

# **OAO Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the six months ended June 30, 2010 and 2009

# OAO Severstal and subsidiaries

## Consolidated interim condensed financial statements for the six months ended June 30, 2010 and 2009

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## **Independent Auditors' Report**

To the 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 June 2010, the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and six-month periods ended 30 June 2010 and 2009, and the related consolidated interim condensed statements of changes in equity and cash flows for the six-month periods ended 30 June 2010 and 2009, 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 June 2010, and for the three- and six-month periods ended 30 June 2010 and 2009 is not prepared, in all material aspects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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2 September 2010

# OAO Severstal and subsidiaries

## Consolidated interim condensed income statements

**Six months ended June 30, 2010 and 2009**

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

	Note	Six months ended June 30,		Three months ended June 30,	
		2010 (unaudited)	2009 (unaudited)*	2010 (unaudited)	2009 (unaudited)*
<b>Sales</b>					
Sales - external		7,291,728	4,733,992	4,196,166	2,438,063
Sales - to related parties	5	95,431	75,671	49,220	28,964
	4	<u>7,387,159</u>	<u>4,809,663</u>	<u>4,245,386</u>	<u>2,467,027</u>
Cost of sales		<u>(5,394,049)</u>	<u>(4,480,139)</u>	<u>(2,953,119)</u>	<u>(2,199,125)</u>
<b>Gross profit</b>		1,993,110	329,524	1,292,267	267,902
General and administrative expenses		(338,460)	(316,788)	(169,401)	(150,537)
Distribution expenses		(464,235)	(348,920)	(268,351)	(180,366)
Other taxes and contributions		(81,654)	(68,555)	(42,958)	(35,982)
Share of associates' income		12,509	5,167	10,424	1,408
Loss from securities operations		(60,136)	(6,098)	(56,622)	(405)
Loss on disposal of property, plant and equipment and intangible assets		(30,059)	(7,415)	(31,248)	(5,004)
Net other operating expenses		<u>(5,331)</u>	<u>(12,845)</u>	<u>(6,024)</u>	<u>(2,406)</u>
<b>Profit/(loss) from operations</b>		1,025,744	(425,930)	728,087	(105,390)
(Impairment)/reversal of impairment of non-current assets		(60,626)	(26,524)	3,094	229
Net other non-operating expenses		<u>(19,404)</u>	<u>(21,681)</u>	<u>(9,162)</u>	<u>(10,585)</u>
<b>Profit/(loss) before financing and taxation</b>		945,714	(474,135)	722,019	(115,746)
Interest income		62,725	43,781	28,387	19,707
Interest expense		(323,875)	(258,908)	(128,786)	(122,329)
Foreign exchange difference		<u>(29,622)</u>	<u>(215,058)</u>	<u>(149,523)</u>	<u>164,128</u>
<b>Profit/(loss) before income tax</b>		654,942	(904,320)	472,097	(54,240)
Income tax (expense)/benefit		<u>(184,590)</u>	<u>101,675</u>	<u>(78,675)</u>	<u>(121,957)</u>
<b>Profit/(loss) from continuing operations</b>		470,352	(802,645)	393,422	(176,197)
Loss from discontinued operation	3	<u>(1,036,929)</u>	<u>(187,403)</u>	<u>(182,145)</u>	<u>(127,303)</u>
<b>(Loss)/profit for the period</b>		<u>(566,577)</u>	<u>(990,048)</u>	<u>211,277</u>	<u>(303,500)</u>
Attributable to:					
shareholders of OAO Severstal		(592,593)	(945,580)	192,759	(289,742)
non-controlling interests		<u>26,016</u>	<u>(44,468)</u>	<u>18,518</u>	<u>(13,758)</u>
Weighted average number of shares outstanding during the period (millions of shares)		<u>1,005.2</u>	<u>1,005.2</u>	<u>1,005.2</u>	<u>1,005.2</u>
Basic and diluted (loss)/profit per share (US dollars)		(0.59)	(0.94)	0.19	(0.29)
Basic and diluted profit/(loss) per share - continuing operations (US dollars)		<u>0.44</u>	<u>(0.75)</u>	<u>0.37</u>	<u>(0.16)</u>

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations and the presentation of the discontinued operation

These consolidated interim condensed financial statements were approved by the Board of Directors on September 2, 2010.

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

**Six months ended June 30, 2010 and 2009**

*(Amounts expressed in thousands of US dollars)*

	<b>Six months ended June 30,</b>		<b>Three months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(unaudited)</b>	<b>(unaudited)*</b>	<b>(unaudited)</b>	<b>(unaudited)*</b>
<b>(Loss)/profit for the period</b>	(566,577)	(990,048)	211,277	(303,500)
<b>Other comprehensive (loss)/income</b>				
Foreign exchange difference	(337,197)	(305,867)	(382,560)	383,675
Changes in fair value of cash flow hedges	(5,770)	(5,933)	(1,133)	1,155
Deferred tax on changes in fair value of cash flow hedges	1,776	1,347	-	(1,364)
Changes in fair value of available-for-sale investments	14,854	10,815	12,580	(1,154)
Deferred tax on changes in fair value of available-for-sale investments	(3,740)	(3,668)	(3,798)	79
<b>Other comprehensive (loss)/ income for the period, net of tax</b>	(330,077)	(303,306)	(374,911)	382,391
<b>Total comprehensive (loss)/ income for the period</b>	(896,654)	(1,293,354)	(163,634)	78,891
Attributable to:				
shareholders of OAO Severstal	(915,448)	(1,248,359)	(172,125)	69,687
non-controlling interests	18,794	(44,995)	8,491	9,204

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations

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

**June 30, 2010 and December 31, 2009**

*(Amounts expressed in thousands of US dollars)*

	<u>Note</u>	<u>June 30, 2010</u> <u>(unaudited)</u>	<u>December 31, 2009</u>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		1,839,842	2,853,376
Short-term bank deposits		165,010	95,533
Short-term financial investments		205,561	73,129
Trade accounts receivable		1,462,759	1,457,651
Accounts receivable from related parties	6	20,183	26,716
Inventories		2,688,214	2,974,227
VAT recoverable		240,557	288,032
Income tax recoverable		88,469	106,019
Other current assets		310,710	285,453
Assets held for sale	3	1,885,332	24,415
<b>Total current assets</b>		<u>8,906,637</u>	<u>8,184,551</u>
<b>Non-current assets:</b>			
Long-term financial investments		155,112	128,616
Investments in associates and joint ventures		252,947	143,857
Property, plant and equipment		7,924,955	9,485,480
Intangible assets		1,248,614	1,369,204
Restricted cash		50,709	17,541
Deferred tax assets		149,078	239,835
Other non-current assets		82,882	74,802
<b>Total non-current assets</b>		<u>9,864,297</u>	<u>11,459,335</u>
<b>Total assets</b>		<u>18,770,934</u>	<u>19,643,886</u>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Trade accounts payable		1,105,357	1,378,300
Accounts payable to related parties	6	17,623	16,656
Short-term debt finance	7	988,882	1,478,301
Income tax payable		35,362	34,150
Other taxes and social security payable		161,243	209,084
Dividends payable		5,446	5,704
Other current liabilities		570,545	693,844
Liabilities related to assets held for sale	3	1,860,291	11,979
<b>Total current liabilities</b>		<u>4,744,749</u>	<u>3,828,018</u>
<b>Non-current liabilities:</b>			
Long-term debt finance	7	5,302,879	5,748,559
Deferred tax liabilities		370,398	394,990
Retirement benefit liabilities		653,503	787,714
Other non-current liabilities		444,891	508,266
<b>Total non-current liabilities</b>		<u>6,771,671</u>	<u>7,439,529</u>
<b>Equity:</b>			
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		(382,453)	(52,478)
Retained earnings		2,915,271	3,436,270
Other reserves		50,720	43,600
<b>Total equity attributable to shareholders of OAO Severstal</b>		<u>7,034,053</u>	<u>7,877,907</u>
<b>Non-controlling interests</b>		<u>220,461</u>	<u>498,432</u>
<b>Total equity</b>		<u>7,254,514</u>	<u>8,376,339</u>
<b>Total equity and liabilities</b>		<u>18,770,934</u>	<u>19,643,886</u>

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

**Six months ended June 30, 2010 and 2009**

*(Amounts expressed in thousands of US dollars)*

	Six months ended June 30,	
	2010	2009
	(unaudited)	(unaudited)*
<b>Operating activities:</b>		
Profit/(loss) before financing and taxation	945,714	(474,135)
Adjustments to reconcile profit/(loss) to cash generated from operations:		
Depreciation and amortization	391,655	388,158
Impairment of non-current assets	60,626	26,524
Movements in provision for inventories, receivables and other provisions	(15,542)	(185,180)
Loss on disposal of property, plant and equipment and intangible assets	30,059	7,415
Loss on remeasurement and disposal of financial investments	60,136	6,098
Share of associates' results less dividends from associates	(12,509)	(5,167)
Changes in operating assets and liabilities:		
Trade accounts receivable	(517,909)	134,620
Amounts receivable from related parties	(48,420)	46,000
VAT recoverable	(20,357)	(4,452)
Inventories	(444,074)	1,067,000
Trade accounts payable	187,034	(194,698)
Amounts payable to related parties	45,044	(49,905)
Other taxes and social security payables	30,484	(2,990)
Other non-current liabilities	(31,587)	(41,044)
Assets held for sale	(8,826)	(6,641)
Net other changes in operating assets and liabilities	(69,326)	(166,900)
<b>Cash from operating activities - continuing operations</b>	<b>582,202</b>	<b>544,703</b>
Interest paid	(230,430)	(256,318)
Income tax paid	(167,404)	(9,399)
Net cash from operating activities - continuing operations	184,368	278,986
Net cash (used in)/from operating activities - discontinued operation	(52,101)	75,683
<b>Net cash from operating activities</b>	<b>132,267</b>	<b>354,669</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(472,689)	(394,229)
Additions to intangible assets	(29,995)	(6,596)
Net (increase)/decrease in short-term bank deposits	(125,310)	376,282
Additions to financial investments and associates	(520,446)	(128,024)
Acquisitions of non-controlling interests	(220,622)	(15,112)
Net cash outflow on acquisitions of subsidiaries	(4,029)	-
Net cash inflow on disposals of subsidiaries	118,647	-
Proceeds from disposal of property, plant and equipment	2,696	12,602
Proceeds from disposal of financial investments	243,085	139,713
Interest received	53,511	45,642
Dividends received	-	5,821
Cash (used in)/from investing activities - continuing operations	(955,152)	36,099
Cash used in investing activities - discontinued operation	(57,004)	(61,696)
<b>Cash used in investing activities</b>	<b>(1,012,156)</b>	<b>(25,597)</b>
<b>Financing activities:</b>		
Proceeds from debt finance	2,507,903	1,956,796
Repayment of debt finance	(2,183,353)	(2,448,854)
Repayments under lease obligations	(2,906)	(8,901)
Dividends paid	-	(115,619)
Cash from/(used in) financing activities - continuing operations	321,644	(616,578)
Cash used in financing activities - discontinued operation	(49,050)	(111,171)
<b>Cash from/(used in) financing activities</b>	<b>272,594</b>	<b>(727,749)</b>
Effect of exchange rates on cash and cash equivalents	(143,619)	(7,893)
<b>Net decrease in cash and cash equivalents</b>	<b>(750,914)</b>	<b>(406,570)</b>
Less cash and cash equivalents of discontinued operation and assets held for sale at end of the period	(262,620)	-
<b>Cash and cash equivalents at beginning of the period</b>	<b>2,853,376</b>	<b>2,653,742</b>
<b>Cash and cash equivalents at end of the period</b>	<b>1,839,842</b>	<b>2,247,172</b>

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations and the presentation of the discontinued operation

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

**Six months ended June 30, 2010 and 2009**

*(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, 2008	3,311,288	(26,303)	1,165,530	84,987	4,488,396	27,601	9,051,499	501,117	9,552,616
Loss for the period (unaudited)*	-	-	-	-	(945,580)	-	(945,580)	(44,468)	(990,048)
Foreign exchange difference (unaudited)*	-	-	-	(302,546)	-	-	(302,546)	(3,321)	(305,867)
Changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	(5,162)	(5,162)	(771)	(5,933)
Deferred tax on changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	1,172	1,172	175	1,347
Changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	5,685	5,685	5,130	10,815
Deferred tax on changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	(1,928)	(1,928)	(1,740)	(3,668)
Total comprehensive loss for the period (unaudited)*	-	-	-	-	-	-	(1,248,359)	(44,995)	(1,293,354)
Dividends (unaudited)	-	-	-	-	-	-	-	(3,552)	(3,552)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	(6,050)	-	(6,050)	(10,047)	(16,097)
Balances at June 30, 2009 (unaudited)*	3,311,288	(26,303)	1,165,530	(217,559)	3,536,766	27,368	7,797,090	442,523	8,239,613
Balances at December 31, 2009	3,311,288	(26,303)	1,165,530	(52,478)	3,436,270	43,600	7,877,907	498,432	8,376,339
(Loss)/profit for the period (unaudited)	-	-	-	-	(592,593)	-	(592,593)	26,016	(566,577)
Foreign exchange difference (unaudited)	-	-	-	(329,975)	-	-	(329,975)	(7,222)	(337,197)
Changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	(5,770)	(5,770)	-	(5,770)
Deferred tax on changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	1,776	1,776	-	1,776
Changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	14,854	14,854	-	14,854
Deferred tax on changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	(3,740)	(3,740)	-	(3,740)
Total comprehensive loss for the period (unaudited)	-	-	-	-	-	-	(915,448)	18,794	(896,654)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	71,594	-	71,594	(296,765)	(225,171)
Balances at June 30, 2010 (unaudited)	3,311,288	(26,303)	1,165,530	(382,453)	2,915,271	50,720	7,034,053	220,461	7,254,514

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations

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



# OAo Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements

Six months ended June 30, 2010 and 2009

(Amounts expressed in thousands of US dollars)

### 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, 2009, except that the Group has adopted those new/revised standards mandatory for financial annual periods beginning on January 1, 2010. The adoption of the pronouncements did not have a significant impact on the Group's consolidated interim condensed financial statements except for those discussed below.

#### *Change in accounting policy for business combinations*

The Group has adopted revised IFRS 3 *Business Combinations* and amended IAS 27 *Consolidated and Separate Financial Statements*, which became effective as at 1 January 2010.

Revised IFRS 3 and amended IAS 27 incorporate the following changes that are relevant to the Group's operations:

- The definition of a business has been broadened, which results in more acquisitions being treated as business combinations.
- Transaction costs, other than share and debt issue costs, are expensed as incurred.
- Total comprehensive income/loss is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Revised IFRS 3 and amended IAS 27 have been applied prospectively and therefore there is no impact on prior periods in the Group's 2010 consolidated financial statements.

#### *Change in presentation of the statement of changes in equity*

The Group applied amended IAS 1 *Presentation of Financial Statements*, which became effective as at 1 January 2010. The amended standard requires presentation in the statement of changes in equity of a reconciliation, for each component of equity, between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from profit or loss, each item of other comprehensive income and transactions with owners. The amendment was applied retrospectively by re-presenting the comparative information.

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended June 30, 2010 and 2009 (Amounts expressed in thousands of US dollars)

#### 2. Seasonality

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

#### 3. Discontinued operation and assets held for sale

The Group's discontinued operation represents the Lucchini segment which is classified as held for sale as at June 30, 2010.

The results of the discontinued operation were as follows:

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Revenue	1,235,208	838,611	657,772	384,917
Expenses	(1,254,256)	(1,082,634)	(620,062)	(541,348)
Loss on remeasurement of the Lucchini disposal group to fair value less costs to sell	(1,010,280)	-	(207,945)	-
<b>Loss before income tax</b>	<b>(1,029,328)</b>	<b>(244,023)</b>	<b>(170,235)</b>	<b>(156,431)</b>
Income tax (expense)/benefit	(7,601)	56,620	(11,910)	29,129
<b>Loss for the period</b>	<b>(1,036,929)</b>	<b>(187,403)</b>	<b>(182,145)</b>	<b>(127,303)</b>
Attributable to:				
shareholders of OAO Severstal	(1,036,929)	(149,548)	(182,145)	(101,588)
non-controlling interests	-	(37,855)	-	(25,715)

Furthermore, there was a cumulative net loss of US\$ 46.6 million recognized in other comprehensive income as at June 30, 2010 in relation to foreign exchange differences and changes in cash flow hedges for the Lucchini segment.

The Lucchini segment was classified as held for sale as at March 31, 2010 and measured at fair value less costs to sell as at that date. As at June 30, 2010 management reassessed the fair value less costs to sell of the Lucchini segment and recognized an additional loss of US\$ 207.9 million.

The fair value less costs to sell was measured using a combination of valuation techniques. The valuation is sensitive to changes in certain assumptions, including Lucchini's forecast operating results, the market prices of equity instruments of Lucchini's peer group, as well as other inputs related to current and future market conditions.

The losses were allocated to property, plant and equipment and intangible assets on a pro-rata basis.

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements

**Six months ended June 30, 2010 and 2009**

*(Amounts expressed in thousands of US dollars)*

The Group's assets held for sale as at June 30, 2010 primarily consisted of the Lucchini segment.

The major classes of assets and liabilities of the disposal group at June 30, 2010 and December 31, 2009 were as follows:

	<b>June 30, 2010</b>	<b>December 31,</b>
	<b>(unaudited)</b>	<b>2009</b>
<b>Current assets:</b>		
Cash and cash equivalents	262,620	1,267
Short-term financial investments	1,484	-
Trade accounts receivable	571,244	5,868
Inventories	642,379	1,617
VAT recoverable	29,152	263
Income tax recoverable	3,146	-
Other current assets	17,618	1,627
<b>Total current assets</b>	<b>1,527,643</b>	<b>10,642</b>
<b>Non-current assets:</b>		
Long-term financial investments	9,157	-
Investments in associates	900	-
Property, plant and equipment	282,586	13,773
Intangible assets	7,708	-
Deferred tax assets	54,322	-
Other non-current assets	3,016	-
<b>Total non-current assets</b>	<b>357,689</b>	<b>13,773</b>
<b>Total assets</b>	<b>1,885,332</b>	<b>24,415</b>
<b>Current liabilities:</b>		
Trade accounts payable	595,764	2,870
Short-term debt finance	763,261	-
Income tax payable	4,911	-
Other taxes and social security payable	55,028	111
Other current liabilities	89,542	8,360
<b>Total current liabilities</b>	<b>1,508,506</b>	<b>11,341</b>
<b>Non-current liabilities:</b>		
Long-term debt finance	187,415	-
Deferred tax liabilities	926	-
Retirement benefit liabilities	107,648	-
Other non-current liabilities	55,796	638
<b>Total non-current liabilities</b>	<b>351,785</b>	<b>638</b>
<b>Total liabilities</b>	<b>1,860,291</b>	<b>11,979</b>

# OA0 Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended June 30, 2010 and 2009 (Amounts expressed in thousands of US dollars)

### 4. Sales

Sales by product were as follows:

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Hot-rolled strip and plate	2,247,447	1,255,257	1,259,677	611,810
Galvanized and other metallic coated sheet	1,133,791	840,093	604,848	445,122
Cold-rolled sheet	1,107,810	713,088	624,485	360,434
Large diameter pipes	466,851	342,229	263,946	214,499
Metalware products	456,161	393,157	262,876	202,353
Shipping and handling costs billed to customers	330,205	236,857	192,066	120,316
Coal and coking coal concentrate	301,798	97,251	180,785	45,535
Gold	298,415	209,721	164,038	103,839
Long products	193,832	155,594	131,243	59,690
Semifinished products	185,289	96,480	162,476	38,580
Other tubes and pipes, formed shapes	158,259	106,941	92,343	59,739
Color coated sheet	144,160	125,554	93,053	76,917
Pellets and iron ore	122,489	75,822	76,209	41,389
Scrap	46,637	18,403	33,801	10,346
Other	194,015	143,216	103,540	76,458
	<u>7,387,159</u>	<u>4,809,663</u>	<u>4,245,386</u>	<u>2,467,027</u>

Sales by delivery destination were as follows:

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Russian Federation	2,764,669	1,499,119	1,553,533	841,465
North America	2,748,663	1,940,244	1,538,282	935,103
Europe	1,121,656	645,233	667,672	300,409
Central and South America	268,056	41,483	187,504	20,631
The Middle East	189,914	78,581	121,256	42,458
China and Central Asia	169,089	426,661	86,465	216,871
South-East Asia	84,284	125,880	77,862	90,469
Africa	40,828	52,462	12,812	19,621
	<u>7,387,159</u>	<u>4,809,663</u>	<u>4,245,386</u>	<u>2,467,027</u>

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements

**Six months ended June 30, 2010 and 2009**

*(Amounts expressed in thousands of US dollars)*

#### 5. Related party transactions

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Sales to related parties:				
Sales to associates	14,626	1,518	6,996	578
Sales to joint ventures	64,531	50,217	36,328	19,449
Sales to other related parties	16,274	23,936	5,896	8,937
Interest income	10,458	7,072	4,760	3,758
	105,889	82,743	53,980	32,722
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	30,309	25,706	14,509	15,075
Purchases from joint ventures:				
Non-capital expenditures	45,030	22,159	37,451	11,928
Purchases from other related parties:				
Non-capital expenditures	17,084	40,490	4,804	6,159
Capital expenditures	3,005	15,948	144	9,997
	95,428	104,303	56,908	43,159

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements

**Six months ended June 30, 2010 and 2009**

*(Amounts expressed in thousands of US dollars)*

#### 6. Related party balances

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(unaudited)</b>	
<b>Joint ventures' balances</b>		
Short-term trade accounts receivable	9,472	-
Short-term trade accounts payable	8,211	6,136
Long-term loans	21,214	-
<b>Associates' balances</b>		
Short-term trade accounts receivable	2,403	-
Short-term trade accounts payable	5,465	-
Long-term loans	9,375	21,804
<b>Other related party balances</b>		
Cash and cash equivalents at related party bank and pension fund	321,066	335,539
Short-term deposits with related party bank and pension fund	18,635	26,803
Accounts receivable from other related parties:		
Trade accounts receivable	2,219	12,560
Advances paid	3,900	10,606
Other accounts receivable	2,189	3,550
Short-term loans	4,377	12,697
Short-term promissory notes	3,101	4,940
Long-term loans	-	3,563
Available-for-sale securities	8,019	-
	23,805	47,916
Short-term trade accounts payable to other related parties:		
Trade accounts payable	2,119	8,572
Other accounts payable	1,828	1,948
	3,947	10,520
Debt finance includes the following balances with other related parties:		
Short-term debt finance	5,717	1,344
	5,717	1,344

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

# OA0 Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements

Six months ended June 30, 2010 and 2009

(Amounts expressed in thousands of US dollars)

### 7. Debt finance

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

In February 2010, the Group issued US\$ 525 million bonds denominated in US dollars maturing in 2018. These bonds bear an interest rate of 10.25% per annum, which is payable semi-annually in February and August each year, beginning in August 2010. The proceeds from the bonds issuance were used to refinance outstanding debt obligations originally incurred to finance construction at Severstal Columbus LLC.

In February 2010, the Group issued US\$ 498 million bonds denominated in Russian rubles maturing in 2013. These bonds bear an interest rate of 9.75% per annum, which is payable semi-annually in February and August each year, beginning in August 2010. The proceeds from the bonds issuance are used for optimization of the credit portfolio and refinancing of short-term loan facilities.

### 8. Acquisitions and disposals

#### *Acquisitions of non-controlling interests*

In June 2009, the Group acquired all newly issued shares in High River Gold Mines Ltd., resulting in a 3.5% stake increase up to 57.3%.

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.

In March 2010, the Group acquired a 20.2% stake in Lucchini S.p.A. from a Lucchini family company for a total consideration of € 82.5 million (US\$ 113.3 million at the transaction date exchange rate). After the acquisition, the Group's share in the capital of Lucchini S.p.A. became 100%.

In May 2010, the Group acquired an additional 18.8% stake in High River Gold Mines, Ltd. for a total consideration of US\$ 107.3 million, increasing its ownership interest up to 68.9%.

#### *Investments in associates and other equity investments*

In February 2010, the Group acquired a 26.6% stake in Crew Gold Corporation for a total consideration of US\$ 90.3 million. Crew Gold Corporation is a mining company based in London, UK. CGC owns and operates a gold mining project in Guinea, West Africa.

In May 2010, the Group acquired a 16.5% stake in Core Mining Limited ("CML") for a total consideration of US\$ 15 million. CML is a private company registered in the Isle of Man focused on the exploration, development and operation of iron ore projects in Central and Western Africa, mainly in Republic of Congo (Brazzaville) and Republic of Gabon.

#### *Transaction with Majority Shareholder*

In June 2010, the Group sold a 50.8% stake in Lucchini S.p.A. for a total consideration of € 1 (US\$ 1.2 at the transaction date exchange rate). The Group continues to consolidate the Lucchini segment primarily due to a call option exercisable within the following five years and a contractual entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party.

# OA0 Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements

Six months ended June 30, 2010 and 2009

(Amounts expressed in thousands of US dollars)

At the transaction date the Lucchini segment's net assets were assessed at fair value less costs to sell as disclosed in Note 3.

### Disposal of subsidiaries

In May 2010, the Group sold Northern Steel Group, a group of companies within the Severstal North America segment, for a total consideration of US\$ 124.0 million.

A summary of assets and liabilities disposed during the six months ended June 30, 2010 is presented below:

	<u>Six months ended June 30, 2010</u>
Assets held for sale	(158,936)
Liabilities held for sale	40,289
Net identifiable assets	<u>(118,647)</u>
Non-controlling interests	<u>-</u>
Sub-total	(118,647)
Consideration in cash	<u>118,647</u>
Net gain on disposal	<u><u>-</u></u>
Net change in cash and cash equivalents	<u><u>118,647</u></u>

## 9. Segment information

The Group has four reportable segments: Severstal Resource, Russian Steel, Severstal North America and Lucchini (discontinued, see Note 3).

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

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 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.



## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended June 30, 2010 and 2009 (Amounts expressed in thousands of US dollars)

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

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
<b>Sales</b>				
Severstal Resource	1,463,687	779,723	869,328	414,981
Russian Steel	4,078,827	2,496,784	2,414,805	1,339,674
Severstal North America	2,616,320	1,883,748	1,446,559	911,677
Intersegment transactions	(771,675)	(350,592)	(485,306)	(199,305)
	<u>7,387,159</u>	<u>4,809,663</u>	<u>4,245,386</u>	<u>2,467,027</u>
<b>Profit/(loss) before financing and taxation</b>				
Severstal Resource	432,028	(21,139)	324,661	22,315
Russian Steel	761,190	186,992	437,956	167,774
Severstal North America	(187,296)	(631,149)	10,514	(299,772)
Intersegment transactions	(60,208)	(8,839)	(51,112)	(6,063)
	<u>945,714</u>	<u>(474,135)</u>	<u>722,019</u>	<u>(115,746)</u>

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

	June 30, 2010 (unaudited)	December 31, 2009
<b>Total segment assets</b>		
Severstal Resource	3,704,349	3,305,156
Russian Steel	14,968,167	14,206,573
Severstal North America	5,367,143	5,249,649
Lucchini (discontinued)	2,860,423	3,185,267
Intersegment balances	(8,129,148)	(6,302,759)
	<u>18,770,934</u>	<u>19,643,886</u>

#### 10. Capital commitments

As of June 30, 2010 the Group had capital commitments of US\$ 1,467 million (December 31, 2009: US\$ 1,142 million).

#### 11. Subsequent events

During July 2010, the Group acquired an additional 23.6% stake in Crew Gold Corporation for a total consideration of US\$ 155.4 million, increasing its ownership interest up to 50.2%.

In August 2010, the Group acquired an additional stake in High River Gold Mines Ltd. upon exercise of warrants held by the Group for a total consideration of US\$ 25.1 million, increasing its ownership interest up to 70.4%.