

# **OAO Severstal and subsidiaries**

Consolidated condensed interim financial statements  
for the three months ended March 31, 2008

# **OAO Severstal and subsidiaries**

## **Consolidated condensed interim financial statements for the three months ended March 31, 2008**

### **Contents**

|  | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report                                     | 1           |
| Consolidated condensed interim income statement                  | 2           |
| Consolidated condensed interim balance sheet                     | 3           |
| Consolidated condensed interim statement of cash flows           | 4           |
| Consolidated condensed interim statement of changes in equity    | 5           |
| Notes to the consolidated condensed interim financial statements | 6 – 12      |



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## **Independent Auditors' Report**

Board of Directors

OAO Severstal

### **Report on Review of the Interim Financial Information**

#### *Introduction*

We have reviewed the accompanying consolidated condensed interim balance sheet of OAO Severstal (the "Company") and its subsidiaries (the "Group") as at 31 March 2008, and the related consolidated condensed interim statements of income, changes in equity and cash flows for the three-month period then ended (the "consolidated interim financial information"). Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial information as at 31 March 2008 and for the three-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

*KPMG Limited*

KPMG Limited

15 May 2008

# OAO Severstal and subsidiaries

## Consolidated condensed interim income statement

**Three months ended March 31, 2008**

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

|  |             | <b>Three months ended March 31,</b> |   |
|--|-------------|-------------------------------------|---|
|  | <b>Note</b> | <b>2008<br/>(unaudited)</b>         | <b>2007<br/>(restated,<br/>unaudited)</b> |
| <b>Sales</b>   |             |                                     |   |
| Sales - external   |             | 4,144,363                           | 3,526,021                                 |
| Sales - to related parties   | 5           | 164,630                             | 166,502                                   |
|  | 3           | 4,308,993                           | 3,692,523                                 |
| Cost of sales  |             | (3,165,953)                         | (2,531,468)                               |
| <b>Gross profit</b>  |             | 1,143,040                           | 1,161,055                                 |
| General and administrative expenses  |             | (230,850)                           | (169,410)                                 |
| Distribution expenses  |             | (275,665)                           | (233,529)                                 |
| Indirect taxes and contributions   |             | (45,503)                            | (35,147)                                  |
| Share of associates' (loss)/profit   |             | (542)                               | 2,413                                     |
| Net (loss)/income from securities operations   |             | (8,064)                             | 1,503                                     |
| Loss on disposal of property, plant and equipment                                    |             | (14,495)                            | (9,230)                                   |
| Net other operating income/(expenses)  | 9           | 197,185                             | (1,037)                                   |
| <b>Profit from operations</b>  |             | 765,106                             | 716,618                                   |
| Impairment of property, plant and equipment  |             | (1,855)                             | (950)                                     |
| Negative goodwill, net   |             | 2,166                               | 633                                       |
| Net other non-operating expenses   |             | (32,629)                            | (17,969)                                  |
| <b>Profit before financing and taxation</b>  |             | 732,788                             | 698,332                                   |
| Interest income  |             | 28,944                              | 36,765                                    |
| Interest expense   |             | (90,875)                            | (68,363)                                  |
| Foreign exchange difference  |             | 13,887                              | (180)                                     |
| <b>Profit before income tax</b>  |             | 684,744                             | 666,554                                   |
| Income tax expense   |             | (232,770)                           | (190,279)                                 |
| <b>Profit from continuing operations</b>   |             | 451,974                             | 476,275                                   |
| Profit from discontinued operations  |             | -                                   | 4,935                                     |
| <b>Profit for the period</b>   |             | 451,974                             | 481,210                                   |
| Attributable to:   |             |                                     |   |
| shareholders of OAO Severstal  |             | 438,706                             | 458,091                                   |
| minority interest  |             | 13,268                              | 23,119                                    |
| Weighted average number of shares outstanding during the period (millions of shares) |             | 1,007.7                             | 1,007.7                                   |
| Basic and diluted earnings per share (US dollars)                                    |             | 0.44                                | 0.45                                      |

These consolidated condensed interim financial statements were approved by the Board of Directors on May 15, 2008.

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

# OAO Severstal and subsidiaries

## Consolidated condensed interim balance sheet

**March 31, 2008**

*(Amounts expressed in thousands of US dollars)*

|  | <u>Note</u> | <u>March 31, 2008</u><br><u>(unaudited)</u> | <u>December 31, 2007</u><br><u>(unaudited)</u> |
|--|-------------|---|--|
| <b>Assets</b>  |             |   |  |
| <b>Current assets:</b>                                     |             |   |  |
| Cash and cash equivalents                                  |             | 2,406,295                                   | 1,619,872                                      |
| Short-term bank deposits                                   |             | 321,472                                     | 665,977  |
| Short-term financial investments                           |             | 206,127                                     | 207,632  |
| Trade accounts receivable                                  |             | 2,003,879                                   | 1,719,441                                      |
| Amounts receivable from related parties                    | 4           | 99,692                                      | 78,304   |
| Inventories  |             | 2,837,856                                   | 2,609,751                                      |
| VAT recoverable  |             | 302,511                                     | 283,746  |
| Income tax recoverable                                     |             | 98,629                                      | 75,993   |
| Assets held for sale                                       |             | 451,662                                     | 461,197  |
| Other current assets                                       |             | 402,584                                     | 325,961  |
| <b>Total current assets</b>                                |             | <u>9,130,707</u>                            | <u>8,047,874</u>                               |
| <b>Non-current assets:</b>                                 |             |   |  |
| Long-term financial investments                            |             | 144,216                                     | 136,496  |
| Investment in associates and joint ventures                |             | 199,131                                     | 203,122  |
| Property, plant and equipment                              |             | 8,705,285                                   | 8,216,615                                      |
| Intangible assets  |             | 624,712                                     | 611,881  |
| Restricted cash  |             | 14,468                                      | 13,810   |
| Deferred tax assets  |             | 61,146                                      | 52,324   |
| Other non-current assets                                   |             | 43,124                                      | 38,949   |
| <b>Total non-current assets</b>                            |             | <u>9,792,082</u>                            | <u>9,273,197</u>                               |
| <b>Total assets</b>  |             | <u>18,922,789</u>                           | <u>17,321,071</u>                              |
| <b>Liabilities and shareholders' equity</b>                |             |   |  |
| <b>Current liabilities:</b>                                |             |   |  |
| Trade accounts payable                                     |             | 1,325,472                                   | 1,207,185                                      |
| Amounts payable to related parties                         | 4           | 72,130                                      | 58,915   |
| Short-term debt finance                                    |             | 1,257,587                                   | 972,701  |
| Income taxes payable                                       |             | 96,978                                      | 41,382   |
| Other taxes and social security payable                    |             | 297,927                                     | 200,424  |
| Dividends payable  |             | 6,078                                       | 107,485  |
| Liabilities related to assets held for sale                |             | 103,993                                     | 91,750   |
| Other current liabilities                                  |             | 708,277                                     | 610,784  |
| <b>Total current liabilities</b>                           |             | <u>3,868,442</u>                            | <u>3,290,626</u>                               |
| <b>Non-current liabilities:</b>                            |             |   |  |
| Long-term debt finance                                     |             | 2,852,956                                   | 2,813,011                                      |
| Deferred tax liabilities                                   |             | 436,332                                     | 399,424  |
| Retirement benefit liability                               |             | 437,514                                     | 387,398  |
| Other non-current liabilities                              |             | 394,986                                     | 324,468  |
| <b>Total non-current liabilities</b>                       |             | <u>4,121,788</u>                            | <u>3,924,301</u>                               |
| <b>Equity:</b>   |             |   |  |
| Share capital  |             | 3,311,288                                   | 3,311,288                                      |
| Additional capital   |             | 1,165,530                                   | 1,165,530                                      |
| Foreign exchange differences                               |             | 1,562,220                                   | 1,145,379                                      |
| Retained earnings  |             | 4,404,914                                   | 4,004,459                                      |
| Hedging reserve  |             | (21,698)                                    | -  |
| <b>Total equity attributable to shareholders of parent</b> |             | <u>10,422,254</u>                           | <u>9,626,656</u>                               |
| <b>Minority interest</b>                                   |             | <u>510,305</u>                              | <u>479,488</u>                                 |
| <b>Total equity</b>  |             | <u>10,932,559</u>                           | <u>10,106,144</u>                              |
| <b>Total equity and liabilities</b>                        |             | <u>18,922,789</u>                           | <u>17,321,071</u>                              |

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

# OAO Severstal and subsidiaries

## Consolidated condensed interim statement of cash flows

**Three months ended March 31, 2008**

*(Amounts expressed in thousands of US dollars)*

|   | <b>Three months ended March 31,</b> |                                  |
|---|-------------------------------------|----------------------------------|
|   | <b>2008</b>                         | <b>2007</b>                      |
|   | <b>(unaudited)</b>                  | <b>(restated,<br/>unaudited)</b> |
| <b>Operating activities:</b>  |                                     |                                  |
| Profit before financing and taxation                                | 732,788                             | 698,332                          |
| Adjustments to reconcile profit to cash generated from operations:  |                                     |                                  |
| Depreciation and amortization                                       | 255,912                             | 178,154                          |
| Impairment of property, plant and equipment                         | 1,855                               | 950                              |
| Provision for inventories, receivables and other provisions         | 6,828                               | (6,610)                          |
| Negative goodwill, net  | (2,166)                             | (633)                            |
| Loss on disposal of property, plant and equipment                   | 14,495                              | 9,230                            |
| Loss on disposal of subsidiaries                                    | 3,621                               | -                                |
| Loss/(gain) on remeasurement and disposal of financial investments  | 8,064                               | (1,503)                          |
| Share of associates' results less dividends from associates         | 542                                 | (2,413)                          |
| Changes in operating assets and liabilities:                        |                                     |                                  |
| Trade accounts receivable   | (203,727)                           | (230,178)                        |
| Amounts receivable from related parties                             | (16,531)                            | 14,812                           |
| VAT recoverable   | (5,928)                             | 77,834                           |
| Inventories   | (88,446)                            | 105,201                          |
| Trade accounts payable  | 76,159                              | 73,742                           |
| Bank customer accounts  | -                                   | 11,284                           |
| Amounts payable to related parties                                  | 10,105                              | (57,502)                         |
| Other taxes and social security payables                            | 72,665                              | 7,005                            |
| Other non-current liabilities                                       | 65,381                              | 9,160                            |
| Assets held for sale  | 35,001                              | -                                |
| Net other changes in operating assets and liabilities               | (20,679)                            | 25,774                           |
| <b>Cash generated from operations</b>                               | <b>945,939</b>                      | <b>912,639</b>                   |
| Interest paid (excluding banking operations)                        | (58,006)                            | (63,424)                         |
| Income tax paid   | (192,592)                           | (179,708)                        |
| <b>Net cash from operating activities</b>                           | <b>695,341</b>                      | <b>669,507</b>                   |
| <b>Investing activities:</b>  |                                     |                                  |
| Additions to property, plant and equipment                          | (414,320)                           | (341,772)                        |
| Additions to intangible assets                                      | (7,048)                             | (1,266)                          |
| Net decrease/(increase) in short-term bank deposits                 | 358,152                             | (549,507)                        |
| Additions to financial investments and associates                   | (176,016)                           | (137,249)                        |
| Acquisition of minority interests and entities under common control | (44,042)                            | -                                |
| Net cash outflow on acquisitions of subsidiaries                    | -                                   | (45,309)                         |
| Proceeds from disposal of property, plant and equipment             | 1,269                               | 6,205                            |
| Proceeds from disposal of financial investments                     | 178,931                             | 81,459                           |
| Interest received (excluding banking operations)                    | 29,924                              | 28,193                           |
| <b>Cash from investing activities</b>                               | <b>(73,150)</b>                     | <b>(959,246)</b>                 |
| <b>Financing activities:</b>  |                                     |                                  |
| Proceeds from debt finance  | 840,588                             | 328,970                          |
| Repayment of debt finance   | (662,399)                           | (269,360)                        |
| Repayments under lease obligations                                  | (1,553)                             | -                                |
| Dividends paid  | (103,683)                           | (17,303)                         |
| <b>Cash from financing activities</b>                               | <b>72,953</b>                       | <b>42,307</b>                    |
| Effect of exchange rates on cash and cash equivalents               | 91,279                              | 14,658                           |
| <b>Net increase/(decrease) in cash and cash equivalents</b>         | <b>786,423</b>                      | <b>(232,774)</b>                 |
| <b>Cash and cash equivalents at beginning of the period</b>         | <b>1,619,872</b>                    | <b>1,733,414</b>                 |
| <b>Cash and cash equivalents at end of the period</b>               | <b>2,406,295</b>                    | <b>1,500,640</b>                 |

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

## OAO Severstal and subsidiaries

### Consolidated condensed interim statement of changes in equity Three months ended March 31, 2008 (Amounts expressed in thousands of US dollars)

|  | Attributable to the shareholders of OAO Severstal |                       |                                    |                      |                    | Minority<br>interest | Total          |                   |
|--|---|-----------------------|------------------------------------|----------------------|--------------------|----------------------|----------------|-------------------|
|  | Share<br>capital                                  | Additional<br>capital | Foreign<br>exchange<br>differences | Retained<br>earnings | Hedging<br>reserve |                      |                | Total             |
| Balances at December 31, 2006 as previously reported       | 3,311,288   | 1,165,530             | 535,591                            | 2,983,954            | -                  | 7,996,363            | 557,645        | 8,554,008         |
| Acquisition of entities under common control (unaudited)   | -   | -                     | -                                  | (15,257)             | -                  | (15,257)             | 14,986         | (271)             |
| Balances at December 31, 2006 (unaudited)                  | 3,311,288   | 1,165,530             | 535,591                            | 2,968,697            | -                  | 7,981,106            | 572,631        | 8,553,737         |
| Profit for the period (restated, unaudited)                | -   | -                     | -                                  | 458,091              | -                  | 458,091              | 23,119         | 481,210           |
| Foreign exchange differences (restated, unaudited)         | -   | -                     | 153,727                            | -                    | -                  | 153,727              | 3,023          | 156,750           |
| Total recognized income and expenses (restated, unaudited) | -   | -                     | -                                  | -                    | -                  | 611,818              | 26,142         | 637,960           |
| Dividends (unaudited)                                      | -   | -                     | -                                  | -                    | -                  | -                    | (1,321)        | (1,321)           |
| Effect of acquisitions and disposals (restated, unaudited) | -   | -                     | -                                  | (25,119)             | -                  | (25,119)             | (9,489)        | (34,608)          |
| Balances at March 31, 2007 (restated, unaudited)           | <u>3,311,288</u>                                  | <u>1,165,530</u>      | <u>689,318</u>                     | <u>3,401,669</u>     | <u>-</u>           | <u>8,567,805</u>     | <u>587,963</u> | <u>9,155,768</u>  |
| Balances at December 31, 2007 as previously reported       | 3,311,288   | 1,165,530             | 1,176,321                          | 4,082,834            | -                  | 9,735,973            | 474,706        | 10,210,679        |
| Acquisition of entities under common control (unaudited)   | -   | -                     | (30,942)                           | (78,375)             | -                  | (109,317)            | 4,782          | (104,535)         |
| Balances at December 31, 2007 (unaudited)                  | 3,311,288   | 1,165,530             | 1,145,379                          | 4,004,459            | -                  | 9,626,656            | 479,488        | 10,106,144        |
| Profit for the period (unaudited)                          | -   | -                     | -                                  | 438,706              | -                  | 438,706              | 13,268         | 451,974           |
| Fair value adjustments of hedges (unaudited)               | -   | -                     | -                                  | -                    | (28,974)           | (28,974)             | (6,627)        | (35,601)          |
| Deferred tax on fair value adjustments (unaudited)         | -   | -                     | -                                  | -                    | 7,276              | 7,276                | 1,839          | 9,115             |
| Foreign exchange differences (unaudited)                   | -   | -                     | 416,841                            | -                    | -                  | 416,841              | 31,196         | 448,037           |
| Total recognized income and expenses (unaudited)           | -   | -                     | -                                  | -                    | -                  | 833,849              | 39,676         | 873,525           |
| Dividends (unaudited)                                      | -   | -                     | -                                  | -                    | -                  | -                    | (820)          | (820)             |
| Effect of acquisitions and disposals (unaudited)           | -   | -                     | -                                  | (38,251)             | -                  | (38,251)             | (8,039)        | (46,290)          |
| Balances at March 31, 2008 (unaudited)                     | <u>3,311,288</u>                                  | <u>1,165,530</u>      | <u>1,562,220</u>                   | <u>4,404,914</u>     | <u>(21,698)</u>    | <u>10,422,254</u>    | <u>510,305</u> | <u>10,932,559</u> |

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

# **OA O Severstal and subsidiaries**

## **Notes to the consolidated condensed interim financial statements for the three months ended March 31, 2008**

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

### **1. Accounting policies**

These consolidated condensed interim financial statements for OAO Severstal and subsidiaries ('the Group') have been prepared in accordance with International Financial Reporting Standards ('IFRS'), IAS 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board.

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

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

### **2. Seasonality**

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



## OAO Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements  
for the three months ended March 31, 2008**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

### 3. Sales

Sales by product were as follows:

|   | Three months ended |             |
|---|--------------------|-------------|
|   | March, 31          |             |
|   | 2008               | 2007        |
|   | (unaudited)        | (unaudited) |
| Hot-rolled strip and plate                      | 968,081            | 950,152     |
| Long products                                   | 924,460            | 773,978     |
| Cold-rolled sheet                               | 385,488            | 311,269     |
| Galvanized and other metallic coated sheet      | 375,553            | 333,685     |
| Semifinished products                           | 298,526            | 281,294     |
| Metalware products                              | 281,115            | 218,623     |
| Shipping and handling costs billed to customers | 192,088            | 156,177     |
| Large diameter pipes                            | 160,023            | 63,058      |
| Pellets and iron ore                            | 125,627            | 68,070      |
| Others tubes and pipes, formed shapes           | 102,284            | 88,508      |
| Rails, wheels and axles                         | 71,116             | 100,734     |
| Color coated sheet                              | 68,137             | 67,144      |
| Scrap   | 59,174             | 32,145      |
| Coal and coking coal concentrate                | 50,391             | 79,741      |
| Gold  | 44,633             | -           |
| Others  | 202,297            | 167,945     |
|   | 4,308,993          | 3,692,523   |
|   | 4,308,993          | 3,692,523   |

Sales by delivery destination were as follows:

|                         | Three months ended |             |
|-------------------------|--------------------|-------------|
|                         | March, 31          |             |
|                         | 2008               | 2007        |
|                         | (unaudited)        | (unaudited) |
| Russian Federation      | 1,820,827          | 1,427,003   |
| Europe                  | 1,482,661          | 1,388,076   |
| North America           | 620,478            | 535,714     |
| The Middle East         | 136,201            | 117,796     |
| South-East Asia         | 132,646            | 56,110      |
| Central & South America | 24,646             | 57,791      |
| China and Central Asia  | 82,559             | 87,455      |
| Africa                  | 8,975              | 22,578      |
|                         | 4,308,993          | 3,692,523   |
|                         | 4,308,993          | 3,692,523   |

# OAO Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements  
for the three months ended March 31, 2008**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

## 4. Related party balances

|   | <b>March 31, 2008<br/>(unaudited)</b> | <b>December 31,<br/>2007</b> |
|---|---------------------------------------|------------------------------|
| <b>Joint ventures' balances</b>   |                                       |                              |
| Trade accounts payable  | 15,103                                | 16,353                       |
| <b>Other related party balances</b>   |                                       |                              |
| Cash and cash equivalents at related party bank   | 331,755                               | 239,909                      |
| Deposits with related party bank  | 19,450                                | 18,985                       |
| Amounts receivable from other related parties:  |                                       |                              |
| Trade accounts receivable   | 63,438                                | 43,770                       |
| Advances paid   | 3,842                                 | 6,546                        |
| Other receivables   | 32,412                                | 27,988                       |
|   | 99,692                                | 78,304                       |
| Short-term financial investments include the following balances with other related parties: |                                       |                              |
| Loans   | 13,607                                | 22,205                       |
| Promissory notes  | 7,361                                 | 7,457                        |
|   | 20,968                                | 29,662                       |
| Long-term financial investments include the following balances with other related parties:  |                                       |                              |
| Loans   | 39,224                                | 37,147                       |
| Held-to-maturity securities and deposits  | 65,729                                | 62,759                       |
|   | 104,953                               | 99,906                       |
| Amounts payable to other related parties:   |                                       |                              |
| Trade accounts payable  | 50,502                                | 36,886                       |
| Advances received   | 3,278                                 | 3,843                        |
| Other accounts payable  | 3,247                                 | 1,833                        |
|   | 57,027                                | 42,562                       |
| Debt financing includes the following balances with other related parties:                  |                                       |                              |
| Short-term debt financing   | 39,958                                | 36,866                       |
| Long-term debt financing  | 1,437                                 | 1,536                        |
|   | 41,395                                | 38,402                       |

# OA O Severstal and subsidiaries

## Notes to the consolidated condensed interim financial statements for the three months ended March 31, 2008 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### 5. Related party transactions

|  | Three months ended<br>March 31, |                     |
|--|---------------------------------|---------------------|
|  | 2008<br>(unaudited)             | 2007<br>(unaudited) |
| Sales to and income received from other related parties: |                                 |                     |
| Sales  | 164,630                         | 166,502             |
| Interest income  | 3,342                           | 8,669               |
|  | <u>167,972</u>                  | <u>175,171</u>      |
| Purchases from related parties:                          |                                 |                     |
| Purchases from associates:                               |                                 |                     |
| Non-capital expenditures                                 | 329                             | 472                 |
| Purchases from joint ventures:                           |                                 |                     |
| Non-capital expenditures                                 | 47,413                          | 50,309              |
| Purchases from other related parties:                    |                                 |                     |
| Non-capital expenditures                                 | 81,470                          | 195,265             |
| Capital expenditures                                     | 214                             | 5,028               |
|  | <u>129,426</u>                  | <u>251,074</u>      |

### 6. Contingent liabilities and commitments

As of March 31, 2008, the Group had capital commitments of US\$ 965.5 million (December 31, 2007: US\$ 540.2 million).

## OA0 Severstal and subsidiaries

Notes to the consolidated condensed interim financial statements  
for the three months ended March 31, 2008  
(Amounts expressed in thousands of US dollars, except as otherwise stated)

### 7. Acquisitions and disposals

#### *Acquisitions of subsidiaries from Majority Shareholder*

In January 2008, the Group completed the acquisition of a 100% stake in Baracom Limited for a total consideration of US\$ 84.4 million. Baracom Limited owns 79.9% of the voting stock of the holding structure which controls 74.2% of SeverCorr. SeverCorr is mini-mill which produces high quality steel for motor-car, construction, pipe and engineering industries.

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

#### *Acquisitions of subsidiaries from third parties*

In January 2008, the Group acquired a 91.57% stake in OAO StalMag for a total consideration of US\$ 17.6 million. OAO Stalmag is a ferroniobium producer which production will be used by the Group's entities.

A summary of fair valued assets and liabilities acquired is presented below:

|   |          |
|---|----------|
| Short-term investments                    | 6,374    |
| Trade and other accounts receivable       | 482      |
| Inventories                               | 2,282    |
| Other current assets                      | 3,236    |
| Property, plant and equipment             | 11,619   |
| Deferred tax assets                       | 223      |
| Other current liabilities                 | (2,630)  |
| Net identifiable assets acquired          | 21,586   |
| Minority interest                         | (1,820)  |
| Share of net identifiable assets acquired | 19,766   |
| Consideration paid in financial assets    | (17,600) |
| Negative goodwill                         | 2,166    |

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

#### *Acquisitions of minority interest*

In January 2008, the Group completed the acquisition of a 100% stake in Celtic Resources Holdings Plc by acquiring the remaining 13.7% stake in the company for a total consideration of US\$ 44 million. Celtic Resources Holdings Plc is a gold producer which has three operating gold mines in Kazakhstan. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations. Final purchase price allocation is expected to be completed before December 31, 2008.

# OAO Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements  
for the three months ended March 31, 2008**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

## 8. Segmental information – Income statement

|   | Three months ended<br>March 31, |                  |
|---|---------------------------------|------------------|
|   | 2008 (unaudited)                | 2007 (unaudited) |
| <b>Sales</b>                                  |                                 |                  |
| Mining segment                                | 697,761                         | 491,803          |
| Russian Steel segment                         | 2,086,368                       | 1,891,946        |
| Lucchini segment                              | 1,056,822                       | 977,569          |
| North America                                 | 591,308                         | 455,457          |
| IPM   | 160,023                         | 63,058           |
| Metalware segment                             | 272,251                         | 224,101          |
| Intersegmental transactions                   | (555,540)                       | (411,411)        |
| Total   | 4,308,993                       | 3,692,523        |
| <b>Profit before financing and taxation :</b> |                                 |                  |
| Mining segment                                | 140,935                         | 90,135           |
| Russian Steel segment                         | 318,572                         | 499,825          |
| Lucchini segment                              | 99,514                          | 98,161           |
| North America                                 | 111,280                         | 24,181           |
| IPM   | 34,737                          | 4,060            |
| Metalware segment                             | 26,389                          | 5,816            |
| Intersegmental transactions                   | 1,361                           | (23,846)         |
| Total   | 732,788                         | 698,332          |

## 9. Net other operating income/(expenses)

In January 2008, an explosion occurred on one of Severstal North America's ("SNA") furnaces, blast furnace "B". Following the accident, SNA has ceased blast furnace "B" operation. SNA is insured against property damage and business interruption with a combined gross coverage of US\$ 500 million, subject to customary deductibles. The business interruption covers fixed costs and loss of profits. Management has estimated net recoverable fixed costs in the period from the accident until March 31, 2008 at US\$ 21 million which amount has been recognized as other operating income. No amount has been recognized for the loss of profits in these financial statements.

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 penalty amounted to US\$ 177 million.

# OAo Severstal and subsidiaries

## Notes to the consolidated condensed interim financial statements for the three months ended March 31, 2008 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### 10. Completion of ZAO Neva-Metal and ZAO Neva-Metal-Trans purchase price allocation

In March 2008, management has completed the purchase price allocation of ZAO Neva-Metal and ZAO Neva-Metal-Trans acquired in May 2007. The effect of the final purchase price allocation on these consolidated financial statements is the following:

|                               | <b>Increase/(decrease) compared to the<br/>provisional purchase price allocation<br/>at December 31, 2007<br/>US\$, million</b> |
|-------------------------------|---|
| Goodwill                      | (47)  |
| Property, plant and equipment | 15  |
| Intangible assets             | 47  |
| Deferred tax liabilities      | 15  |

### 11. Subsequent events

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

In April 2008, the Group sold its 97.9%, 99.46% and 100% participation in OAO Mine Berezovskaya, OAO Mine Pervomaiskaya and ZAO Zhernovskaya-3 respectively to ArcelorMittal for a total consideration of US\$ 652 million.

In May 2008, the Group acquired a 100% stake in Sparrows Point LLC for a total consideration of US\$ 810 million. Sparrows Point LLC is an integrated steel plant on the East Coast of USA with its own deep water port and rail connection to the main East Coast rail networks. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations. Final purchase price allocation is expected to be completed before December 31, 2008.