SEVERSTAL

Consolidated interim financial statements
for the six months ended June 30, 2006

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Contents

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Independent Accountants' Review Report

The Board of Directors
OAO Severstal

We have reviewed the accompanying consolidated interim balance sheet of OAO Severstal (the "Company") and its subsidiaries (the "Group") as at 30 June 2006 and the related consolidated interim statements of income, changes in equity and cash flows for the six-month periods ended 30 June 2006 and 2005. These consolidated interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

We conducted our reviews in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2006, and the results of its operations and its cash flows for the six-month periods ended 30 June 2006 and 2005 in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

KPMG Limited.

KPMG Limited
29 August 2006

Severstal

Consolidated interim balance sheet
June 30, 2006
(Amounts expressed in thousands of US dollars)

	Note	June 30, 2006 (unaudited)	December 31, 2005
Assets			
Current assets:			
Cash and cash equivalents	11	939,868	941,609
Short-term bank deposits	12	338,632	674,512
Short-term financial investments	13	567,227	262,440
Trade accounts receivable	14	627,646	497,275
Amounts receivable from related parties	15	190,245	176,807
Inventories	16	1,243,688	1,089,967
VAT receivable		404,509	390,121
Income tax receivable		6,595	17,064
Other current assets	17	205,250	157,571
Total current assets		4,523,660	4,207,366
Non-current assets:			
Amounts receivable from related parties	15	-	22,026
Long-term financial investments	18	992,683	653,150
Investment in associates	19	338,377	208,317
Property, plant and equipment	20	8,138,683	7,464,629
Intangible and other assets		43,404	37,250
Total non-current assets		9,513,147	8,385,372
Total assets		14,036,807	12,592,738
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		431,614	369,765
Bank customer accounts	21	22,731	98,867
Amounts payable to related parties	22	399,559	264,943
Income taxes payable		68,601	45,284
Other taxes and social security payable		129,180	150,198
Short-term debt finance	23	406,351	344,170
Dividends payable		17,158	12,275
Other current liabilities	24	308,747	241,371
Total current liabilities		1,783,941	1,526,873
Non-current liabilities:			
Long-term debt finance	23	1,508,760	1,441,304
Deferred tax liabilities	10	1,149,416	1,111,597
Other non-current liabilities	25	446,516	411,474
Total non-current liabilities		3,104,692	2,964,375
Equity:			
Share capital	26	3,311,259	3,311,254
Additional capital		222,541	60,367
Revaluation reserve		2,901,272	3,093,608
Foreign exchange differences		505,493	24,877
Unrealized gains on available-for-sale investments		77,421	14,124
Accumulated earnings		1,918,842	1,396,834
Total equity attributable to shareholders of parent		8,936,828	7,901,064
Minority interest		211,346	200,426
Total equity		9,148,174	8,101,490
Total equity and liabilities		14,036,807	12,592,738

These consolidated interim financial statements were approved by the Board of Directors on August 29, 2006.
The accompanying notes form an integral part of these consolidated interim financial statements.

Severstal

Consolidated interim income statement
Six months ended June 30, 2006

(Amounts expressed in thousands of US dollars, except shares and earnings per share)

	Note	Six months ended June 30, 2006 (unaudited)	Six months ended June 30, 2005 (unaudited)
Sales			
Sales - external		3,993,436	4,156,232
Sales - to related parties	15	383,265	314,175
	4	4,376,701	4,470,407
Cost of sales		(3,103,045)	(2,559,341)
Gross profit		1,273,656	1,911,066
Selling, general and administrative expenses		(195,823)	(172,018)
Distribution expenses		(290,602)	(293,353)
Indirect taxes and contributions		(58,875)	(33,230)
Share of associates' profits/(losses)		3,396	(1,629)
Net income from bank lending operations	6	3,976	3,527
Net income/(expenses) from securities operations	7	17,027	(8,055)
Loss on disposal of property, plant and equipment		(31,398)	(26,427)
Net other operating expenses		(11,420)	(2,722)
Profit from operations		709,937	1,377,159
(Impairment)/reversal of impairment of property, plant and equipment	20	(7,169)	2,470
Penalties on tax liabilities under restructuring		-	(17,728)
(Write off of goodwill)/negative goodwill, net		(2,485)	2,653
Net other non-operating expenses	8	(27,900)	(17,686)
Profit before financing and taxation		672,383	1,346,868
Net financing expense	9	(37,895)	(112,273)
Profit before income tax		634,488	1,234,595
Income tax expense	10	(222,496)	(334,220)
Profit for the period		411,992	900,375
Attributable to:			
shareholders of OAO Severstal		405,040	877,190
minority interest		6,952	23,185
Weighted average number of shares outstanding during the period (millions of shares)		917.2	907.2
Basic and diluted earnings per share (US dollars)		0.44	0.97

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

Severstal

Consolidated interim statement of cash flows
Six months ended June 30, 2006
(Amounts expressed in thousands of US dollars)

	Six months ended June 30,	
	2006 (unaudited)	2005 (unaudited)
Operating activities:		
Profit before financing and taxation	672,383	1,346,868
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	394,366	201,895
Impairment/(reversal of impairment) of assets	7,169	(2,470)
Provisions against inventories and receivables	1,795	5,960
Write off of goodwill/(negative goodwill), net	2,485	(2,653)
Loss on disposal of property, plant and equipment	31,398	26,427
Loss on disposal of subsidiaries/associates	-	85
(Gain)/loss on remeasurement and disposal of financial investments	(17,027)	9,242
Dividends from associates less share of associates' income	(3,396)	6,243
Changes in operating assets and liabilities:		
Trade accounts receivable	(89,164)	(28,484)
Amounts receivable from related parties	31,209	(8,424)
VAT receivable	9,870	(122,703)
Inventories	(48,820)	(30,499)
Trade accounts payable	11,341	73,545
Bank customer accounts	(80,567)	74,100
Amounts payable to related parties	118,703	(50,734)
Other non-current liabilities	4,346	(4,917)
Net other changes in operating assets and liabilities	(26,629)	41,918
Cash generated from operations	1,019,462	1,535,399
Interest paid (excluding banking operations)	(78,264)	(76,105)
Income tax paid	(235,737)	(314,706)
Net cash provided from operating activities	705,461	1,144,588
Investing activities:		
Additions to property, plant and equipment	(592,028)	(483,580)
Additions to intangible assets	(4,382)	(29,226)
Net decrease in short-term bank deposits	332,975	7,435
Additions to financial investments and associates	(848,835)	(945,849)
Buy out of minority interests	(15,253)	(16,282)
Net cash outflow on acquisitions of subsidiaries	(47,117)	-
Proceeds from disposal of property, plant and equipment	7,351	8,326
Proceeds from disposal of financial investments	239,380	265,662
Interest received (excluding banking operations)	30,602	21,872
Cash used for investing activities	(897,307)	(1,171,642)
Financing activities:		
Proceeds from debt finance	319,482	396,405
Proceeds from share issue	162,179	-
Repayment of debt finance	(258,517)	(281,154)
Parent company dividends paid	(78,099)	(130,881)
Minority capital contributions	4,200	6,228
Net other cash flows from financing acitivities	-	(3,170)
Cash provided from/(used for) financing activities	149,245	(12,572)
Effect of exchange rates on cash and cash equivalents	40,860	(43,653)
Net decrease in cash and cash equivalents	(1,741)	(83,279)
Cash and cash equivalents at beginning of the period	941,609	1,090,062
Cash and cash equivalents at end of the period	939,868	1,006,783

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

Severstal

Consolidated interim statement of changes in equity
Six months ended June 30, 2006 (unaudited)
(Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal							Minority interest	Total
	Share capital	Additional capital	Revaluation reserve	Foreign exchange differences	Unrealized gains on available-for-sale investments	Accumulated earnings/ (deficit)	Total		
Balances at December 31, 2005	3,311,254	60,367	3,093,608	24,877	14,124	1,396,834	7,901,064	200,426	8,101,490
Profit for the period	-	-	-	-	-	405,040	405,040	6,952	411,992
Realization of revaluation reserve:									
Disposals	-	-	(33,687)	-	-	33,687	-	-	-
Depreciation	-	-	(217,714)	-	-	217,714	-	-	-
Deferred tax on realization	-	-	59,065	-	-	(59,065)	-	-	-
Foreign exchange differences	-	-	-	480,616	-	-	480,616	10,559	491,175
Revaluation of available-for-sale investments	-	-	-	-	63,297	-	63,297	-	63,297
Total recognized income and expenses							948,953	17,511	966,464
Dividends	-	-	-	-	-	(82,122)	(82,122)	-	(82,122)
Share issue	5	162,174	-	-	-	-	162,179	-	162,179
Effect of acquisitions and disposals	-	-	-	-	-	6,754	6,754	(6,591)	163
Balances at June 30, 2006	3,311,259	222,541	2,901,272	505,493	77,421	1,918,842	8,936,828	211,346	9,148,174
Balances at December 31, 2004	3,311,248	60,367	631,996	191,770	-	(73,656)	4,121,725	122,250	4,243,975
Profit for the period	-	-	-	-	-	877,190	877,190	23,185	900,375
Realization of revaluation reserve:									
Disposals	-	-	(8,230)	-	-	8,230	-	-	-
Depreciation	-	-	(53,798)	-	-	53,798	-	-	-
Deferred tax on realization	-	-	14,887	-	-	(14,887)	-	-	-
Foreign exchange differences	-	-	-	(140,384)	-	-	(140,384)	(4,085)	(144,469)
Total recognized income and expenses							736,806	19,100	755,906
Dividends	-	-	-	-	-	(138,300)	(138,300)	(3,170)	(141,470)
Effect of acquisitions and disposals	5	-	-	-	-	(1,270)	(1,265)	(12,786)	(14,051)
Balances at June 30, 2005	3,311,253	60,367	584,855	51,386	-	711,105	4,718,966	125,394	4,844,360

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

1. Operations

These consolidated interim financial statements of OAO Severstal comprise the parent company, OAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in note 27.

Severstal began operations on August 24, 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On September 24, 1993, as part of the Russian privatization program, Severstal was registered as a Joint Stock Company ('OAO') and privatized. Severstal's registered office is located at Ul Mira 30, Cherepovets, Russia. Severstal's shares are quoted on the Russian Trading System, and since June 2005, on the Moscow Interbank Currency Exchange ('MICEX'). Through participating in Severstal's privatization auctions and other purchases, Alexey Mordashov (the "Majority Shareholder") has purchased shares in Severstal such that as at the balance sheet date he controlled, directly or indirectly, 89.13% (December 31, 2005: 82.75%) of Severstal's share capital.

The Group comprises the following segments:

- *Steel segment* – this segment operates full cycle integrated iron and steel mills in Russia and the USA, has supporting companies for the sale of products in the Russian and international markets and also includes maintenance companies.
- *Metalware segment* – this segment comprises three plants in Russia, two plants in Ukraine and one plant in the United Kingdom containing wire drawing equipment that takes long products (mainly wire) from the Steel segment and external suppliers and turns them into products with a higher value added for the Russian and international markets.
- *Mining segment* – this segment comprises two locations in Russia, where coking coal is produced, one location, where iron ore is produced, and one location, where pellets are produced. This segment also includes coal refining facilities and other auxiliary businesses.
- *Financing segment* – this segment operates a retail bank.

A segmental analysis of the consolidated balance sheet and income statement is given in note 29.

Recent acquisitions of controlling stakes from the Group's Majority Shareholder
During May and June 2006, the Group acquired controlling stakes in entities of the mining segment and in maintenance companies of the Steel segment from the Group's Majority Shareholder. These transactions are further discussed in notes 26 and 27 to these consolidated interim financial statements.

Intended business combination with Lucchini SpA subsequent to June 30, 2006
The Group is in process of acquiring from the Group's Majority Shareholder the controlling stake in Lucchini SpA, a European steel and metalware products producer. The Group's management commissioned a leading international investment bank to appraise the value of this controlling stake. Lucchini SpA is not included in these consolidated interim financial statements. Additional details are given in note 18 to these consolidated interim financial statements.

Economic environment
A large part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These

conditions and future policy changes could affect the operations of the Group and the realization and settlement of its assets and liabilities.

International sales of rolled steel from the Group's Russian operations have been the subject of several anti-dumping investigations. The Group has taken steps to address the concerns of such investigations and participates actively in their resolution. A brief description of protective measures effective at Severstal's key export markets is given below:

- Exports of hot-rolled coils and thin sheets from Russia to the USA are restricted by the minimum prices issued quarterly by the US Department of Commerce and quotas. Severstal is the first Russian company, for which since September 2005 minimum prices for certain types of steel plate were established based on producer's actual cost and finance data.
- The Canadian market of hot-rolled plate is restricted by minimum prices as well. Work directed to getting minimum prices based on Severstal's actual data was performed in 2005 and 2006.
- The European Union ('EU') market is protected by quotas. During the last few years quotas have been raised about 2-2.5% each year after adjusting for the effects of EU enlargements. Severstal traditionally gets approximately 35% of the total Russian quota and strives to utilize it fully because the EU market is a key market for Severstal.
- The Chinese market is open to the Russian exporters. No antidumping or safeguard measures are in force.

2. Presentation of the consolidated interim financial statements

Statement of compliance

These consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board, and are prepared under the historic cost convention except that property, plant and equipment; investments designated at fair value through profit and loss; and investments available-for-sale are stated at fair value. The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these consolidated interim financial statements are set out in note 3.

Going concern basis

These consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making such estimates, actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Note 18 – Long-term financial investments
- Note 20 – Property, plant and equipment
- Note 25 – Other non-current liabilities

Functional and presentation currency

The presentation currency of these consolidated interim financial statements is the US dollar.

The functional currency is determined separately for each of the Group's entities. For all Russian entities, the majority of costs and revenues are denominated in Russian roubles, and accordingly, their functional currency is the Russian rouble.

Any conversion of amounts in roubles and in other currencies into US dollars should not be construed as a representation that such amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates used, or at any other exchange rate.

Basis of consolidation

Subsidiaries are those enterprises controlled, directly or indirectly, by the Parent Company. The financial statements of subsidiaries are included in these consolidated interim financial statements from the date that control effectively commences until the date that control effectively ceases. The minority interest represents the minorities' proportion of the net identifiable assets of the subsidiaries, including minorities' share of fair value adjustments on acquisitions.

Associates are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies. These consolidated interim financial statements include the Group's share of the total recognized gains and losses of associates accounted for on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing these consolidated interim financial statements.

Accounting for business combinations of entities under common control

IFRS provides no guidance on accounting for business combinations of entities under common control. Management adopted the accounting policy for such transactions based on the relevant guidance of accounting principles generally accepted in the United States ('US GAAP'). Management believes that this approach and the accounting policy disclosed below are in compliance with IFRS.

Acquisitions of controlling interests in companies that were previously under the control of the same controlling shareholder as the Group have been accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the common controlling shareholder. The assets and liabilities acquired have been recognized at their book values. The components of equity of the acquired companies have been added to the same components within Group equity except that any share capital of the acquired companies has been recorded as part of additional paid in capital. Cash consideration for such acquisitions has been recognized as a liability to or a reduction of receivables from related parties from the date the acquired company is included in these consolidated interim financial statements until the cash consideration is paid. Parent Company shares issued in consideration for the acquired companies are recognized from the moment the acquired companies are included in these financial interim statements.

Acquisitions by the Majority Shareholder of additional interests in the acquired companies, after control over those companies has been obtained by the Majority Shareholder, are treated as if those additional interests were acquired by the Group. No goodwill is recognized on these transactions. The difference between the share of net assets acquired and the cost of investment is recognized directly in equity.

As part of acquiring the mining assets, during 2006 the Group acquired fixed assets that were leased during 2004 and 2005 by the companies controlled by the Majority Shareholder to the acquired mining companies. These fixed assets are included in these consolidated interim financial statements from the moment that they were acquired by the companies controlled by the Majority Shareholder. A liability to related parties for purchasing these fixed assets is recorded in these consolidated interim financial statements from the moment the acquired fixed assets were included in the consolidated interim financial statements.

3. Summary of the principal accounting policies

The following significant accounting policies have been consistently applied in the preparation of these consolidated interim financial statements.

a. Cash and cash equivalents

Cash equivalents are all highly liquid temporary cash investments with original maturity dates of three months or less.

b. Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads. Provisions are recorded against slow moving and obsolete inventories.

c. Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

d. Foreign currency

Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency of each entity at the foreign exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of each entity at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency of the entity at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to functional currency of the entity at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange gains and losses arising on translation are recognized as a part of net financing expense in the income statement.

Presentation and consolidation
For presentation and consolidation purposes all assets and liabilities at the balance sheet date are translated into US dollars at the foreign exchange rate ruling on that date. Revenues and expenses are translated into US dollars using rates approximating the foreign exchange rates ruling on the dates of the transactions. Components of equity are translated into US dollars using rates approximating historic exchange rates ruling on the dates of the transactions. Foreign exchange gains and losses arising on translation into the presentation currency are recognized directly in the statement of changes in equity.

e. Investments

Investments are recognized (derecognized) when the Group obtains (loses) control over the contractual rights inherent in that asset. Investments are accounted for as follows:

- Investments designated at fair value through profit and loss, including investments held for trading, are stated at fair value, with any resultant gain or loss recognized in the income statement.
- Investments held-to-maturity are stated initially at cost. Subsequent to initial recognition they are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period to maturity on an effective interest basis.
- Originated loans and receivables are stated initially at cost, subject to impairment test, which is done using discounted cash flow techniques. Subsequent to initial recognition they are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period to maturity on an effective interest basis.
- Other investments are classified as available-for-sale and are stated at fair value. A gain or loss on an available-for-sale financial asset is recognized directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest, which is calculated using the effective interest method, is recognized in the income statement. Dividends on an available-for-sale equity instrument are recognized in the income statement.

The fair value of investments is their quoted bid price at the balance sheet date. If a quoted market price at the balance sheet date is not available, the fair value of the instrument is estimated using prices of transactions close to the balance sheet date or, if such prices are also not available, the discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be reliably measured by discounted cash flow techniques and other means, are stated at cost less impairment losses.

Additions to financial investments and proceeds from disposals of financial investments are shown separately in the cash flow statement, except for cash inflows and outflows on loans to bank customers, which are shown on a net basis and included, depending on the sign of net change, either in additions to financial investments or in proceeds from disposals of financial investments.

f. Property, plant and equipment

Property, plant and equipment is periodically revalued to be stated at fair market value. In the case of assets constructed by the Group, related works and direct project overheads are included in cost. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognized in the income statement.

Depreciation is provided so as to write off property, plant and equipment over its expected useful life. Depreciation is calculated using the straight line basis, except for depreciation on vehicles and certain metal-rolling equipment, which is calculated on the basis of mileage and units of production, respectively. The estimated useful lives of assets are reviewed regularly and revised when necessary.

(Tabular amounts expressed in thousands of US dollars)

The principal periods over which assets are depreciated are as follows:

Buildings and constructions	20 – 50 years
Plant and machinery	10 – 20 years
Other productive assets	5 – 20 years
Community and infrastructure assets	5 – 50 years

With effect from December 31, 2005 management commissioned an independent appraiser to assess for the purpose of financial reporting the value of its productive property, plant and equipment at key entities of the Steel and Mining segments. As at the date of the valuation, accumulated depreciation was offset against cost, and cost was restated to fair market value. Depreciation charge for the subsequent periods is based on estimated remaining useful lives of assets.

A revaluation increase on an item of property, plant and equipment is recognised directly in equity, net of deferred tax, except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on an item of property, plant and equipment is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

As the revaluation reserve is realized through depreciation and disposal of the corresponding items of property, plant and equipment the relevant portion of the revaluation reserve, net of deferred tax, is transferred directly into retained earnings.

The previous independent valuation for all productive property, plant and equipment was performed as at January 1, 2001. Management used similar procedures to value the Group's community and infrastructure assets as at January 1, 2001.

g. Goodwill and negative goodwill

Goodwill

Goodwill arising on acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. All negative goodwill is recognized in the income statement as it arises.

h. Asset impairment

The carrying amount of goodwill is tested for impairment annually. The carrying amounts of the Group's other assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses in respect of revalued property, plant and equipment are recognised in the same way as revaluations; other impairment losses are recognised in the income statement.

Calculation of recoverable amount
The recoverable amount of the Group's held-to-maturity investments and loans and receivables, is calculated as the present value of expected future cash flows, discounted at the effective interest rate inherent in the asset. For other assets the recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment
An impairment loss in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Dividends payable

Dividends are recognized as a liability in the period in which they are authorized by the shareholders.

j. Indirect taxes and contributions

Indirect taxes and contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits, value added taxes calculated on revenues and purchases and social security costs calculated on wages and salaries. Social security costs are included in cost of sales, distribution expenses and selling, general and administrative expenses in accordance with the nature of related wages and salaries expenses.

k. Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax expense is calculated by each entity on the pretax income determined in accordance with the tax law of a country, in which the entity is incorporated, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which these assets can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is not recognized in respect of the following:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future;
- if it arises from the initial recognition of an asset or liability that affect neither accounting nor taxable profit,
- initial recognition of goodwill.

l. Debt finance

Debt finance is stated at amortized cost, net of any transaction costs incurred, and includes accrued interest at the balance sheet date. The difference between cost and redemption value is recognized in the income statement over the period of the borrowings on an effective interest basis. Borrowing costs on loans specifically for the purchase or construction of property, plant and equipment are capitalized as part of the cost of the asset they are financing.

m. Income recognition

Sales

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Sales include all amounts billed to customers and are stated net of taxes.

Banking income

Interest income is recognized in the income statement as it accrues. Fees relating to the ongoing provision of services to customers are recognized as income in proportion to the service provided in the year.

n. Net financing expense

Net financing expense comprises interest on debt finance, amortization of transaction costs, amortization of discount on discounted assets and liabilities, interest income and foreign exchange gains and losses.

Interest is recognized in the income statement as it accrues, taking into account the effective yield on the asset or liability.

All interest costs incurred in connection with borrowings, which are not directly attributable to the acquisition, construction or production of qualifying assets, are expensed as incurred as part of net financing expense.

o. Net income/(expenses) from securities operations

Net income from securities operations comprises dividends income (except for dividends from equity associates), realized and unrealized gains on financial assets at fair value through profit or loss, realized gains and impairment losses on available for sale and held to maturity investments.

p. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year, assuming that shares issued in consideration for the companies acquired from the Majority Shareholder were issued from the moment these companies are included in these consolidated interim financial statements.

q. Provisions

Retirement benefits
The Group pays retirement and post-employment medical benefits to former employees. The Group's net obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by management using the projected unit credit method. Any actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognized in the current year's income statement.

Decommissioning liability
The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of certain of its production sites. The Group generally estimates provisions related to environmental issues on a case-by-case basis, taking into account applicable legal requirements. A best estimate, based on available information, is calculated, provided that the available information indicates that the loss is probable. Decommissioning liabilities are estimated using existing technology, at current prices, and discounted using a real discount rate.

Other provisions
Other provisions are recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

r. New Standards and Interpretations adopted

A number of new Standards, amendments to Standards and Interpretations are effective for periods beginning on or after January 1, 2006 and accordingly they were adopted in preparing these consolidated interim financial statements. None of these pronouncements had significant impact on the Group's financial position and results of operations.

s. New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations were not yet effective as at June 30, 2006, and have not been applied in preparing these consolidated interim financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's financial statements.

- IFRS 7 Financial Instruments: Disclosures, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's consolidated financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Parent Company's capital.

(Tabular amounts expressed in thousands of US dollars)

4. Sales

Sales by product were as follows:

	Six months ended June 30, 2006	Six months ended June 30, 2005
Hot rolled sheet	1,633,850	1,684,109
Cold rolled sheet	671,283	809,891
Galvanized sheet	542,092	523,757
Hot rolled sections	272,250	208,140
Semi finished products	132,615	223,250
Further processed products	193,231	124,753
Wire	184,611	134,184
Fastenings	37,199	36,058
Wire rope	40,205	36,456
Netting	16,153	22,336
Electric arc welding rods	11,317	9,769
Pellets and iron ore	146,555	208,916
Coke	129,000	99,451
Chemical by-products	38,966	38,353
Repair services	9,723	13,339
Manufactured equipment	22,156	12,690
Shipping and handling costs billed to customers	188,802	208,839
Other	106,693	76,116
	4,376,701	4,470,407

Sales by delivery destination were as follows:

	Six months ended June 30, 2006	Six months ended June 30, 2005
Russian Federation	2,009,685	1,828,339
United States of America (‘USA’)	1,281,778	1,126,932
Europe	790,562	629,902
China and Central Asia	37,084	274,414
The Middle East	114,343	178,765
South-East Asia	17,820	173,834
Central America	32,286	109,352
Africa	41,111	74,751
South America	26,504	49,044
North America (excluding the USA)	25,528	25,074
	4,376,701	4,470,407

(Tabular amounts expressed in thousands of US dollars)

5. Staff costs

Employment costs were as follows:

	Six months ended June 30, 2006	Six months ended June 30, 2005
Wages and salaries	(440,582)	(405,115)
Social security costs	(93,009)	(88,474)
Retirement benefit costs (see note 25)	2,336	(101)
	(531,255)	(493,690)
Actuarial losses recognized (see note 25)	(8,905)	(6,354)
Staff costs	(540,160)	(500,044)

Key management received the following remuneration during the year, which is included in the above staff costs:

	Six months ended June 30, 2006	Six months ended June 30, 2005
Wages and salaries	(2,210)	(1,886)
Social security costs	(87)	(79)
Other benefits	(79)	(44)
	(2,376)	(2,009)

6. Net income from bank lending operations

	Six months ended June 30, 2006	Six months ended June 30, 2005
Interest income:		
Placements with other financial institutions	1,731	1,667
Loans to bank customers:		
- external	3,746	2,504
- related parties	1,029	568
Interest expense:		
- external	(1,196)	(335)
- related parties	(712)	(102)
Loan loss provisions	(622)	(775)
	3,976	3,527

(Tabular amounts expressed in thousands of US dollars)

7. Net income/(expenses) from securities operations

	Six months ended June 30,	
	2006	**2005**
Held-for-trading securities		
Profit on disposal	806	682
Restatement to fair value	(118)	524
Held to maturity securities and originated loans		
Restatement to fair value	4,112	(2,944)
Coupon income	-	9
Available-for-sale securities		
Profit on disposal	7,727	3,647
Restatement to fair value	4,500	(11,160)
Dividends received	-	1,187
	17,027	(8,055)

8. Net other non-operating expenses

	Six months ended June 30,	
	2006	**2005**
Social expenditure	(14,466)	(11,493)
Charitable donations	(11,002)	(5,083)
Depreciation of community and infrastructure assets	(2,432)	(1,025)
Loss on disposal of subsidiaries and associates	-	(85)
	(27,900)	(17,686)

9. Net financing expense

	Six months ended June 30,	
	2006	**2005**
Interest income:		
Related parties	7,666	5,637
Third parties	28,670	17,405
Interest expense:		
Related parties	(978)	(1,730)
Third parties	(89,888)	(74,632)
Amortization of transaction costs	(1,708)	(1,988)
Foreign exchange gains/(losses)	18,343	(56,965)
	(37,895)	(112,273)

(Tabular amounts expressed in thousands of US dollars)

10. Taxation

The following is an analysis of the income tax expense:

	Six months ended June 30, 2006	Six months ended June 30, 2005
Current tax charge	(254,654)	(327,471)
Corrections to prior year's current tax charge	(15,000)	(14)
Deferred tax benefit/(expense)	47,158	(6,735)
Income tax expense	(222,496)	(334,220)

The following is a reconciliation of the reported net income tax expense and the amount calculated by applying the Russian statutory tax rate of 24.0% to reported profit before income tax.

	Six months ended June 30, 2006	Six months ended June 30, 2005
Profit before income tax	634,488	1,234,595
Tax charge at the statutory rate	(152,277)	(296,303)
Non-tax deductible expenses, net	(28,782)	(26,636)
Profits taxed at different rates	(6,007)	(11,267)
Corrections to prior year's current tax charge	(15,000)	(14)
Reassessment of deferred tax liabilities	(20,430)	-
Income tax expense	(222,496)	(334,220)

The composition of, and movements in, the net deferred tax liability based on the temporary differences arising between the fiscal and reporting balance sheets of the consolidated companies, is given below:

	June 30, 2006	December 31, 2005
Deferred tax assets/(liabilities):		
Property, plant and equipment	(1,173,008)	(1,116,457)
Provisions	33,837	31,988
Other	(10,245)	(27,128)
	(1,149,416)	(1,111,597)

(Tabular amounts expressed in thousands of US dollars)

The movement in the net deferred tax liability is as follows:

	Six months ended June 30,	
	2006	**2005**
Opening balance	(1,111,597)	(339,616)
Recognized in income statement	47,158	(6,735)
Recognized in shareholders' equity	(10,505)	-
Business combinations	(6,528)	-
Foreign exchange difference	(67,944)	9,718
Closing balance	(1,149,416)	(336,633)

Temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US$ 659.9 million at June 30, 2006 (December 31, 2005: US$ 565.4 million).

11. Cash and cash equivalents

	June 30, 2006	**December 31, 2005**
Petty cash	3,397	378
Cash at bank	395,836	350,999
Escrow accounts	5,140	18,911
Short term deposits with maturity of less than 3 months	348,375	428,074
Cash balances of consolidated bank:		
Cash	1,146	823
Nostro accounts at the Central Bank of Russia	42,119	39,781
Nostro accounts at other banks	21,843	16,997
Placements with banks	122,012	85,646
	939,868	941,609

As described in note 27 to these consolidated interim financial statements, the Group has a subsidiary OAO Metallurgical commercial bank ("Metcombank"). Nostro accounts of Metcombank at the Central Bank of Russia and at other banks and interbank loans given by Metkombank with an original maturity of three months or less are included in cash and equivalents.

12. Short-term bank deposits

Short-term bank deposits totaled US$ 338.6 million at June 30, 2006 (December 31, 2005: US$ 674.5 million) and comprised of deposits with an original maturity of more than three months but remaining period to maturity of less than one year. The majority of such deposits has an original maturity of less than 6 months, and such deposits are used by the Group to earn investment income, while preserving a high liquidity position. Substantially all such deposits are placed at Russian banks and can be withdrawn, in case of necessity, prior to the maturity date with no loss in principal but reduced interest income.

(Tabular amounts expressed in thousands of US dollars)

13. Short-term financial investments

	June 30, 2006	December 31, 2005
Held-for-trading securities:		
Promissory notes and bonds of third parties	95,137	72,429
Promissory notes of related parties	5,737	4,772
Quoted equity shares	2,916	1,079
Originated loans:		
Loans to related parties for escrow account	175,482	-
Other loans to related parties	203,894	83,700
Loans to third parties	12,152	16,430
Loans to bank customers:		
Third parties	35,615	71,232
Related parties	40,295	15,739
Loan loss provisions	(4,112)	(3,008)
Available-for-sale securities	111	67
	567,227	262,440

In June 2006, the Group provided loans in the amount US$ 175.5 million to its related parties for placement of funds on escrow account related to the intended business combination with Arcelor S.A. In July 2006, when this business combination was terminated, these amounts have been repaid in full to the Group.

Other loans given to related parties were provided at interest rates ranging from nil to 15% per annum, and were given to finance working capital and investments.

14. Trade accounts receivable

	June 30, 2006	December 31, 2005
Customers	652,024	528,594
Allowance for doubtful accounts	(24,378)	(31,319)
	627,646	497,275

(Tabular amounts expressed in thousands of US dollars)

15. Amounts receivable from related parties

	June 30, 2006	December 31, 2005
Advances paid	72,479	18,140
Trade accounts receivable	103,705	175,351
Other receivables	14,061	5,342
	190,245	198,833
Maturity analysis:		
within one year	190,245	176,807
after more than one year	-	22,026
	190,245	198,833

Sales and income received from related parties were as follows:

	Six months ended June 30, 2006	Six months ended June 30, 2005
Sales	383,265	314,175
Banking income	1,029	568
Interest income	7,666	5,637
	391,960	320,380

16. Inventories

	June 30, 2006	December 31, 2005
Raw materials and supplies	604,378	603,034
Work-in-progress	258,222	131,001
Finished goods	381,088	355,932
	1,243,688	1,089,967

Of the above amounts US$ 42.2 million (December 31, 2005: US$ 40.2 million) are stated at net realizable value, these amounts exclude inventories fully provided against.

Inventory write-downs were US$ 0.8 million and US$ 7.7 million for the six months ended June 30, 2006 and 2005, respectively.

(Tabular amounts expressed in thousands of US dollars)

17. Other current assets

	June 30, 2006	December 31, 2005
Advances paid	132,980	107,369
Prepayments	33,741	26,119
Other taxes and social security prepaid	5,411	6,692
Reserves at Central Bank of Russia	6,661	4,938
Other assets	26,457	12,453
	205,250	157,571

18. Long-term financial investments

	June 30, 2006	December 31, 2005
Originated loans:		
Loans to related parties	683,041	450,889
Loans to third parties	2,799	2,567
Available-for-sale securities:		
Shares in Lucchini SpA	271,580	187,386
Other investments in shares	9,759	10,320
Held to maturity securities	25,504	1,988
	992,683	653,150

On April 26, 2005 Severstal and its related parties (financed by Severstal) subscribed for new ordinary shares issued by Lucchini SpA (Italy), a European steel and metalware products producer, such that in exchange for € 430.0 million, Severstal and its related parties obtained 61.9% voting control of Lucchini SpA. Related parties, financed by Severstal, acquired from third parties additional 7.9% of the outstanding share capital of Lucchini SpA for € 61.0 million in May-June 2005, and a further 0.95% of the outstanding share capital of Lucchini SpA for € 7.5 million in November 2005.

The Group is in the process of acquiring from the Group's Majority Shareholder the controlling stake in Lucchini SpA. The Group's management commissioned a leading international investment bank to appraise the value of this controlling stake. Management also used this valuation report to determine the fair value of the Group's 19.99% stake in Lucchini SpA at June 30, 2006, resulting in a US$ 73.7 million gain being recognised directly in the statement of changes in equity.

Long-term financial assets as of June 30, 2006 include the following balances related to Lucchini SpA: US$ 271.6 million (December 31, 2005: US$ 187.4 million) of carrying value of 19.99% shares of Lucchini SpA and US$ 438.2 million (December 31, 2005: US$ 407.9 million) of Euro-denominated loans to related parties.

(Tabular amounts expressed in thousands of US dollars)

19. Investment in associates

The Group's investment in associated companies is described in the tables below. Group structure and certain additional information on investments in associated companies, including ownership percentages, is given in note 27.

	June 30, 2006	December 31, 2005
Double Eagle Steel Coating Company	26,822	26,409
Spartan Steel Coating LLC	61,118	56,374
Severstal US Holdings LLC	121,905	59,415
Mountain State Carbon LLC	119,070	60,205
TA Cord	2,413	2,108
Air Liquide Severstal	6,832	3,214
Others	217	592
	338,377	208,317

The following is summarized financial information, in aggregate, in respect of associates:

	2006	2005
Assets	632,111	476,742
Liabilities	47,035	54,569
Equity	585,076	422,173

	Six months ended June 30,	
	2006	2005
Revenues	112,036	66,513
Net income	6,699	(3,620)

Double Eagle Steel Coating Company and Spartan Steel Coating LLC were associates of the bankrupt Rouge Steel Company, and were acquired on January 30, 2004, when the Group through its subsidiary Severstal North America Inc, acquired the assets and business of Rouge Steel Company.

Severstal US Holdings LLC, was created by Severstal and its related parties as a holding company for the SeverCorr project – construction of a mini mill in the United States of America. SeverCorr's mini mill is expected to produce approximately 1.5 million tons of high-quality flat-rolled steel on an annual basis. Total financing requirements of this project are approximately US$ 880.0 million, and the project will be financed by Severstal, its related parties, third party equity participants and bank financing. By June 30, 2006, Severstal have contributed to the project US$ 122.5 million and provided a US dollar denominated loan to Severcorr LLC in the amount of US$ 60.0 million. The loan is repayable in 2014 and bears interest at 15% per annum. By June 30, 2006, related parties of Severstal have contributed to the project US$ 85.5 million. Having completed those contributions, Severstal and its related parties have fully fulfilled their financing obligations for this project.

By June 30, 2006, the Group, through its subsidiary Severstal North America Inc, has contributed US$ 120.0 million to the Mountain State Carbon LLC, a joint venture with Wheeling-Pittsburgh Steel Corporation ("Wheeling-Pittsburgh"). Wheeling-Pittsburgh has contributed to the joint venture all of its coking assets in Follansbee, USA, valued at US$ 86.9 million, and US$ 3.1 million in cash. This cash and US$ 30.0 million of additional contributions from Wheeling-Pittsburgh over the next three years will be used to rehabilitate all of the coke batteries of the joint venture and provide the Group's US integrated steel operations a reliable and competitive supply of metallurgical coke. Each partner has a 50% share in Mountain State Carbon LLC from April 2006.

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

(Tabular amounts expressed in thousands of US dollars)

20. Property, plant and equipment

The movements in property, plant and equipment are as follows:

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Valuation or cost:							
December 31, 2005	1,719,962	4,627,231	287,012	6,634,205	22,762	1,054,463	7,711,430
Reclassifications	(28,997)	(7,575)	39,897	3,325	(3,325)	-	-
Additions:							
External	-	-	-	-	-	592,028	592,028
Interest capitalised	-	-	-	-	-	7,127	7,127
Business combinations	50,740	26,147	1,841	78,728	-	603	79,331
Disposals	(3,957)	(42,510)	(3,099)	(49,566)	(427)	(2,316)	(52,309)
Transfer to inventories	-	-	-	-	-	(33,761)	(33,761)
Transfers	105,641	492,879	15,071	613,591	2,602	(616,193)	-
Foreign exchange difference	109,196	294,404	18,819	422,419	1,363	69,852	493,634
June 30, 2006	1,952,585	5,390,576	359,541	7,702,702	22,975	1,071,803	8,797,480
Depreciation and impairment:							
December 31, 2005	42,808	156,547	40,695	240,050	4,582	2,169	246,801
Reclassifications	(39)	1,403	(2)	1,362	(1,362)	-	-
Depreciation expense	83,132	281,142	27,608	391,882	2,432	-	394,314
Disposals	(180)	(11,628)	(1,470)	(13,278)	(282)	-	(13,560)
Transfers	44	9	8	61	454	(515)	-
Impairment of assets	-	13	76	89	734	6,346	7,169
Foreign exchange difference	4,577	15,791	3,113	23,481	331	261	24,073
June 30, 2006	130,342	443,277	70,028	643,647	6,889	8,261	658,797
Net book values:							
December 31, 2005	1,677,154	4,470,684	246,317	6,394,155	18,180	1,052,294	7,464,629
June 30, 2006	1,822,243	4,947,299	289,513	7,059,055	16,086	1,063,542	8,138,683
Net book values based on cost, less depreciation and impairment:							
December 31, 2005	962,186	1,213,005	105,798	2,280,989	16,999	1,056,119	3,354,107
June 30, 2006	1,163,402	1,680,431	152,914	2,996,747	16,084	1,063,542	4,076,373

(Tabular amounts expressed in thousands of US dollars)

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Valuation or cost:							
December 31, 2004	1,039,354	2,723,492	184,784	3,947,630	40,743	752,565	4,740,938
Reclassifications	(11,999)	10,731	2,186	918	(918)	-	-
Additions:							
External	-	-	-	-	-	483,580	483,580
Interest capitalised	-	-	-	-	-	4,704	4,704
Business combinations	54	-	-	54	-	-	54
Disposals	(3,966)	(60,943)	(6,623)	(71,532)	(1,206)	(1,369)	(74,107)
Transfer to inventories	-	-	-	-	-	(13,304)	(13,304)
Transfers	17,024	141,090	20,077	178,191	4,566	(182,757)	-
Foreign exchange difference	(33,236)	(87,894)	(6,493)	(127,623)	(1,368)	(26,839)	(155,830)
June 30, 2005	1,007,231	2,726,476	193,931	3,927,638	41,817	1,016,580	4,986,035
Depreciation and impairment:							
December 31, 2004	179,029	886,151	62,391	1,127,571	21,592	113,889	1,263,052
Reclassifications	(4,923)	6,232	(78)	1,231	(1,231)	-	-
Depreciation expense	31,292	154,161	15,339	200,792	1,025	-	201,817
Disposals	(1,889)	(32,784)	(4,367)	(39,040)	(78)	(236)	(39,354)
Transfers	110	841	632	1,583	4,068	(5,651)	-
Reversal of impairment of assets	-	-	-	-	-	(2,470)	(2,470)
Foreign exchange difference	(6,328)	(30,891)	(2,320)	(39,539)	(781)	(3,478)	(43,798)
June 30, 2005	197,291	983,710	71,597	1,252,598	24,595	102,054	1,379,247
Net book values:							
December 31, 2004	860,325	1,837,341	122,393	2,820,059	19,151	638,676	3,477,886
June 30, 2005	809,940	1,742,766	122,334	2,675,040	17,222	914,526	3,606,788
Net book values based on cost, less depreciation and impairment:							
December 31, 2004	844,526	936,156	122,393	1,903,075	19,153	641,037	2,563,265
June 30, 2005	804,364	957,588	122,264	1,884,216	17,222	914,522	2,815,960

Other productive assets include transmission equipment, transportation equipment and tools.

Impairment of assets primarily relates to social objects purchased or constructed by the Group. The amounts of costs incurred in purchase or construction of social objects, which are not expected to be profit-generating, are normally impaired as incurred.

As described in Note 3f, the Group uses the revaluation model of accounting for property, plant and equipment. Management commissioned independent appraisers to evaluate the fair value of productive property, plant and equipment as of December 31, 2005 of the key entities of the Steel segment – the Parent Company and Severstal North America LLC, and of the coal producing assets. Management considers that the carrying value of property, plant and equipment of other business segments approximate their fair values as of the balance sheet dates.

(Tabular amounts expressed in thousands of US dollars)

The impact of the independent appraisers' valuation report on property, plant and equipment is shown below:

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Net book value of property, plant and equipment at Decem ber 31, 2005							
Before revaluation	862,617	1,946,116	138,577	2,947,310	18,263	1,056,117	4,021,690
Increase due to revaluation, net	814,537	2,524,568	107,740	3,446,845	(83)	(3,823)	3,442,939
After revaluation	1,677,154	4,470,684	246,317	6,394,155	18,180	1,052,294	7,464,629

21. Bank customer accounts

	June 30, 2006	December 31, 2005
Customer accounts:		
Demand deposits	12,648	26,997
Term deposits	7,434	68,365
Deposits from other financial institutions	2,649	3,505
	22,731	98,867

22. Amounts payable to related parties

	June 30, 2006	December 31, 2005
Trade accounts payable	152,394	116,328
Advances received	1,110	1,995
Other accounts payable	137,727	112,894
Bank demand deposits	48,699	16,302
Bank term deposits	59,629	17,424
	399,559	264,943

Purchases from related parties were as follows:

	Six months ended June 30,	
	2006	2005
Purchases from associates:		
Non-capital expenditures	67,771	55,100
Purchases from other related parties:		
Non-capital expenditures	487,604	242,287
Capital expenditures	109,643	20,342

(Tabular amounts expressed in thousands of US dollars)

23. Debt finance

	June 30, 2006	December 31, 2005
Citibank CLN - Eurobonds 2009	325,000	325,000
Citibank CLN - Eurobonds 2014	375,000	375,000
Bonds issued in Russia	110,787	104,230
Bank financing	1,009,224	913,422
Factoring of receivables	22,986	16,801
Other financing	60,309	39,228
Accrued interest	25,566	28,051
Unamortized balance of transaction costs	(13,761)	(16,258)
	1,915,111	1,785,474
Total debt is denominated in the following currencies:		
US dollars	1,220,431	1,287,620
Roubles	464,278	333,743
Euro	230,402	164,111
	1,915,111	1,785,474
Total debt is contractually repayable after the balance sheet date as follows:		
Less than one year	406,351	344,170
Between one and five years	1,010,072	1,006,306
After more than five years	498,688	434,998
	1,915,111	1,785,474

Debt finance raised from banks and unused long term credit lines are secured by charges over:

- US$ 35.8 million (December 31, 2005: US$ 96.1 million) net book value of plant and equipment;
- US$ 1,243.0 million (December 31, 2005: US$ 1,296.2 million) of current assets; and,
- US$ 168.0 million (December 31, 2005: US$ 97.1 million) of financial assets.

At the balance sheet date the Group had US$ 307.1 million (December 31, 2005: US$ 319.9 million) of unused long term credit lines available to it.

(Tabular amounts expressed in thousands of US dollars)

24. Other current liabilities

	June 30, 2006	December 31, 2005
Advances received	181,624	130,305
Amounts payable to employees	91,458	75,731
Accrued expenses	26,116	19,183
Other liabilities	9,549	16,152
	308,747	241,371

25. Other non-current liabilities

	June 30, 2006	December 31, 2005
Retirement benefit liability	232,404	203,458
Decommissioning liability	115,710	102,885
Restructured tax liabilities	91,805	97,368
Other	6,597	7,763
	446,516	411,474

Retirement benefit liability

The following assumptions have been used to calculate the retirement benefit liability:

	June 30, 2006			June 30, 2005		
	USA	Russia	UK	USA	Russia	UK
Discount rate	5.50%	6.85%	4.90%	5.75%	8.50%	n/a
Future rate of benefit increase	n/a	6.20%	2.80%	n/a	6.20%	n/a
Future rate of medical cost increases	0.00%	n/a	n/a	11.00%	n/a	n/a

Under the terms of a collective bargaining agreement, the Group’s US subsidiary is obliged to compensate for medical cost increases only during 2005. Any further increases in healthcare costs are to be borne by the plan beneficiaries.

(Tabular amounts expressed in thousands of US dollars)

The components of the retirement benefit liabilities were as follows:

	June 30, 2006	December 31, 2005
Retirees	215,604	156,345
Other participants:		
Vested	14,365	13,560
Non-vested	89,901	82,724
Present value of the defined benefit obligation	319,870	252,629
Fair value of the plan assets	(87,466)	(49,171)
	232,404	203,458

The movements in the retirement benefit liabilities were as follows:

	Six months ended June 30,	
	2006	2005
Net liability at beginning of year	203,458	158,023
Business combinations	10,762	-
Contributions made during the year	(7,622)	(10,692)
Amounts recognized in the income statement:		
Return on plan assets	(5,828)	(2,238)
Interest cost	9,113	8,153
Service cost	3,492	2,339
Actuarial losses	8,905	6,354
Foreign exchange loss/(gain)	10,124	(3,964)
Net liability at June 30	232,404	157,975

The retirement benefit expenses that are recognized in the income statement are contained in the caption: ‘Selling, general and administrative expenses’, except for the interest cost, which is recognized in the caption ‘Net financing expense’.

Decommissioning liability

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its coal mines. These liabilities have been estimated using existing technology, at current prices, and discounted using a real discount rate of 2%. A substantial part of the decommissioning costs is expected to be incurred between 2020 and 2040.

There are no significant environmental liabilities related to steel production facilities, metalware facilities, iron ore concentrate and pellets production sites.

(Tabular amounts expressed in thousands of US dollars)

Restructured tax liabilities

OAO Vorkutaugol and OAO Mine Vorgashorskaya had significant amounts of taxes in arrears, when they were acquired by the Group's Majority Shareholder in June 2003.

In November 2005, these subsidiaries signed restructuring agreements with the tax authorities. In accordance with these agreements, the principal amounts of taxes, and fines thereon and 15% of tax interest are payable by instalments over four years. If those payments are made on schedule, the remaining 85% of tax interest liability at the date of restructuring will be forgiven. The Group's management is confident that all payments will be in accordance with the agreed schedules, and accordingly US$ 186.8 million of tax interest liabilities, which will be forgiven, have been derecognized as liabilities and recognized in the income statement for the fourth quarter of 2005. The remaining restructured tax obligations were discounted using the interest rate of 9.86%, and US$ 14.1 million of the difference between the nominal and discounted amounts was also recognized in the income statement for the fourth quarter of 2005. Current portion of restructured tax liabilities is included in the caption 'Other taxes and social security payable'.

The total amount of the restructured taxes is presented in the table below:

	June 30, 2006	December 31, 2005
Payable within one year	28,362	26,059
Payable after one year	91,805	97,368
	120,167	123,427

26. Share capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUR 0.01 each. Authorized share capital of Severstal at December 31, 2005 comprised 551,854,800 shares and was fully issued and paid on that date. At June 30, 2006, Severstal had 930,784,663 issued and fully paid shares and 5,139,618,137 authorized but not issued shares.

The nominal amount of initial share capital was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions. The Parent Company did not issue shares until June 2006. However, as described in note 2, Parent Company shares issued in 2006 in consideration for the companies acquired from related parties are recognized from the date the acquired companies are included in these consolidated interim financial statements. The Parent Company shares issued in respect of the interests that the Majority Shareholder had at December 31, 2005 and 2004 in the acquired mining companies are recognized in the share capital at that date. Additional share issues are recognized in the six months 2006 and 2005, in respect of ownership interests that the Majority Shareholder acquired in those companies during those periods.

(Tabular amounts expressed in thousands of US dollars)

Consequently, the total value of issued share capital presented in these consolidated interim financial statements comprises:

	Number of shares, mln	US$'000
Nominal share capital at exchange rate on Dec 31, 2004	551.9	199
Historic difference	-	3,310,930
Total historic value of statutory share capital on Dec 31, 2004	551.9	3,311,129
Shares issued for acquisition of mining companies	348.3	119
Adjusted share capital at December 31, 2004	900.2	3,311,248
Shares issued for additional stakes in mining companies	14.0	5
Adjusted share capital at June 30, 2005	914.2	3,311,253
Adjusted share capital at December 31, 2005	917.2	3,311,254
Shares issued for cash	13.5	5
Share capital at June 30, 2006	930.7	3,311,259

As discussed in note 27, certain shareholders exercised their pre-emptive rights in connection with the share issue for acquisition of mining companies. Total proceeds for such shares issued for cash in June 2006 were US$ 162,179 thousand and comprised of US$ 5 thousand of increase in share capital and US$ 162,174 thousand of increase in share premium.

All shares carry equal voting and distribution rights.

Dividends

The maximum dividend payable is restricted to the total accumulated retained earnings of the Parent Company determined according to Russian law. As at the balance sheet date, reserves available for distribution were US$ 3,950.1 million (December 31, 2005: US$ 3,308.6 million).

On June 9, 2006, the Meeting of Shareholders approved the final dividend of RUR 4.00 (US$ 0.15) per share in respect of 2005. Owners of 551.9 million shares were entitled to this dividend, as June 2006 share issue was completed later than the date of closing of share register for these dividends.

(Tabular amounts expressed in thousands of US dollars)

27. Subsidiary and associated companies

The following is a list of the Group's significant subsidiaries and associates and the effective ownership holdings therein:

Company	June 30, 2006	December 31, 2005	Location	Activity
Steel segment - Russia:				
Subsidiaries:				
ZAO Severgal	75.0%	75.0%	Russia	Hot dip galvanizing
ZAO Izhorsky Tube Factory	100.0%	100.0%	Russia	Wide pipes
OOO SSM-Tyazhmash	100.0%	100.0%	Russia	Repairs & construction
OAO Domnaremont	82.1%	56.4%	Russia	Repairs & construction
ZAO Firma Stoik	100.0%	100.0%	Russia	Repairs & construction
OAO Metallurgremont	79.8%	79.3%	Russia	Repairs & construction
OOO Energoremont	100.0%	100.0%	Russia	Repairs & construction
OOO Electroremont	93.3%	100.0%	Russia	Repairs & construction
OOO Uralmash MO	100.0%	100.0%	Russia	Engineering & design
OOO AviaCompany Severstal	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	Switzerland*	Steel sales
AS Severstallat	50.5%	50.5%	Latvia*	Steel sales
Latvijas Metals	50.5%	50.5%	Latvia*	Steel sales
Armaturu Servisa Centrs SIA	25.2%	25.2%	Latvia*	Steel service center
Associates:				
Severstal US Holdings LLC **	60.0%	60.0%	USA*	Mini-mill
Steel segment - USA:				
Subsidiaries:				
Severstal North America Inc	93.0%	93.0%	USA	Iron & steel mill
Associates:				
Double Eagle Steel Coating company	46.5%	46.5%	USA	Electro-galvanizing
Spartan Steel Coating LLC	44.6%	44.6%	USA	Hot dip galvanizing
Delaco Processing LLC	45.6%	45.6%	USA	Steel slitting
FDS Coke Holdings LLC	41.9%	41.9%	USA	Coking coal
Mountain State Carbon LLC	31.0%	31.0%	USA	Coking coal
Metalware segment:				
Subsidiaries:				
ZAO Severstal-Metiz	96.6%	100.0%	Russia	Steel machining
OAO Dneprometiz	57.9%	nil%	Ukraine	Steel machining
Carrington Wire Ltd	100.0%	nil%	UK	Steel machining
OAO Cherepovets Steel Rolling Mill	n/a	88.8%	Russia	Steel machining
OAO Orlovsky Steel Rolling Mill	n/a	87.2%	Russia	Steel machining
OOO Volgometiz	100.0%	100.0%	Russia	Steel machining
OOO Policher	86.9%	80.0%	Russia	Polymer coatings
Associates:				
OOO ChSPZ MKR	48.3%	44.4%	Russia	Mattress springs

(continued on the next page)

(*) - 'Steel segment – Russia' contains Russian production entities, foreign trading companies, which are selling products primarily produced in Russia, and other foreign companies, which either provide services to Russian production entities or are managed from Russia.
(**) – 20.2% and 19.9% of ordinary shares at June 30, 2006 and December 31, 2005, respectively

(Tabular amounts expressed in thousands of US dollars)

Company	June 30, 2006	December 31, 2005	Location	Activity
Mining segment:				
Subsidiaries:				
OAO Karelsky Okatysh	90.8%	90.8%	Russia	Iron ore pellets
OAO Olkon	91.8%	91.6%	Russia	Iron ore concentrate
OAO Vorkutaugol	89.2%	88.1%	Russia	Coking coal concentrate
OAO Mine Vorgashorskaya	73.6%	70.2%	Russia	Coking coal concentrate
OAO Mine Pervomaiskaya	99.1%	99.1%	Russia	Coking coal concentrate
OAO Mine Berezovskaya	96.1%	96.0%	Russia	Coking coal concentrate
OAO SShEMK	75.6%	75.6%	Russia	Engineering
OAO Severokuzbasskoe PTU	87.3%	87.3%	Russia	Transportation
OAO Anzhero-Sudzhenskoe PTU	94.4%	94.4%	Russia	Transportation
OAO Pechorugol	99.3%	99.3%	Russia	Holding company
OOO Olkon-Invest	100.0%	100.0%	Russia	Holding company
OOO Terra	100.0%	100.0%	Russia	Holding company
OOO Holding Gornaya Company	100.0%	100.0%	Russia	Holding company
ZAO Impulse-Consult	100.0%	100.0%	Russia	Holding company
OOO Investment Company Kuzbassugol	100.0%	100.0%	Russia	Holding company
Financing and insurance segment:				
Subsidiaries:				
OAO Metallurgical Commercial Bank	74.2%	72.6%	Russia	Banking

In addition, at the balance sheet date, a further 26 (December 31, 2005: 26) subsidiaries and associates, which are not material to the Group, either individually or in aggregate, have been included in these consolidated interim financial statements.

Information on carrying amounts, acquisitions and disposals of associated companies is disclosed in Note 19 of these consolidated interim financial statements.

Acquisitions of subsidiaries from related parties during 2006

In May and June 2006, Severstal completed the acquisitions of controlling stakes in mining and repair assets previously controlled by Severstal's Majority Shareholder. These consolidated interim financial statements take account of such acquisitions as if they had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the common controlling shareholder. The acquisition transactions are described in the following paragraphs.

On March 27, 2006, the Meeting of Shareholders of the Parent Company approved the additional share issue to acquire controlling stakes in coal and iron ore mining assets controlled by its Majority Shareholder and approved an independent appraiser.

On March 29, 2006, having received a fairness opinion on the proposed transaction from Citigroup, the Board of Directors approved the independent appraiser's valuations of the Parent Company shares being issued at RUR 320.74 per share (US$ 11.24 at the exchange rate on the date of valuation - October 1, 2005) and of the mining assets being acquired at RUR 117,202 million (US$ 4,107 million at the exchange date on the date of valuation – October 1, 2005).

(Tabular amounts expressed in thousands of US dollars)

On May 29, 2006, an extraordinary shareholder meeting approved the price and other terms of the share issue for acquiring the mining assets and on June 6, 2006, the transaction was completed.

Shareholders of the Parent Company, which were entitled to voting on March 27, 2006 but did not participate in it or voted against the deal, had the right to participate in the additional share issue by purchasing for cash the amount of shares that maintained their current shareholding interest at a price of RUR 320.74 per share. The market price of shares on March 27, 2006 was RUR 384 (US$ 13.79) per share. The Parent Company issued 13,516,489 shares to the shareholders that used these pre-emptive purchase rights.

In May 2006, the Group completed the process of purchasing back controlling stakes in certain repair and construction companies, which were disposed by the Group on December 31, 2004 to related parties. Purchase prices totalled US$ 60.8 million, which is not significantly different from the amounts received by the Group for disposal of these entities on December 31, 2004.

Acquisitions of subsidiaries from third parties during 2006

In February 2006, the Group acquired 60% ownership interest (57.9% effective ownership interest) in joint stock company Dneprometiz for US$ 33 million. Severstal also obtained an option to buy an additional 27% stake of the share capital after one year for a consideration in the range from US$ 14.0 to US$ 20.0 million. Dneprometiz produces wire and certain other metalware products at its production facilities located in Ukraine.

In April 2006, the Group acquired 100% of Carrington Wire Ltd., a UK wire and other metalware products producer, for US$ 30.5 million.

These acquisitions were conducted to strengthen the Group’s position in the metalware market.

A summary of acquired assets and liabilities is presented below:

Cash and cash equivalents	5,875
Trade accounts receivable	26,463
Inventories	18,841
Other current assets	7,025
Property, plant and equipment	79,331
Trade accounts payable	(33,557)
Other taxes and social security payable	(70)
Deferred tax liabilities	(6,528)
Retirement benefit liability	(10,762)
Debt finance	(8,623)
Other liabilities	(5,773)
Net identifiable assets and liabilities acquired	72,222
Minority interest	(12,980)
Severstal's share of net identifiable assets and liabilities acquired	59,242
Consideration paid	63,500
Goodwill	4,258

These fair values were determined provisionally, and are subject to changes after completion of the independent appraisers' valuation report and of internal management review. The amount of goodwill, shown in the table above, was considered impaired and fully written off to the current year income statement.

Reorganization of Metalware segment during 2006

ZAO Severstal-Metiz (renamed to OAO Severstal-Metiz on July 1, 2006) was a holding company that managed the activities of the Metalware segment, provided all administrative services to the companies of the Metalware segment and was the sole sales and procurement organization for the Metalware segment.

During 2005 Severstal transferred to ZAO Severstal-Metiz its ownership interests in the metalware companies OAO Cherepovets Steel Rolling Mill ("ChSPZ") and OAO Orlovsky Steel Rolling Mill ("OSPaZ"). Effective January 1, 2006, ChSPZ and OSPaZ legal entities were merged into ZAO Severstal-Metiz. As a result of this merger, Severstal's ownership in ZAO Severstal-Metiz reduced on January 1, 2006 from 100% to 92.8%. In December 2005, OOO Volgometiz transferred all its principal assets and liabilities to ZAO Severstal-Metiz. As a result of these transactions, from January 1, 2006 ZAO Severstal-Metiz is the principal operating company of metalware segment.

During the first six months of 2006, the Group bought additional 3.8% of OAO Severstal-Metiz for US$ 6.3 million. The fair value of net assets of OAO Severstal-Metiz at the time of acquisition was US$ 214.3 million, resulting in recognition of US$ 1.8 million of negative goodwill.

28. Subsequent events

There were no significant events between June 30, 2006 and August 29, 2006, when these consolidated interim financial statements were approved by the Board of Directors.

(Tabular amounts expressed in thousands of US dollars)

29. Segment information

Segmental balance sheets as at June 30, 2006:

	Steel segment		Metalware	Mining	Financing	Inter segment	Conso-
	Russia	USA	segment	segment	segment	balances	lidated
Assets							
Current assets:							
Cash and cash equivalents	697,738	101,152	5,496	33,908	187,120	(85,546)	939,868
Short-term bank deposits	451,473	-	1,733	111	-	(114,685)	338,632
Short-term financial investments	539,369	-	506	156,066	155,048	(283,762)	567,227
Trade accounts receivable	347,014	186,778	62,853	31,001	-	-	627,646
Amounts receivable from related parties	170,430	1,046	4,409	57,231	-	(42,871)	190,245
Inventories	791,632	296,626	92,543	108,366	-	(45,479)	1,243,688
VAT receivable	325,709	-	27,844	50,956	-	-	404,509
Income tax receivable	2,014	-	263	4,318	-	-	6,595
Other current assets	114,932	11,447	29,404	42,592	6,875	-	205,250
Total current assets	3,440,311	597,049	225,051	484,549	349,043	(572,343)	4,523,660
Non-current assets:							
Long-term financial investments	1,455,736	-	40,713	24,218	25,494	(553,478)	992,683
Investment in associates	128,865	207,083	2,429	-	-	-	338,377
Property, plant and equipment	6,207,728	99,265	187,999	1,643,222	469	-	8,138,683
Intangible and other assets	6,144	-	1,442	35,788	30	-	43,404
Total non-current assets	7,798,473	306,348	232,583	1,703,228	25,993	(553,478)	9,513,147
Total assets	11,238,784	903,397	457,634	2,187,777	375,036	(1,125,821)	14,036,807
Liabilities and shareholders' equity							
Current liabilities:							
Trade accounts payable	222,466	119,064	47,020	43,064	-	-	431,614
Bank customer accounts	-	-	-	-	220,369	(197,638)	22,731
Amounts payable to related parties	101,250	41,395	15,025	176,161	108,327	(42,599)	399,559
Income taxes payable	58,355	5,993	1,581	2,672	-	-	68,601
Other taxes and social security payable	52,867	196	4,045	72,072	-	-	129,180
Short-term debt finance	256,282	2,049	8,332	139,688	-	-	406,351
Dividends payable	17,158	-	-	-	-	-	17,158
Other current liabilities	218,397	24,046	23,879	42,249	176	-	308,747
Total current liabilities	926,775	192,743	99,882	475,906	328,872	(240,237)	1,783,941
Non-current liabilities:							
Long-term debt finance	1,487,399	135,500	55,496	116,992	-	(286,627)	1,508,760
Deferred tax liabilities	944,102	47,005	9,350	160,325	378	(11,744)	1,149,416
Other non-current liabilities	90,253	45,653	28,086	282,524	-	-	446,516
Total non-current liabilities	2,521,754	228,158	92,932	559,841	378	(298,371)	3,104,692
Equity	7,790,255	482,496	264,820	1,152,030	45,786	(587,213)	9,148,174
Total equity and liabilities	11,238,784	903,397	457,634	2,187,777	375,036	(1,125,821)	14,036,807

(Tabular amounts expressed in thousands of US dollars)

Segmental balance sheets as at December 31, 2005:

	Steel segment		Metalware	Mining	Financing	Inter segment	Conso-
	Russia	**USA**	**segment**	**segment**	**segment**	**balances**	**lidated**
Assets							
Current assets:							
Cash and cash equivalents	783,700	-	3,921	67,010	143,246	(56,268)	941,609
Short-term bank deposits	718,705	-	18,274	1,071	-	(63,538)	674,512
Short-term financial investments	265,028	-	15,619	25,352	143,999	(187,558)	262,440
Trade accounts receivable	273,827	166,541	27,652	29,255	-	-	497,275
Amounts receivable from related parties	87,229	970	9,411	129,151	-	(49,954)	176,807
Inventories	577,439	401,146	59,457	103,861	-	(51,936)	1,089,967
VAT receivable	316,651	-	33,797	39,673	-	-	390,121
Income tax receivable	755	-	914	15,395	-	-	17,064
Other current assets	98,247	22,964	8,041	23,133	5,186	-	157,571
Total current assets	3,121,581	591,621	177,086	433,901	292,431	(409,254)	4,207,366
Non-current assets:							
Amounts receivable from related parties	-	-	-	22,026	-	-	22,026
Long-term financial investments	982,945	-	7,601	3,824	-	(341,220)	653,150
Investment in associates	63,209	142,988	2,120	-	-	-	208,317
Property, plant and equipment	5,806,681	83,863	111,734	1,461,960	391	-	7,464,629
Intangible and other assets	5,723	-	1,418	30,059	50	-	37,250
Total non-current assets	6,858,558	226,851	122,873	1,517,869	441	(341,220)	8,385,372
Total assets	9,980,139	818,472	299,959	1,951,770	292,872	(750,474)	12,592,738
Liabilities and shareholders' equity							
Current liabilities:							
Trade accounts payable	197,444	129,040	7,354	34,934	-	993	369,765
Bank customer accounts	-	-	-	-	218,673	(119,806)	98,867
Amounts payable to related parties	116,977	14,149	10,610	138,438	33,725	(48,956)	264,943
Income taxes payable	30,059	14,183	104	938	-	-	45,284
Other taxes and social security payable	22,820	1,681	16,063	109,634	-	-	150,198
Short-term debt finance	253,337	143,818	20,560	81,982	-	(155,527)	344,170
Dividends payable	12,275	-	-	-	-	-	12,275
Other current liabilities	162,824	22,169	10,587	45,691	100	-	241,371
Total current liabilities	795,736	325,040	65,278	411,617	252,498	(323,296)	1,526,873
Non-current liabilities:							
Long-term debt finance	1,413,690	-	4,483	60,442	-	(37,311)	1,441,304
Deferred tax liabilities	904,144	62,508	8,462	150,333	466	(14,316)	1,111,597
Other non-current liabilities	79,110	45,340	21,354	265,670	-	-	411,474
Total non-current liabilities	2,396,944	107,848	34,299	476,445	466	(51,627)	2,964,375
Equity	6,787,459	385,584	200,382	1,063,708	39,908	(375,551)	8,101,490
Total equity and liabilities	9,980,139	818,472	299,959	1,951,770	292,872	(750,474)	12,592,738

(Tabular amounts expressed in thousands of US dollars)

Segmental income statements for the six months ended June 30, 2006:

	Steel segment		Metalware segment	Mining segment	Financing segment	Inter segment transactions	Conso-lidated
	Russia	USA					
Sales							
Sales - external	2,417,994	1,062,609	331,791	181,042	-	-	3,993,436
Sales - to related parties	405,081	-	27,538	503,149	-	(552,503)	383,265
	2,823,075	1,062,609	359,329	684,191	-	(552,503)	4,376,701
Cost of sales	(1,889,158)	(988,822)	(308,114)	(478,803)	-	561,852	(3,103,045)
Gross profit	933,917	73,787	51,215	205,388	-	9,349	1,273,656
Selling, general and administrative expenses	(109,884)	(14,968)	(15,158)	(54,854)	(959)	-	(195,823)
Distribution expenses	(236,338)	-	(19,791)	(34,473)	-	-	(290,602)
Indirect taxes and contributions	(30,611)	-	(971)	(27,210)	(83)	-	(58,875)
Share of associates' (losses)/profits	(283)	3,679	-	-	-	-	3,396
Net income from bank lending operations	-	-	-	-	2,550	1,426	3,976
Net income/(loss) from securities operations	13,176	-	609	4,092	2,211	(3,061)	17,027
(Loss)/gain on disposal of property, plant and equipment	(25,568)	-	(2,158)	(3,679)	7	-	(31,398)
Net other operating (expenses)/income	(8,350)	(492)	1,079	(3,809)	152	-	(11,420)
Profit from operations	536,059	62,006	14,825	85,455	3,878	7,714	709,937
Impairment of property, plant and equipment	(6,857)	-	(280)	(32)	-	-	(7,169)
Penalties on tax liabilities under restructuring	-	-	-	-	-	-	-
(Write off of goodwill)/negative goodwill, net	(188)	-	(4,260)	165	-	1,798	(2,485)
Net other non-operating expenses	(21,280)	-	(892)	(5,728)	-	-	(27,900)
Profit before financing and taxation	507,734	62,006	9,393	79,860	3,878	9,512	672,383
Net financing expense	(13,358)	(5,156)	(3,114)	(14,841)	-	(1,426)	(37,895)
Profit before income tax	494,376	56,850	6,279	65,019	3,878	8,086	634,488
Income tax expense	(155,959)	(19,938)	480	(42,967)	(882)	(3,230)	(222,496)
Profit for the period	338,417	36,912	6,759	22,052	2,996	4,856	411,992
Additional information:							
depreciation expense	268,536	4,238	13,174	108,327	39	-	394,314

(Tabular amounts expressed in thousands of US dollars)

Segmental income statements for the six months ended June 30, 2005:

	Steel segment		Metalware	Mining	Financing	Inter segment	Conso-
	Russia	USA	segment	segment	segment	transactions	lidated
Sales							
Sales - external	2,704,824	947,707	294,676	211,725	-	(2,700)	4,156,232
Sales - to related parties	349,803	-	19,656	590,620	-	(645,904)	314,175
	3,054,627	947,707	314,332	802,345	-	(648,604)	4,470,407
Cost of sales	(1,711,428)	(875,988)	(286,029)	(362,070)	-	676,174	(2,559,341)
Gross profit	1,343,199	71,719	28,303	440,275	-	27,570	1,911,066
Selling, general and administrative expenses	(97,479)	(17,141)	(14,299)	(42,131)	(968)	-	(172,018)
Distribution expenses	(259,402)	-	(14,132)	(19,819)	-	-	(293,353)
Indirect taxes and contributions	(11,785)	-	(1,136)	(20,240)	(69)	-	(33,230)
Share of associates' losses	-	(1,629)	-	-	-	-	(1,629)
Net income from bank lending operations	-	-	-	-	2,323	1,204	3,527
Net income/(expenses) from securities operations	(3,246)	125	72	1,795	1,655	(8,456)	(8,055)
Loss/(gain) on disposal of property, plant and equipment	(12,529)	-	(1,010)	(12,897)	9	-	(26,427)
Net other operating (expenses)/income	(3,227)	1,048	13	(797)	241	-	(2,722)
Profit from operations	955,531	54,122	(2,189)	346,186	3,191	20,318	1,377,159
Reversal of impairment/(impairment) of property, plant and equipment, net	2,487	-	-	(17)	-	-	2,470
Penalties on tax liabilities under restructuring	-	-	-	(17,728)	-	-	(17,728)
Negative goodwill	-	-	-	-	-	2,653	2,653
Net other non-operating expenses	(10,868)	-	(1,329)	(3,988)	-	(1,501)	(17,686)
Profit before financing and taxation	947,150	54,122	(3,518)	324,453	3,191	21,470	1,346,868
Net financing expense	(87,338)	(6,428)	(754)	(16,639)	-	(1,114)	(112,273)
Profit before income tax	859,812	47,694	(4,272)	307,814	3,191	20,356	1,234,595
Income tax expense	(228,385)	(12,873)	(1,141)	(86,658)	(914)	(4,249)	(334,220)
Profit for the period	631,427	34,821	(5,413)	221,156	2,277	16,107	900,375
Additional information:							
depreciation expense	117,416	3,556	11,566	69,184	95	-	201,817

30. Commitments and contingencies

a. For litigation, tax and other liabilities

The taxation system and regulatory environment of the Russian Federation are relatively new and characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during the recent years suggest that the regulatory authorities within the Russian Federation are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks, however, management has adopted a conservative approach to interpreting legislation and believes that it has complied with all relevant legislation and adequately provides for tax and other regulatory liabilities.

b. Long term purchase and sales contracts

In the normal course of business group companies enter into long term purchase contracts for raw materials, and long term sales contracts. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

c. Capital commitments

At the balance sheet date the Group had contractual capital commitments of US$ 203.0 million (December 31, 2005: US$ 358.8 million).

d. Insurance

The Group has insured its property and equipment to compensate for expenses arising from accidents. In addition, the Group has insurance for business interruption on a basis of reimbursement of fixed costs, subject to certain franchise. The Group has also insured third party liability in respect of property or environmental damage.

e. Guarantees

At the balance sheet date the Group had US$ 18.2 million (December 31, 2005: US$ 23.8 million) of guarantees issued.

(Tabular amounts expressed in thousands of US dollars)

31. Financial instruments

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The steel, metalware, mining and insurance segments of the Group have not used derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. As at June 30, 2006 and December 31, 2005, the financing segment had no outstanding foreign exchange contracts.

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for the following long-term fixed rate borrowings:

	June 30, 2006		
	Market value	Book value	Difference
Citibank CLN - Eurobonds 2009	332,339	325,000	7,339
Citibank CLN - Eurobonds 2014	391,091	375,000	16,091
	723,430	700,000	23,430

	December 31, 2005		
	Market value	Book value	Difference
Citibank CLN - Eurobonds 2009	336,830	325,000	11,830
Citibank CLN - Eurobonds 2014	407,438	375,000	32,438
	744,268	700,000	44,268

The above amounts exclude accrued interest.

Credit risk
The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet and guarantees (see note 30e). The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitors credit risk. At the balance sheet date there was a significant concentration of credit risk in respect of trade accounts receivable from related parties and originated loans to related parties.

Liquidity risk
The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

Foreign exchange rate risk
The Group incurs currency risk when an entity enters into transactions and balances not denominated in its functional currency. The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

Interest rate risk
Interest rates on Group’s debt finance are either fixed or variable, at a fixed spread over LIBOR or Euribor for the duration of each contract. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of

(Tabular amounts expressed in thousands of US dollars)

determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The following table indicates weighted average effective interest rates of income-earning financial assets and interest-bearing financial liabilities at the balance sheet dates:

	Rouble	US dollar	Euro
As at June 30, 2006:			
Interest bearing assets			
Short term bank deposits	6.4%	5.6%	4.3%
Placements at financial institutions	5.2%	5.1%	1.7%
Loans to bank customers	10.5%	11.2%	-
Held-for-trading securities	6.0%	-	-
Originated loans	9.9%	7.9%	3.4%
Interest bearing liabilities			
Bank customer accounts	3.7%	3.9%	1.5%
Bank loan finance	10.1%	8.4%	3.5%
Bonds issued in Russia	8.1%	-	-

	Rouble	US dollar	Euro
As at December 31, 2005:			
Interest bearing assets			
Short term bank deposits	5.9%	5.2%	-
Placements at financial institutions	6.2%	2.4%	2.2%
Loans to bank customers	8.8%	11.2%	-
Held-for-trading securities	6.2%	-	-
Originated loans	9.9%	7.9%	3.4%
Interest bearing liabilities			
Bank customer accounts	4.3%	1.9%	1.3%
Bank loan finance	9.9%	8.0%	3.5%
Bonds issued in Russia	8.1%	-	-