

# **SEVERSTAL**

Consolidated condensed interim financial statements  
for the nine months ended September 30, 2005

# Severstal

## Consolidated condensed interim financial statements for the nine months ended September 30, 2005

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# Severstal

## Consolidated condensed interim balance sheet September 30, 2005

(Amounts expressed in thousands of US dollars)

	September 30, 2005 (unaudited)	December 31, 2004
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	695,307	924,371
Reserves at Central Bank of Russia	5,802	4,695
Banking assets	254,109	217,286
Trade accounts receivable	448,306	456,132
Inventories	979,256	1,024,304
Amounts receivable from related parties	265,165	287,213
VAT recoverable	309,317	173,372
Income tax recoverable	17,938	43,945
Other current assets	155,591	118,315
Financial assets	797,530	662,544
<b>Total current assets</b>	<b>3,928,321</b>	<b>3,912,177</b>
<b>Non-current assets:</b>		
Financial assets	647,677	90,494
Investment in associates	174,900	85,770
Property, plant and equipment	2,750,918	2,488,771
Intangible assets	6,357	6,386
<b>Total non-current assets</b>	<b>3,579,852</b>	<b>2,671,421</b>
<b>Total assets</b>	<b>7,508,173</b>	<b>6,583,598</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Trade accounts payable	349,143	311,971
Bank customer accounts	86,768	44,695
Amounts payable to related parties	133,706	112,093
Income taxes payable	484	30,465
Other taxes and social security payable	39,018	32,520
Deferred income	11	1,956
Debt finance	172,693	227,821
Lease liabilities	180	351
Dividends payable	23,324	18,440
Other current liabilities	209,773	171,504
<b>Total current liabilities</b>	<b>1,015,100</b>	<b>951,816</b>
<b>Non-current liabilities:</b>		
Debt finance	1,523,159	1,325,324
Lease liabilities	79	450
Deferred tax liabilities	263,960	277,831
Other non-current liabilities	114,713	104,700
<b>Total non-current liabilities</b>	<b>1,901,911</b>	<b>1,708,305</b>
<b>Equity:</b>		
Share capital	3,311,129	3,311,129
Revaluation reserve	562,174	631,455
Foreign exchange differences	66,272	169,735
Accumulated earnings/(deficit)	570,044	(252,868)
<b>Total equity attributable to shareholders of parent</b>	<b>4,509,619</b>	<b>3,859,451</b>
Minority interest	81,543	64,026
<b>Total equity</b>	<b>4,591,162</b>	<b>3,923,477</b>
<b>Total equity and liabilities</b>	<b>7,508,173</b>	<b>6,583,598</b>

# Severstal

**Consolidated condensed interim statement of operations**  
**Nine months ended September 30, 2005**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

	<b>Nine months September 30, 2005 (unaudited)</b>	<b>Three months September 30, 2005 (unaudited)</b>
<b>Sales</b>		
Sales - external	5,547,370	1,634,907
Sales - to related parties	343,432	131,093
	<u>5,890,802</u>	<u>1,766,000</u>
Cost of sales	(3,847,753)	(1,223,851)
	<u>2,043,049</u>	<u>542,149</u>
<b>Gross profit</b>		
Indirect taxes and contributions	(20,086)	(7,420)
Selling, general and administration expenses	(197,361)	(77,705)
Distribution expenses	(403,040)	(130,282)
Net other operating expenses	(23,071)	(4,377)
Net income from bank lending operations	6,105	2,144
Net income from securities operations	20,731	28,228
	<u>1,426,327</u>	<u>352,737</u>
<b>Profit from operations</b>		
Non-operating expenses	(34,869)	(21,684)
Impairment of property, plant and equipment	2,614	127
Negative goodwill	2,800	147
Share of associates' losses	(3,660)	(2,031)
	<u>1,393,212</u>	<u>329,296</u>
<b>Profit before financing and taxation</b>		
Net financing expense	(110,783)	(15,127)
	<u>1,282,429</u>	<u>314,169</u>
<b>Profit before income tax</b>		
Income tax expense	(316,294)	(88,857)
	<u>966,135</u>	<u>225,312</u>
<b>Profit for the period</b>		
Attributable to:		
shareholders of OAO Severstal	967,349	224,892
minority interest	(1,214)	420
	<u>966,135</u>	<u>225,312</u>
Weighted average number of shares outstanding during the period (units after split)	<u>551,854,800</u>	<u>551,854,800</u>
Basic and diluted earnings per share (US dollars)	<u>1.75</u>	<u>0.41</u>

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## Consolidated condensed interim statement of cash flows Nine months ended September 30, 2005 (Amounts expressed in thousands of US dollars)

	Nine months September 30, 2005 (unaudited)	Three months September 30, 2005 (unaudited)
<b>Operating activities:</b>		
Profit before financing and taxation	1,393,212	329,296
Adjustments to reconcile profit to cash provided by operating activities:		
Depreciation of property, plant and equipment	193,727	63,344
Amortization of intangible assets	39	15
Asset impairment	(2,614)	(127)
Negative goodwill	(2,800)	(147)
Foreign exchange losses	27,802	14,139
Loss on disposal of property, plant and equipment	27,045	10,226
Loss on disposal of interests in subsidiaries/associates	10,033	9,733
Gain on disposal of financial assets	(17,980)	(14,334)
Adjustment of financial assets to fair value	(246)	(13,188)
Share of associates' losses	3,660	2,031
Bank loan loss provisions	674	33
Provision for doubtful accounts receivable	1,245	(22)
Provision against inventories	11,353	658
Changes in operating assets and liabilities:		
Reserves at Central Bank of Russia	(1,247)	(955)
Banking assets	(43,751)	85,918
Trade accounts receivable	(2,862)	12,827
Amounts receivable from related parties	30,241	20,861
VAT recoverable	(142,801)	(35,104)
Inventories	18,906	38,009
Other current assets	(58,001)	(65,762)
Short term bank deposits	10,841	12,095
Trade accounts payable	47,690	(15,195)
Bank customer accounts	43,793	(30,308)
Amounts payable to related parties	27,624	33,588
Other taxes and social security payable	8,449	(3,931)
Deferred income	(1,917)	(460)
Other current liabilities	43,230	48,601
Other non-current liabilities	11,838	11,561
<b>Cash generated from operations</b>	<b>1,637,183</b>	<b>513,402</b>
Interest received (excluding banking operations)	38,011	15,092
Interest paid (excluding banking operations)	(98,039)	(31,126)
Income tax paid	(327,820)	(91,361)
<b>Net cash provided from operating activities</b>	<b>1,249,335</b>	<b>406,007</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(554,975)	(198,769)
Additions to financial assets	(1,331,799)	(399,639)
Buy out of minority interests	(5,668)	-
Net cash outflow on acquisitions	(6,752)	(6,752)
Proceeds from disposal of property, plant and equipment less dismantlement payments	(566)	750
Proceeds from disposal of financial assets	469,844	210,380
<b>Cash used for investing activities</b>	<b>(1,429,916)</b>	<b>(394,030)</b>
<b>Financing activities:</b>		
Proceeds from debt finance	466,659	77,687
Repayment of debt finance	(302,455)	(30,532)
Repayment of lease finance	(519)	(69)
Parent company dividends paid	(208,212)	(77,815)
Minority capital contributions	22,765	16,537
Dividends paid to minorities	(3,181)	(11)
Dividends from associates	11,782	7,168
<b>Cash provided from financing activities</b>	<b>(13,161)</b>	<b>(7,035)</b>
Effect of exchange rates on cash and cash equivalents	(35,322)	(3,503)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(229,064)</b>	<b>1,439</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>924,371</b>	<b>693,868</b>
<b>Cash and cash equivalents at end of the period</b>	<b>695,307</b>	<b>695,307</b>

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**Consolidated condensed interim statement of changes in shareholders' equity**  
**Nine months ended September 30, 2005**  
*(Amounts expressed in thousands of US dollars)*

	Attributable to the shareholders of OAO Severstal				Minority interest	Total	
	Share capital	Revaluation reserve	Foreign exchange differences	Accumulated earnings/ (deficit)			Total
Balances at December 31, 2004	3,311,129	631,455	169,735	(252,868)	3,859,451	64,026	3,923,477
Dividends (unaudited)	-	-	-	(213,718)	(213,718)	(3,181)	(216,899)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	-	23,460	23,460
Realization of revaluation reserve:							
Disposals (unaudited)	-	(11,395)	-	11,395	-	-	-
Depreciation (unaudited)	-	(79,765)	-	79,765	-	-	-
Deferred tax on realization (unaudited)	-	21,879	-	(21,879)	-	-	-
Foreign exchange differences (unaudited)	-	-	(103,463)	-	(103,463)	(1,548)	(105,011)
Profit attributable to shareholders (unaudited)	-	-	-	967,349	967,349	(1,214)	966,135
Balances at September 30, 2005 (unaudited)	3,311,129	562,174	66,272	570,044	4,509,619	81,543	4,591,162

# Severstal

## Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2005 (Amounts expressed in thousands of US dollars)

### 1. Departure from International Financial Reporting Standards ('IFRS')

International accounting standard ('IAS') number 1 "Presentation of Financial Statements" requires that "except when a Standard or an Interpretation permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements".

These consolidated condensed interim financial statements do not include the following comparative information required by IAS 1 "Presentation of Financial Statements" and IAS 34 "Interim Financial Reporting":

- statements of operations for three- and nine-months periods ending September 30, 2004,
- cash flow statements for three- and nine-months periods ending September 30, 2004,
- statement showing changes in equity for the nine months period ended September 30, 2004; and,
- comparable information for certain amounts reported in explanatory notes.

The OAO Severstal Group ('the Group') prepared consolidated interim financial statements in 2004 on a half-yearly basis, and management believes that it is impracticable to prepare comparable information for the three- and nine-months periods ending September 30, 2004.

IAS 1 "Presentation of Financial Statements" does not allow such departure from IFRS. Except for the absence of comparative information described above, these condensed consolidated financial statements for the Group have, in all other respects, been prepared in accordance with IAS 34 "Interim Financial Reporting" and all other international accounting and financial reporting standards, as issued by the International Accounting Standards Board ('IASB').

### 2. Accounting policies

As of January 1, 2005, the Group adopted all of the new and revised IFRS and interpretations issued by the IASB that are relevant to its operations and effective for the accounting periods beginning on January 1, 2005 with the exception of IFRS 3 "Business Combinations", IAS 21 "The Effects of Changes in Foreign Exchange Rates", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets", which were adopted before their effective dates for the financial statements for the year ended December 31, 2002.

There was no impact on opening retained earnings as at January 1, 2004 from the adoption of any of the above-mentioned standards.

Significant changes in accounting policies as they relate to the Group's financial position, results of its operations and its cash flows, as presented in these consolidated condensed interim financial statements, are summarized as follows:

Application of IAS 1 "Presentation of Financial Statements" (revised 2003) has affected the presentation of minority interest, and will result in increased disclosures in the full year financial statements.

Beginning from January 1, 2005 all foreign exchange differences that relate to the statement of operations are included in the line "Net financing expense". In previous periods foreign exchange differences were allocated to different line items in the statement of operations

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## **Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2005**

*(Amounts expressed in thousands of US dollars)*

depending on their nature. Further, previously exchange differences were calculated and included in the revaluation reserve under equity. Effective from January 1, 2005 the revaluation reserve under equity is stated at the historical exchange rate. Comparative information has been restated to conform to the current accounting policy.

All of the Group's significant accounting policies will be updated to reflect the requirements of the new and revised standards and interpretations adopted by the IASB when the full set of consolidated financial statements of the Group is prepared for the year ended December 31, 2005.

### **3. Seasonality**

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



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## Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2005 (Amounts expressed in thousands of US dollars)

### 4. Related party balances

	September 30, 2005 (unaudited)	December 31, 2004
Amounts receivable from related parties:		
Advances paid	11,877	26,557
Trade accounts receivable	74,410	62,701
Other receivables	178,878	197,955
	265,165	287,213
Cash and cash equivalents include the following balances with related parties:		
Cash at related party banks	-	31,096
Deposits at related party banks	-	128,715
	-	159,811
Banking assets include loans to related party customers	33,011	31,009
Current financial assets include the following balances with related parties:		
Held to maturity securities - bank deposits	-	83,012
Originated loans	174,742	35,143
Trading securities - promissory notes	5,549	10,114
	180,291	128,269
Non-current financial assets include the following balances with related parties:		
Available-for-sale securities - non-quoted equity shares	191,299	28,710
Originated loans	444,320	58,991
Held-to-maturity securities - promissory notes	16	-
	635,635	87,701
Amounts payable to related parties:		
Advances received	3,463	1,874
Trade accounts payable	106,107	68,519
Other accounts payable	62	122
Bank demand deposits	11,726	11,827
Bank term deposits	12,348	29,751
	133,706	112,093

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## Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2005 (Amounts expressed in thousands of US dollars)

### 5. Related party transactions

	<b>Nine months September 30, 2005 (unaudited)</b>	<b>Three months September 30, 2005 (unaudited)</b>
Income:		
Sales	343,432	131,093
Banking income	1,599	596
	<u>345,031</u>	<u>131,689</u>
Expenditure:		
Purchases - non-capital	993,634	271,513
Purchases - capital	108,034	50,779
Bank expenses	240	138
	<u>1,101,908</u>	<u>322,430</u>

### 6. Commitments and Contingents

The Group has provided for all significant contingent liabilities, which are probable of assertion and success.

As at September 30, 2005, the Group had capital commitments of US\$ 169.4 million (December 31, 2004: US\$ 212.6 million).

### 7. Acquisitions and disposals

On April 26, 2005 Severstal and its related parties (financed by Severstal) subscribed for new ordinary shares issued by Lucchini SpA (Italy) such that in exchange for €430.0 million, Severstal and its related parties obtained 61.9% voting control of Lucchini SpA. In May-June 2005, related parties, financed by Severstal, acquired from third parties additional 7.9% of the outstanding share capital of Lucchini SpA for €61.0 million. Long-term financial assets as of June 30, 2005, in these condensed consolidated financial statements include the following balances related to these transactions: US\$ 176.1 million of cost of 19.99% shares of Lucchini SpA and US\$ 410.5 million of Euro-denominated loans to related parties.

During the first six months of 2005, the Group bought 84.8% of new share issue by OAO Cherepovets Steel Rolling Mill ("ChSPZ") for US\$ 32.4 million and acquired an additional 4.99% in ChSPZ for US\$ 5.4 million from third parties. As a result, as of September 30, 2005, the Group owned 88.84% of the outstanding share capital of ChSPZ.

In September, 2005, Severstal and its related parties have initiated the SeverCorr project related to the construction of a mini mill in the United States of America. SeverCorr's mini mill is expected to produce approximately 1.5 million tons of high-quality flat-rolled steel on an annual basis. Total financing requirements of this project are approximately US\$ 880.0 million, and the project will be financed by Severstal, its related parties, third party equity participants and bank financing. In September 2005, Severstal and its related parties have contributed US\$ 80.0 million to the project, and have the obligations to provide future financing in the amount of US\$ 185.4 million by June 13, 2006, and have issued guarantees to

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## Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2005

*(Amounts expressed in thousands of US dollars)*

third parties in the amount of US\$ 10.0 million. The effective ownership interest of OAO Severstal in this project is 44.5% and the combined ownership interest of OAO Severstal and its related parties in this project is 79.9%. Subsequent to September 30, 2005, Severstal and its related parties contributed US\$ 30.0 million to this project.

In September, 2005, the Group, through its US holdings, has contributed an initial US\$ 50.0 million to the Mountain State Carbon LLC, a joint venture with Wheeling-Pittsburgh Steel Corporation (“Wheeling-Pittsburgh”). Wheeling-Pittsburgh has contributed to the joint venture all of its coking assets in Follansbee, USA, valued at US\$ 80.0 million, and US\$ 10.0 million in cash. The Group, within the next several months, will contribute an additional US\$ 70.0 million to the Mountain State Carbon LLC. This cash and US\$ 30.0 million of additional contributions from Wheeling-Pittsburgh over the next three years will be used to rehabilitate all of the coke batteries of the joint venture and provide the Group’s US integrated steel operations a reliable and competitive supply of metallurgical coke. Upon completion of all contributions, each partner will have a 50% share in Mountain State Carbon LLC.

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

In July 2005, the Group established a joint venture with Arcelor group by selling to 50% of Group’s ownership in ZAO TA Cord for US\$ 2.9 million. Net assets of ZAO TA Cord on July 1, 2005 were US\$ 8.4 million.

In August 2005, the Group sold its 9.8% ownership in OAO Industry & Construction Bank for US\$ 27.5 million, realizing a US\$ 15.9 million gain on disposal.

In September 2005, as a result of an additional share issue, a member of board of directors of the Group acquired 7.0% of the outstanding shares of Severstal North America Inc (‘SNA’) for US\$ 17.0 million. After this additional share issue, the Group ownership in SNA became 93%.

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## Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2005 (Amounts expressed in thousands of US dollars)

### 8. Segmental information – Statement of operations

	Net sales (unaudited)	Profit before financing and tax (unaudited)
<b>Nine months ended September 30, 2005:</b>		
Steel segment	5,674,430	1,383,361
Metalware segment	454,832	(789)
Financing segment	-	5,736
Intersegmental transactions	(238,460)	4,904
Total	<u>5,890,802</u>	<u>1,393,212</u>
<b>Three months ended September 30, 2005:</b>		
Steel segment	1,695,493	324,448
Metalware segment	140,694	3,066
Financing segment	-	2,544
Intersegmental transactions	(70,187)	(762)
Total	<u>1,766,000</u>	<u>329,296</u>

### 9. Post balance sheet events

The following events occurred between September 30, 2005 and the date of completion of these consolidated condensed interim financial statements – November 30, 2005:

In October 2005, Severstal's board of directors proposed an interim dividend for the third quarter of 2005 of Rbs 3.00 per share.

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