

OAO Severstal and subsidiaries

Consolidated condensed interim financial statements
for the three months ended March 31, 2009 and 2008

OAO Severstal and subsidiaries

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Independent Auditors' Report

Board of Directors

OA O Severstal

Report on Reviews of Interim Financial Information

Introduction

We have reviewed the accompanying consolidated condensed interim statements of financial position of OA O Severstal (the "Company") and its subsidiaries (the "Group") as at 31 March 2009, and the related consolidated condensed interim statements of income, comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2009 and 2008 (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 reviews.

Scope of Reviews

We conducted our reviews 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 reviews, nothing has come to our attention that causes us to believe that the consolidated interim financial information as at 31 March 2009 and for the three-month periods ended 31 March 2009 and 2008 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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12 May 2009

OAO Severstal and subsidiaries

Consolidated condensed interim income statements

Three months ended March 31, 2009 and 2008

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

	Note	Three months ended March 31,	
		2009 (unaudited)	2008 (unaudited)*
Sales			
Sales - external		2,749,623	4,311,728
Sales - to related parties	5	46,707	47,332
	3	<u>2,796,330</u>	<u>4,359,060</u>
Cost of sales		<u>(2,739,818)</u>	<u>(3,160,773)</u>
Gross profit		56,512	1,198,287
General and administrative expenses		(204,996)	(232,494)
Distribution expenses		(183,939)	(281,983)
Indirect taxes and contributions		(37,178)	(46,616)
Share of associates' income/(loss)		3,759	(542)
Net loss from securities operations		(8,537)	(10,008)
Loss on disposal of property, plant and equipment		(643)	(13,725)
Net other operating (expenses)/income	4	<u>(435)</u>	<u>194,859</u>
(Loss)/profit from operations		(375,457)	807,778
Impairment of non-current assets		(26,753)	(1,836)
Negative goodwill		-	2,166
Net other non-operating expenses		<u>(11,096)</u>	<u>(32,610)</u>
(Loss)/profit before financing and taxation		(413,306)	775,498
Interest income		28,352	29,026
Interest expense		(150,134)	(93,746)
Foreign exchange difference		<u>(381,408)</u>	<u>13,720</u>
(Loss)/profit before income tax		(916,496)	724,498
Income tax benefit/(expense)		<u>241,858</u>	<u>(241,243)</u>
(Loss)/profit for the period		<u>(674,638)</u>	<u>483,255</u>
Attributable to:			
shareholders of OAO Severstal		(643,928)	469,802
non-controlling interests		<u>(30,710)</u>	<u>13,453</u>
Weighted average number of shares outstanding during the period (millions of shares)		<u>1,005.2</u>	<u>1,007.7</u>
Basic and diluted earnings per share (US dollars)		<u>(0.64)</u>	<u>0.47</u>

* These amounts reflect adjustments made in connection with completion of purchase price allocation and acquisitions from Majority Shareholder.

These consolidated condensed interim financial statements were approved by the Board of Directors on May 12, 2009.

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

OAO Severstal and subsidiaries

Consolidated condensed interim statements of comprehensive income

Three months ended March 31, 2009 and 2008

(Amounts expressed in thousands of US dollars)

	Three months ended March 31,	
	2009	2008
	(unaudited)	(unaudited)*
(Loss)/profit for the period	(674,638)	483,255
Other comprehensive (loss)/income		
Foreign exchange difference	(692,722)	450,697
Changes in fair value of cash flow hedges	(7,088)	(35,601)
Revaluation of available-for-sale investments	11,969	-
Amortization of fair value adjustment upon acquisition of subsidiary to previously held interest	(749)	-
Income tax relating to components of other comprehensive (loss)/income	(1,036)	9,115
Other comprehensive (loss)/income for the period, net of tax	(689,626)	424,211
Total comprehensive (loss)/income for the period	(1,364,264)	907,466
Attributable to:		
shareholders of OAO Severstal	(1,310,065)	867,605
non-controlling interests	(54,199)	39,861

* These amounts reflect adjustments made in connection with completion of purchase price allocation and acquisitions from Majority Shareholder.

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

OAO Severstal and subsidiaries

Consolidated condensed interim statements of financial position

March 31, 2009 and December 31, 2008

(Amounts expressed in thousands of US dollars)

	<u>Note</u>	<u>March 31, 2009</u> <u>(unaudited)</u>	<u>December 31, 2008</u>
Assets			
Current assets:			
Cash and cash equivalents		2,270,360	2,653,742
Short-term bank deposits		382,407	818,545
Short-term financial investments		66,694	112,782
Trade accounts receivable		1,449,569	1,942,268
Accounts receivable from related parties	6	36,025	63,831
Inventories		3,531,530	4,278,554
VAT recoverable		337,999	360,838
Income tax recoverable		145,246	172,947
Other current assets		284,062	280,082
Assets held for sale		-	8,872
Total current assets		<u>8,503,892</u>	<u>10,692,461</u>
Non-current assets:			
Long-term financial investments		66,905	69,982
Investments in associates and joint ventures		101,992	104,142
Property, plant and equipment		9,111,615	9,868,305
Intangible assets		1,331,380	1,454,486
Restricted cash		27,382	21,703
Deferred tax assets		387,020	227,492
Other non-current assets		39,624	41,615
Assets held for sale		15,456	-
Total non-current assets		<u>11,081,374</u>	<u>11,787,725</u>
Total assets		<u>19,585,266</u>	<u>22,480,186</u>
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		1,239,468	1,526,818
Accounts payable to related parties	6	31,669	71,960
Short-term debt finance	7	2,029,474	1,977,513
Income tax payable		33,594	46,958
Other taxes and social security payable		184,056	210,992
Dividends payable		6,666	128,715
Other current liabilities		662,557	805,619
Liabilities related to assets held for sale		-	4
Total current liabilities		<u>4,187,484</u>	<u>4,768,579</u>
Non-current liabilities:			
Long-term debt finance	7	5,494,925	6,278,004
Deferred tax liabilities		404,167	509,327
Retirement benefit liabilities		747,971	779,296
Other non-current liabilities		563,375	591,290
Liabilities related to assets held for sale		10	-
Total non-current liabilities		<u>7,210,448</u>	<u>8,157,917</u>
Equity:			
Share capital		3,311,288	3,311,288
Treasury shares		(26,303)	(26,303)
Additional capital		1,165,530	1,165,530
Foreign exchange differences		(580,343)	83,812
Retained earnings		3,850,727	4,495,458
Other reserves		16,515	18,497
Total equity attributable to shareholders of parent		<u>7,737,414</u>	<u>9,048,282</u>
Non-controlling interests		<u>449,920</u>	<u>505,408</u>
Total equity		<u>8,187,334</u>	<u>9,553,690</u>
Total equity and liabilities		<u>19,585,266</u>	<u>22,480,186</u>

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

OAO Severstal and subsidiaries

Consolidated condensed interim statements of cash flows Three months ended March 31, 2009 and 2008 (Amounts expressed in thousands of US dollars)

	Three months ended March 31,	
	2009 (unaudited)	2008 (unaudited)*
Operating activities:		
(Loss)/profit before financing and taxation	(413,306)	775,498
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	216,693	259,351
Impairment of non-current assets	26,753	1,836
Provision for inventories, receivables and other provisions	(126,147)	4,506
Negative goodwill	-	(2,166)
Loss on disposal of property, plant and equipment	643	13,725
Loss on disposal of subsidiaries and associates	-	3,621
Loss on remeasurement and disposal of financial investments	8,537	10,008
Share of associates' results less dividends from associates	(3,759)	542
Changes in operating assets and liabilities:		
Trade accounts receivable	345,913	(214,850)
Amounts receivable from related parties	20,129	(11,982)
VAT recoverable	(1,669)	(4,162)
Inventories	597,790	(127,721)
Trade accounts payable	(188,897)	78,008
Amounts payable to related parties	(27,021)	10,730
Other taxes and social security payables	(5,816)	73,752
Other non-current liabilities	(13,913)	65,381
Assets held for sale	(5,550)	35,001
Net other changes in operating assets and liabilities	(104,151)	(15,677)
Cash generated from operations	326,229	955,401
Interest paid	(163,462)	(60,976)
Income tax paid	(14,811)	(194,390)
Net cash from operating activities	147,956	700,035
Investing activities:		
Additions to property, plant and equipment	(261,087)	(414,676)
Additions to intangible assets	(3,511)	(7,048)
Net decrease in short-term bank deposits	308,022	363,685
Additions to financial investments and associates	(44,317)	(181,545)
Acquisition of non-controlling interests and entities under common control	(242)	(44,042)
Proceeds from disposal of property, plant and equipment	12,235	1,261
Proceeds from disposal of financial investments	80,344	184,923
Interest received	34,229	29,924
Dividends received	3,900	-
Cash from investing activities	129,573	(67,518)
Financing activities:		
Proceeds from debt finance	1,022,511	842,142
Repayment of debt finance	(1,475,793)	(670,610)
Repayments under lease obligations	(6,530)	(1,553)
Dividends paid	(111,567)	(103,683)
Cash from financing activities	(571,379)	66,296
Effect of exchange rates on cash and cash equivalents	(89,532)	92,435
Net (decrease)/increase in cash and cash equivalents	(383,382)	791,248
Cash and cash equivalents at beginning of the period	2,653,742	1,622,542
Cash and cash equivalents at end of the period	2,270,360	2,413,790

* These amounts reflect adjustments made in connection with completion of purchase price allocation and acquisitions from Majority Shareholder.

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

OAO Severstal and subsidiaries

Consolidated condensed interim statements of changes in equity Three months ended March 31, 2009 and 2008 (Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal						Non- controlling interests	Total	
	Share capital	Treasury shares	Additional capital	Foreign exchange differences	Retained earnings	Other reserves			Total
Balances at December 31, 2007	3,311,288	-	1,165,530	1,145,499	3,951,116	-	9,573,433	500,353	10,073,786
Dividends (unaudited)	-	-	-	-	-	-	-	(820)	(820)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	(38,251)	-	(38,251)	(8,039)	(46,290)
Total comprehensive income for the period (unaudited)*	-	-	-	419,501	469,802	(21,698)	867,605	39,861	907,466
Balances at March 31, 2008 (unaudited)*	3,311,288	-	1,165,530	1,565,000	4,382,667	(21,698)	10,402,787	531,355	10,934,142
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
Dividends (unaudited)	-	-	-	-	-	-	-	(733)	(733)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	(803)	-	(803)	(556)	(1,359)
Total comprehensive loss for the period (unaudited)	-	-	-	(664,155)	(643,928)	(1,982)	(1,310,065)	(54,199)	(1,364,264)
Balances at March 31, 2009 (unaudited)	3,311,288	(26,303)	1,165,530	(580,343)	3,850,727	16,515	7,737,414	449,920	8,187,334

* These amounts reflect adjustments made in connection with completion of purchase price allocation and acquisitions from Majority Shareholder.

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

OA0 Severstal and subsidiaries

Notes to the consolidated condensed interim financial statements for the three months ended March 31, 2009 and 2008 (Amounts expressed in thousands of US dollars, except as otherwise stated)

1. Accounting policies and estimates

These consolidated condensed interim financial statements of OA0 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.

The accounting policies 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, 2008, except that the Group has adopted those new/revised standards mandatory for financial annual periods beginning on or after January 1, 2009. The changes in accounting policies resulting from adoption of the new or revised standards are discussed below.

Change in accounting policy for capitalization of borrowing costs

As of January 1, 2009, the Group has adopted revised IAS 23 "Borrowing costs" and ceased expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of this standard, the policy has been adopted prospectively. Therefore, borrowing costs have been capitalized on qualifying assets with a commencement date on or after January 1, 2009. Accordingly, the adoption of the new policy has no effect on prior years.

New accounting policy for capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized and amortized over the useful life of the asset. Other borrowing costs are recognized as an expense in the reporting period incurred. Interest is capitalized at a rate based on the Group's weighted average cost of borrowing or at the rate on project specific debt, where applicable.

Change in accounting policy for segment reporting

In 2009, the Group has implemented new IFRS 8 "Operating segments" which requires segment disclosure based on the internal reporting system. The comparative information has been presented as if the implementation was adopted at the beginning of the earliest comparative period presented.

New accounting policy for segment reporting

Group's reportable segments are strategic business units that offer different products and/(or) operate in different geographical regions. They are managed separately because each segment uses specific technology and/(or) exists in specific marketing conditions. Following the requirements of IFRS 8 "Operating segments", the Group has changed the presentation and disclosure of segment information by combining the previously reportable segments: Russian Steel, Metalware and IPM segments in one segment, Russian Steel (Note 9).

The accounting policies of the reportable segments are the same as those used in preparation of the Group's consolidated financial statements.

OAO Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2009 and 2008**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

Change in estimates

In 2009, the management has reviewed and reassessed the useful lives of fixed assets at Russian Steel and Severstal Resource in order to better reflect the economic pattern of consumption of the future economic benefits. The effect of the change in estimate for the three months ended March 31, 2009, is not material.

2. Seasonality

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

3. Sales

Sales by product were as follows:

	Three months ended March 31,	
	2009	2008
	(unaudited)	(unaudited)
Hot-rolled strip and plate	643,447	982,165
Galvanized and other metallic coated sheet	394,971	379,122
Long products	359,327	943,640
Cold-rolled sheet	352,654	387,899
Metalware products	201,266	282,992
Shipping and handling costs billed to customers	131,050	194,477
Large diameter pipes	127,730	160,023
Semifinished products	111,558	298,526
Gold	105,882	44,633
Rails, wheels and axles	73,583	71,116
Coal and coking coal concentrate	51,716	50,391
Color coated sheet	48,637	71,367
Other tubes and pipes, formed shapes	47,202	105,223
Pellets and iron ore	34,433	125,627
Scrap	8,057	59,174
Others	104,817	202,685
	<u>2,796,330</u>	<u>4,359,060</u>

Sales by delivery destination were as follows:

	Three months ended March 31,	
	2009	2008
	(unaudited)	(unaudited)
North America	1,034,850	620,478
Europe	688,131	1,485,730
Russian Federation	657,654	1,867,770
China and Central Asia	211,607	82,559
The Middle East	72,110	136,201
Africa	69,833	9,030
South-East Asia	40,166	132,646
Central & South America	21,979	24,646
	<u>2,796,330</u>	<u>4,359,060</u>

OAO Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2009 and 2008**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

4. Net other operating (expenses)/income

	Three months ended March 31,	
	2009	2008
	(unaudited)	(unaudited)
Gain on termination of a supply contract	-	177,000
Insurance proceeds	-	21,000
Other	(435)	(3,141)
	(435)	194,859

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 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\$21.0 million which amount has been recognized as other operating income.

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.

5. Related party transactions

	Three months ended March 31,	
	2009	2008
	(unaudited)	(unaudited)
Sales and income received from other related parties:		
Sales	46,707	47,332
Interest income	3,314	3,428
	50,021	50,760
Purchases from related parties:		
Purchases from associates:		
Non-capital expenditures	10,631	329
Purchases from joint ventures:		
Non-capital expenditures	10,231	47,413
Purchases from other related parties:		
Non-capital expenditures	34,331	81,571
Capital expenditures	5,951	242
	61,144	129,555

OAO Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2009 and 2008**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

6. Related party balances

	March 31, 2009	December 31, 2008
	(unaudited)	
Joint ventures' balances		
Short-term trade accounts payable	136	5,267
	136	5,267
Other related party balances		
Cash and cash equivalents at related party bank	114,654	322,865
Deposits with related party bank and pension fund	77,784	115,488
	192,438	438,353
Accounts receivable from other related parties:		
Trade accounts receivable	20,632	27,796
Advances paid	1,721	4,812
Other receivables	13,536	31,223
Short-term loans	11,804	2,952
Short-term promissory notes	5,374	18,951
Long-term loans	7,447	19,155
Held-to-maturity securities and deposits	1,269	1,485
	61,783	106,374
Short-term trade accounts payable to other related parties:		
Trade accounts payable	22,825	38,644
Advances received	701	1,353
Short-term payables for acquisition of subsidiaries	-	10,211
Other accounts payable	8,007	16,485
	31,533	66,693
Debt financing includes the following balances with other related parties:		
Short-term debt financing	14,421	32,186
Long-term debt financing	2,196	1,675
	16,617	33,861

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

7. Debt finance

In February 2009, the Group has repaid its US\$325.0 million Eurobonds – 2009, upon the maturity.

OA0 Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2009 and 2008**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

8. Acquisitions and disposals

Acquisitions 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 LLC. SeverCorr is a mini-mill which produces high quality steel for motor-car, construction, pipe and engineering industries.

Acquisitions from third parties

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.

A summary of 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	<u>(2,630)</u>
Net identifiable assets and liabilities acquired	21,586
Minority interest	<u>(1,820)</u>
Severstal's share of net identifiable assets and liabilities acquired	19,766
Consideration paid in financial assets	<u>(17,600)</u>
Negative goodwill	<u><u>2,166</u></u>

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.

Acquisition of non-controlling interests

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

ОАО Severstal and subsidiaries

Notes to the consolidated condensed interim financial statements for the three months ended March 31, 2009 and 2008

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

9. Segmental information

The Group has four reportable segments: Russian Steel, Severstal Resource, Severstal North America and Lucchini.

Russian Steel produces a wide range of products, including hot-rolled sheets, profiles, large-diameter pipes, and cold-rolled coated sheets encompassing special-grade sheets for the automotive industry, hot-rolled plates, metalware and long products on steel production facilities located in the Russian Federation. It sells steel products on domestic Russian market, serving the needs of the Russian automotive, construction, shipbuilding, oil and gas, engineering and other industries, as well as on the international market.

Severstal Resource (former Mining segment) has its extraction facilities in Russia, Kazakhstan, USA, Burkina Faso and Lyberia producing iron ore, coal and gold.

Severstal North America produces high-quality flat-rolled products, including hot-rolled, cold-rolled, electrogalvanized, hot-dip galvanized and tin plated steel, for customers in the automotive, converter, container, pipe and tube, building and construction, service centre and other markets in North America region. Severstal North America's production facilities are located in the USA.

Lucchini comprises several plants and service centers, located in Western Europe, primarily in Italy and France. It produces special and high quality steel and quality and specialty long products. This segment also includes its distribution network companies, which are located primarily in Western Europe.

The following is an analysis of the Group's sales and (loss)/profit before financing and taxation by segment:

	Three months ended March 31,	
	2009	2008
	(unaudited)	(unaudited)
Sales		
Russian Steel	1,157,110	2,442,888
Severstal Resource	364,742	627,250
Severstal North America	972,071	591,308
Lucchini	454,997	1,056,822
Intersegment transactions	(152,590)	(359,208)
	<u>2,796,330</u>	<u>4,359,060</u>
(Loss)/profit before financing and taxation		
Russian Steel	19,317	441,169
Severstal Resource	(22,668)	131,007
Severstal North America	(331,377)	111,280
Lucchini	(79,277)	99,514
Intersegment transactions	699	(7,472)
	<u>(413,306)</u>	<u>775,498</u>

OA O Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2009 and 2008**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

The following is an analysis of the Group's total assets by segment:

	March 31, 2009 (unaudited)	December 31, 2008
Total segment assets		
Russian Steel	12,317,567	14,097,631
Severstal Resource	3,064,506	3,446,692
Severstal North America	5,923,812	6,159,120
Lucchini	3,546,862	4,040,213
Intersegment transactions	<u>(5,267,481)</u>	<u>(5,263,470)</u>
	<u>19,585,266</u>	<u>22,480,186</u>

10. Capital commitments

As of March 31, 2009, the Group had capital commitments of US\$959.7 million (December 31, 2008: US\$1,275.3 million).