

Severstal

Consolidated condensed interim financial statements
for the three months ended March 31, 2007

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Independent Auditors' Report

Board of Directors

OAO Severstal

Report on Review of the Interim Financial Information

Introduction

We have reviewed the accompanying consolidated condensed interim balance sheet of OAO Severstal (the "Company") and its subsidiaries (the "Group") as at 31 March 2007, and the related consolidated condensed interim statements of income, changes in equity and cash flows for the three-month period then ended (the "consolidated interim financial information"). Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial information as at 31 March 2007 and for the three-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

KPMG dimmi fecl.

KPMG Limited

28 June 2007

Severstal

Consolidated condensed interim income statement

Three months ended March 31, 2007

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

	<u>Note</u>	<u>Three months ended March 31,</u>	
		<u>2007</u>	<u>2006</u>
		<u>(unaudited)</u>	<u>(unaudited)</u>
Sales			
Sales - external		3,512,779	2,575,506
Sales - to related parties	5	164,468	149,191
	3	<u>3,677,247</u>	<u>2,724,697</u>
Cost of sales		<u>(2,610,717)</u>	<u>(1,976,600)</u>
Gross profit		1,066,530	748,097
Selling, general and administrative expenses		(170,668)	(148,330)
Distribution expenses		(220,495)	(151,222)
Indirect taxes and contributions		(35,631)	(28,314)
Share of associates' (loss)/profit		(1,905)	1,261
Net income from bank lending operations		3,455	2,804
Net income from securities operations		3,386	1,929
Loss on disposal of property, plant and equipment		(8,987)	(11,222)
Net other operating expenses		<u>(1,057)</u>	<u>(79)</u>
Profit from operations		634,628	414,924
Impairment of property, plant and equipment, net		(1,092)	(2,193)
Negative goodwill, net		633	483
Net other non-operating expenses		<u>(17,997)</u>	<u>(14,255)</u>
Profit before financing and taxation		616,172	398,959
Net financing expense		<u>(30,324)</u>	<u>(44,453)</u>
Profit before income tax		585,848	354,506
Income tax expense		<u>(167,914)</u>	<u>(122,957)</u>
Profit for the period		<u>417,934</u>	<u>231,549</u>
Attributable to:			
shareholders of OAO Severstal		395,633	216,730
minority interest		<u>22,301</u>	<u>14,819</u>
Weighted average number of shares outstanding during the period (millions of shares)		<u>1,007.7</u>	<u>917.3</u>
Basic and diluted earnings per share (US dollars)		<u>0.39</u>	<u>0.24</u>

These consolidated condensed interim financial statements were approved by the Board of Directors on June 28, 2007.

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

Severstal

Consolidated condensed interim balance sheet

March 31, 2007

(Amounts expressed in thousands of US dollars)

	Note	March 31, 2007 (unaudited)	December 31, 2006
Assets			
Current assets:			
Cash and cash equivalents		1,469,988	1,700,295
Short-term bank deposits		1,711,765	1,147,270
Short-term financial investments		377,534	321,842
Trade accounts receivable		1,472,975	1,324,097
Amounts receivable from related parties	4	123,117	127,513
Inventories		2,094,393	2,239,647
VAT recoverable		282,121	338,122
Income tax recoverable		50,336	35,856
Assets held for sale		486,923	-
Other current assets		251,378	258,404
Total current assets		8,320,530	7,493,046
Non-current assets:			
Long-term financial investments		208,500	199,940
Investment in associates		318,577	326,047
Investment in joint ventures		27,759	28,859
Property, plant and equipment		10,501,791	10,549,219
Intangible assets		102,787	61,666
Assets held for sale		-	113,516
Deferred tax assets		47,397	29,926
Other non-current assets		7,916	3,844
Total non-current assets		11,214,727	11,313,017
Total assets		19,535,257	18,806,063
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		1,066,198	1,038,338
Bank customer accounts		42,882	31,143
Amounts payable to related parties	4	109,361	170,423
Short-term debt finance		982,440	954,048
Income taxes payable		83,339	44,322
Other taxes and social security payable		216,099	199,798
Dividends payable		7,261	23,243
Liabilities related to assets held for sale		152,127	-
Other current liabilities		566,393	494,222
Total current liabilities		3,226,100	2,955,537
Non-current liabilities:			
Long-term debt finance		2,026,362	2,048,035
Deferred tax liabilities		1,367,187	1,381,785
Retirement benefit liability		430,169	442,954
Liabilities related to assets held for sale		-	1,792
Other non-current liabilities		290,421	298,101
Total non-current liabilities		4,114,139	4,172,667
Equity:			
Share capital		3,311,288	3,311,288
Additional capital		1,165,530	1,165,530
Revaluation reserve		3,098,847	3,185,281
Foreign exchange differences		917,650	786,822
Retained earnings		3,066,248	2,602,345
Total equity attributable to shareholders of parent		11,559,563	11,051,266
Minority interest		635,455	626,593
Total equity		12,195,018	11,677,859
Total equity and liabilities		19,535,257	18,806,063

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

Severstal

Consolidated condensed interim statement of cash flows Three months ended March 31, 2007 (Amounts expressed in thousands of US dollars)

	Three months ended March 31	
	2007 (unaudited)	2006 (unaudited)
Operating activities:		
Profit before financing and taxation	616,172	398,959
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	277,581	219,652
Impairment of property, plant and equipment, net	1,092	2,193
Provision against inventories, receivables and other provisions	(6,610)	(7,433)
Negative goodwill, net	(633)	(483)
Loss on disposal of property, plant and equipment	8,987	11,222
Gain on remeasurement and disposal of financial investments	(3,386)	(1,929)
Dividends from associates less share of associates' income	1,905	(1,261)
Changes in operating assets and liabilities:		
Trade accounts receivable	(228,537)	(122,446)
Amounts receivable from related parties	14,812	68,383
VAT recoverable	77,834	27,959
Inventories	96,991	(60,004)
Trade accounts payable	73,742	14,157
Bank customer accounts	11,284	(77,462)
Amounts payable to related parties	(57,502)	178,509
Other taxes and social security payables	7,005	(78,215)
Other non-current liabilities	(1,461)	8,945
Net other changes in operating assets and liabilities	22,578	(31,776)
Cash generated from operations	911,854	548,970
Interest paid (excluding banking operations)	(63,424)	(41,788)
Income tax paid	(179,708)	(141,075)
Net cash provided from operating activities	668,722	366,107
Investing activities:		
Additions to property, plant and equipment	(265,402)	(261,624)
Additions to intangible assets	(1,266)	(4,290)
Net (increase)/decrease in short-term bank deposits	(549,507)	23,033
Additions to financial investments and associates	(137,249)	(318,280)
Buy out of minority interests	-	(11,780)
Net cash outflow on acquisitions of subsidiaries	(45,309)	(27,567)
Proceeds from disposal of property, plant and equipment	6,205	1,831
Proceeds from disposal of financial investments	81,459	109,039
Interest received (excluding banking operations)	28,193	17,547
Cash from investing activities	(882,876)	(472,091)
Financing activities:		
Proceeds from debt finance	255,851	159,912
Repayment of debt finance	(269,360)	(181,289)
Dividends paid	(17,303)	(7,230)
Minority capital contributions	-	4,200
Cash from financing activities	(30,812)	(24,407)
Effect of exchange rates on cash and cash equivalents	14,659	9,186
Net decrease in cash and cash equivalents	(230,307)	(121,205)
Cash and cash equivalents at beginning of the period	1,700,295	1,327,430
Cash and cash equivalents at end of the period	1,469,988	1,206,225

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

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Consolidated condensed interim statement of changes in equity Three months ended March 31, 2007 (Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal					Total	Minority interest	Total
	Share capital	Additional capital	Revaluation reserve	Foreign exchange differences	Retained earnings			
Balances at December 31, 2005	3,311,254	60,367	3,093,608	28,073	1,376,103	7,869,405	527,699	8,397,104
Profit for the period (unaudited)	-	-	-	-	216,730	216,730	14,819	231,549
Realization of revaluation reserve:								
Disposals (unaudited)	-	-	(10,044)	-	10,044	-	-	-
Depreciation (unaudited)	-	-	(113,980)	-	113,980	-	-	-
Deferred tax on realization (unaudited)	-	-	29,255	-	(29,255)	-	-	-
Foreign exchange differences (unaudited)	-	-	-	285,779	-	285,779	10,338	296,117
Total recognized income and expenses (unaudited)	-	-	-	-	6,937	502,509	25,157	527,666
Effect of acquisitions and disposals (unaudited)	-	-	-	-	6,937	6,937	4,843	11,780
Balances at March 31, 2006 (unaudited)	3,311,254	60,367	2,998,839	313,852	1,694,539	8,378,851	557,699	8,936,550
Balances at December 31, 2006	3,311,288	1,165,530	3,185,281	786,822	2,602,345	11,051,266	626,593	11,677,859
Profit for the period (unaudited)	-	-	-	-	395,633	395,633	22,301	417,934
Realization of revaluation reserve:								
Disposals (unaudited)	-	-	(1,893)	-	1,893	-	-	-
Depreciation (unaudited)	-	-	(114,077)	-	114,077	-	-	-
Deferred tax on realization (unaudited)	-	-	27,829	-	(27,829)	-	-	-
Revaluation of property, plant & equipment:								
Revaluation (unaudited)	-	-	2,246	-	-	2,246	-	2,246
Deferred tax on revaluation (unaudited)	-	-	(539)	-	-	(539)	-	(539)
Foreign exchange differences (unaudited)	-	-	-	130,828	-	130,828	2,619	133,447
Total recognized income and expenses (unaudited)	-	-	-	-	-	528,168	24,920	553,088
Dividends (unaudited)	-	-	-	-	-	-	(1,321)	(1,321)
Acquisition of minority interests (unaudited)	-	-	-	-	(19,871)	(19,871)	(14,737)	(34,608)
Balances at March 31, 2007 (unaudited)	3,311,288	1,165,530	3,098,847	917,650	3,066,248	11,559,563	635,455	12,195,018

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

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**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

1. Accounting policies

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

As of January 1, 2007, the Group adopted all of the new and revised IFRS and interpretations adopted by IASB that are relevant to its operations and effective for the accounting periods beginning on January 1, 2007, summarized as follows:

- IFRS 7 Financial Instruments: Disclosures, which is effective for annual periods beginning on or after 1 January 2007. The Standard requires comprehensive disclosure in respect of the Group's 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 requires extended disclosure in respect of the Parent Company's capital.

All of the Group's significant accounting policies will be updated to reflect the requirements of the new and revised standards and interpretations adopted by the IASB when the full set of consolidated financial statements of the Group is prepared for the year ended December 31, 2007.

The new and revised IFRS and interpretations have no effect on the Group's interim financial statements.

The accounting policies and methods of computation applied by the Group in these consolidated condensed interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended December 31, 2006.

2. Seasonality

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

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**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

3. Sales

Sales by product were as follows:

	Three months ended March 31,	
	2007	2006
	(unaudited)	(unaudited)
Hot-rolled strip and plate	943,027	737,102
Long products	773,978	505,710
Galvanized and other metallic coated sheet	333,685	271,834
Cold-rolled sheet	311,269	343,649
Semifinished products	281,294	238,887
Metalware products	218,623	115,493
Rails, wheels and axles	100,734	89,250
Others tubes and pipes, formed shapes	88,508	63,845
Coal and coking coal concentrate	79,741	34,519
Pellets and iron ore	68,070	59,048
Color coated sheet	67,144	5,399
Large diameter pipes	63,058	-
Shipping and handling costs billed to customers	153,365	106,703
Others	194,751	153,258
	<u>3,677,247</u>	<u>2,724,697</u>

Sales by delivery destination were as follows:

	Three months ended March 31	
	2007	2006
	(unaudited)	(unaudited)
Russian Federation	1,424,720	882,592
Europe	1,416,616	989,686
North America	528,540	700,080
The Middle East	117,977	39,206
South-East Asia	56,110	34,617
Central & South America	55,714	24,084
China and Central Asia	54,991	26,410
Africa	22,579	28,022
	<u>3,677,247</u>	<u>2,724,697</u>

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**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

4. Related party balances

	March 31, 2007 (unaudited)	December 31, 2006
	<u> </u>	<u> </u>
Associates balances		
Trade accounts payable	17,142	11,976
	<u> </u>	<u> </u>
Other related party balances		
Amounts receivable from other related parties:		
Trade accounts receivable	91,462	80,134
Advances paid	15,539	34,275
Other receivables	16,116	13,104
	<u> </u>	<u> </u>
	<u>123,117</u>	<u>127,513</u>
Short-term financial investments include the following balances with other related parties:		
Originated loans	48,729	75,699
Loans to bank customers	32,277	29,166
Trading securities - promissory notes	5,845	5,198
	<u> </u>	<u> </u>
	<u>86,851</u>	<u>110,063</u>
Long-term financial investments include the following balances with other related parties:		
Originated loans	78,508	76,528
Accounts at financial institutions	51,264	50,147
Held to maturity securities	6,314	6,090
Loans to bank customers	9,176	7,078
	<u> </u>	<u> </u>
	<u>145,262</u>	<u>139,843</u>
Amounts payable to other related parties:		
Trade accounts payable	46,729	74,227
Advances received	403	699
Other accounts payable	10,757	8,898
Bank demand deposits	20,147	58,719
Bank term deposits	14,183	15,904
	<u> </u>	<u> </u>
	<u>92,219</u>	<u>158,447</u>

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**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

5. Related party transactions

	Three months ended March 31	
	2007	2006
	(unaudited)	(unaudited)
Sales and income received from related parties:		
Sales	164,468	149,191
Interest income	8,669	2,067
Banking income	513	558
	<u>173,650</u>	<u>151,816</u>
Purchases from related parties:		
Purchases from associates:		
Non-capital expenditures	40,895	15,234
Purchases from joint ventures:		
Non-capital expenditures	12,431	11,697
Purchases from other related parties:		
Non-capital expenditures	192,720	165,305
Capital expenditures	5,028	48,220
Bank expenses	283	-
	<u>251,357</u>	<u>240,456</u>

Key management staff costs during the three months ended March 31, 2007 and 2006 amounted to US\$ 4.5 million and US\$ 1.2 million, respectively. Additionally, for the three months ended March 31, 2006 the parent company paid management fees amounting to US\$ 10.1 million to a related party, these amounts are included in non-capital expenditures purchased from other related parties. US\$ 1.4 million of those fees was paid to executive officers of Severstal (who were employed by ZAO Severstal Group) as compensation.

6. Contingent liabilities and commitments

There were no significant changes in the Group's contingent liabilities for the three months ended March 31, 2007.

As of March 31, 2007, the Group had capital commitments of US\$ 276.3 million (December 31, 2006: US\$ 291.1 million).

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**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

7. Acquisitions and disposals

In January 2007, the Group completed the acquisition of ZAO Vtorchermet and its subsidiaries and certain related companies for a total consideration of US\$ 45.4 million. ZAO Vtorchermet is a scrap processing and wholesale company, and the majority of its operations is located in Saint Petersburg. Currently, ZAO Vtorchermet exports substantially all of the scrap that it purchases to the Middle East, and the Group expects to continue these operations. The acquisition was conducted to secure a reliable source of scrap for the Russian steel mill in case of future changes in the Russian scrap market. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position or results of operations.

8. Segmental information – Income statement

	Three months ended March 31	
	2007	2006
	(unaudited)	(unaudited)
Sales		
Steel segment - Russia	1,891,946	1,264,242
Steel segment - USA	448,332	534,275
Steel segment - Lucchini	977,569	809,741
ITZ	63,058	-
Mining segment	483,652	317,662
Metalware segment	224,101	145,544
Intersegmental transaction	(411,411)	(346,767)
Total	<u>3,677,247</u>	<u>2,724,697</u>
Profit before financing and taxation :		
Steel segment - Russia	430,045	237,008
Steel segment - USA	31,916	31,619
Steel segment - Lucchini	98,161	65,000
ITZ	4,060	1,618
Mining segment	63,609	44,558
Metalware segment	(889)	2,339
Financing segment	1,522	2,686
Intersegmental transaction	(12,252)	14,131
Total	<u>616,172</u>	<u>398,959</u>

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**Notes to the consolidated condensed interim financial statements
for the three months ended March 31, 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

9. Subsequent events

Disposal of Lucchini Sidermeccanica SpA

In April 2007, following a binding offer received from a Lucchini family company, the Group signed a share sale agreement to dispose its investment in 100% of the shares (representing an effective Group ownership of 70.8%) of Lucchini Sidermeccanica SpA to the Lucchini family company for a cash consideration of Euro 127.8 million (US\$ 170.4 million at March 31, 2007 exchange rate). As at March 31, 2007 the investment in Lucchini Sidermeccanica SpA met the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations being classified as assets held for sale.

Acquisition of ZAO Neva-Metal and ZAO Neva-Metal-Trans

In May 2007, the Group completed the acquisition of a stevedore company ZAO Neva-Metal for US\$ 98.7 million and shipping agency ZAO Neva-Metal-Trans for US\$ 1.3 million. The majority of their operations are located in Saint Petersburg. The acquisition was conducted to secure a self-supporting export logistic chain. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, does not currently possess all necessary information to disclose the effect of this subsequent period acquisition on the Group's financial position or results of operations.

Acquisition of stake in Lucchini SpA

In May 2007, the Group acquired an additional 9% stake in Lucchini SpA from a Lucchini family company for a total consideration of Euro 85.2 million (US\$ 113.6 million at March 31, 2007 exchange rate). After the acquisition, the Group's share in the capital of Lucchini SpA is 79.8%.

Acquisition of stake in Severgal

In May 2007, the Group acquired a 25.01% stake in ZAO Severgal for a total consideration of US\$ 20 million. Management estimates the fair values of the acquired share of assets and liabilities at US\$ 23 million. After the acquisition, the Group's share in the capital of ZAO Severgal is 100%.

Preliminary dividends

Severstal's Board of Directors' meeting held on May 25, 2007 recommended a dividend of 2.6 rubles (US\$ 0.1 at March 31, 2007 exchange rate) per share and per global depositary receipt ("GDR") for the first quarter of 2007 with the record date of May 18, 2007. Each GDR represents one share in the Company.

Annual dividends

On June 15, 2007 the Group's shareholders' meeting approved annual dividend of 5.0 rubles (US\$ 0.2 at March 31, 2007 exchange rate) per share and per global depositary receipt ("GDR") for the year 2006. Each GDR represents one share in the Company.