

OAO Severstal and subsidiaries

Consolidated interim condensed financial statements
for the nine months ended September 30, 2009 and 2008

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Independent Auditors' Report

Board of Directors

OAO Severstal

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO Severstal (the "Company") and its subsidiaries (the "Group") as at 30 September 2009, and the related consolidated interim condensed statements of income and comprehensive income for the three- and nine-month periods ended 30 September 2009 and 2008, and the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month periods ended 30 September 2009 and 2008, and selected explanatory notes (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed 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 condensed 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 consolidated interim condensed 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 condensed financial information as at 30 September 2009 and for the three- and nine-month periods ended 30 September 2009 and 2008 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to the fact that the consolidated statement of financial position as at 31 December 2008, excluding the adjustments resulting from the completion of purchase price allocations for two subsidiaries, is based on the consolidated statement of financial position in the Group's audited consolidated financial statements as at and for the year ended 31 December 2008. The reason for, and the effects of, the adjustments are described in Note 8. We have audited the adjustments described in Note 8 that were applied to restate the consolidated statement of financial position as at 31 December 2008. In our opinion, such adjustments are appropriate and have been properly applied.

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17 November 2009

OAO Severstal and subsidiaries

Consolidated interim condensed income statements

Nine months ended September 30, 2009 and 2008

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

	Note	Nine months ended September 30,		Three months ended September 30,	
		2009 (unaudited)	2008 (unaudited)*	2009 (unaudited)	2008 (unaudited)*
Sales					
Sales - external		9,047,705	18,213,736	3,475,102	7,589,290
Sales - to related parties	5	87,354	159,637	11,683	65,169
	3	<u>9,135,059</u>	<u>18,373,373</u>	<u>3,486,785</u>	<u>7,654,459</u>
Cost of sales		<u>(8,341,341)</u>	<u>(12,498,472)</u>	<u>(2,922,716)</u>	<u>(5,024,343)</u>
Gross profit		793,718	5,874,901	564,069	2,630,116
General and administrative expenses		(523,151)	(709,709)	(142,158)	(253,496)
Distribution expenses		(619,549)	(919,287)	(237,504)	(315,961)
Other taxes and contributions		(123,723)	(134,437)	(46,410)	(45,137)
Share of associates' income/(loss)		6,471	(2,698)	1,551	(1,579)
Net loss from securities operations		(9,448)	(70,231)	(224)	(72,719)
Loss on disposal of property, plant and equipment		(17,164)	(30,783)	(12,094)	(2,849)
Net other operating (expenses)/income	4	<u>(9,774)</u>	<u>246,863</u>	<u>(7,349)</u>	<u>(8,654)</u>
(Loss)/profit from operations		(502,620)	4,254,619	119,881	1,929,721
Impairment of non-current assets		(74,391)	(397)	(29,590)	3,636
Negative goodwill		-	214,804	-	16,431
Net other non-operating (expenses)/income		<u>(29,889)</u>	<u>253,351</u>	<u>(8,208)</u>	<u>(15,039)</u>
(Loss)/profit before financing and taxation		(606,900)	4,722,377	82,083	1,934,749
Interest income		73,511	107,480	23,367	41,255
Interest expense		(430,026)	(329,896)	(137,910)	(140,843)
Foreign exchange difference		<u>(159,555)</u>	<u>(45,498)</u>	<u>54,679</u>	<u>(53,106)</u>
(Loss)/profit before income tax		(1,122,970)	4,454,463	22,219	1,782,055
Income tax benefit/(expense)		<u>167,348</u>	<u>(1,140,212)</u>	<u>10,944</u>	<u>(486,879)</u>
(Loss)/profit for the period		<u>(955,622)</u>	<u>3,314,251</u>	<u>33,163</u>	<u>1,295,176</u>
Attributable to:					
shareholders of OAO Severstal		(878,054)	3,243,361	66,263	1,276,291
non-controlling interests		<u>(77,568)</u>	<u>70,890</u>	<u>(33,100)</u>	<u>18,885</u>
Weighted average number of shares outstanding during the period (millions of shares)		<u>1,005.2</u>	<u>1,007.7</u>	<u>1,005.2</u>	<u>1,007.7</u>
Basic and diluted (loss)/earnings per share (US dollars)		<u>(0.87)</u>	<u>3.22</u>	<u>0.07</u>	<u>1.27</u>

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

These consolidated interim condensed financial statements were approved by the Board of Directors on November 17, 2009.

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of comprehensive income

Nine months ended September 30, 2009 and 2008

(Amounts expressed in thousands of US dollars)

	Nine months ended September 30,		Three months ended September 30,	
	2009 (unaudited)	2008 (unaudited)*	2009 (unaudited)	2008 (unaudited)*
(Loss)/profit for the period	(955,622)	3,314,251	33,163	1,295,176
Other comprehensive (loss)/income				
Foreign exchange difference	(81,067)	(231,069)	226,635	(710,245)
Changes in fair value of cash flow hedges	(8,202)	6,438	(2,269)	22,395
Revaluation of available-for-sale investments	19,877	-	9,062	-
Amortization of fair value adjustment upon acquisition of subsidiary to previously held interest	(3,087)	(1,465)	(2,477)	(1,465)
Fair value adjustment upon acquisition of subsidiary to previously held interest	-	33,002	-	-
Income tax relating to components of other comprehensive income	(4,410)	(1,299)	(2,089)	(6,025)
Other comprehensive (loss)/income for the period, net of tax	(76,889)	(194,393)	228,862	(695,340)
Total comprehensive (loss)/income for the period	(1,032,511)	3,119,858	262,025	599,836
Attributable to:				
shareholders of OAO Severstal	(975,929)	3,058,006	275,844	619,527
non-controlling interests	(56,582)	61,852	(13,819)	(19,691)

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

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of financial position

September 30, 2009 and December 31, 2008

(Amounts expressed in thousands of US dollars)

	Note	September 30, 2009 (unaudited)	December 31, 2008*
Assets			
Current assets:			
Cash and cash equivalents		2,937,157	2,653,742
Short-term bank deposits		224,310	818,545
Short-term financial investments		62,658	112,782
Trade accounts receivable		1,640,117	1,942,268
Accounts receivable from related parties	6	13,720	63,831
Inventories		2,907,562	4,278,554
VAT recoverable		273,588	360,838
Income tax recoverable		51,540	172,947
Other current assets		289,086	280,082
Assets held for sale		6,123	8,872
Total current assets		8,405,861	10,692,461
Non-current assets:			
Long-term financial investments		98,766	69,982
Investments in associates and joint ventures		129,898	104,142
Property, plant and equipment		9,727,987	9,863,590
Intangible assets		1,314,493	1,455,600
Restricted cash		45,909	21,703
Deferred tax assets		441,510	234,640
Other non-current assets		45,509	41,615
Total non-current assets		11,804,072	11,791,272
Total assets		20,209,933	22,483,733
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		1,206,212	1,526,818
Accounts payable to related parties	6	15,678	71,960
Short-term debt finance	7	1,495,261	1,977,513
Income tax payable		11,089	45,860
Other taxes and social security payable		186,434	210,992
Dividends payable		5,973	128,715
Other current liabilities		644,660	805,623
Total current liabilities		3,565,307	4,767,481
Non-current liabilities:			
Long-term debt finance	7	6,379,455	6,278,004
Deferred tax liabilities		443,725	489,274
Retirement benefit liabilities		768,158	779,296
Other non-current liabilities		560,817	616,792
Total non-current liabilities		8,152,155	8,163,366
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		(17,976)	81,958
Retained earnings		3,617,456	4,496,508
Other reserves		20,556	18,497
Total equity attributable to shareholders of parent		8,070,551	9,047,478
Non-controlling interests		421,920	505,408
Total equity		8,492,471	9,552,886
Total equity and liabilities		20,209,933	22,483,733

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 8).

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of cash flows Nine months ended September 30, 2009 and 2008 (Amounts expressed in thousands of US dollars)

	Nine months ended September 30,	
	2009	2008
	(unaudited)	(unaudited)*
Operating activities:		
(Loss)/profit before financing and taxation	(606,900)	4,722,377
Adjustments to reconcile (loss)/profit to cash generated from operations:		
Depreciation and amortization	692,300	781,553
Impairment of non-current assets	74,391	397
(Reversal of provision)/provision for inventories, receivables and other provisions	(350,427)	133,486
Negative goodwill	-	(214,804)
Loss on disposal of property, plant and equipment	17,164	30,783
Gain on disposal of subsidiaries and associates	-	(316,464)
Loss on remeasurement and disposal of financial investments	9,448	70,231
Share of associates' results less dividends from associates	(6,471)	2,698
Changes in operating assets and liabilities:		
Trade accounts receivable	279,356	(1,124,312)
Amounts receivable from related parties	44,520	(17,315)
VAT recoverable	98,327	(39,794)
Inventories	1,670,140	(1,187,419)
Trade accounts payable	(277,521)	328,329
Amounts payable to related parties	(48,613)	(2,185)
Other taxes and social security payables	(27,454)	134,705
Other non-current liabilities	(71,675)	(46,945)
Assets held for sale	3,469	43,100
Net other changes in operating assets and liabilities	(192,707)	(95,057)
Cash from operations	1,307,347	3,203,364
Interest paid	(440,475)	(230,705)
Income tax paid	(23,462)	(824,785)
Net cash from operating activities	843,410	2,147,874
Investing activities:		
Additions to property, plant and equipment	(696,373)	(1,406,830)
Additions to intangible assets	(27,188)	(57,735)
Net decrease/(increase) in short-term bank deposits	554,127	(244,976)
Additions to financial investments and associates	(188,866)	(776,451)
Acquisitions of non-controlling interests and entities under common control	(23,387)	(123,150)
Net cash outflow on acquisitions of subsidiaries	-	(2,191,470)
Net cash inflow on disposals of subsidiaries	-	670,451
Proceeds from disposal of property, plant and equipment	26,613	32,761
Proceeds from disposal of financial investments	171,020	763,843
Interest received	76,237	106,879
Dividends received	8,629	-
Cash from investing activities	(99,188)	(3,226,678)
Financing activities:		
Proceeds from debt finance	3,435,459	5,059,837
Buy-back of issued shares	-	(9,980)
Repayment of debt finance	(3,786,628)	(2,455,867)
Repayments under lease obligations	(13,692)	(13,576)
Dividends paid	(115,908)	(748,818)
Cash from financing activities	(480,769)	1,831,596
Effect of exchange rates on cash and cash equivalents	19,962	(32,790)
Net increase in cash and cash equivalents	283,415	720,002
Cash and cash equivalents at beginning of the period	2,653,742	1,622,542
Cash and cash equivalents at end of the period	2,937,157	2,342,544

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

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of changes in equity Nine months ended September 30, 2009 and 2008 (Amounts expressed in thousands of US dollars)

	Attributable to 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)	-	-	-	-	(1,126,526)	-	(1,126,526)	(8,118)	(1,134,644)
Repurchase of issued shares (unaudited)	-	(9,980)	-	-	-	-	(9,980)	-	(9,980)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	(85,455)	-	(85,455)	(38,327)	(123,782)
Total comprehensive income for the period (unaudited)*	-	-	-	(221,075)	3,243,361	35,720	3,058,006	61,852	3,119,858
Balances at September 30, 2008 (unaudited)*	3,311,288	(9,980)	1,165,530	924,424	5,982,496	35,720	11,409,478	515,760	11,925,238
Balances at December 31, 2008*	3,311,288	(26,303)	1,165,530	81,958	4,496,508	18,497	9,047,478	505,408	9,552,886
Dividends (unaudited)	-	-	-	-	-	-	-	(3,550)	(3,550)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	(998)	-	(998)	(23,356)	(24,354)
Total comprehensive loss for the period (unaudited)	-	-	-	(99,934)	(878,054)	2,059	(975,929)	(56,582)	(1,032,511)
Balances at September 30, 2009 (unaudited)	3,311,288	(26,303)	1,165,530	(17,976)	3,617,456	20,556	8,070,551	421,920	8,492,471

* These amounts reflect adjustments made in connection with the completion of purchase price allocations and/(or) acquisitions from the Majority Shareholder.

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

OA0 Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements for the nine months ended September 30, 2009 and 2008 (Amounts expressed in thousands of US dollars, except as otherwise stated)

1. Accounting policies and estimates

These consolidated interim condensed financial statements of 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.

The accounting policies applied by the Group in these consolidated interim condensed 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 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.

Change in estimates

In 2009, the management has reviewed and reassessed the useful lives of fixed assets at Russian Steel, Severstal Resource and Lucchini in order to better reflect the economic pattern of consumption of the future economic benefits. The effect of the change in estimate for the nine months ended September 30, 2009, is not material.

OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements
for the nine months ended September 30, 2009 and 2008**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

2. Seasonality

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

3. Sales

Sales by product were as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	2,100,408	4,957,313	845,151	2,325,919
Galvanized and other metallic coated sheet	1,387,016	1,782,675	546,923	803,798
Cold-rolled sheet	1,136,451	1,767,413	423,363	851,712
Long products	921,482	3,289,038	283,892	1,086,305
Metalware products	635,578	1,089,835	218,170	417,156
Large diameter pipes	522,433	789,227	180,204	356,834
Shipping and handling costs billed to customers	437,276	663,524	173,221	228,803
Gold	339,861	113,274	130,140	42,417
Semifinished products	357,583	1,413,529	170,636	659,554
Rails, wheels and axles	182,286	201,724	35,106	52,036
Color coated sheet	222,807	316,908	97,253	130,111
Other tubes and pipes, formed shapes	178,293	417,312	71,352	167,461
Coal and coking coal concentrate	169,944	181,927	72,693	71,224
Pellets and iron ore	141,534	387,696	65,712	115,387
Scrap	38,429	308,597	20,026	77,023
Other	363,678	693,381	152,943	268,719
	<u>9,135,059</u>	<u>18,373,373</u>	<u>3,486,785</u>	<u>7,654,459</u>

Sales by delivery destination were as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
North America	3,132,218	3,955,766	1,126,797	2,272,260
Russian Federation	2,670,357	7,738,079	1,171,237	3,086,425
Europe	1,904,759	5,230,278	617,491	1,771,906
China and Central Asia	626,328	285,158	194,225	81,206
South-East Asia	251,472	323,009	119,328	127,568
The Middle East	311,984	492,676	182,693	160,427
Africa	158,421	79,392	39,277	28,137
Central and South America	79,520	269,015	35,737	126,530
	<u>9,135,059</u>	<u>18,373,373</u>	<u>3,486,785</u>	<u>7,654,459</u>

OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements
for the nine months ended September 30, 2009 and 2008**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

4. Net other operating (expenses)/income

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Gain on termination of a supply contract	-	177,000	-	-
Insurance proceeds	-	109,600	-	32,100
Other	(9,774)	(39,737)	(7,349)	(40,754)
	<u>(9,774)</u>	<u>246,863</u>	<u>(7,349)</u>	<u>(8,654)</u>

In January 2008, an explosion occurred on one of Severstal's Dearborn, Inc. (former Severstal North America, Inc.) furnaces, blast furnace "B". Following the accident, Severstal Dearborn, Inc., ("Dearborn") ceased blast furnace "B" operation. Dearborn 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 September 30, 2008 at US\$109.6 million which amount has been recognized as other operating income.

In February 2008, a long-term electricity supply contract between Severstal Dearborn, Inc. and Dearborn Industrial Generation ("DIG") was terminated with a lump sum payment from DIG to compensate Dearborn for the differential between the contract price and the price Dearborn will have to pay another electricity supplier for the duration of the original contract. This lump sum payment amounted to US\$177 million.

5. Related party transactions

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales and income received from other related parties:				
Sales	87,354	159,637	11,683	65,169
Interest income	11,821	12,647	4,749	4,965
	<u>99,175</u>	<u>172,284</u>	<u>16,432</u>	<u>70,134</u>
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	39,390	587	13,684	-
Purchases from joint ventures:				
Non-capital expenditures	39,207	131,427	17,048	30,273
Purchases from other related parties:				
Non-capital expenditures	44,921	169,073	4,431	46,181
Capital expenditures	15,948	1,269	-	519
	<u>139,466</u>	<u>302,356</u>	<u>35,163</u>	<u>76,973</u>

OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements
for the nine months ended September 30, 2009 and 2008**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

6. Related party balances

	September 30, 2009	December 31, 2008
	(unaudited)	
	<u> </u>	<u> </u>
Joint ventures' balances		
Short-term trade accounts receivable	4,686	6,766
Short-term trade accounts payable	5,965	5,267
	<u> </u>	<u> </u>
Other related party balances		
Cash and cash equivalents at related party bank	428,243	322,865
Deposits with related party bank and pension fund	40,636	115,488
	<u> </u>	<u> </u>
Accounts receivable from other related parties:		
Trade accounts receivable	5,547	21,030
Advances paid	1,806	4,812
Other accounts receivable	1,681	31,223
Short-term loans	33,681	2,952
Short-term promissory notes	5,301	18,951
Long-term loans	20,177	19,155
Held-to-maturity securities and deposits	-	1,485
	<u> </u>	<u> </u>
	<u>68,193</u>	<u>99,608</u>
	<u> </u>	<u> </u>
Short-term trade accounts payable to other related parties:		
Trade accounts payable	8,435	38,644
Advances received	506	1,353
Short-term payables for acquisition of subsidiaries	-	10,211
Other accounts payable	772	16,485
	<u> </u>	<u> </u>
	<u>9,713</u>	<u>66,693</u>
	<u> </u>	<u> </u>
Debt finance includes the following balances with other related parties:		
Short-term debt finance	37,451	32,186
Long-term debt finance	20	1,675
	<u> </u>	<u> </u>
	<u>37,471</u>	<u>33,861</u>
	<u> </u>	<u> </u>

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

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Notes to the consolidated interim condensed financial statements for the nine months ended September 30, 2009 and 2008 (Amounts expressed in thousands of US dollars, except as otherwise stated)

7. Debt finance

In February 2009, the Group has repaid its US\$325 million Eurobonds – 2009, upon the maturity.

In May 2009, the Group obtained a long-term committed credit line with a credit limit of US\$300 million and a three month drawdown period. The facility bears an interest rate of 10.5% per annum with quarterly repayments starting from February 2011. As of September, 30 2009 the amount outstanding under this facility was US\$167.9 million.

In September 2009, the Group issued US\$494 million bonds denominated in rubles maturing in three years with an option for early redemption, exercisable by the bondholders after two years. Bonds bear an interest rate of 14% per annum, which is payable semi-annually in March and September each year. Proceeds from the bonds issuance were used to repay Izhora Pipe Mill's and Trade House Severstal-Invest's working capital loans.

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 Severstal Columbus, LLC (former SeverCorr, LLC). Severstal Columbus is a mini-mill which produces high quality steel for motor-car, construction, pipe and engineering industries.

Acquisitions from third parties during the nine months ended September 30, 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 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.

In May 2008, the Group acquired a 100% stake in Severstal Sparrows Point, LLC ("Sparrows Point"), 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 million. Sparrows Point 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 profit since the acquisition dates included in the Group's profit for the period, as well as loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for the period. 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% 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

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period amounted to US\$41.7 million. 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% stake in Redaelli Tecna SpA for an approximate total consideration of €35 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.

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% 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% 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. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$1,629 million.

In August 2008, the Group acquired a 100% 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.

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A summary of assets and liabilities acquired from third and related parties but excluding acquisitions from the Majority Shareholder during the nine months ended September 30, 2008, is presented below:

	Nine months	Three months
	ended September 30, 2008	
Cash and cash equivalents	93,148	93,201
Trade accounts receivable	551,472	433,489
Inventories	1,320,546	770,813
Deferred tax assets	3,148	2,925
Other current assets	125,038	51,255
Property, plant and equipment	2,304,470	1,593,113
Intangible assets	149,040	78,263
Other non-current assets	32,295	20,777
Trade accounts payable	(542,623)	(292,772)
Debt finance	(398,310)	(398,310)
Retirement benefit liabilities	(410,190)	(360,456)
Deferred tax liabilities	(196,604)	(71,604)
Other current liabilities	(268,029)	(205,671)
Other non-current liabilities	(207,388)	(146,803)
Net identifiable assets and liabilities acquired	2,556,013	1,568,220
Non-controlling interests	(6,265)	(4,445)
Severstal's share of net identifiable assets and liabilities acquired	2,549,748	1,563,775
Investments in Mountain State Carbon at equity	(112,809)	(112,809)
Fair value adjustment upon acquisition of subsidiary to previously held interest	(33,020)	(33,020)
Consideration paid:		
Consideration paid in cash	(2,284,618)	(1,514,618)
Consideration paid in financial assets	(17,600)	-
Positive goodwill on acquisition of subsidiaries	(113,103)	(113,103)
Negative goodwill	214,804	16,431
Net change in cash and cash equivalents	(2,191,470)	(1,421,417)

The amount of US\$197 million was recognized in the income statement as negative goodwill as a result of the difference between the purchase price and the 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.

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Notes to the consolidated interim condensed financial statements for the nine months ended September 30, 2009 and 2008 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Final purchase price allocation

During the nine months ended September 30, 2009, management completed the purchase price allocation of Redaelli Tecna SpA and PBS Coals Ltd, acquired in July and November 2008, respectively. 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, 2008
	US\$, thousand
Property, plant and equipment	(4,715)
Intangible assets	1,114
Deferred tax assets	7,148
Income tax payable	(1,098)
Deferred tax liabilities	(20,053)
Other liabilities	25,502
Foreign exchange differences	(1,854)
Retained earnings	1,050

The comparative information at December 31, 2008, has been adjusted as if the accounting for the business combination had been completed at the acquisition date.

Acquisitions 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 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.

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

In August 2008, the Group acquired an additional 4.1% stake in Columbus from the former management for a total consideration of US\$16 million.

In August - September 2008, the Group acquired a 0.38%, a 2.83% and 0.89% stake in OAO Karelsky Okatysh, OAO Olkon and in OAO Vorkutaugol for a total consideration of US\$4.7 million, US\$12 million and US\$5.3 million, respectively.

In June 2009, the Group acquired all newly issued shares in High River Gold Mines, Ltd. resulting in a 3.5% stake increase. Furthermore, in August 2009, the Group acquired an additional 4.5% stake in High River Gold Mines, Ltd. from non-controlling shareholders for a total consideration of US\$8 million.

In June 2009, the Group completed the acquisition of a 100% stake in Columbus by acquiring the remaining 8.2% stake in the company from the former management for a total consideration of US\$14.9 million.

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Notes to the consolidated interim condensed financial statements for the nine months ended September 30, 2009 and 2008 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Disposals of subsidiaries during the nine months ended September 30, 2008

In April 2008, the Group sold its 97.9%, 99.5% 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 June 2008, the Group sold its 100% and 40% participation in Relco Spzoo and Coimpex Spzoo respectively for a total consideration of US\$18 million.

A summary of assets and liabilities disposed of during the nine months ended September 30, 2008 is presented below:

	<u>Nine months</u>	<u>Three months</u>
	<u>ended September</u>	<u>September 30, 2008</u>
Assets held for sale	(443,021)	-
Liabilities held for sale	88,942	-
Net identifiable assets	(354,079)	-
Non-controlling interests	92	-
Sub-total	(353,987)	-
Consideration in cash	670,451	-
Net gain on disposal	316,464	-
Net change in cash and cash equivalents	670,451	-

9. Segment 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 the 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. 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.

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

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales				
Russian Steel	4,224,735	10,293,563	1,727,951	4,037,072
Severstal Resource	1,249,614	2,017,249	469,891	708,717
Severstal North America	2,964,532	3,966,373	1,080,784	2,312,489
Lucchini	1,224,446	3,322,925	383,076	1,042,120
Intersegment transactions	(528,268)	(1,226,737)	(174,917)	(445,939)
	<u>9,135,059</u>	<u>18,373,373</u>	<u>3,486,785</u>	<u>7,654,459</u>
(Loss)/profit before financing and taxation				
Russian Steel	547,659	2,960,317	360,667	1,441,138
Severstal Resource	(40,474)	936,485	(21,641)	244,951
Severstal North America	(767,108)	532,968	(135,959)	181,564
Lucchini	(344,762)	307,379	(127,609)	59,533
Intersegment transactions	(2,215)	(14,772)	6,625	7,563
	<u>(606,900)</u>	<u>4,722,377</u>	<u>82,083</u>	<u>1,934,749</u>

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

	September 30, 2009	December 31, 2008
	(unaudited)	
Total segment assets		
Russian Steel	13,988,560	14,099,191
Severstal Resource	3,255,161	3,448,679
Severstal North America	5,476,720	6,159,120
Lucchini	3,404,794	4,040,213
Intersegment balances	(5,915,302)	(5,263,470)
	<u>20,209,933</u>	<u>22,483,733</u>

10. Dividends

On June 27, 2008, the Meeting of Shareholders approved the annual dividend of 4 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 June 15, 2009, the Meeting of Shareholders approved the decision not to pay the annual dividend in respect of 2008.

11. Capital commitments

As of September 30, 2009, the Group had capital commitments of US\$1,190 million (December 31, 2008: US\$1,275.3 million).