,600,823	15,268,966

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

OAO Severstal and subsidiaries

Consolidated statements of cash flows
Years ended December 31, 2008, 2007 and 2006
(Amounts expressed in thousands of US dollars)

	Year ended December 31,		
	2008	2007 (restated)	2006 (restated)
Operating activities:			
Profit before financing and taxation	3,217,510	2,731,978	2,218,723
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization (Notes 22 and 23)	1,085,780	846,262	604,917
Impairment of non-current assets (Note 8)	1,540,263	28,895	57,820
Provision for inventories, receivables and other provisions	537,466	53,603	(5,089)
Negative goodwill	(292,685)	(12,223)	(4,213)
Loss on disposal of property, plant and equipment	43,826	35,525	38,524
Net gain on restrusturing of tax liabilities (Note 27)	-	-	(14,669)
Gain on disposal of subsidiaries and associates (Note 30)	(314,435)	(31,507)	(846)
Loss/(gain) on remeasurement and disposal of financial investments	96,753	(25,564)	(28,271)
Share of associates' results less dividends from associates	3,400	(6,240)	(1,451)
Changes in operating assets and liabilities:			
Trade accounts receivable	79,654	(357,090)	(48,109)
Amounts receivable from related parties	(39,695)	2,110	91,497
VAT recoverable	(109,020)	110,677	142,035
Inventories	(945,707)	(235,891)	(347,060)
Trade accounts payable	(157,717)	107,116	91,238
Amounts payable to related parties	11,781	79,656	(104,912)
Other taxes and social security payables	7,673	(63,422)	(118,626)
Other non-current liabilities	(34,919)	(101,158)	10,396
Assets held for sale	38,609	(1,856)	-
Net other changes in operating assets and liabilities	123,339	123,815	(24,845)
Cash generated from operations	4,891,876	3,284,686	2,557,059
Interest paid (excluding banking operations)	(362,789)	(244,324)	(222,245)
Income tax paid	(1,094,472)	(804,223)	(684,645)
Net cash from operating activities	3,434,615	2,236,139	1,650,169
Investing activities:			
Additions to property, plant and equipment	(2,030,531)	(1,997,285)	(1,599,779)
Additions to intangible assets	(83,939)	(27,194)	(8,808)
Net (increase)/decrease in short-term bank deposits	(259,880)	580,706	(431,142)
Additions to financial investments and associates	(878,472)	(889,595)	(1,052,968)
Acquisition of minority interests and entities under common control	(219,588)	(316,862)	(294,249)
Net cash outflow on acquisitions of subsidiaries (Note 30)	(3,068,588)	(643,279)	(57,625)
Net cash inflow on disposals of subsidiaries (Note 30)	671,717	235,978	1,588
Proceeds from disposal of property, plant and equipment	42,853	34,150	16,253
Proceeds from disposal of financial investments	860,549	773,090	949,713
Interest received (excluding banking operations)	155,233	150,583	105,260
Cash from investing activities	(4,810,646)	(2,099,708)	(2,371,757)
Financing activities:			
Proceeds from debt finance	7,542,083	3,677,480	2,674,626
Proceeds form grants	-	72	30,735
Proceeds from share issue	-	-	1,105,197
Repurchase of issued shares	(26,303)	-	-
Repayment of debt finance	(3,685,787)	(3,277,251)	(2,539,521)
Repayments under lease obligations	(24,994)	(3,915)	-
Dividends paid	(1,346,535)	(736,156)	(269,286)
Minority capital contributions	-	-	6,685
Dividend to the Majority shareholder paid by acquired entity under common control	(34,036)	-	-
Cash from financing activities	2,424,428	(339,770)	1,008,436
Effect of exchange rates on cash and cash equivalents	(17,197)	82,486	86,625
Net increase/(decrease) in cash and cash equivalents	1,031,200	(120,853)	373,473
Cash and cash equivalents at beginning of the year	1,622,542	1,743,395	1,369,922
Cash and cash equivalents at end of the year (Note 14)	2,653,742	1,622,542	1,743,395

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

OAO Severstal and subsidiaries
Consolidated statements of changes in equity
Years ended December 31, 2008, 2007 and 2006
(Amounts expressed in thousands of US dollars)

	Note	Attributable to the shareholders of OAO Severstal							Minority interest	Total
		Share capital	Treasury shares	Additional capital	Foreign exchange differences	Retained earnings	Other reserves	Total		
Balances at December 31, 2005 as previously reported		3,311,254	-	60,367	34,368	1,818,475	-	5,224,464	490,729	5,715,193
Acquisition of entities under common control		-	-	-	-	(37,927)	-	(37,927)	15,059	(22,868)
Balances at December 31, 2005 as restated		3,311,254	-	60,367	34,368	1,780,548	-	5,186,537	505,788	5,692,325
Profit for the year (restated)		-	-	-	-	1,447,505	-	1,447,505	56,161	1,503,666
Foreign exchange differences (restated)		-	-	-	502,707	-	-	502,707	49,210	551,917
Total recognized income and expenses								1,950,212	105,371	2,055,583
Dividends		-	-	-	-	(278,798)	-	(278,798)	-	(278,798)
Share issue		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	537,075	2,939,334	-	7,953,227	573,083	8,526,310
Profit for the year (restated)		-	-	-	-	1,849,531	-	1,849,531	26,992	1,876,523
Foreign exchange differences (restated)		-	-	-	608,424	-	-	608,424	56,709	665,133
Total recognized income and expenses								2,457,955	83,701	2,541,656
Dividends		-	-	-	-	(801,462)	-	(801,462)	(12,028)	(813,490)
Effect of acquisitions and disposals		-	-	-	-	(36,287)	-	(36,287)	(144,403)	(180,690)
Balances at December 31, 2007 (restated)		3,311,288	-	1,165,530	1,145,499	3,951,116	-	9,573,433	500,353	10,073,786
Profit for the year		-	-	-	-	2,034,008	-	2,034,008	33,578	2,067,586
Changes in fair value of cash flows hedges		-	-	-	-	-	(6,704)	(6,704)	(2,710)	(9,414)
Deferred tax on changes in fair value of cash flow hedges		-	-	-	-	-	432	432	745	1,177
Foreign exchange differences		-	-	-	(1,061,687)	-	-	(1,061,687)	(36,848)	(1,098,535)
Total recognized income and expenses								966,049	(5,235)	960,814
Repurchase of issued shares		-	(26,303)	-	-	-	-	(26,303)	-	(26,303)
Dividends		-	-	-	-	(1,378,510)	-	(1,378,510)	(8,126)	(1,386,636)
Dividend to the Majority Shareholder paid by acquired entity under common control		-	-	-	-	(34,036)	-	(34,036)	-	(34,036)
Fair value adjustment upon acquisition of subsidiary to previously held interest	30	-	-	-	-	-	33,020	33,020	-	33,020
Amortization of fair value adjustment upon acquision										-
of subsidiary to previously held interest		-	-	-	-	-	(8,251)	(8,251)	-	(8,251)
Effect of acquisitions and disposals		-	-	-	-	(77,120)	-	(77,120)	18,416	(58,704)
Balances at December 31, 2008		3,311,288	(26,303)	1,165,530	83,812	4,495,458	18,497	9,048,282	505,408	9,553,690

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 30.

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 a 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 December 31, 2008, 2007 and 2006 he controlled, directly or indirectly, 82.37% of Severstal's share capital.

Severstal's global depositary receipts (GDRs) have been quoted on the London Stock Exchange since November 2006. Severstal's shares are quoted on the Russian Trading System ('RTS') 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 two iron ore complexes, Karelsky Okatysh and Olkon in northwest Russia, and two coal mining complexes, Vorkutaugol in northwest Russia and PBS Coals Ltd, located in the USA, as well as gold mining assets in the eastern part of Russia, in Africa and in Kazakhstan.
- *Russian Steel* – this segment consists primarily of the Group's steel production and high-grade automotive galvanizing facilities in Cherepovets, rolling mill 5000 in Kolpino, both in northwest Russia, a ferrous scrap metal recycling business operating in northwest and central Russia (previously reported within Mining segment), as well as various worldwide supporting functions for trading, maintenance and transportation.
- *Lucchini* – this segment comprises several plants and service centers, including Piombino and Ascometal business units. It produces special and high quality steel 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.
- *North America* – this segment consists of two integrated iron and steel mills, Severstal North America in Great Lakes region and Sparrows Point on the East Coast of the USA, two producers of flat rolled and other high value added steel products, Severstal Wheeling (former Esmark group of companies) on the East Coast of the USA and Severstal Warren Inc. (former WCI Steel Inc.) in the northeast region of the USA, a mini-mill, SeverCorr LLC on the southeast of the USA and a coking coal production facility, Mountain State Carbon LLC on the East Coast of the USA.
- *Izhora Pipe Mill* ('IPM') – this segment operates a large-diameter pipe mill in northwest Russia.
- *Metalware segment* – this segment comprises three plants in Russia, one plant in Ukraine, one plant in the United Kingdom and one plant in Italy 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.

Economic environment

The Group's activity in all its operating segments have been adversely affected by the uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. The recession affecting most economic regions, forcing the Group to reduce production, cut costs and manage increased risk factors. As a result of slower demand for steel products the Group's production has declined at its steel plants in Russia, North America and Europe commencing October 2008. As a consequence, the Group's workforce, plant and equipment experience downtimes.

Furthermore, 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. The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets.

The consolidated financial statements reflect management's assessment of the impact of the global financial and economic crisis as well as the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

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

- Exports of hot-rolled coils and thin sheets from Russia to the USA are restricted by the minimum prices issued quarterly by the US Department of Commerce and annual 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 and exclusive 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, effective January 9, 2008, this restriction had been 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 3.031 mln. tons in 2008. 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 the Group.

2. Basis for preparation 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 on the historic cost basis except for financial instruments at fair value through profit and loss and available-for-sale financial assets 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.

Critical accounting judgments, estimates and assumptions

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 lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving inventories;
- decommissioning liability;
- retirement benefit liabilities;
- litigations; and
- deferred income tax assets.

Useful 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. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

During the reporting period the Group's operations were negatively affected by the global economic downturn resulting in a slower demand for steel products. As a consequence, the Group has performed a thorough analysis of impairment of its assets. The results of the impairment tests and the assumptions used are further disclosed in Note 8 to these consolidated financial statements.

Allowance for doubtful debts

The Group makes allowance 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 debts, 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.

Allowance for obsolete and slow-moving inventories

The Group makes allowance 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 liabilities

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.).

Litigations

The Group exercises judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

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.

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 functional currency is the Russian ruble. 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, 2008, the Group has adopted three Interpretations issued by the International Financial Reporting Interpretations Committee, which are effective for the annual reporting periods beginning on or after January 1, 2007. These are: IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"; IFRIC 12 "Service Concession Arrangements"; and IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The adoption of these Interpretations did not affect the Group's consolidated financial statements.

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

New accounting pronouncements

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the year ended December 31, 2008, and have not been applied in these consolidated financial statements.

Standarts and Interpretations	**Effective for annual periods beginning on or after**
IAS 1 (Revised) “Presentation of Financial Statements”	January 1 and July 1, 2009
IAS 16 (Amended) “Property, Plant and Equipment”	January 1 and July 1, 2009
IAS 20 (Amended) “Accounting for Government Grants and Disclosure of Government Assistance”	January 1, 2009
IAS 23 (Revised) “Borrowing Costs”	January 1, 2009
IAS 27 (Amended) “Consolidated and Separate Financial Statements”	July 1, 2009
IAS 28 (Amended) “Investments in Associates”	January 1 and July 1, 2009
IAS 31 (Amended) “Interests in Joint Ventures”	January 1 and July 1, 2009
IAS 32 (Amended) “Financial instruments: Presentation”	January 1 and July 1, 2009
IAS 36 (Amended) “Impairment of Assets”	January 1 and July 1, 2009
IAS 38 (Amended) “Intangible Assets”	January 1 and July 1, 2009
IAS 39 (Amended) “Financial Instruments: Recognition and Measurement”	January 1 and July 1, 2009
IAS 40 (Amended) “Investment Property”	January 1, 2009
IFRS 1 (Amended) “First-time Adoption of International Financial Reporting Standards”	January 1 and July 1, 2009
IFRS 2 (Amended) “Share-based Payment”	January 1 and July 1, 2009
IFRS 3 (Revised) “Business Combinations”	July 1, 2009
IFRS 5 (Amended) “Non-current Assets Held for Sale and Discontinued Operations”	January 1 and July 1, 2009
IFRS 8 “Operating Segments”	January 1, 2009
IFRIC 13 “Customer Loyalty Programmes”	July 1, 2009
IFRIC 15 “Agreements for the Construction of Real Estate”	January 1, 2009
IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”	October 1, 2008
IFRIC 17 “Distributions of Non-cash Assets to Owners”	July 1, 2009
IFRIC 18 "Transfers of Assets from Customers"	July 1, 2009

The adoption of the pronouncements listed above is not expected to have a significant impact on the Group’s consolidated financial statements in future periods except for those discussed below.

Revised IAS 1 *Presentation of Financial Statements* introduces the concept of total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Management has not yet decided on the presentation format of the comprehensive income in the Group's 2009 consolidated financial statements.

Revised IAS 23 *Borrowing Costs* ceases the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset. The standard identifies the borrowing costs eligible for capitalization as those that would have been avoided if the expenditure on the qualifying asset had not been made. The revised IAS 23 will become mandatory for the Group’s 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions, the Group will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 2009 consolidated financial statements.

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

Revised IFRS 3 *Business Combinations* incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3 becomes mandatory for the Group's 2010 annual consolidated financial statements and will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its seven combined business and geographical segments (Note 31).

Reclassifications and restatements

During the current year the Group modified the income statement classification of retirement benefit income and expense between cost of sales and general and administrative expense to more appropriately reflect their nature. In order to conform to the current year presentation the following reclassifications to the prior years were made:

	Year ended December 31,	
	2007	**2006**
(Decrease)/increase in cost of sales	(25,387)	47,003
Increase/(decrease) in general and administrative expenses	25,387	(47,003)

Furthermore, in order to conform to the current year presentation the following reclassifications to the prior years were made for the bank customer accounts in the Financial segment:

	December 31, 2007	**December 31, 2006**
Decrease in bank customer accounts	-	(31,143)
Increase in other current liabilities	-	31,143

Moreover, as discussed in Note 30 these consolidated financial statements have been restated on the effects of the acquisitions from the Majority Shareholder and the final purchase price allocation.

3. Summary of the principal accounting policies

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

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. Minority interests are presented in the consolidated balance sheet within equity, separately from the parent's shareholders' equity.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements; unrealized losses are also eliminated unless the transaction provides an evidence of impairment of the asset transferred.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of acquisition. If the initial accounting for a business combination is incomplete by the end of the period in which the combination is effected, the Group accounts for the combination using the provisional values for the items for which the accounting is incomplete. The Group recognizes any adjustments to those provisional values as a result of completing the initial accounting within twelve months from the acquisition date. As a result goodwill or negative goodwill is adjusted accordingly.

Comparative information presented for the periods before the completing the initial accounting for the acquisition is presented as if the initial accounting had been completed at the acquisition date.

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 Majority Shareholder are 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 Majority Shareholder. The assets and liabilities acquired are recognized at their book values. The components of equity of the acquired companies are added to the same components within Group equity except that any share capital of the acquired companies is recorded as a part of additional capital. Cash consideration for such acquisitions is 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.

No goodwill is recognized where the Group acquires additional interests in the acquired companies from the Majority shareholder. The difference between the share of net assets acquired and the cost of investment is recognized directly in equity.

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.

Investments in associates are accounted for under the equity method and are initially recognized at cost, from the date that significant influence commences until the date that significant influence ceases. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any, after adjustments to align the accounting policies with those of the Group. 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.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity 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 its financial statements and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on the 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 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 of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of thee joint venture. The income statement reflects the Group's share of the results of operations of the joint venture.

Unrealized gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the joint venture; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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.

Where goodwill forms a part of a cash generating unit and the part of the operations within that unit is disposed of, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Negative goodwill represents the excess of the Group's share in fair value of acquired identifiable assets, liabilities and contingent liabilities over the cost of an acquisition. It is recognized in the income statement at the date of the acquisition.

b. 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 the translation are recognized in the income statement.

c. Exploration for and evaluation of mineral resources

Expenditures associated with search for specific mineral resources are recognized as exploration and evaluation assets. The following expenditure comprises cost of exploration and evaluation assets:

- acquisition of rights to explore;
- researching and analyzing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and/or
- compiling prefeasibility and feasibility studies.

If a project does not prove viable, all irrecoverable exploration and evaluation expenditure associated with the project net of any related impairment allowances is written off to the income statement.

The Group measures its exploration and evaluation assets at cost and classifies as tangible or intangible according to the nature of the assets acquired and applies the classification consistently. Exploration and evaluation assets considered to be tangible are recorded as a component of property, plant and equipment at cost less impairment charges. Otherwise, they are recorded as intangible assets, such as licenses. To the extent that tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is capitalized as a part of the cost of the intangible asset. As the asset is not available for use, it is not depreciated. All exploration and evaluation assets are monitored for indications of impairment.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the development of the deposit is sanctioned by management. The carrying amount of such exploration and evaluation expenditure is reclassified into development expenditure.

d. Development expenditure

Development expenditure includes costs directly attributable to the construction of a mine and the related infrastructure and is accumulated separately for each area of interest. Development expenditure is capitalized and is recorded as a component of property, plant and equipment or intangible assets, as appropriate. No depreciation is charged on the development expenditure before the start of the commercial production.

To the extent that revenue arises from test production during the development stage, an amount is charged from development expenditure to the cost of sales so as to reflect a zero net margin.

e. 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. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. 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

f. 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 a part of interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

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.

g. Intangible assets (excluding goodwill)

Intangible assets acquired by the Group are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized over the estimated useful lives using the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortization 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.

The table below presents the useful lives of intangible assets:

Mineral rights	12 - 25 years
Software	3 - 10 years
Other intangible assets	3 - 50 years

The major components of the other intangible assets include capitalized favorable contracts and land lease rights. Amortization of intangible assets is included in the caption “Cost of sales” in the consolidated income statement.

h. Impairment of assets

The carrying amount of goodwill is tested for impairment annually. At each balance sheet date the Group assesses whether there is any indication of impairment of Group’s other assets. 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

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and its recoverable amount that is the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. For other assets the recoverable amount is the greater of the fair value less cost to sale 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 amortization, if no impairment loss had been recognized.

i. 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. Allowances are recorded against slow-moving and obsolete inventories.

j. 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 recognized 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 recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Non-derivative financial assets 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 amortized cost using the effective interest method less any impairment.

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 amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

AFS financial assets

Available for sale financial assets are those non-derivative financial assets that are not classified as financial assets at FVTPL, held-to-maturity or loans and receivables and are stated at fair value. Listed shares that are traded in an active market are stated at their market value. Investments in unlisted shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at management’s estimate of fair value. Gains and losses arising from changes in fair value are recognized directly in equity with the exception of impairment losses, which are recognized directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the equity is included in the income statement for the period.

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

Derecognition of financial assets

The Group derecognizes 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.

k 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 a 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 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 a 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.

l. Hedging instruments

The Group holds cash flow hedging instruments in order to hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

m. Dividends payable

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

n. 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 general and administrative expenses in accordance with the nature of related wages and salaries expenses.

o. 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 pre-tax 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 method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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 reviewed at each reporting date and 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 is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss,
- initial recognition of goodwill.

p. Provisions

Employee benefits

The Group pays retirement, healthcare and other long-term benefits to its employees.

The Group has two types of retirement benefits: a defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts in respect of those benefits. The Group's only obligation is to pay contributions as they fall due, including contributions to the Russian Federation State pension fund. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefits plans are post-employment benefits plans other than defined contribution plans. 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 a respective country 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.

Other long-term employee benefits include various compensations, non-monetary benefits and long-term incentive program.

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. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate. Future decommissioning costs, discounted to net present value, are capitalized and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future decommissioning costs are capitalized in property, plant and equipment and are depreciated over the life of related asset. The unwinding of the decommissioning liability is included in the consolidated income statement as interest expense. Ongoing rehabilitation costs are expensed when incurred.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

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, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

q. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of issued shares

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

r. 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.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

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.

s. 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.

t. 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.

u. 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.

v. 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.

w. 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.

x. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group’s primary format for segment reporting is a combination of both business and geographical components, predetermined by the Group’s management and internal reporting structure.

Inter-segment pricing is determined on an arm’s length basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

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

4. Sales

Sales by product were as follows:

	Year ended December 31,		
	2008	2007	2006
Hot-rolled strip and plate	5,952,558	3,797,586	3,449,291
Long products	3,793,931	3,150,114	2,434,993
Galvanized and other metallic coated sheet	2,350,259	1,323,406	1,143,198
Cold-rolled sheet	2,314,440	1,285,217	1,349,704
Semifinished products	1,667,294	1,101,800	939,351
Metalware products	1,384,637	1,009,999	845,033
Large diameter pipes	819,727	530,726	-
Shipping and handling costs billed to customers	808,695	662,447	544,833
Others tubes and pipes, formed shapes	485,467	411,690	351,194
Pellets and iron ore	453,069	304,825	242,697
Color coated sheet	388,160	289,687	144,514
Scrap	321,317	290,752	26,513
Rails, wheels and axles	279,354	321,751	375,270
Coal and coking coal concentrate	257,463	264,753	249,280
Gold	190,415	-	-
Others	925,931	758,634	626,965
	22,392,717	15,503,388	12,722,836

Sales by delivery destination were as follows:

	Year ended December 31,		
	2008	2007	2006
Russian Federation	8,878,900	6,879,437	5,159,766
Europe	6,336,431	5,317,895	4,417,367
North America	5,410,115	2,002,852	2,406,186
The Middle East	556,413	450,360	215,059
China and Central Asia	399,029	353,916	138,016
South-East Asia	381,929	291,052	143,553
Central & South America	320,489	151,281	156,685
Africa	109,411	56,595	86,204
	22,392,717	15,503,388	12,722,836

5. Staff costs

Employment costs were as follows:

	Year ended December 31,		
	2008	2007	2006
Wages and salaries	(2,078,521)	(1,534,443)	(1,279,816)
Social security costs	(450,812)	(418,031)	(304,087)
Retirement benefit costs (Note 26)	(28,647)	(7,719)	(2,385)
	(2,557,980)	(1,960,193)	(1,586,288)
Actuarial (losses)/gains recognized (Note 26)	(33,141)	37,056	(67,658)
Staff costs	(2,591,121)	(1,923,137)	(1,653,946)

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

For the year ended December 31, 2008, key management's remuneration totalled US$ 43.9 million (2007: US$ 57.2 million; 2006: US$ 44.5 million). As a part of the above amount US$ 40.1 million was paid in 2006 to the Group's related party, ZAO Severstal Group that employed executive officers of Severstal and seconded them to Severstal during the year ended December 31, 2006.

6. Net (loss)/income from securities operations

	Year ended December 31,		
	2008	**2007**	**2006**
Held-for-trading securities			
Profit on disposal	3,037	-	153
Remeasurement to fair value	(106,058)	3,864	401
Held-to-maturity securities and loans			
Remeasurement to fair value (discounting)	(2,249)	3,577	13,909
Available-for-sale securities			
Profit on disposal	1,203	11,849	6,384
Remeasurement to fair value	2,794	4,012	7,183
Dividends received	4,520	2,262	241
	(96,753)	25,564	28,271

7. Net other operating income/(expenses)

	Year ended December 31,		
	2008	**2007**	**2006**
Insurance proceeds	430,000	-	-
Compensation for damages	267,000	-	-
Gain on termination of a supply contract	177,000	-	-
Other	(83,820)	(7,266)	(23,174)
	790,180	(7,266)	(23,174)

In January 2008, an explosion occurred on one of Severstal North America's ("SNA") furnaces, blast furnace "B". Following the accident, SNA has ceased blast furnace "B" operation. SNA is insured against property damage and business interruption with a combined gross coverage of US$ 500.0 million, subject to customary deductibles. The business interruption insurance covers fixed costs and loss of profits. The entire amount of the insurance coverage of US$ 430.0 million was received in 2008.

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

In December 2008, a court decision was announced to award the Group the compensation of damages of US$ 267.0 million by A.T. Massey Coal Co. in connection with a breach of a contract for coal supply during the years 2004 – 2006.

Insurance proceeds, compensation for damages and gain on termination of supply contract relates to Severstal North America segment.

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

8. Impairment of non-current assets

	Year ended December 31,		
	2008	2007	2006
Impairment of property, plant and equipment (Note 22)	(1,079,124)	(28,895)	(57,820)
Impairment of goodwill (Note 23)	(461,139)	-	-
	(1,540,263)	(28,895)	(57,820)

For the purpose of impairment testing, the recoverable amount of each cash-generating unit has been determined based on value in use calculation, except for Severstal Warren Inc. where the recoverable amount has been determined based on fair market value less costs to sell. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and a corresponding discount rate which reflects time value of money and risks associated with each individual cash generating unit. Key assumptions management used in their value in use calculation are as follows:

- For all cash generating units apart from the Mining segment cash flow projections cover a period of five years, cash flows beyond that five-year period have been extrapolated taking into account business cycles. Cash flow projections for cash generating units of Mining segment cover a period which corresponds to the contractual time of respective mining licenses.
- Cash flow projections were prepared in nominal terms.
- Cash flow projections during the forecast period are based on long-term price trends for both sales prices and material costs specific for each segment and geographic region and operating cost inflation in line with consumer price inflation for each country. Consumer price inflation expectations (in local currency) during the forecast period are as follows:

	Inflation expectations, %
Russia	12.0
USA	1.8 - 2.0
Italy	1.9 - 2.0
France	1.6 - 2.0
UK	2.3 - 2.0

- Discount rates for each cash-generating unit were estimated in nominal terms on the weighted average cost of capital basis. These rates, presented by segment, are as follows:

		Discount rates, %
Mining segment:		
	Russia*	18.5 – 21.4
	Kazakhstan*	23.6
	USA*	16.4
Russian Steel*		20.1 - 22.1
Lucchini		12.6 - 13.1
North America		17.7 - 18.9
Izhora Pipe Mill*		22.5
Metalware sement:		
	Russia*	21.7
	Italy	10.5

*US$ rate

Values assigned to key assumptions and estimates used to measure the unit's recoverable amount are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

Impairment

For the following cash generating units an impairment loss was identified:

Mining segment

Vorkutaugol

An impairment loss was recognised in the amount of US$ 128.8 million and was allocated to property, plant and equipment.

The following specific assumptions were used in the impairment test:

- the forecast extraction volumes grow on average at 5% p.a. during the five year period ending 2013 and remain constant thereafter;
- the forecast has the following growth rates for coking coal prices: average decline of 16% p.a. in 2009 to 2011; average growth of 29% p.a. during the next two years and constant at 80% of 2013 prices thereafter;
- the forecast has the following growth rates for steam coal prices: average decline of 16% p.a. in 2009 to 2010; average growth of 10% p.a. during the next three years and constant at 89% of 2013 prices thereafter;
- operating costs are forecast to decrease by 27% in 2009 compared to 2008 and then increase on average by 9% p.a. during the next four years; thereafter costs remain constant at 2013 level;
- pre-tax discount rate of 18.5% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases an impairment loss by US$ 21.3 million;
- a 10% decrease in future planned revenues increases an impairment loss by US$ 341.8 million.

PBS Coals Limited

An impairment loss was recognised in the amount of US$ 361.1 million and was allocated fully to goodwill.

The carrying amount of goodwill allocated to the cash generating unit before impairment loss was US$ 447.5 million.

The following specific assumptions were used in the impairment test:

- the forecast extraction volumes increase by 22% in 2009, increase by 10% in 2010 and remain constant at 2010 level thereafter;
- the forecast coking coal prices increase by 1.1% p.a. during the five year forecast period and remain constant thereafter;
- the forecast steam coal prices increase on average by 2.5% p.a. during the five year forecast period and remain constant at 2013 level thereafter;
- operating costs are forecast to increase by 9% in 2009 and then increase on average by 1% p.a. during the next four years; thereafter costs are assumed to be constant at 2013 level;
- pre-tax discount rate of 16.4%.

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases an impairment loss by US$ 44.7 million;
- a 10% decrease in future planned revenues increases an impairment loss by US$ 222.8 million.

Russian Steel

Neva Metall

An impairment loss was recognized in the amount of US$ 29 million and was allocated fully to goodwill.

The carrying amount of goodwill allocated to the cash generating unit before impairment loss was US$ 40 million.

The following specific assumptions were used in the impairment test:

- cash flow projections are based on financial forecasts approved by management covering a four year period;
- volumes are assumed to be constant during the forecast period and thereafter;
- the forecast sales prices increase by 1% in 2009, increase by 7% p.a. in 2010 to 2012 and remain constant at 2012 level thereafter;
- operating costs are forecast to increase on average by 11% p.a. in 2009 to 2012 and remain constant at 2012 level thereafter;
- pre-tax discount rate of 22.1% (US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases an impairment loss by US$ 3.0 million;
- a 10% decrease in future planned revenues increases an impairment loss by US$ 17.0 million.

Other units

The impairment loss related to other cash generating units within the segment was recognized in the amount of US$ 5.9 million and was allocated to specific items of property, plant and equipment.

Lucchini

The impairment loss was recognised in the amount of US$ 3.8 million in relation to specific items of property, plant and equipment.

Severstal North America

Severstal Wheeling Holding Company

An impairment loss was recognised of US$ 621.8 million and was allocated to property, plant and equipment in the amount of US$ 557.4 million and to goodwill in the amount of US$ 64.4 million.

The carrying amount of goodwill allocated to the cash generating unit before impairment loss was US$ 64.4 million.

The following specific assumptions were used in impairment test:

- the forecast sales volumes decline by 49% in 2009, increase by 54% in 2010 and further increase on average by 5% p.a. in 2011 to 2013; thereafter sales volumes remain constant at the average level of the forecast period;
- the forecast steel prices increase by 8% in 2009; decline by 2% in 2010 and remain stable till 2013; thereafter sales prices remain constant at the weighted average level of the forecast period;
- operating costs are forecast to decrease by 33% in 2009, increase by 32% in 2010 and then increase on average by 5% p.a. during the next three years; thereafter operating costs remain constant at the average level of the forecast period;
- pre-tax discount rate of 18.9%.

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases an impairment loss by US$ 21.1 million;
- a 10% decrease in future planned revenues increases an impairment loss by US$ 113.4 million.

Severstal Warren Inc.

The recoverable amount was determined as fair market value less costs to sell.

An impairment loss was recognised of US$ 382.6 million and was allocated to property, plant and equipment in the amount of US$ 376 million and to goodwill in the amount of US$ 6.6 million.

The carrying amount of goodwill allocated to the cash generating unit before impairment loss was US$ 6.6 million.

The following assumptions were used for the calculation of fair market value less cost to sell:

- the market value of the major production equipment is determined based on the most recent valuation performed by the independent appraiser when finalising the purchase price allocation (Note 30);
- the value of other items of property, plant and equipment is determined on current prices for scrap, adjusted for decommissioning costs;
- the fair value calculation includes site restoration and other related environmental expenditures based on requirements of applicable regulation.

Management believes that any reasonable possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

Metalware segment

The impairment loss related to other cash generating units was recognised in the amount of US$ 7.2 million and was allocated to property, plant and equipment.

Results of Goodwill impairment testing

The goodwill of the following cash generating units had been tested for impairment and no impairment loss was recognised as the result of those tests:

Mining segment

Nerengri-Metallik and Rudnik Aprelkovo

The carrying amount of goodwill allocated to the cash generating unit was amounted US$ 54.5 million.

The following assumptions were used in the impairment test:

- the forecast extraction volumes grow on average at 22% p.a. during 2009 to 2012 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: decline of 16% in 2009; average growth of 12% p.a. in 2010 to 2013; average decline of 4% p.a. during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase on average by 9% p.a. in 2009 to 2013 and to grow on average by 1% p.a. during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 21% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of cash generating unit to exceed its recoverable amount by US$ 52.2 million.

Celtic Resources Holdings Plc.

The carrying amount of goodwill allocated to the cash generating unit was amounted US$ 37.8 million.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase on average by 54% p.a. in 2009 to 2010, decline on average by 10% in 2011 to 2012 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: decline of 17% in 2009; average growth of 12% p.a. in 2010 to 2013; average decline of 5% p.a. during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase on average by 39% p.a. in 2009 to 2010, further grow on average by 5% p.a. in 2011 to 2012 and remain constant during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 23.6% (in US$ terms).

Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

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

Metalware segment

Redaelli Tecna S.p.A

The carrying amount of goodwill allocated to the cash generating unit was amounted US$ 45.1 million.

The following specific assumptions were used in the impairment test:

- sales volumes are assumed to be stable during the forecast period and thereafter, except for 2010 where slight increase by 3% is assumed;
- forecasted sales prices decrease by 22% in 2009 and then increase by 5% p.a. in 2009 to 2013; thereafter prices remain constant at 2013 level;
- operating costs are forecast to increase on average by 7% p.a. in the forecast period and remain constant at 2013 level thereafter;
- pre-tax discount rate of 10.5%.

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of cash generating unit to exceed its recoverable amount by US$ 16.7 million.

9. Net other non-operating income/(expenses)

	Year ended December 31,		
	2008	2007	2006
Social expenditure	(43,664)	(42,566)	(33,872)
Charitable donations	(32,277)	(41,276)	(17,060)
Depreciation of community and infrastructure assets	(4,293)	(6,341)	(3,465)
Gain on disposal of subsidiaries and associates (Note 30)	314,435	31,507	846
Other	4,744	-	-
	238,945	(58,676)	(53,551)

10. Financing

	Year ended December 31,		
	2008	2007	2006
Interest income:			
Third parties	137,151	152,708	78,524
Related parties	18,082	13,931	31,572
	155,233	166,639	110,096
Interest expense:			
Third parties	(486,360)	(309,819)	(246,681)
Related parties	(5,019)	(3,370)	(4,224)
Amortization of transaction costs	(14,337)	(12,391)	(5,057)
	(505,716)	(325,580)	(255,962)

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

11. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31,		
	2008	2007	2006
Current tax charge	(1,010,251)	(784,658)	(612,573)
Corrections to prior year's current tax charge	21,849	15,416	(13,152)
Deferred tax benefit/(expense)	420,047	69,089	(9,369)
Effect of change in statutory tax rate	47,982	-	-
Income tax expense	(520,373)	(700,153)	(635,094)

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. In 2008, the Russian Government enacted a change in the Russian statutory tax rate from 24% to 20%. The new rate becomes effective beginning January 1, 2009.

	Year ended December 31,		
	2008	2007	2006
Profit before income tax	2,587,959	2,576,243	2,105,911
Tax charge at Russian statutory rate - 24%	(621,110)	(618,298)	(505,419)
Profits taxed at different rates	88,817	(19,305)	(36,247)
Corrections to prior years's current tax charge	21,849	15,416	(13,152)
Net gain on tax restructuring	-	-	3,521
Non-tax deductible expenses, net	(61,210)	(39,216)	(78,280)
Tax-loss carry forwards expired	(12,901)	(18,494)	(17,462)
Changes in non-recognized deferred tax assets	28,939	(20,256)	32,375
Reassessment of deferred tax liabilities	(12,739)	-	(20,430)
Effect of change in statutory tax rate	47,982	-	-
Income tax expense	(520,373)	(700,153)	(635,094)

Income tax charge for the year ended December 31, 2008 includes tax expense of nil (2007: US$ 1.3 million, 2006: US$ 2.7 million) related to profits from discontinued operations (Note 29) and tax expense of nil related to gains on disposals of discontinued operations (2007: US$ 9.0 million, 2006: nil).

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

The composition of 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,		
	2008	2007	2006
Deferred tax assets:			
Tax-loss carry forwards	306,984	33,587	23,121
Property, plant and equipment	48,006	30,406	28,777
Intangible assets	13,728	3,867	1,332
Inventory	81,684	81,360	79,263
Accounts receivable	24,533	14,911	10,391
Provisions	352,555	128,493	97,333
Financial investments	51,018	5,173	2,883
Other	81,890	22,748	24,634
Gross deferred tax assets	960,398	320,545	267,734
Less offseting with deferred tax liabilities	(732,906)	(256,360)	(233,523)
Recognised deferred tax assets	227,492	64,185	34,211

	December 31,		
	2008	2007	2006
Deferred tax liabilities:			
Property, plant and equipment	(685,505)	(544,628)	(511,318)
Provisions	(1,171)	(5,868)	(8,328)
Intangible assets	(283,981)	(112,655)	(465)
Inventory	(103,033)	(43,510)	(63,643)
Investments in associates	(79,714)	(25,012)	(20,162)
Accounts receivable	(275)	(2,949)	(3,421)
Financial liabilities	(40,332)	-	-
Other	(48,222)	(31,147)	(24,350)
Gross deferred tax liabilities	(1,242,233)	(765,769)	(631,687)
Less offseting with deferred tax assets	732,906	256,360	233,523
Recognised deferred tax liabilities	(509,327)	(509,409)	(398,164)
Net deferred tax liability	(281,835)	(445,224)	(363,953)

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

	Year ended December 31,		
	2008	2007	2006
Opening balance	(445,224)	(363,953)	(316,848)
Recognized in income statement	468,029	69,089	(9,369)
Recognized in shareholders' equity	5,805	-	-
Business combinations	(379,947)	(111,276)	(10,421)
Business de-combinations	27	8,491	-
Reclassified to assets held for sale	-	(24,913)	-
Foreign exchange difference	69,475	(22,662)	(27,315)
Closing balance	(281,835)	(445,224)	(363,953)

The Group had not recognized cumulative tax-loss carry forwards in the following amounts and with the following expiry dates (stated in millions of US dollars):

	Year ended December 31,		
	2008	2007	2006
In the following year	-	44.4	59.7
Between one and five years	-	-	50.9
Between five and ten years	24.2	-	-
No expiry	105.1	84.2	50.4
	129.3	128.6	161.0

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$ 653.6 million at December 31, 2008 (December 31, 2007: US$ 1,689.2 million; December 31, 2006: US$ 996.5 million respectively).

12. Related party transactions

	Year ended December 31,		
	2008	2007	2006
Sales and income received from other related parties:			
Sales	254,299	150,984	211,275
Interest income	18,082	13,931	31,572
	272,381	164,915	242,847
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	71,206	1,810	1,878
Purchases from joint ventures:			
Non-capital expenditures	149,151	218,912	139,752
Purchases from other related parties:			
Non-capital expenditures	145,956	666,137	1,012,740
Capital expenditures	5,215	8,572	130,769
	371,528	895,431	1,285,139

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

13. Related party balances

	December 31,		
	2008	2007	2006
Joint ventures' balances			
Short-term trade accounts payable	5,267	16,353	12,675
Other related party balances			
Cash and cash equivalents at related party bank	322,865	239,909	542
Deposits with related party bank and pension fund	115,488	18,985	-
Accounts receivable from other related parties:			
Trade accounts receivable	27,796	12,659	25,967
Advances paid	4,812	6,546	34,438
Other receivables	31,223	27,988	13,214
Short-term loans	2,952	20,322	75,452
Short-term promissory notes	18,951	7,457	5,198
Short-term loans to bank customers	-	-	13,856
Long-term loans	19,155	17,447	-
Long-term loans to bank customers	-	-	7,078
Held-to-maturity securities and deposits	1,485	62,759	50,151
	106,374	155,178	225,354
Short-term trade accounts payable to other related parties:			
Trade accounts payable	38,644	36,886	73,528
Advances received	1,353	3,843	785
Short-term payables for acquisition of subsidiaries	10,211	32,592	84,368
Other accounts payable	16,485	1,873	14,830
Bank demand deposits	-	-	58,719
Bank term deposits	-	-	15,904
Long-term payables for acquisition of subsidiaries	-	-	29,428
	66,693	75,194	277,562
Debt financing includes the following balances with other related parties:			
Short-term debt financing	32,186	57,956	13,257
Long-term debt financing	1,675	21,685	26,303
	33,861	79,641	39,560

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

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

14. Cash and cash equivalents

	December 31,		
	2008	2007	2006
Petty cash	552	780	283
Cash at bank	2,044,902	1,251,782	470,273
Restricted cash accounts	119,487	82	6,994
Short-term deposits with maturity of less than 3 months	488,801	369,898	893,844
Investments in quoted monetary instruments	-	-	62,327
Cash balances of consolidated bank:			
Cash	-	-	1,171
Nostro accounts at the Central Bank of Russia	-	-	110,036
Nostro accounts at other banks	-	-	6,637
Placements with banks	-	-	191,830
	2,653,742	1,622,542	1,743,395

As described in note 30 to these consolidated financial statements, as at December 31, 2006 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.

15. Short-term bank deposits

Short-term bank deposits totaled US$ 818.5 million at December 31, 2008 (December 31, 2007: US$ 666.3 million, December 31, 2006: US$ 1,147.3 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 stated otherwise)

16. Short-term financial investments

	December 31, 2008	December 31, 2007	December 31, 2006
Held-for-trading securities:			
Promissory notes and bonds of third parties	9,031	36,578	128,375
Promissory notes of related parties	18,951	7,457	5,198
Quoted equity securities	44,489	56,003	19,143
Other securities	-	56,270	-
Loans:			
Loans to related parties	2,952	20,322	75,452
Loans to third parties	21,760	38,046	11,912
Loans to bank customers:			
Third parties	-	-	54,991
Related parties	-	-	13,856
Alowance for loan losses	-	-	(2,758)
Available-for-sale securities	6,254	818	116
Held-to-maturity securities	9,345	-	-
	112,782	215,494	306,285

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.

17. Trade accounts receivable

	December 31, 2008	December 31, 2007	December 31, 2006
Customers	2,032,791	1,806,775	1,432,366
Allowance for doubtful debts	(90,523)	(37,737)	(35,222)
	1,942,268	1,769,038	1,397,144

18. Inventories

	December 31, 2008	December 31, 2007	December 31, 2006
Raw materials and supplies	2,392,490	1,382,607	1,240,538
Work-in-progress	722,693	479,358	389,740
Finished goods	1,163,371	858,669	711,820
	4,278,554	2,720,634	2,342,098

Of the above amounts US$ 1,987.4 million (December 31, 2007: US$ 264.4 million, December 31, 2006: US$ 181.9 million) are stated at net realizable value.

During the year ended December 31, 2008, the Group recognized a US$ 25.0 million release and a US$ 432.8 million allowance to reduce the carrying amount to a net realizable value (December 31, 2007: US$ 24.9 million and US$ 25.5 million respectively; December 31, 2006: US$ 32.2 million and US$ 9.1 million respectively).

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

19. Other current assets

	December 31,		
	2008	2007	2006
Advances paid and prepayments	189,294	236,778	189,918
Other taxes and social security prepaid	17,346	16,414	19,628
Reserves at Central Bank of Russia	-	-	12,325
Other assets	73,442	65,769	44,354
	280,082	318,961	266,225

20. Long-term financial investments

	December 31,		
	2008	2007	2006
Loans:			
Loans to related parties	19,155	17,447	-
Loans to third parties	390	10,305	27,460
Loans to bank customers:			
Related parties	-	-	7,078
Third parties	-	-	19,226
Available-for-sale securities	48,952	22,448	11,018
Held-to-maturity securities and deposits	1,485	62,759	50,151
	69,982	112,959	114,933

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

21. Investments in associates and joint ventures

The Group's investments in associated and joint ventures companies are described in the tables below. Group structure and certain additional information on investments in associated and joint ventures companies, including ownership percentages, is presented in note 30.

	December 31,		
	2008	2007	2006
Associates			
Air Liquide Severstal	6,297	7,537	7,026
Others	6,018	1,276	3,655
Joint ventures			
Spartan Steel Coating LLC	51,552	53,978	63,818
Double Eagle Steel Coating Company	19,354	22,936	28,859
Ohio Coatings Company	16,595	-	-
Bethlehem Roll Technologies, LLC	4,326	-	-
Mountain State Carbon LLC	-	117,260	119,472
	104,142	202,987	222,830

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

	December 31,		
	2008	2007	2006
Current assets	82,092	171,647	202,168
Non-current assets	279,722	428,917	446,928
Short-term liabilities	52,566	87,477	115,188
Long-term liabilities	91,021	93,167	101,751
Equity	218,227	419,920	432,157

	Year ended December 31,		
	2008	2007	2006
Revenues	305,991	326,700	373,749
Net income	21,513	16,211	7,617

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

22. 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, 2005	1,489,257	4,131,553	233,549	59,528	1,273,165	7,187,052
Reclassifications	(3,170)	6,769	(4,676)	1,077	-	-
Additions	-	-	-	-	1,654,131	1,654,131
Business combinations	81,452	11,203	917	687	1,728	95,987
Disposals	(9,255)	(199,820)	(20,993)	(765)	(22,245)	(253,078)
Business de-combinations	-	-	-	(394)	-	(394)
Transfer to other assets	-	-	-	-	(11,907)	(11,907)
Transfers	414,230	1,319,143	35,848	15,809	(1,785,030)	-
Foreign exchange difference	164,860	415,924	22,974	6,063	90,831	700,652
December 31, 2006	2,137,374	5,684,772	267,619	82,005	1,200,673	9,372,443
Reclassifications	9,840	(25,979)	6,669	9,470	-	-
Additions	-	-	-	-	2,096,695	2,096,695
Business combinations	83,389	83,429	6,053	711	21,412	194,994
Disposals	(11,418)	(186,230)	(12,028)	(14,613)	(6,618)	(230,907)
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	347,794	1,806,315	75,453	26,683	(2,256,245)	-
Foreign exchange difference	168,957	452,825	25,021	7,584	61,088	715,475
December 31, 2007	2,499,880	7,485,450	350,662	109,411	1,031,787	11,477,190
Reclassifications	(3,494)	(27,972)	23,729	7,737	-	-
Additions	-	-	-	-	2,060,203	2,060,203
Business combinations	439,131	2,084,223	71,575	141	113,752	2,708,822
Disposals	(14,207)	(155,926)	(9,355)	(1,355)	(29,092)	(209,935)
Business de-combinations	(3,827)	(5,056)	(344)	(336)	(2,178)	(11,741)
Reclassified to assets held for sale	-	(2,976)	(9)	-	(15)	(3,000)
Transfer to other assets	-	-	-	-	(22,101)	(22,101)
Transfers	230,808	969,495	96,028	7,766	(1,304,097)	-
Foreign exchange difference	(351,685)	(910,313)	(67,357)	(19,553)	(155,777)	(1,504,685)
December 31, 2008	2,796,606	9,436,925	464,929	103,811	1,692,482	14,494,753

Of the above amounts of additions to construction-in-progress US$ 11.6 million (2007: US$ 18.7 million, 2006: US$ 32.6 million) is interest capitalized.

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

	Land and buildings	Plant and machinery	Other productive assets	Community and infrastructure assets	Construction-in-progress	Total assets
Depreciation and impairment:						
December 31, 2005	249,132	1,289,074	89,448	41,397	97,859	1,766,910
Reclassifications	(3,640)	5,515	(1,678)	(197)	-	-
Depreciation expense	113,087	449,635	29,737	3,465	-	595,924
Business combinations	1,634	91	277	3	-	2,005
Disposals	(3,741)	(169,420)	(14,356)	(561)	(11,056)	(199,134)
Business de-combinations	-	-	-	(374)	-	(374)
Transfers	7,952	2,165	3	5,003	(15,123)	-
Impairment of assets	10,454	33,253	1,824	2,605	9,684	57,820
Foreign exchange difference	27,286	131,221	8,887	4,189	6,844	178,427
December 31, 2006	402,164	1,741,534	114,142	55,530	88,208	2,401,578
Reclassifications	1,583	(4,650)	565	2,502	-	-
Depreciation expense	143,124	652,555	34,132	6,341	-	836,152
Business combinations	1,938	7,191	803	8	-	9,940
Disposals	(2,689)	(147,110)	(9,280)	(1,309)	(1,186)	(161,574)
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	15,012	(36)	2,441	9,366	28,895
Foreign exchange difference	40,517	167,105	11,081	4,751	7,855	231,309
December 31, 2007	562,935	2,317,244	144,963	73,334	89,598	3,188,074
Reclassifications	8,416	(20,894)	10,161	2,317	-	-
Depreciation expense	162,789	806,565	62,199	4,293	-	1,035,846
Disposals	(21)	(95,642)	(5,867)	(570)	(15,997)	(118,097)
Business de-combinations	(1,497)	(1,768)	(341)	(435)	-	(4,041)
Reclassified to assets held for sale	-	(1,096)	(9)	-	-	(1,105)
Transfers	-	(10)	(1)	1,941	(1,930)	-
Impairment of assets	146,625	876,020	11,914	3,702	40,863	1,079,124
Foreign exchange difference	(110,062)	(389,964)	(28,068)	(13,711)	(11,548)	(553,353)
December 31, 2008	769,185	3,490,455	194,951	70,871	100,986	4,626,448
Net book values:						
December 31, 2006	1,735,210	3,943,238	153,477	26,475	1,112,465	6,970,865
December 31, 2007	1,936,945	5,168,206	205,699	36,077	942,189	8,289,116
December 31, 2008	2,027,421	5,946,470	269,978	32,940	1,591,496	9,868,305

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

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

23. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation, exploration and development expenditure*	Other intangible assets	Total
Cost:						
December 31, 2005	1,438	29,220	27,998	-	6,327	64,983
Additions	-	4,717	1,473	-	2,618	8,808
Disposal	-	-	-	-	(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	-	916	13,927	11,202	5,391	31,436
Business combinations	150,702	245,653	-	156,582	72,274	625,211
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	4,804	3,280	2,701	1,137	3,157	15,079
December 31, 2007	156,946	252,480	36,747	168,921	84,425	699,519
Additions	-	2,246	28,058	33,650	28,238	92,192
Business combinations	569,512	479,694	604	113,853	113,617	1,277,280
Disposals	-	(289)	(1,014)	(121)	(13,270)	(14,694)
Business de-combinations	(3,621)	-	-	-	-	(3,621)
Foreign exchange difference	(20,747)	(11,038)	(1,580)	(30,502)	(12,784)	(76,651)
December 31, 2008	702,090	723,093	62,815	285,801	200,226	1,974,025
Amortization and impairment:						
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	-	3,046	3,756	-	3,308	10,110
Disposals	-	-	(6,161)	-	(396)	(6,557)
Reclassified to assets held for sale	-	(3,602)	-	-	-	(3,602)
Business de-combinations	-	-	(3,924)	-	(3,923)	(7,847)
Foreign exchange difference	2	215	844	-	827	1,888
December 31, 2007	24	1,422	4,941	-	6,065	12,452
Amortization expense	-	28,597	5,905	-	15,432	49,934
Impairment	461,139	-	-	-	-	461,139
Disposals	-	(172)	(367)	-	(981)	(1,520)
Foreign exchange difference	(4)	(1,174)	(489)	-	(799)	(2,466)
December 31, 2008	461,159	28,673	9,990	-	19,717	519,539
Net book values:						
December 31, 2006	1,418	35,122	22,078	-	3,048	61,666
December 31, 2007	156,922	251,058	31,806	168,921	78,360	687,067
December 31, 2008	240,931	694,420	52,825	285,801	180,509	1,454,486

* At December 31, 2008 of the above amounts US$ 39.7 million (December 31, 2007: nil; December 31, 2006: nil) are licenses in development stage.

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

24. Debt finance

	December 31, 2008	2007	2006
Eurobonds 2009	325,000	325,000	325,000
Eurobonds 2013	1,250,000	-	-
Eurobonds 2014	375,000	375,000	375,000
Other issued notes and bonds	14,150	-	113,934
Bank financing	5,941,200	2,932,570	2,226,979
Factoring of receivables	191,623	201,909	224,049
Other financing	142,711	119,361	72,674
Accrued interest	112,090	41,807	56,692
Unamortized balance of transaction costs	(96,257)	(53,265)	(48,172)
	8,255,517	3,942,382	3,346,156
Total debt is denominated in the following currencies:			
US Dollars	4,957,298	1,960,275	1,426,895
Rubles	653,339	547,866	470,143
Euro	2,616,523	1,432,490	1,449,118
Other currencies	28,357	1,751	-
	8,255,517	3,942,382	3,346,156
Total debt is contractually repayable after the balance sheet date as follows:			
Less than one year	1,977,513	1,129,216	1,081,965
Between one and five years	5,393,228	1,923,336	1,542,177
After more than five years	884,776	889,830	722,014
	8,255,517	3,942,382	3,346,156

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

- US$ 2,837.0 million (December 31, 2007: US$ 1,142.0 million; December 31, 2006: US$ 701.4 million) of the net book value of plant and equipment;
- US$ 2,303.6 million (December 31, 2007: US$ 679.1 million; December 31, 2006: US$ 1,080.7 million) of current assets and revenues from export contracts; and,
- 50% ownership in Mountain State Carbon and investments in other associates and joint ventures in Severstal North America segment and 50% ownership in IPM, the Group's subsidiary.

A part of the Group's debt financing is subject to certain covenants. The Group complied with all significant debt covenants, including equity ratios, during the years ended December 31, 2008, 2007 and 2006.

At the balance sheet date the Group had US$ 950.6 million (December 31, 2007: US$ 1,082.7 million; December 31, 2006: US$ 717.9 million) of unused long term credit lines available to it.

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

25. Other current liabilities

	December 31, 2008	2007	2006
Amounts payable to employees	400,791	248,231	187,330
Advances received	105,611	221,612	236,565
Provisions (Note 27)	69,540	43,974	12,011
Onerous contracts	71,509	-	-
Accrued expenses	63,779	34,166	54,084
Lease liabilities	23,182	9,753	2,579
Derivative financial liabilities	19,110	-	-
Payable for acquisition of subsidiaries	7,320	-	-
Decommissioning liability (Note 27)	5,308	-	-
Deferred income	3,319	-	-
Bank customer accounts	-	-	31,143
Other liabilities	36,150	62,633	30,832
	805,619	620,369	554,544

26. Retirement benefit liabilities

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, healthcare benefits, life insurance and other benefits.

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

	December 31, 2008	2007	2006
Discount rates:			
Russia	8.5% to 10.6%	6.5%	6.5%
USA	5.3% to 6.5%	5.3%	5.8%
UK	6.7%	3.1%	4.9%
Italy and France	4.4% to 5.3%	5.1% to 5.6%	4.6%
Future rates of benefit increase:			
Russia	6.3% to 8.2%	5.8% to 6.2%	6.2%
USA	Fixed at 0% or 4.0% to 10.0%	Fixed at 0% or 9.0%	Fixed at 0%
UK	2.7%	3.4%	2.8%
Italy and France	3.0% to 6.0%	2.0% to 3.0%	3.0%

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

	December 31, 2008	2007	2006	2005	2004
Present value of the defined benefit obligation	987,418	495,713	549,009	387,657	208,325
Fair value of the plan assets	(208,122)	(108,315)	(106,055)	(49,171)	(50,302)
Retirement benefit liability	779,296	387,398	442,954	338,486	158,023

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

The movements in the defined benefit obligation are as follows:

	Year ended December 31,		
	2008	**2007**	**2006**
Opening balance	495,713	549,009	387,657
Business combinations/(de-combinations)	526,630	(33,612)	39,328
Reclassified to assets held for sale	-	(9,260)	-
Benefits paid	(60,698)	(55,238)	(33,547)
Interest cost	33,065	27,589	24,962
Service cost (Note 5)	27,602	18,640	18,767
Actuarial loss/(gain) (Note 5)	25,889	(37,497)	68,573
Foreign exchange (gain)/loss	(60,783)	36,082	43,269
Closing balance	987,418	495,713	549,009

The movements in the plan assets are as follows:

	Year ended December 31,		
	2008	**2007**	**2006**
Opening balance	108,315	106,055	49,171
Business combinations/(de-combinations)	117,215	(10,122)	28,566
Contributions made during the year	38,637	11,534	13,424
Benefits paid	(28,232)	(14,852)	(12,356)
Return on assets (Note 5)	(1,045)	10,921	16,382
Actuarial (loss)/gain (Note 5)	(7,252)	(441)	915
Foreign exchange (loss)/gain	(19,516)	5,220	9,953
Closing balance	208,122	108,315	106,055

Defined benefit obligation analysis is as follows:

	December 31,		
	2008	**2007**	**2006**
Wholly unfunded	497,129	258,926	284,485
Partly funded	490,289	236,787	264,524
Total	987,418	495,713	549,009

Plan assets analysis is as follows:

	December 31,		
	2008	**2007**	**2006**
Equity instruments	38,161	44,448	44,450
Deposits	14,946	3,037	1,980
Shares in mutual funds	34,531	-	-
Cash	75,565	1,170	1,417
Government bonds	11,557	28,548	28,850
Corporate bonds	14,335	14,964	14,178
Other investments	19,027	16,148	15,180
Total	208,122	108,315	106,055

The Group's best estimate of contributions expected to be paid to the plan in 2009 is US$ 43.3 million.

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

The overall expected rate of return on pension plan assets is calculated based on the expected long-term investment returns for each category of assets that forms the portfolio. The assessment of expected returns is based on historical returns and predictions of the market for each category of assets in the portfolio in the next twelve months. Expected and actual rate of return on plan assets is presented in the table below:

	2008		2007		2006	
	Actual	Expected	Actual	Expected	Actual	Expected
Russia	4.0%	16.0%	16.1%	17.0%	13.0%	12.0%
USA	-10.0% to 0%	0% to 3.0%	n/a	n/a	n/a	n/a
UK	-15.0%	3.6%	5.0%	5.0%	2.7%	2.7%

The retirement benefit expenses recognized in the income statement are contained in the caption: 'Cost of sales', 'General and administrative expenses' allocated proportionally to related salary expenses, except for the interest cost, which is recognized in the caption 'Interest expense'.

27. Other non-current liabilities

	December 31,		
	2008	2007	2006
Decommissioning liability	246,147	108,961	128,209
Provisions	139,625	66,902	67,139
Amounts payable to employees	66,479	-	-
Lease liabilities	53,479	14,515	13,742
Deferred income	31,590	29,660	29,588
Derivative financial liabilities	11,183	-	-
Restructured tax liabilities	758	24,978	67,731
Payable for acquisition of subsidiaries	-	-	29,428
Other liabilities	42,029	79,636	23,761
	591,290	324,652	359,598

Decommissioning liability

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2009 – 2050. The present value of expected cash outflows were estimated using existing technology, and discounted using a real discount rate. These rates, presented by segment, are as follows:

	Discount rates, %		
	2008	2007	2006
Mining segment:			
Russia	2.0 - 2.8	2.0	2.0
Kazakhstan	1.0	n/a	n/a
USA	2.4 - 6.8	n/a	n/a
Burkina Faso	3.8	n/a	n/a
North America	1.8	n/a	n/a

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

The movements in the decommissioning liability are as follows:

	Year ended December 31,		
	2008	2007	2006
Opening balance	108,961	128,209	102,885
Change in assumptions	(3,820)	-	3,936
Interest cost	18,162	19,062	12,875
Business combinations	151,746	14,927	-
Usage of decommissioning liability	(4,709)	-	-
Reclassified to assets held for sale	-	(63,314)	-
Foreign exchange difference	(18,885)	10,077	8,513
Closing balance	251,455	108,961	128,209

	December 31,		
	2008	2007	2006
Current portion	5,308	-	-
Non-current portion	246,147	108,961	128,209
	251,455	108,961	128,209

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,		
	2008	2007	2006
Environmental claims	42,910	24,459	6,052
Other employee related	14,453	16,075	13,578
Legal claims	38,178	27,423	21,917
Social security claims	32,421	30,259	28,689
Restructuring	12,664	8,284	5,569
Other	68,539	4,376	3,345
	209,165	110,876	79,150

	December 31,		
	2008	2007	2006
Current portion	69,540	43,974	12,011
Non-current portion	139,625	66,902	67,139
	209,165	110,876	79,150

These provisions represent management's best estimate of the potential losses arising in these cases, calculated based on available information and appropriate assumptions used. The actual outcome of those cases is currently uncertain and might differ from the recorded provisions.

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

The movements in the provisions are as follows:

	Year ended December 31,		
	2008	2007	2006
Opening balance	110,876	79,150	68,346
Charge to the income statement	95,875	32,907	18,470
Business combinations	37,916	781	-
Usage of provisions	(27,648)	(5,821)	(15,205)
Business de-combinations	-	(6,321)	(24)
Foreign exchange difference	(7,854)	10,180	7,563
Closing balance	209,165	110,876	79,150

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, certain subsidiaries in the Mining segment signed restructuring agreements with the tax authorities for the taxes in arrears. 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 as at the date of restructuring will be forgiven. Over the past years the Group has been making payments in accordance with the agreed schedules and intends to complete the settlement of the restructured taxes in 2009. 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,		
	2008	2007	2006
Gain on restructuring of tax liabilities	-	-	14,669
	-	-	14,669

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,		
	2008	2007	2006
Current portion	21,834	20,960	43,553
Non-current portion	758	24,978	67,731
	22,592	45,938	111,284

28. Share capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUR 0.01 each. Authorized share capital of Severstal at December 31, 2008, 2007 and 2006 comprised 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)

Share issue 2006

The Parent Company issued shares in June 2006 in consideration for the mining companies acquired from the Majority Shareholder. As discussed in note 30, certain shareholders exercised their pre-emptive rights in connection with the share issue for acquisition of mining companies. Total proceeds for such shares issued for cash in June 2006 were US$ 162,179 thousand and comprised of US$ 5 thousand of increase in share capital and US$ 162,174 thousand of increase in share premium.

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

However, as a part of this process, the Parent Company initiated the issue of up to 85,000,000 additional shares in the fourth quarter of 2006. On November 14, 2006, the Board of Directors set the price for pre-emptive rights purchases equal to the IPO price less pro rata expenses for the IPO transaction – RUR 322.81 per share (US$ 12.13 at November 14, 2006 exchange rate). The Board of Directors also decided that shares for which pre-emptive rights were not exercised would be offered through open subscription at the IPO price of RUR 332.74 per share (US$ 12.50 at November 14, 2006 exchange rate).

The Group received RUR 24,829 million (US$ 943.0 million at December 18, 2006 exchange rate – the date of closing of share issue) for 76,916,692 shares placed under pre-emptive rights subscription. The Group did not receive applications under the open subscription. Total proceeds for such shares issued for cash in December 2006 comprised of US$ 29 thousand of increase in share capital and the remaining amount was recorded as an increase in share premium.

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, 2006	1,007,701	3,311,288
Share capital at December 31, 2007	1,007,701	3,311,288
Share capital at December 31, 2008	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 of US$ 5,047.2 million, were not yet approved by the Board of Directors (December 31, 2007: US$ 5,894.9 million; December 31, 2006: US$ 4,667.6 million).

On June 9, 2006, the Meeting of Shareholders approved the annual dividend of RUR 4.0 (US$ 0.15 at June 9, 2006 exchange rate) per share in respect of 2005. Owners of 551.9 million shares were entitled to these dividends.

On September 25, 2006, the Meeting of Shareholders approved an interim dividend of RUR 3.6 (US$ 0.13 at September 25, 2006 exchange rate) per share for the first half of 2006. Owners of 930.8 million shares were entitled to these dividends.

On December 25, 2006, the Meeting of Shareholders approved an interim dividend of RUR 2.0 (US$ 0.075) per share and GDR for the third quarter of 2006. Owners of 930.8 million shares were entitled to these dividends.

On June 15, 2007 the Meeting of Shareholders approved the 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 an interim 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.

On September 28, 2007 the Meeting of Shareholders approved an interim 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 an interim dividend of 2.5 rubles (US$ 0.1 at December 20, 2007 exchange rate) per share and per GDR for the third quarter of 2007.

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

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

On September 30, 2008 the Meeting of Shareholders approved an interim dividend of 18.35 rubles (US$ 0.7 at September 30, 2008 exchange rate) per share and per GDR for the first half of 2008.

On December 26, 2008 the Meeting of Shareholders approved an interim dividend of 7.17 rubles (US$ 0.2 at December 26, 2008 exchange rate) per share and per GDR for the third quarter of 2008.

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

29. Discontinued operations and assets held for sale

The Group's discontinued operations consisted of OAO Metallurgical Commercial Bank (presented the Group's Financing segment) which was disposed of in November 2007, and Lucchini companies which were classified as held for sale as at December 31, 2007 and December 31, 2006. 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,		
	2008	**2007**	**2006**
Revenue	-	831	8,675
Expenses	-	(2,914)	(3,365)
Other income	-	3,821	30,212
Profit before income tax	-	1,738	35,522
Income tax expense	-	(1,305)	(2,673)
Profit for the year	-	433	32,849
Net cash from operating activities	-	(64,446)	148,650
Net cash from financing activities	-	-	17,779

The Group's assets held for sale as at December 31, 2007 were primarily Kuzbass coal mines, a group of subsidiaries, which the Group disposed of in the first half of 2008, and the Lucchini and Metalware segments' companies.

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

The major classes of assets and liabilities of the disposal groups measured at the lower of carrying amount and fair value less costs to sell at December 31, 2008, 2007 and 2006 were as follows:

	December 31,		
	2008	2007	2006
Current assets:			
Cash and cash equivalents	46	6,199	5,986
Short-term financial investments	-	18,550	-
Trade accounts receivable	-	2,365	100
Accounts receivable from related parties	-	2,732	-
Inventories	5,525	9,182	-
VAT recoverable	1,406	1,808	-
Income tax recoverable	-	422	3
Other current assets	-	5,160	-
Total current assets	6,977	46,418	6,089
Non-current assets:			
Long-term financial investments	-	2,540	514
Investments in associates	-	1	1,395
Property, plant and equipment	1,895	332,632	19,375
Intangible assets	-	30,710	50
Deferred tax assets	-	24,913	11
Other non-current assets	-	28,127	86,082
Total non-current assets	1,895	418,923	107,427
Total assets	8,872	465,341	113,516
Current liabilities:			
Trade accounts payable	-	7,938	-
Other taxes and social security payable	4	3,862	-
Other current liabilities	-	6,980	-
Total current liabilities	4	18,780	-
Non-current liabilities:			
Retirement benefit liabilities	-	9,260	-
Other non-current liabilities	-	63,710	1,792
Total non-current liabilities	-	72,970	1,792
Total liabilities	4	91,750	1,792

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

30. 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:

Company	December 31, 2008	2007	2006	Location	Activity
Russian Steel segment:					
Subsidiaries:					
ZAO Severgal	100.0%	100.0%	75.0%	Russia	Hot dip galvanizing
ZAO Severstal SMZ-Kolpino	100.0%	100.0%	n/a	Russia	Steel constructions
ZAO Severstal TPZ-Sheksna	100.0%	100.0%	n/a	Russia	Steel constructions
ZAO Severstal Steel Solutions	100.0%	100.0%	n/a	Russia	Steel constructions
OOO SSM-Tyazhmash	100.0%	100.0%	100.0%	Russia	Repairs&construction
OAO Domnaremont	82.7%	82.7%	82.1%	Russia	Repairs&construction
ZAO Firma Stoik	99.9%	100.0%	100.0%	Russia	Repairs&construction
OAO Metallurgremont	n/a	79.8%	79.8%	Russia	Repairs&construction
OOO Energoremont	100.0%	100.0%	100.0%	Russia	Repairs&construction
OOO Electroremont	100.0%	93.3%	93.3%	Russia	Repairs&construction
Victory Industries, Inc	100.0%	100.0%	100.0%	USA	Repairs&construction
OOO Uralmash MO	n/a	n/a	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	100.0%	80.6%	n/a	Belarus*	Steel sales
Severstal-Ukraine LLC.	51.0%	51.0%	n/a	Ukraine*	Steel sales
Armaturu Servisa Centrs SIA	50.5%	25.2%	25.2%	Latvia*	Steel service center
ZAO Neva-Metall Trans	n/a	100.0%	n/a	Russia	Shipping operations
ZAO Neva-Metall	100.0%	100.0%	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**
ZAO Vtorchermet	85.6%	84.8%	n/a	Russia	Processing scrap
ZAO Rospromresursy	100.0%	100.0%	n/a	Russia	Processing scrap
OAO Murmanskvtormet	75.1%	75.1%	n/a	Russia	Processing scrap
OAO Arhangelskii vtormet	75.0%	75.0%	n/a	Russia	Processing scrap
ZAO Trade House Severstal-Invest	100.0%	100.0%	100.0%	Russia	Metal sales
OOO North Steel Company	99.0%	99.0%	99.0%	Russia	Leasing
OAO Rostovmetall	87.0%	87.0%	87.0%	Russia	Leasing
ZAO PPTK-1	99.0%	99.0%	99.0%	Russia	Leasing
Associates:					
Air Liquide Severstal	25.0%	25.0%	25.0%	Russia	Production liquid oxygen
IPM segment:					
Subsidiaries:					
ZAO Izhora Pipe Mill	100.0%	100.0%	100.0%	Russia	Wide pipes
Financing segment:					
Subsidiaries:					
OAO Metallurgical Commercial Bank	n/a	n/a	72.9%	Russia	Banking

(*) – 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.
(**) – 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)

Company	December 31, 2008	2007	2006	Location	Activity
Severstal North America segment:					
Subsidiaries:					
Severstal US Holdings LLC	100.0%	100.0%	100.0%	USA	Holding company
Barakom Limited	100.0%	100.0%	100.0%	Cyprus	Holding company
Severstal North America Inc	100.0%	100.0%	100.0%	USA	Iron & steel mill
Severcorr LLC	91.8%	74.2%	74.2%	USA	Steel mill
Severstal Warren Inc	100.0%	n/a	n/a	USA	Steel mill
Severstal Wheeling Holding Company	100.0%	n/a	n/a	USA	Steel mill
Severstal Sparrows Point LLC	100.0%	n/a	n/a	USA	Steel mill
Mountain State Carbon LLC	100.0%	50.0%	50.0%	USA	Coking coal
Northern Steel Group Inc	100.0%	n/a	n/a	USA	Steel service center
Associates:					
Delaco Processing LLC	49.0%	49.0%	49.0%	USA	Steel slitting
Joint ventures:					
Spartan Steel Coating LLC	48.0%	48.0%	48.0%	USA	Hot dip galvanizing
Double Eagle Steel Coating company	50.0%	50.0%	50.0%	USA	Electro-galvanizing
Bethlehem Roll Technologies LLC	50.0%	n/a	n/a	USA	Grinding steel mill rolls
Ohio Coatings Company	50.0%	n/a	n/a	USA	Tin plate steel
Lucchini segment:					
Subsidiaries:					
Lucchini SpA	79.8%	79.8%	70.8%	France	Holding company
Ascometal SAS	79.8%	79.8%	70.8%	France	Steel manufacturing
Ascometal GmbH	79.8%	79.8%	70.8%	Germany	Sales
Ascoforge Safe SAS	n/a	n/a	70.8%	France	Forgings
Bari Fonderie Meridionali SpA	79.8%	79.8%	70.8%	Italy	Forgings
Bi-Mec Srl	n/a	79.8%	70.8%	Italy	Maintenance
GSI Lucchini SpA	55.3%	55.3%	49.1%	Italy	Steel spheres
Nitruvid SAS	n/a	n/a	70.8%	France	Steel finishing
Lucchini Asia Pacific Pte Ltd	79.8%	79.8%	70.8%	Singapore	Sales
Lucchini Holland BV	79.8%	79.8%	70.8%	Netherlands	Investment holding
Lucchini HPS GmbH	n/a	n/a	23.5%	Germany	Sales
Lucchini Iberia SI	79.8%	79.8%	70.8%	Spain	Sales
Lucchini Poland Spzoo	n/a	n/a	70.8%	Poland	Machining
Lucchini Servizi Srl	79.8%	79.8%	70.8%	Italy	Dormant
Lucchini Sidermeccanica SpA	n/a	n/a	70.8%	Italy	Casting and machining
Lucchini Siderprodukte AG	51.9%	51.9%	46.0%	Switzerland	Sales
Lucchini Sweden AB	n/a	n/a	70.8%	Sweden	Machining
Lucchini UK Ltd	n/a	n/a	70.8%	UK	Machining
Luchini USA Inc	79.8%	79.8%	70.8%	USA	Sales
Servola SpA	79.8%	79.8%	70.8%	Italy	Asset holding
Sideris Steel SAS	79.8%	79.8%	70.8%	France	Investment holding
Simmofos Sarl	n/a	79.8%	70.8%	France	Asset holding
Vertek Srl	n/a	79.8%	70.8%	Italy	Steel finishing
Siderco SpA	n/a	79.8%	n/a	Italy	Slag processor
Associates:					
ESPRA SAS	27.9%	27.9%	24.8%	France	Steel scrap
Logistica Servola Srl	39.9%	39.9%	35.4%	Italy	Dormant
Setrans Srl	n/a	n/a	21.2%	Italy	Logistics and storage
Tecnologie Ambientali Pulite Srl	19.9%	19.9%	17.6%	Italy	Enviromental services
GICA SA	19.9%	19.9%	n/a	Switzerland	Carbon dioxide trading
Companies classified as held for sale:					
Relco Spzoo	n/a	79.8%	70.8%	Poland	Land holding
Coimpex Spzoo	n/a	31.9%	28.3%	Poland	Land holding

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

Company	December 31, 2008	2007	2006	Location	Activity
Mining segment:					
Subsidiaries:					
OAO Karelsky Okatysh	100.0%	94.8%	90.8%	Russia	Iron ore pellets
OAO Olkon	100.0%	92.7%	91.8%	Russia	Iron ore concentrate
Severstal Liberia Iron Ore Ltd	61.5%	n/a	n/a	Liberia	Iron ore
OAO Vorkutaugol	94.0%	93.1%	89.2%	Russia	Coking coal concentrate
OAO Mine Vorgashorskaya	75.0%	75.0%	73.6%	Russia	Coking coal concentrate
PBS Coals Limited	100.0%	n/a	n/a	Canada	Coking coal concentrate
OAO Mine Pervomaiskaya	n/a	99.4%	99.1%	Russia	Coking coal concentrate
OAO Mine Berezovskaya	n/a	97.5%	96.3%	Russia	Coking coal concentrate
OAO SShEMK	n/a	75.6%	75.6%	Russia	Engineering
OAO Severokuzbasskoe PTU	n/a	87.3%	87.3%	Russia	Transportation
OAO Anzhero-Sudzhenskoe PTU	n/a	94.4%	94.4%	Russia	Transportation
OOO Nerengri-Metallik	100.0%	100.0%	n/a	Russia	Gold mining
ZAO Rudnik Aprelkovo	100.0%	100.0%	n/a	Russia	Gold mining
Celtic Resources Holdings Plc	100.0%	86.3%	n/a	Ireland	Holding company
Alel JSC	100.0%	86.3%	n/a	Kazakhstan	Gold mining
Zherek LLP	100.0%	86.3%	n/a	Kazakhstan	Gold mining
High River Gold Mines Ltd	53.8%	n/a	n/a	Canada	Holding company
OJSC Buryatzoloto	45.7%	n/a	n/a	Russia	Gold mining
Berezitovy Rudnik LLC	53.3%	n/a	n/a	Russia	Gold mining
Societe Des Mines de Taparko	48.4%	n/a	n/a	Burkina Faso	Gold mining
TOO Semgeo	100.0%	n/a	n/a	Kazakhstan	Gold mining
OOO SPB-Giproshakht	100.0%	100.0%	n/a	Russia	Engineering
OAO Pechorugol	n/a	n/a	99.3%	Russia	Holding company
OOO Olkon-Invest	n/a	n/a	100.0%	Russia	Holding company
OOO Terra	n/a	n/a	100.0%	Russia	Holding company
OOO Holding Gornaya Company	100.0%	100.0%	100.0%	Russia	Holding company
Lybica Holding B.V.	100.0%	n/a	n/a	the Netherlands	Holding company
7029740 Canada Limited	100.0%	n/a	n/a	Canada	Holding company
ZAO Impulse-Consult	n/a	n/a	100.0%	Russia	Holding company
OOO Investment Company Kuzbassugol	n/a	n/a	100.0%	Russia	Holding company
Metalware segment:					
Subsidiaries:					
OAO Severstal-Metiz	100.0%	97.0%	97.0%	Russia	Steel machining
OAO Dneprometiz	96.8%	58.2%	58.2%	Ukraine	Steel machining
Carrington Wire Ltd	100.0%	97.0%	97.0%	UK	Steel machining
Redaelli Tecna S.p.A.	100.0%	n/a	n/a	Italy	Steel machining
OOO Volgometiz	n/a	n/a	100.0%	Russia	Steel machining
OOO Policher	n/a	n/a	87.3%	Russia	Polymer coatings
OOO UniFence	100.0%	97.0%	n/a	Russia	Steel machining
OOO ChSPZ MKR (UniSpring)	100.0%	97.0%	48.5%	Russia	Mattress springs
Companies classified as held for sale:					
OOO "Severstal-metiz: welding consumables"	100.0%	n/a	n/a	Russia	Welding consumables

In addition, at the balance sheet date, a further 42 (December 31, 2007: 46; December 31, 2006: 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 of associated companies is disclosed in Note 21 of these consolidated financial statements.

Acquisitions from Majority Shareholder

During 2008, 2007 and 2006, Severstal completed acquisitions of controlling stakes in a number of companies previously controlled by Severstal's Majority Shareholder. These consolidated financial statements take account of such acquisitions as if they had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the common controlling shareholder.

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

In March 2006, having received a fairness opinion on the proposed transaction from Citigroup, the Board of Directors approved the independent appraiser's valuations of the Parent Company shares being issued at RUR 320.74 per share (US$ 11.24 at the exchange rate on the date of valuation - October 1, 2005) and of the mining assets being acquired at RUR 117,202 million (US$ 4,107.0 million at the exchange date on the date of valuation – October 1, 2005).

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

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

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

In October 2006, the Group completed the acquisition of a 50.8% stake in Lucchini SpA for Euro 550.0 million, comprising redemption of loans issued by the Group to related parties and a Euro 182.3 million (US$ 234.3 million) cash payment.

In December 2006, the Group completed the acquisition of a 100.0% stake in ZAO Severstal-Resource from Severstal's Majority Shareholder for a negligible consideration. ZAO Severstal-Resource is the management company for the companies of Mining segment.

In July 2007, the Group acquired a 100.0% stake in each of the companies 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.

In January 2008, the Group completed the acquisition of a 100.0% stake in Baracom Limited for a total consideration of US$ 84.4 million. Baracom Limited owns 79.9% of the voting stock of the holding structure which controls 74.2% of SeverCorr LLC. SeverCorr is mini-mill which produces high quality steel for motor-car, construction, pipe and engineering industries.

In December 2008, the Group completed the acquisition of a 100.0% stake of a trading company, ZAO Trade House Severstal – Invest, for a total consideration of US$ 27.4 million. ZAO Trade House Severstal – Invest owns a 99.0% stake in OOO North Steel Company, a 87.0% stake in OAO Rostovmetall, and a 99.0% in ZAO PPTK-1.

Acquisitions of subsidiaries from third and other related parties

Acquisitions in 2006

In February 2006, the Group acquired a 57.9% stake in joint stock company Dneprometiz for US$ 34.8 million. Severstal also obtained an option to buy an additional 27.0% stake of the share capital after one year for a consideration in the range from US$ 14.0 to US$ 20.0 million. Dneprometiz produces wire and certain other metalware products at its production facilities located in Ukraine.

In April 2006, the Group acquired 100.0% of Carrington Wire Ltd., a UK wire and other metalware products producer, for US$ 30.5 million.

Loss since the acquisition dates included in the Group's profit for the period amounted to US$ 16.0 million. The acquirees' revenue and loss from the beginning of the period to the dates of acquisitions are insignificant to the Group's revenue and profit for the period.

Acquisitions in 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 are located in Saint Petersburg.

In March 2007, the Group purchased 100.0% of the share capital of Siderco SpA from the Lucchini family for € 1.4 million (US$ 1.8 million at the transaction date exchange rate).

In May 2007, the Group completed the acquisition of a 100.0% stake in a stevedore company, ZAO Neva-Metall, for US$ 98.7 million and 100.0% 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.

In July 2007, the Group acquired a 100.0% 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 100.0% stake in OOO Nerengri-Metallik and a 100.0% stake in ZAO Mine Aprelkovo for a total consideration of US$ 105.0 million and US$ 153.0 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.

The acquirees' profits 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. Celtic Resources Holdings is a mining company based in Dublin, Ireland. CRH owns and operates gold mines, including the Suzdal Mine (Alel JSC) and Zherek Mine (Zherek LLP) in Kazakhstan.

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$ 62.0 million and US$ 7.0 million respectively.

Acquisitions in 2008

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

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

In May 2008, the Group acquired a 100.0% stake in Sparrows Point LLC (re-named to Severstal Sparrows Point LLC) for a total consideration of US$ 818 million, subject to certain adjustments of US$ 48 million, resulting in a final consideration paid of US$ 770.0 million. Sparrows Point LLC is an integrated steel plant on the East Coast of USA with its own deep water port and rail connection to the main East Coast rail networks.

The acquiree's loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for the period. Loss since the acquisition date included in the Group's profit for the period amounted to US$ 130.8 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$ 766.1 million.

In July 2008, the Group acquired a 100.0% stake in WCI Steel Inc. (re-named to Severstal Warren Inc.) for a total consideration of US$ 443.1 million. WCI Steel Inc. operates a steel mill in Warren, Ohio, and is an integrated producer of flat-rolled steel products, including high carbon, alloy, ultra high strength, and heavy-gauge galvanized steel.

The acquiree's loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for the period. Loss since the acquisition date included in the Group's profit for the period amounted to US$ 41.7 million. In addition an impairment loss of US$ 382.6 million has been recognized and was allocated to property, plant and equipment in the amount of US$ 376.0 million and to goodwill in the amount of US$ 6.6 million, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$ 498 million.

In July 2008, the Group acquired a 100.0% stake in Redaelli Tecna SpA for an approximate total consideration of € 35.0 million (US$ 54.8 million at the transaction date exchange rate). Redaelli Tecna SpA is a manufacturer of high performance wire ropes for industrial hoisting, mining, cableways, material transportation, etc. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, the initial accounting for the acquisition was determined provisionally. Final purchase price allocation is expected to be completed within one year starting from the date of acquisition.

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

In August 2008, the Group acquired a 100.0% stake in Esmark (re-named to Severstal Wheeling Inc.) for a total consideration of US$ 977.8 million. Esmark is a manufacturer and distributor of flat rolled and other steel products in the United States. The Group acquired all of Esmark's business, including the remaining 50.0% stake in Mountain State Carbon LLC previously accounted for under the equity method.

The acquiree's profit from the beginning of the period to the date of acquisition comprised US$ 29.6 million. Profit since the acquisition date included in the Group's profit for the period amounted to US$ 166.9 million. In addition an impairment loss of US$ 621.8 million has been recognized and was allocated to property, plant and equipment in the amount of US$ 557.4 million and to goodwill in the amount of US$ 64.4 million, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$ 1,629.0 million.

In August 2008, the Group acquired a 100.0% stake in TOO Semgeo, operating a gold mine Balazhal in East Kazakhstan for a total consideration of US$ 38.9 million. Management determined that the fair value of the net identifiable assets and liabilities acquired was substantially the same as the book value.

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

In November 2008, the Group acquired a 100.0% stake in PBS Coals Ltd, a U.S. coal mining company, for a total cash consideration of US$ 876.8 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 acquiree's profit from the beginning of the period to the date of acquisition comprised US$ 8.4 million. Loss since the acquisition date included in the Group's profit for the period amounted to US$ 5.7 million. In addition an impairment loss of US$ 361.1 million has been recognized and was allocated fully to goodwill, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$ 184.9 million.

In November 2008, the Group acquired a 53.8% stake in High River Gold Mines Ltd. for a total cash consideration of US$ 62.5 million. High River is a gold company with interests in producing mines, mines under development and advanced exploration projects in Burkina Faso and Russia. Two producing mines, Zun-Holba and Irokinda ("OJSC "Buryatzoloto") , are situated in the Lake Baikal region of Russia. Two new open pit gold mines, Taparko-Bouroum (Societe Des Mines de Taparko) in Burkina Faso, and Berezitovy (Berezitovy Rudnik LLC) in Russia, have been constructed and are currently being put into full production. 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 acquiree's loss from the beginning of the period to the date of acquisition comprised US$ 38.9 million. Loss since the acquisition date included in the Group's profit for the period amounted to US$ 6.6 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$ 177.0 million.

In December 2008, the Group acquired a 61.5% stake in African Iron Ore Group Ltd (re-named to Severstal Liberia Iron Ore Ltd) for a total cash consideration of US$ 32.0 million. Severstal Liberia

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

Iron Ore Ltd. is performing geological survey and exploration of the iron ore deposits in Putu Range, Liberia. 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 acquiree's profit since the acquisition date included in the Group's profit for the period, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for the period.

A summary of assets and liabilities acquired from third and other related parties excluding acquisitions from the Majority Shareholder during 2008, 2007 and 2006 is presented below:

	2008	2007	2006
Cash and cash equivalents	180,153	26,480	5,875
Trade accounts receivable	580,490	19,772	26,463
Inventories	1,399,875	64,296	18,841
Deferred tax assets	17,180	11,208	-
Property, plant and equipment	2,708,822	185,054	93,982
Intangible assets	707,768	474,509	-
Assets held for sale	-	18,789	-
Other current assets	146,164	76,162	7,601
Other non-current assets	53,253	-	-
Trade accounts payable	(584,405)	(16,213)	(33,557)
Other taxes and social security payable	-	(5,466)	(70)
Deferred tax liabilities	(397,127)	(122,484)	(10,421)
Retirement benefit liability	(410,532)	-	(10,762)
Debt finance	(574,030)	(63,223)	(8,623)
Other current liabilities	(286,196)	(41,906)	(6,387)
Other non-current liabilitites	(242,360)	(16,715)	-
Net identifiable assets and liabilities acquired	3,299,055	610,263	82,942
Minority interest	(156,482)	(45,662)	(17,792)
Severstal's share of net identifiable assets and liabilities acquired	3,142,573	564,601	65,150
Investments in Mountain State Carbon at equity	(112,809)	-	-
Fair value revaluation of investment in Mountain State Carbon	(33,020)	-	-
Consideration:			
Consideration in cash	(3,255,971)	(669,759)	(63,500)
Consideration of other financial assets	(17,600)	(33,321)	-
Consideration payable	7,230	-	-
Positive goodwill on acquisition of subsidiaries	(569,512)	(150,702)	-
Negative goodwill on acquisition of subsidiaries	292,685	12,223	1,650
Negative goodwill on minority buy-out	-	-	2,563
Net change in cash and cash equivalents	(3,068,588)	(643,279)	(57,625)

Included in negative goodwill is US$ 197 million which is the difference between purchase price and fair market value of the acquired net assets of Sparrows Point LLC. This difference arose primarily due to Severstal's competitive position in negotiations based on exclusive USW's (United Steelworkers of America) support in bidding and time restrictions in the administered sales process.

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

Also included in negative goodwill is US$ 78 million which is the difference between the purchase price and provisionally defined fair value of the acquired consolidated net assets of High River Gold Mines Ltd. This difference arose primarily due to a lack of High River`s and its prior shareholders' ability to service its debt.

Final purchase price allocation

During the year ended December 31, 2008, management completed the purchase price allocation of ZAO Neva-Metal, ZAO Neva-Metal-Trans, OOO Nerengi-Metallik, ZAO Mine Aprelkovo and Celtic Resources Holdings Plc acquired during May – December 2007. The effect of the final purchase price allocation on these consolidated financial statements is the following:

	Increase/(decrease) compared to the provisional purchase price allocation at December 31, 2007 US$, thousand
Cash and cash equivalents	815
Trade accounts receivable	(262)
Inventories	18,398
Assets held for sale	4,145
Property, plant and equipment	38,267
Intangible assets	75,186
Deferred tax assets	7,446
Other assets	(5,527)
Trade accounts payable	(1,237)
Other taxes and social security payable	(3,223)
Deferred tax liabilities	122,732
Other liabilities	417
Retained earnings	(554)
Minority interest	20,333

The comparative information at December 31, 2007, has been restated as if the accounting for the business combination had been completed at the acquisition date.

Acquisitions of minority interest

During 2006, the Group bought additional 3.8% of OAO Severstal-Metiz for US$ 6.3 million and participated in the additional share issue by OAO Severstal-Metiz, increasing its ownership to 97.0% at December 31, 2006. The fair value of net assets of OAO Severstal-Metiz at the time of acquisition was US$ 214.3 million, resulting in recognition of US$ 1.8 million of negative goodwill.

In December 2006, the Group completed the acquisition of a 100.0% stake in Severstal North America Inc by acquiring the remaining 7.0% stake for a total consideration of US$ 54.5 million.

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 9.0% 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 was 79.8%.

In May 2007, the Group completed the acquisition of a 100.0% stake in ZAO Severgal by acquiring the remaining 25.01% stake for a total consideration of US$ 20 million.

In June 2007, the Group acquired a 1.9%, a 0.6%, a 3.6%, a 1.2%, and a 1.0% stake in OAO Karelsky Okatysh, OAO Olkon, OAO Vorkutaugol, OAO Mine Vorgashorskaya, and in OAO Mine Berezovskaya for a total consideration of US$ 23.5 million, US$ 1.9 million, US$ 29.3 million, US$ 0.6 million, and US$ 0.7 million, respectively.

In January 2008, the Group completed the acquisition of a 100% stake in Celtic Resources Holdings Plc by acquiring the remaining 13.7% stake in the company for a total consideration of US$ 44.0 million.

During April – August 2008, the Group acquired additional stakes in SeverCorr LLC from the former management and OAO Dneprometiz from third parties for a total consideration of US$ 56 million, increasing its ownership to 91.8% and 96.8% respectively.

In August - September 2008, the Group acquired a 0.9% stake in OAO Vorkutaugol for a total consideration of US$ 5.3 million.

In August - October 2008, the Group completed the acquisition of 100% stakes in OAO Karelsky Okatysh, OAO Olkon and in OAO Severstal-Metiz by acquiring the remaining 5.2%, 7.3% and 3.0% stakes in entities for a total consideration of US$ 70.6 million, US$ 32.7 million and US$ 9.7 million, respectively.

Disposals of subsidiaries

In June 2007, the Group sold 100.0% (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).

In July 2007, the Group sold 100.0% (effective ownership was 79.8%) of Nitruvid SAS to a 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 100.0% (effective ownership was 79.8%) participation in Ascoforge Safe SAS to a 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% participation in 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 100.0% of OOO URALMASH-Metallurgicheskoe Oborudovanie to a 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 € 61.4 million (US$ 73.0 million at December 31, 2005 exchange rate). In August 2007, the Group received a payment in the amount of US$ 83.8 million.

In February 2008, the Group sold 100.0% of OOO Georesurs to a third party for a total consideration of RUR 100,000 (US$ 4 thousands at the transaction date exchange rate).

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

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

In June 2008, the Group sold its 100% and 40.0% participation in Relco Spzoo and Coimpex Spzoo respectively for a total consideration of € 12 million (US$ 18 million at the transaction date exchange rate).

In December 2008, the Group sold its 59.4% participation in OAO Metallurgremont to a company controlled by Severstal's Majority Shareholder for a total consideration of RUR 75.9 million (US$ 2.7 million at the transaction date exchange rate).

A summary of assets and liabilities disposed during 2008, 2007 and 2006 is presented below:

	2008	2007	2006
Cash and cash equivalents	(1,498)	(235,220)	-
Trade accounts receivable	(3,885)	(151,658)	-
Inventories	(7,725)	(108,238)	(476)
Financial investments	(551)	(237,408)	-
Other assets	(13,470)	(30,537)	(531)
Property, plant and equipment	(7,700)	(158,890)	(20)
Intangible assets	(3,621)	(3,105)	-
Deferred tax assets	-	(759)	-
Assets held for sale	(443,021)	-	-
Trade accounts payable	4,833	205,171	-
Bank customer accounts	-	345,753	-
Income tax payable	-	9,375	-
Other taxes and social security payable	945	13,369	57
Deferred tax liabilities	27	9,250	-
Retirement benefit liability	1,117	23,490	-
Debt finance	3,150	66,108	-
Liabilities held for sale	88,942	-	-
Other liabilities	21,635	30,743	74
Net identifiable assets	(360,822)	(222,556)	(896)
Minority interest	2,042	16,315	154
Sub-total	(358,780)	(206,241)	(742)
Consideration in cash	673,215	239,308	1,588
Selling costs	-	(1,560)	-
Net gain on disposal	314,435	31,507	846
Deferred consideration received	-	83,842	-
Group's cash and cash equivalents in Metcombank	-	149,608	-
Net change in cash and cash equivalents	671,717	235,978	1,588

Dilution of Group ownership

During 2005 Severstal transferred to OAO Severstal-Metiz its ownership interests in the metalware companies OAO Cherepovets Steel Rolling Mill ("ChSPZ") and OAO Orlovsky Steel Rolling Mill ("OSPaZ"). Effective January 1, 2006, ChSPZ and OSPaZ legal entities were merged into OAO Severstal-Metiz. As a result of this merger, Severstal's ownership in OAO Severstal-Metiz reduced on January 1, 2006 from 100% to 92.8%.

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

31. Segment information

Segmental balance sheets as at December 31, 2008:

	Mining segment	Russian Steel segment	Lucchini segment	Severstal North America	IPM	Metalware segment	Inter segment balances	Conso-lidated
Assets								
Current assets:								
Cash and cash equivalents	151,976	1,505,928	663,171	295,380	4,484	32,803	-	2,653,742
Short-term bank deposits	147	812,598	-	5,800	-	-	-	818,545
Short-term financial investments	4,476	423,240	6,163	-	-	9,735	(330,832)	112,782
Trade accounts receivable	89,613	399,806	695,522	347,415	300,555	109,357	-	1,942,268
Amounts receivable from related parties	62,978	239,530	8,286	7,041	33	2,647	(256,684)	63,831
Inventories	267,813	1,050,401	893,736	1,696,077	335,889	133,646	(99,008)	4,278,554
VAT recoverable	50,632	151,117	77,042	-	49,715	32,332	-	360,838
Income tax recoverable	16,489	132,268	7,508	11,392	1,971	3,319	-	172,947
Other current assets	45,529	105,158	19,099	82,991	16,515	10,790	-	280,082
Assets held for sale	-	-	-	-	-	8,872	-	8,872
Total current assets	689,653	4,820,046	2,370,527	2,446,096	709,162	343,501	(686,524)	10,692,461
Non-current assets:								
Long-term financial investments	27,041	5,263,546	10,993	-	-	1,683	(5,233,281)	69,982
Investment in associates and joint ventures	-	10,223	2,112	91,807	-	-	-	104,142
Property, plant and equipment	1,520,939	3,066,402	1,597,947	3,313,302	241,691	154,992	(26,968)	9,868,305
Intangible assets	1,170,505	78,333	25,744	132,830	136	46,938	-	1,454,486
Restricted cash	12,734	-	-	8,969	-	-	-	21,703
Deferred tax assets	25,753	15,400	29,369	146,533	10,437	-	-	227,492
Other non-current assets	67	15,090	3,521	19,583	-	3,354	-	41,615
Total non-current assets	2,757,039	8,448,994	1,669,686	3,713,024	252,264	206,967	(5,260,249)	11,787,725
Total assets	3,446,692	13,269,040	4,040,213	6,159,120	961,426	550,468	(5,946,773)	22,480,186
Liabilities and shareholders' equity								
Current liabilities:								
Trade accounts payable	125,037	305,391	529,653	506,846	17,104	42,787	-	1,526,818
Amounts payable to related parties	3,921	128,153	4,875	16,120	141,630	18,394	(241,133)	71,960
Short-term debt finance	227,513	860,023	247,014	438,663	444,634	94,451	(334,785)	1,977,513
Income taxes payable	12,948	8,549	24,354	-	-	1,107	-	46,958
Other taxes and social security payable	55,949	56,687	74,890	16,315	1,631	5,520	-	210,992
Dividends payable	33	128,682	-	-	-	-	-	128,715
Other current liabilities	91,297	237,603	141,279	293,118	17,926	24,396	-	805,619
Liabilities related to assets held for sale	-	-	-	-	-	4	-	4
Total current liabilities	516,698	1,725,088	1,022,065	1,271,062	622,925	186,659	(575,918)	4,768,579
Non-current liabilities:								
Long-term debt finance	851,968	3,730,217	1,069,548	1,452,437	142,245	60,033	(1,028,444)	6,278,004
Deferred tax liabilities	337,269	112,918	75,514	-	-	419	(16,793)	509,327
Retirement benefit liability	50,504	113,564	132,246	473,587	-	9,395	-	779,296
Other non-current liabilities	153,765	802	125,543	303,953	-	7,227	-	591,290
Total non-current liabilities	1,393,506	3,957,501	1,402,851	2,229,977	142,245	77,074	(1,045,237)	8,157,917
Equity	1,536,488	7,586,451	1,615,297	2,658,081	196,256	286,735	(4,325,618)	9,553,690
Total equity and liabilities	3,446,692	13,269,040	4,040,213	6,159,120	961,426	550,468	(5,946,773)	22,480,186

(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	Inter segment balances	Conso-lidated
Assets								
Current assets:								
Cash and cash equivalents	142,063	850,706	507,714	72,991	2,195	46,873	-	1,622,542
Short-term bank deposits	350	665,977	-	-	-	-	-	666,327
Short-term financial investments	126,403	876,567	23,127	-	-	435	(811,038)	215,494
Trade accounts receivable	57,383	408,649	813,534	152,925	280,862	55,685	-	1,769,038
Amounts receivable from related parties	91,523	95,594	2,836	2,831	101	2,671	(148,363)	47,193
Inventories	162,682	1,267,694	694,939	530,016	51,477	102,821	(88,995)	2,720,634
VAT recoverable	36,643	179,022	32,384	-	5,565	30,508	-	284,122
Income tax recoverable	17,066	39,643	12,245	12,504	-	505	-	81,963
Other current assets	57,958	166,061	35,169	23,393	17,389	18,991	-	318,961
Assets held for sale	440,686	448	17,718	-	-	6,489	-	465,341
Total current assets	1,132,757	4,550,361	2,139,666	794,660	357,589	264,978	(1,048,396)	8,191,615
Non-current assets:								
Long-term financial investments	2,772	2,465,273	21,656	-	-	738	(2,377,480)	112,959
Investment in associates and joint ventures	-	7,530	1,278	194,179	-	-	-	202,987
Property, plant and equipment	1,319,991	3,460,345	1,495,614	1,551,552	307,577	178,562	(24,525)	8,289,116
Intangible assets	526,378	133,379	19,045	6,485	272	1,508	-	687,067
Restricted cash	-	-	-	13,810	-	-	-	13,810
Deferred tax assets	16,048	10,194	37,943	-	-	-	-	64,185
Other non-current assets	1,008	4,225	2,948	17,710	5	13,188	-	39,084
Total non-current assets	1,866,197	6,080,946	1,578,484	1,783,736	307,854	193,996	(2,402,005)	9,409,208
Total assets	2,998,954	10,631,307	3,718,150	2,578,396	665,443	458,974	(3,450,401)	17,600,823
Liabilities and shareholders' equity								
Current liabilities:								
Trade accounts payable	52,242	213,741	610,982	302,131	7,250	25,027	-	1,211,373
Amounts payable to related parties	2,788	171,979	5,766	18,395	31,884	14,302	(153,567)	91,547
Short-term debt finance	707,900	576,015	328,391	16,293	70,455	34,198	(604,036)	1,129,216
Income taxes payable	8,729	9,440	15,065	-	2,301	5,788	-	41,323
Other taxes and social security payable	57,798	44,775	87,071	1,662	3,333	4,710	-	199,349
Dividends payable	-	107,485	-	-	-	-	-	107,485
Other current liabilities	79,440	341,265	130,020	30,379	3,000	35,636	629	620,369
Liabilities related to assets held for sale	91,599	-	151	-	-	-	-	91,750
Total current liabilities	1,000,496	1,464,700	1,177,446	368,860	118,223	119,661	(756,974)	3,492,412
Non-current liabilities:								
Long-term debt finance	391,878	945,331	650,105	843,495	414,344	6,213	(438,200)	2,813,166
Deferred tax liabilities	160,629	217,244	85,194	60,843	158	4,386	(19,045)	509,409
Retirement benefit liability	71,821	118,701	138,504	48,601	-	9,771	-	387,398
Other non-current liabilities	140,319	1,674	79,471	103,188	-	-	-	324,652
Total non-current liabilities	764,647	1,282,950	953,274	1,056,127	414,502	20,370	(457,245)	4,034,625
Equity	1,233,811	7,883,657	1,587,430	1,153,409	132,718	318,943	(2,236,182)	10,073,786
Total equity and liabilities	2,998,954	10,631,307	3,718,150	2,578,396	665,443	458,974	(3,450,401)	17,600,823

(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	87,203	1,241,872	225,854	32,392	11,799	9,584	309,674	(174,983)	1,743,395
Short-term bank deposits	7	1,292,345	-	-	1,019	41,092	-	(187,193)	1,147,270
Short-term financial investments	77,839	260,384	6,587	-	3,798	1,598	191,358	(235,279)	306,285
Trade accounts receivable	36,806	322,436	843,737	131,572	16	62,577	-	-	1,397,144
Amounts receivable from related parties	61,927	79,870	9,601	1,184	4	7,009	-	(85,976)	73,619
Inventories	122,712	1,016,999	695,041	427,602	45,732	102,320	-	(68,308)	2,342,098
VAT recoverable	45,188	206,838	49,476	-	25,150	30,436	-	-	357,088
Income tax recoverable	1,787	13,553	8,404	16,361	-	294	-	-	40,399
Other current assets	50,701	131,620	29,320	20,082	5,273	16,091	13,138	-	266,225
Total current assets	484,170	4,565,917	1,868,020	629,193	92,791	271,001	514,170	(751,739)	7,673,523
Non-current assets:									
Long-term financial investments	2,682	1,677,814	31,934	78	-	42,183	25,705	(1,665,463)	114,933
Investment in associates and joint ventures	-	7,155	2,656	212,154	-	865	-	-	222,830
Property, plant and equipment	1,286,768	3,079,224	1,519,357	627,723	292,420	177,808	475	(12,910)	6,970,865
Intangible assets	35,746	7,087	17,408	-	-	1,418	7	-	61,666
Restricted cash	-	-	-	57,406	-	-	-	-	57,406
Deferred tax assets	-	4,285	29,926	-	-	-	-	-	34,211
Other non-current assets	1,185	1	2,659	16,171	-	-	-	-	20,016
Assets held for sale	-	-	113,516	-	-	-	-	-	113,516
Total non-current assets	1,326,381	4,775,566	1,717,456	913,532	292,420	222,274	26,187	(1,678,373)	7,595,443
Total assets	1,810,551	9,341,483	3,585,476	1,542,725	385,211	493,275	540,357	(2,430,112)	15,268,966
Liabilities and shareholders' equity									
Current liabilities:									
Trade accounts payable	60,712	249,065	620,668	147,450	7,113	23,823	-	-	1,108,831
Amounts payable to related parties	13,900	163,280	36,651	17,303	15,937	21,460	74,623	(82,345)	260,809
Short-term debt finance	99,606	584,892	414,480	10,024	1,737	18,999	17,755	(65,528)	1,081,965
Income taxes payable	6,506	28,906	8,921	474	-	15	-	-	44,822
Other taxes and social security payable	69,851	39,980	85,952	2,357	471	3,127	5	-	201,743
Dividends payable	-	23,243	-	-	-	-	-	-	23,243
Other current liabilities	53,911	252,017	108,472	34,393	42,263	35,320	396,362	(368,194)	554,544
Total current liabilities	304,486	1,341,383	1,275,144	212,001	67,521	102,744	488,745	(516,067)	3,275,957
Non-current liabilities:									
Long-term debt finance	242,470	1,041,145	605,827	420,546	267,099	55,423	23	(368,342)	2,264,191
Deferred tax liabilities	59,789	183,977	89,662	74,805	-	7,308	1,152	(18,529)	398,164
Retirement benefit liability	73,056	133,854	167,855	43,574	-	24,615	-	-	442,954
Other non-current liabilities	199,693	29,646	81,872	48,387	-	-	-	-	359,598
Liabilities related to assets held for sale	-	-	1,792	-	-	-	-	-	1,792
Total non-current liabilities	575,008	1,388,622	947,008	587,312	267,099	87,346	1,175	(386,871)	3,466,699
Equity	931,057	6,611,478	1,363,324	743,412	50,591	303,185	50,437	(1,527,174)	8,526,310
Total equity and liabilities	1,810,551	9,341,483	3,585,476	1,542,725	385,211	493,275	540,357	(2,430,112)	15,268,966

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

Segmental income statements for the year ended December 31, 2008:

	Mining segment	Russian Steel segment	Lucchini segment	Severstal North America	IPM	Metalware segment	Inter segment transactions	Conso-lidated
Sales								
Sales - external	1,069,261	9,888,271	3,975,893	5,242,531	823,703	1,138,759	-	22,138,418
Sales - to related parties	1,383,443	1,357,433	13,599	76,912	-	36,096	(2,613,184)	254,299
	2,452,704	11,245,704	3,989,492	5,319,443	823,703	1,174,855	(2,613,184)	22,392,717
Cost of sales	(1,371,347)	(6,984,874)	(3,372,444)	(5,841,559)	(537,666)	(985,266)	2,607,126	(16,486,030)
Gross profit	1,081,357	4,260,830	617,048	(522,116)	286,037	189,589	(6,058)	5,906,687
General and administrative expenses	(177,381)	(434,977)	(176,477)	(173,810)	(12,266)	(59,937)	4,708	(1,030,140)
Distribution expenses	(180,911)	(718,265)	(122,044)	(16,401)	(41,208)	(46,080)	7,133	(1,117,776)
Indirect taxes and contributions	(78,793)	(66,254)	(25,815)	-	(3,566)	(4,401)	-	(178,829)
Share of associates' profit/(loss)	-	3,632	(713)	(6,319)	-	-	-	(3,400)
Net gain/(loss) from securities operations	2,607	(82,155)	3,064	-	-	(68)	(20,201)	(96,753)
(Loss)/gain on disposal of property, plant and equipment	(8,157)	(39,089)	484	(6,453)	(2)	9,256	135	(43,826)
Net other operating (expenses)/income	(32,306)	12,163	(27,283)	870,443	(28,206)	8,843	(13,474)	790,180
Profit from operations	606,416	2,935,885	268,264	145,344	200,789	97,202	(27,757)	4,226,143
Impairment of non-current assets	(489,874)	(34,897)	(3,870)	(1,004,418)	-	(7,204)	-	(1,540,263)
Negative goodwill	80,221	-	-	212,464	-	-	-	292,685
Net other non-operating income/(expenses)	293,797	(55,063)	-	-	(54)	(4,387)	4,652	238,945
Profit before financing and taxation	490,560	2,845,925	264,394	(646,610)	200,735	85,611	(23,105)	3,217,510
Interest income	16,320	203,429	25,244	6,287	94	1,944	(98,085)	155,233
Interest expense	(102,431)	(238,410)	(73,046)	(122,900)	(52,460)	(9,554)	93,085	(505,716)
Foreign exchange difference	92,925	(344,788)	(12,151)	5	(8,154)	(6,905)	-	(279,068)
Profit before income tax	497,374	2,466,156	204,441	(763,218)	140,215	71,096	(28,105)	2,587,959
Income tax (expense)/benefit	(186,233)	(595,065)	(72,634)	390,211	(30,415)	(23,961)	(2,276)	(520,373)
Profit from continuing operations	311,141	1,871,091	131,807	(373,007)	109,800	47,135	(30,381)	2,067,586
Profit/(loss) from discontinued operations	-	-	4,652	-	-	-	(4,652)	-
Profit for the year	311,141	1,871,091	136,459	(373,007)	109,800	47,135	(35,033)	2,067,586
Additional information:								
depreciation and amortization expense	231,948	414,291	162,056	225,293	26,220	25,972	-	1,085,780
capital expenditures	414,643	669,411	337,828	693,926	8,335	31,541	(3,289)	2,152,395
intersegment sales (incl. in sales to related parties)	1,379,629	1,189,990	13,599	-	-	29,966	(2,613,184)	-

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

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	732,620	7,683,273	3,624,913	1,805,390	550,715	955,493	-	-	15,352,404
Sales - to related parties	1,116,448	752,276	131,595	53	-	56,216	-	(1,905,604)	150,984
	1,849,068	8,435,549	3,756,508	1,805,443	550,715	1,011,709	-	(1,905,604)	15,503,388
Cost of sales	(1,182,055)	(5,234,432)	(3,194,377)	(1,848,282)	(379,824)	(862,367)	-	1,879,755	(10,821,582)
Gross profit	667,013	3,201,117	562,131	(42,839)	170,891	149,342	-	(25,849)	4,681,806
General and administrative expenses	(136,810)	(318,496)	(188,016)	(70,808)	(9,509)	(46,462)	-	3,211	(766,890)
Distribution expenses	(163,673)	(590,890)	(117,998)	(2,152)	(29,075)	(44,341)	-	5,596	(942,533)
Indirect taxes and contributions	(64,617)	(47,566)	(32,188)	-	(4,440)	(5,259)	-	-	(154,070)
Share of associates' (loss)/profit	-	-	(548)	5,338	-	1,450	-	-	6,240
Net gain from securities operations	33	21,164	10,827	-	-	22	-	(6,482)	25,564
(Loss)/gain on disposal of property, plant and equipment	(12,118)	(32,145)	(508)	(3,485)	(53)	12,283	-	501	(35,525)
Net other operating (expenses)/income	(7,833)	9,571	(17,343)	2,556	(692)	8,857	-	(2,382)	(7,266)
Profit from operations	281,995	2,242,755	216,357	(111,390)	127,122	75,892	-	(25,405)	2,807,326
Impairment of non-current assets	(3,059)	(5,236)	(15,895)	-	-	(4,705)	-	-	(28,895)
Negative goodwill	-	-	507	-	-	117	-	11,599	12,223
Net other non-operating (expenses)/income	(20,492)	(39,394)	24,374	-	(18)	(2,828)	-	(20,318)	(58,676)
Profit before financing and taxation	258,444	2,198,125	225,343	(111,390)	127,104	68,476	-	(34,124)	2,731,978
Interest income	14,530	182,638	21,978	4,811	45	823	-	(58,186)	166,639
Interest expense	(69,026)	(141,941)	(72,793)	(37,500)	(27,601)	(7,649)	-	30,930	(325,580)
Foreign exchange difference	(3,089)	10,497	(535)	(5)	(2,850)	(1,096)	-	284	3,206
Profit before income tax	200,859	2,249,319	173,993	(144,084)	96,698	60,554	-	(61,096)	2,576,243
Income tax (expense)/benefit	(47,050)	(558,250)	(64,808)	9,470	(20,080)	(22,312)	-	2,877	(700,153)
Profit from continuing operations	153,809	1,691,069	109,185	(134,614)	76,618	38,242	-	(58,219)	1,876,090
(Loss)/profit from discontinued operations	-	-	(15,660)	-	-	-	16,093	-	433
Profit for the year	153,809	1,691,069	93,525	(134,614)	76,618	38,242	16,093	(58,219)	1,876,523
Additional information:									
depreciation and amortization expense	207,093	335,337	199,155	57,541	23,424	23,712	-	-	846,262
capital expenditures	384,281	513,335	199,267	977,948	23,335	29,965	-	-	2,128,131
intersegment sales (incl. in sales to related parties)	1,098,011	647,717	131,595	-	-	28,281	-	(1,905,604)	-

(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	520,921	6,159,993	3,182,119	1,868,442	-	780,086	-	-	12,511,561
Sales - to related parties	943,555	479,594	175,347	-	-	58,837	-	(1,446,058)	211,275
	1,464,476	6,639,587	3,357,466	1,868,442	-	838,923	-	(1,446,058)	12,722,836
Cost of sales	(946,514)	(4,112,651)	(2,825,133)	(1,712,555)	(24)	(723,500)	-	1,446,824	(8,873,553)
Gross profit	517,962	2,526,936	532,333	155,887	(24)	115,423	-	766	3,849,283
General and administrative expenses	(134,428)	(240,559)	(173,359)	(38,330)	(2,879)	(44,150)	-	-	(633,705)
Distribution expenses	(92,966)	(492,136)	(101,243)	(1)	-	(43,560)	-	-	(729,906)
Indirect taxes and contributions	(48,369)	(53,117)	(37,190)	-	(826)	(2,982)	-	-	(142,484)
Share of associates' profit/(loss)	-	-	202	2,971	-	(1,722)	-	-	1,451
Net gain/(loss) from securities operations	6,934	20,766	3,713	-	(80)	314	-	(3,376)	28,271
(Loss)/gain on disposal of property, plant and equipment	(11,642)	(23,379)	(3,412)	469	(407)	(153)	-	-	(38,524)
Net other operating (expenses)/income	(492)	(8,992)	(13,141)	1,649	2,440	5	-	(4,643)	(23,174)
Profit from operations	236,999	1,729,519	207,903	122,645	(1,776)	23,175	-	(7,253)	2,311,212
Impairment of non-current assets	(16,372)	(8,306)	(9,778)	-	-	(23,364)	-	-	(57,820)
Net gain on restructuring of tax liabilities	14,669	-	-	-	-	-	-	-	14,669
Negative goodwill	224	(187)	-	-	-	1,650	-	2,526	4,213
Net other non-operating expenses	(11,332)	(40,958)	-	-	-	(1,261)	-	-	(53,551)
Profit before financing and taxation	224,188	1,680,068	198,125	122,645	(1,776)	200	-	(4,727)	2,218,723
Interest income	11,090	99,982	11,589	11,637	67	898	-	(25,167)	110,096
Interest expense	(48,525)	(146,529)	(58,778)	(15,938)	-	(7,306)	-	21,114	(255,962)
Foreign exchange difference	(3,203)	37,289	1,638	-	(1,445)	(1,225)	-	-	33,054
Profit before income tax	183,550	1,670,810	152,574	118,344	(3,154)	(7,433)	-	(8,780)	2,105,911
Income tax (expense)/benefit	(81,937)	(459,713)	(53,790)	(41,355)	87	1,440	-	174	(635,094)
Profit from continuing operations	101,613	1,211,097	98,784	76,989	(3,067)	(5,993)	-	(8,606)	1,470,817
Profit from discontinued operations	-	-	22,212	-		-	6,565	4,072	32,849
Profit for the year	101,613	1,211,097	120,996	76,989	(3,067)	(5,993)	6,565	(4,534)	1,503,666
Additional information:									
depreciation and amortization expense	192,423	252,880	124,690	8,938	724	25,262	-	-	604,917
capital expenditures	350,863	569,212	126,687	478,540	127,413	10,144	60	20	1,662,939
intersegment sales (incl. in sales to related parties)	853,045	392,710	169,371	-	-	30,932	-	(1,446,058)	-

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

In August 2008, the scrap businesses were transferred from the Mining segment to the Russian Steel segment following a change in the Group management structure. The comparative information has been presented as if the transfer occurred at the beginning of the earliest comparative period presented. The effect on segments' 2007 balance sheets and income statements is summarized below:

	Increase/(decrease) compared to previously reported segment information		
	Mining segment	**Russian Steel segment**	**Intersegment balances and transactions**
Current assets	62,006	72,061	(134,067)
Non-current assets	(79,115)	79,115	-
Liabilities	15,679	(149,746)	134,067
Equity	1,430	(1,430)	-
Sales	(347,797)	302,991	44,806
Cost of sales	321,365	(276,660)	(44,705)
Profit for the year	(4,343)	(4,645)	(8,988)

No effect was recognized in respect of 2006 as the scrap business was acquired in 2007.

32. 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 Board of Directors 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, 2006, the Financing segment had no outstanding derivatives.

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

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

	December 31, 2008		
	Market value	**Book value**	**Difference**
Eurobonds 2009	325,858	325,000	858
Eurobonds 2013	689,584	1,250,000	(560,416)
Eurobonds 2014	197,048	375,000	(177,952)
Bank financing	5,570,558	5,941,200	(370,642)
	6,783,048	7,891,200	(1,108,152)

	December 31, 2007		
	Market value	**Book value**	**Difference**
Eurobonds 2009	330,513	325,000	5,513
Eurobonds 2014	398,781	375,000	23,781
	729,294	700,000	29,294

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

The above amounts exclude accrued interest.

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

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 33e). The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitors credit risk.

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

The maximum exposure to credit risk for financial instruments including accounts receivable from related parties was:

	December 31,		
	2008	**2007**	**2006**
Available-for-sale financial assets	55,206	23,266	11,134
Held-to-maturity securities and deposits	829,375	729,086	1,197,421
Held-for-trading securities	72,471	156,308	152,716
Loans and receivables	2,158,142	1,982,931	1,691,740
Restricted cash	21,703	13,810	57,406
Cash and cash equivalents	2,653,742	1,622,542	1,743,395
	5,790,639	4,527,943	4,853,812

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

	December 31,		
	2008	**2007**	**2006**
Europe	878,778	981,178	921,789
Russian Federation	601,754	520,922	264,512
North America	395,736	173,021	165,700
The Middle East	27,040	38,397	23,241
Africa	24,178	34,343	17,814
China and Central Asia	32,564	19,018	19,084
Central and South America	7,879	1,604	6,678
South-East Asia	3,353	13,214	4,293
	1,971,282	1,781,697	1,423,111

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

	December 31,		
	2008	**2007**	**2006**
Wholesale customers	296,016	294,720	257,923
Retail customers	5,813	1,289	7,705
Industrial consumers	1,633,509	1,442,890	1,134,032
Other customers	35,944	42,798	23,451
	1,971,282	1,781,697	1,423,111

The Group holds bank and other guarantees provided as collateral for financial assets. Amount of collateral held does not fully cover Group's exposure to credit risk.

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

Impairment losses

The aging of trade receivables including trade receivables from related parties was:

	December 31,					
	2008		2007		2006	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	1,302,520	(2,238)	1,070,031	(2,731)	893,689	(3,128)
Past due 0-30 days	376,301	(2,854)	549,362	(4,758)	377,445	(8,203)
Past due 31-90 days	247,305	(36,976)	131,164	(3,507)	134,267	(5,205)
Past due 91-180 days	84,930	(12,650)	34,701	(20,908)	25,476	(9,700)
Past due 180-365 days	11,310	(2,275)	13,844	(1,811)	14,422	(2,033)
More than one year	50,280	(44,371)	29,565	(13,255)	13,034	(6,953)
	2,072,646	(101,364)	1,828,667	(46,970)	1,458,333	(35,222)

The impairment allowance at December 31, 2008 included in impairment allowance in respect of trade receivables from related parties for the total amount of US$ 10.8 million (December 31, 2007: US$ 9.2 million; December 31, 2006: nil).

At December 31, 2008 trade receivables included accounts in the amount of US$ 170.2 million (December 31, 2007: nil; December 31, 2006: nil) which terms of settlements were renegotiated during 2008. Management of the Group believes that receivables will be repaid in full, thus no impairment loss was recognized as at December 31, 2008.

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

	Year ended December 31,		
	2008	2007	2006
Balance at 1 January	(46,970)	(35,222)	(47,458)
Impairment loss recognised	(72,802)	(15,033)	(13,868)
Impairment loss reversed	23,654	1,352	32,334
Foreign exchange difference	(5,246)	1,933	(6,230)
Balance at 31 December	(101,364)	(46,970)	(35,222)

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.

The allowance for doubtful debts contains primarily individually impaired trade receivables from debtors placed under liquidation or companies which are in breach of contract terms.

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

Concentration of credit risk

The Group has a concentration of cash and short-term bank deposits with a related party commercial bank that at December 31, 2008 represented US$ 384.0 million (December 31, 2007: US$ 258.9 million, December 31, 2006: US$ 0.5 million) of total cash and bank deposit balance. The Group has a concentration of long-term bank deposits with a related party non-state pension fund that at December 31, 2007 represented US$ 62.4 million (December 31, 2006: US$ 50.1 million) of total long-term financial investments. There was no significant concentration of risk in relation to long-term financial investments in 2008.

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

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:

December 31, 2008

	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	8,143,427	(8,143,427)	(1,868,843)	(1,004,455)	(4,385,353)	(884,776)
Lease liabilities	76,661	(76,661)	(23,182)	(12,198)	(40,086)	(1,195)
Trade and other payables	1,811,639	(1,811,639)	(1,769,610)	(5,156)	(34,999)	(1,874)
Derivative financial liabilities	30,293	(30,293)	(19,110)	(4,473)	(6,710)	-
	10,062,020	(10,062,020)	(3,680,745)	(1,026,282)	(4,467,148)	(887,845)

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	3,900,575	(3,900,575)	(1,093,511)	(815,776)	(1,102,844)	(888,444)
Lease liabilities	24,268	(24,268)	(9,753)	(8,765)	(4,042)	(1,708)
Trade and other payables	1,548,831	(1,548,831)	(1,469,195)	(79,636)	-	-
	5,473,674	(5,473,674)	(2,572,459)	(904,177)	(1,106,886)	(890,152)

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	3,289,464	(3,289,464)	(1,026,400)	(285,186)	(1,256,991)	(720,887)
Lease liabilities	16,321	(16,321)	(2,579)	(3,406)	(8,602)	(1,734)
Trade and other payables	1,476,119	(1,476,119)	(1,422,930)	(38,697)	(14,492)	-
Bank customer accounts	31,143	(31,143)	(31,143)	-	-	-
	4,813,047	(4,813,047)	(2,483,052)	(327,289)	(1,280,085)	(722,621)

* The above amounts exclude accrued interest.

At December 31, 2008, the Group has a concentration of bank financing with Deutsche Bank AG of US$ 1,201.5 million and with European Bank for Reconstruction and Development of US$ 848.5 million. There was no significant concentration of risk in relation to bank financing in 2007 and 2006.

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

Currency risk

Currency risk arises when a Group 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.

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

	December 31, 2008					
	Euro	USD	GBP	CHF	CAD	Other
Available-for-sale financial assets	-	3,994	350	-	284	-
Held-to-maturity securities and deposits	275,898	259,678	-	-	-	147
Loans and receivables	177,151	64,066	7,005	-	4,223	8,721
Cash and cash equivalents	367,549	713,667	353	16,795	895	1,075
Debt finance	(1,263,411)	(3,635,805)	-	-	-	(19)
Finance lease liabilities	(1,870)	(5,888)	-	-	-	-
Trade and other payables	(39,497)	(65,297)	(260)	(10)	(2,567)	(687)
Derivative financial liabilities	-	(11,490)	-	-	-	-
Net exposure	(484,180)	(2,677,075)	7,448	16,785	2,835	9,237

	December 31, 2007					
	Euro	USD	GBP	CHF	CAD	Other
Available-for-sale financial assets	-	530	-	-	-	-
Held-to-maturity securities and deposits	373,225	104,316	-	-	-	-
Held-for-trading securities	-	210	-	-	-	-
Loans and receivables	108,018	150,063	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	(819,687)	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	192,119	-	-	-	-
Loans and receivables	61,593	91,403	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	(612,092)	20,678	(1,530)	15,080	1,951

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

Sensitivity analysis

A 10 percent strengthening of the following currencies against the functional currency at December 31, 2008 would have increased/(decreased) profit 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 2007 and 2006.

	Year ended December 31,		
	2008	**2007**	**2006**
Net profit			
Euro	(36,798)	14,331	8,561
USD	(203,458)	(65,482)	(46,160)
GBP	566	(22)	1,415
CHF	1,276	(166)	(116)
CAD	215	94	1,010
Other	702	178	148

A 10 percent weakening of the following currencies against the functional currency at December 31, 2008 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.

The Group's interest-bearing financial instruments at variable rates were:

	December 31,		
	2008	**2007**	**2006**
Financial assets	414,398	434,600	383,058
Financial liabilities	(4,915,823)	(2,357,826)	(1,654,697)
	(4,501,425)	(1,923,226)	(1,271,639)

Other Group's interest-bearing financial assets and liabilities are at fixed rate.

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

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. Therefore a change in interest rates would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased/(decreased) profit and equity 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 2007 and 2006.

	Net profit	
	100 bp increase	100 bp decrease
December 31, 2008		
Financial assets	3,149	(3,149)
Financial liabilities	(37,360)	37,360
Cash flow sensitivity (net)	(34,211)	34,211
December 31, 2007		
Financial assets	2,912	(2,912)
Financial liabilities	(13,636)	13,636
Cash flow sensitivity (net)	(10,724)	10,724
December 31, 2006		
Financial assets	2,745	(2,745)
Financial liabilities	(10,601)	10,601
Cash flow sensitivity (net)	(7,856)	7,856

33. 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$ 4 million (December 31, 2007: US$ 32 million, December 31, 2006: US$ 60 million), mostly related to mineral extraction tax and water usage tax by certain of the Group's entities in the Mining segment. Management does not agree with the tax authorities' claims and believes that the Group has complied with existing legislation in all material respects. Management is unable to assess the ultimate outcome of the claims and the outflow of financial sources to settle such claims, if any. Management believes that it has made adequate provisions for other possible tax claims.

b. Long term purchase and sales contracts

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

c. Capital commitments

At the balance sheet date the Group had contractual capital commitments of US$ 1,275.3 million (December 31, 2007: US$ 472.7 million; December 31, 2006: US$ 491.1 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 full insurance coverage.

e. Guarantees

At the balance sheet date the Group had US$ 42.3 million (December 31, 2007: US$ 143.2 million; December 31, 2006: US$ 22.2 million) of guarantees issued.

34. Subsequent events

In February 2009, the Group has repaid its US$ 325 million Eurobonds – 2009. Repayment was financed by the Company's own sources.

In February, the Group announced the temporary stoppage of operations of the steel galvanizing line at its Severstal Warren facility. Both the galvanizing line and the mill, which has been offline since October, will remain inoperative while the company balances production volume to match current demand.