

OO Severstal and subsidiaries

Consolidated condensed interim financial statements
for the nine months ended September 30, 2008 and 2007

OAO Severstal and subsidiaries

Consolidated condensed interim financial statements for the nine months ended September 30, 2008 and 2007

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Independent Auditors' Report

Board of Directors

ОАО Severstal

Report on Reviews of 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 30 September 2008, and the related consolidated condensed interim statements of income for the three- and nine-month periods ended 30 September 2008 and 2007 and the related consolidated condensed interim statements of changes in equity and cash flows for the nine-month periods ended 30 September 2008 and 2007 (the "consolidated interim financial information"). Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim financial information based on our reviews.

Scope of Reviews

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated interim financial information as at 30 September 2008 and for the three- and nine-month periods ended 30 September 2008 and 2007 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

KPMG Limited

KPMG Limited

13 November 2008

OAO Severstal and subsidiaries

Consolidated condensed interim income statements

Nine months ended September 30, 2008 and 2007

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

	Note	Nine months ended September 30,		Three months ended September 30,	
		2008 (unaudited)	2007 (restated, unaudited)	2008 (unaudited)	2007 (restated, unaudited)
Sales					
Sales - external		17,415,947	10,755,368	7,294,868	3,407,995
Sales - to related parties	5	736,250	548,116	310,237	156,895
	3	18,152,197	11,303,484	7,605,105	3,564,890
Cost of sales		(12,381,668)	(7,688,892)	(4,985,715)	(2,502,415)
Gross profit		5,770,529	3,614,592	2,619,390	1,062,475
General and administrative expenses		(707,464)	(524,591)	(252,684)	(180,689)
Distribution expenses		(893,001)	(657,401)	(307,293)	(197,903)
Indirect taxes and contributions		(133,383)	(109,888)	(44,761)	(35,172)
Share of associates' (loss)/profit		(2,698)	7,580	(1,579)	1,066
Net (loss)/income from securities operations		(71,365)	11,978	(76,634)	3,787
Loss on disposal of property, plant and equipment		(30,724)	(33,325)	(2,836)	(15,165)
Net other operating income/(expenses)	9	247,181	3,723	(6,218)	(3,990)
Profit from operations		4,179,075	2,312,668	1,927,385	634,409
(Impairment)/Reversal of impairment of property, plant and equipment		(456)	(19,060)	3,604	(8,809)
Negative goodwill, net	7	267,360	633	45,893	-
Net other non-operating income/(expenses)		253,123	(33,515)	(15,225)	(41,314)
Profit before financing and taxation		4,699,102	2,260,726	1,961,657	584,286
Interest income		107,049	121,717	40,872	42,704
Interest expense		(317,646)	(213,669)	(135,448)	(76,023)
Foreign exchange difference		(45,252)	(2,814)	(52,844)	191
Profit before income tax		4,443,253	2,165,960	1,814,237	551,158
Income tax expense		(1,128,952)	(607,010)	(489,806)	(171,531)
Profit from continuing operations		3,314,301	1,558,950	1,324,431	379,627
Profit from discontinued operations		-	14,744	-	5,404
Profit for the period		3,314,301	1,573,694	1,324,431	385,031
Attributable to:					
shareholders of OAO Severstal		3,243,411	1,525,661	1,305,546	377,642
minority interest		70,890	48,033	18,885	7,389
Weighted average number of shares outstanding during the period (millions of shares)		1,007.7	1,007.7	1,007.7	1,007.7
Basic and diluted earnings per share (US dollars)		3.22	1.51	1.30	0.37

These consolidated condensed interim financial statements were approved by the Board of Directors on November 13, 2008.

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

OAO Severstal and subsidiaries

Consolidated condensed interim balance sheets September 30, 2008 and December 31, 2007 (Amounts expressed in thousands of US dollars)

	<u>Note</u>	<u>September 30, 2008</u> (unaudited)	<u>December 31, 2007</u> (restated, unaudited)
Assets			
Current assets:			
Cash and cash equivalents		2,336,479	1,619,872
Short-term bank deposits		880,481	665,977
Short-term financial investments		145,123	207,632
Trade accounts receivable		3,245,601	1,719,441
Amounts receivable from related parties	4	118,303	78,304
Inventories		5,001,419	2,616,061
VAT recoverable		315,838	283,746
Income tax recoverable		18,991	75,993
Assets held for sale		-	461,197
Other current assets		506,481	321,611
Total current assets		<u>12,568,716</u>	<u>8,049,834</u>
Non-current assets:			
Long-term financial investments		143,680	136,496
Investment in associates and joint ventures		106,477	203,122
Property, plant and equipment		11,182,453	8,225,469
Intangible assets		866,326	654,846
Restricted cash		8,824	13,810
Deferred tax assets		61,599	49,041
Other non-current assets		28,375	38,949
Total non-current assets		<u>12,397,734</u>	<u>9,321,733</u>
Total assets		<u>24,966,450</u>	<u>17,371,567</u>
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		2,103,313	1,207,185
Amounts payable to related parties	4	47,569	58,915
Short-term debt finance		1,852,844	972,701
Income taxes payable		188,180	41,382
Other taxes and social security payable		355,645	200,376
Dividends payable		472,073	107,485
Liabilities related to assets held for sale		-	91,750
Other current liabilities		838,556	610,709
Total current liabilities		<u>5,858,180</u>	<u>3,290,503</u>
Non-current liabilities:			
Long-term debt finance		4,930,693	2,813,011
Deferred tax liabilities		866,457	457,009
Retirement benefit liability		790,221	387,398
Other non-current liabilities		493,637	316,009
Total non-current liabilities		<u>7,081,008</u>	<u>3,973,427</u>
Equity:			
Share capital		3,311,288	3,311,288
Treasury shares		(9,980)	-
Additional capital		1,165,530	1,165,530
Foreign exchange differences		931,189	1,147,426
Retained earnings		6,035,198	4,003,905
Other reserves		99,142	-
Total equity attributable to shareholders of parent		<u>11,532,367</u>	<u>9,628,149</u>
Minority interest		<u>494,895</u>	<u>479,488</u>
Total equity		<u>12,027,262</u>	<u>10,107,637</u>
Total equity and liabilities		<u>24,966,450</u>	<u>17,371,567</u>

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

OAO Severstal and subsidiaries

Consolidated condensed interim statements of cash flows Nine months ended September 30, 2008 and 2007 (Amounts expressed in thousands of US dollars)

	Nine months ended September 30,	
	2008 (unaudited)	2007 (restated, unaudited)
Operating activities:		
Profit before financing and taxation	4,699,102	2,260,726
Adjustments to reconcile profit to cash generated from operations:	-	
Depreciation and amortization	770,817	599,509
Impairment of property, plant and equipment	456	19,060
Provision for inventories, receivables and other provisions	135,267	6,275
Negative goodwill, net	(267,360)	(633)
Loss on disposal of property, plant and equipment	30,724	33,325
Gain on disposal of subsidiaries	(316,464)	(47,314)
Loss/(gain) on remeasurement and disposal of financial investments	71,365	(11,978)
Share of associates' results less dividends from associates	2,698	(7,580)
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,084,942)	(100,515)
Amounts receivable from related parties	(40,628)	23,892
VAT recoverable	(36,699)	98,459
Inventories	(1,162,619)	(187,703)
Trade accounts payable	329,546	46,983
Bank customer accounts	-	31,831
Amounts payable to related parties	(2,764)	136,930
Other taxes and social security payables	136,153	(15,317)
Other non-current liabilities	(46,945)	(57,964)
Assets held for sale	43,100	14,708
Net other changes in operating assets and liabilities	(92,189)	(36,085)
Cash generated from operations	3,168,618	2,806,609
Interest paid (excluding banking operations)	(221,758)	(187,104)
Income tax paid	(809,828)	(623,498)
Net cash from operating activities	2,137,032	1,996,007
Investing activities:		
Additions to property, plant and equipment	(1,405,377)	(1,236,445)
Additions to intangible assets	(57,735)	(22,420)
Net (increase)/decrease in short-term bank deposits	(243,431)	13,755
Additions to financial investments and associates	(771,573)	(853,837)
Acquisition of minority interests and entities under common control	(123,150)	(221,565)
Net cash outflow on acquisitions of subsidiaries	(2,191,470)	(149,568)
Net cash inflow on disposals of subsidiaries	670,451	156,780
Proceeds from disposal of property, plant and equipment	32,695	10,598
Proceeds from disposal of financial investments	757,745	618,578
Interest received (excluding banking operations)	106,879	110,601
Cash from investing activities	(3,224,966)	(1,573,523)
Financing activities:		
Proceeds from debt finance	5,053,182	1,663,563
Buy-back of issued shares	(9,980)	-
Repayment of debt finance	(2,447,324)	(1,437,071)
Repayments under lease obligations	(13,576)	(1,399)
Dividends paid	(748,818)	(326,702)
Cash from financing activities	1,833,484	(101,609)
Effect of exchange rates on cash and cash equivalents	(28,943)	60,681
Net increase in cash and cash equivalents	716,607	381,556
Cash and cash equivalents at beginning of the period	1,619,872	1,733,414
Cash and cash equivalents at end of the period	2,336,479	2,114,970

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

OAO Severstal and subsidiaries

Consolidated condensed interim statements of changes in equity Nine months ended September 30, 2008 and 2007 (Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal							Minority interest	Total
	Share capital	Treasury shares	Additional capital	Foreign exchange differences	Retained earnings	Other reserves	Total		
Note									
Balances at December 31, 2006 as previously reported	3,311,288	-	1,165,530	535,591	2,983,954	-	7,996,363	557,645	8,554,008
Acquisition of entities under common control (unaudited)	-	-	-	-	(15,257)	-	(15,257)	14,986	(271)
Balances at December 31, 2006 (unaudited)	3,311,288	-	1,165,530	535,591	2,968,697	-	7,981,106	572,631	8,553,737
Profit for the period (restated, unaudited)	-	-	-	-	1,525,661	-	1,525,661	48,033	1,573,694
Foreign exchange differences (restated, unaudited)	-	-	-	453,235	-	-	453,235	31,206	484,441
Total recognized income and expenses (restated, unaudited)	-	-	-	-	-	-	1,978,896	79,239	2,058,135
Dividends (unaudited)	-	-	-	-	(698,907)	-	(698,907)	(11,961)	(710,868)
Effect of acquisitions and disposals (restated, unaudited)	-	-	-	-	(31,856)	-	(31,856)	(189,709)	(221,565)
Balances at September 30, 2007 (restated, unaudited)	<u>3,311,288</u>	<u>-</u>	<u>1,165,530</u>	<u>988,826</u>	<u>3,763,595</u>	<u>-</u>	<u>9,229,239</u>	<u>450,200</u>	<u>9,679,439</u>
Balances at December 31, 2007 as previously reported	3,311,288	-	1,165,530	1,176,321	4,082,834	-	9,735,973	474,706	10,210,679
Acquisition of entities under common control and adjustments to provisional values (unaudited)	-	-	-	(28,895)	(78,929)	-	(107,824)	4,782	(103,042)
Balances at December 31, 2007 (unaudited)	<u>3,311,288</u>	<u>-</u>	<u>1,165,530</u>	<u>1,147,426</u>	<u>4,003,905</u>	<u>-</u>	<u>9,628,149</u>	<u>479,488</u>	<u>10,107,637</u>
Profit for the period (unaudited)	-	-	-	-	3,243,411	-	3,243,411	70,890	3,314,301
Fair value adjustments of hedges (unaudited)	-	-	-	-	-	5,139	5,139	1,299	6,438
Deferred tax on fair value adjustments of hedges (unaudited)	-	-	-	-	-	(1,358)	(1,358)	(343)	(1,701)
Foreign exchange differences (unaudited)	-	-	-	(216,237)	-	-	(216,237)	(9,994)	(226,231)
Total recognized income and expenses (unaudited)	-	-	-	-	-	-	3,030,955	61,852	3,092,807
Repurchase of issued shares (unaudited)	-	(9,980)	-	-	-	-	(9,980)	-	(9,980)
Dividends (unaudited)	-	-	-	-	(1,126,526)	-	(1,126,526)	(8,118)	(1,134,644)
Fair value adjustment upon acquisition of subsidiary to previously held interest (unaudited)	7	-	-	-	-	95,361	95,361	-	95,361
Effect of acquisitions and disposals (unaudited)	-	-	-	-	(85,592)	-	(85,592)	(38,327)	(123,919)
Balances at September 30, 2008 (unaudited)	<u>3,311,288</u>	<u>(9,980)</u>	<u>1,165,530</u>	<u>931,189</u>	<u>6,035,198</u>	<u>99,142</u>	<u>11,532,367</u>	<u>494,895</u>	<u>12,027,262</u>

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

OA O Severstal and subsidiaries

Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2008 and 2007 *(Amounts expressed in thousands of US dollars, except as otherwise stated)*

1. Accounting policies

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

In 2007, management decided to change the accounting policy for property, plant and equipment from the revaluation model to the cost model. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the change in accounting policy was applied retrospectively and comparative figures for the nine months ended September 30, 2007 were restated. The aggregate effect of the change is disclosed in the consolidated financial statements for the year ended December 31, 2007.

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, 2007.

2. Seasonality

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

OAO Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements
for the nine months ended September 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

3. Sales

Sales by product were as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	4,934,243	2,813,233	2,333,601	859,130
Long products	3,211,026	2,328,764	1,069,568	712,992
Galvanized and other metallic coated sheet	1,754,151	993,348	798,071	312,771
Cold-rolled sheet	1,753,356	935,571	847,153	301,608
Semifinished products	1,413,529	811,985	659,554	220,757
Metalware products	1,076,239	746,417	411,189	256,267
Large diameter pipes	789,227	303,088	356,834	152,915
Shipping and handling costs billed to customers	654,170	475,981	225,191	148,821
Pellets and iron ore	387,696	205,245	115,387	72,516
Others tubes and pipes, formed shapes	401,486	292,296	164,021	103,520
Scrap	308,597	212,479	77,023	87,467
Color coated sheet	278,976	223,578	113,800	75,072
Rails, wheels and axles	201,724	245,014	52,036	54,020
Coal and coking coal concentrate	181,927	198,824	71,224	41,408
Gold	113,274	-	42,417	-
Others	692,576	517,661	268,036	165,626
	<u>18,152,197</u>	<u>11,303,484</u>	<u>7,605,105</u>	<u>3,564,890</u>

Sales by delivery destination were as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Russian Federation	7,532,329	5,047,296	3,043,722	1,780,012
Europe	5,215,202	3,930,064	1,765,550	1,172,655
North America	3,955,766	1,465,532	2,272,260	409,149
The Middle East	492,676	273,214	160,427	69,426
China and Central Asia	284,973	252,770	81,021	82,991
South-East Asia	323,009	176,224	127,568	29,359
Central & South America	269,015	126,201	126,530	21,296
Africa	79,227	32,183	28,027	2
	<u>18,152,197</u>	<u>11,303,484</u>	<u>7,605,105</u>	<u>3,564,890</u>

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**Notes to the consolidated condensed interim financial statements
for the nine months ended September 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

4. Related party balances

	<u>September 30, 2008 (unaudited)</u>	<u>December 31, 2007</u>
Joint ventures' balances		
Trade accounts payable	8,642	16,353
Other related party balances		
Cash and cash equivalents at related party bank	186,067	239,909
Deposits with related party bank	75,998	18,985
Amounts receivable from other related parties:		
Trade accounts receivable	78,142	43,770
Advances paid	5,383	6,546
Other receivables	34,778	27,988
	<u>118,303</u>	<u>78,304</u>
Short-term financial investments include the following balances with other related parties:		
Loans	8,729	22,205
Promissory notes	26,709	7,457
	<u>35,438</u>	<u>29,662</u>
Long-term financial investments include the following balances with other related parties:		
Loans	36,968	37,147
Held-to-maturity securities and deposits	62,520	62,759
	<u>99,488</u>	<u>99,906</u>
Amounts payable to other related parties:		
Trade accounts payable	20,801	36,886
Advances received	2,419	3,843
Other accounts payable	15,707	1,833
	<u>38,927</u>	<u>42,562</u>
Debt financing includes the following balances with other related parties:		
Short-term debt financing	96,776	36,866
Long-term debt financing	-	1,536
	<u>96,776</u>	<u>38,402</u>

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**Notes to the consolidated condensed interim financial statements
for the nine months ended September 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

5. Related party transactions

	Nine months ended September 30,		Three months ended September 30,	
	2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
Sales to and income received from other related parties:				
Sales	736,250	548,116	310,237	156,895
Interest income	12,406	9,828	4,724	1,130
	<u>748,656</u>	<u>557,944</u>	<u>314,961</u>	<u>158,025</u>
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	587	1,344	1	390
Purchases from joint ventures:				
Non-capital expenditures	131,427	165,744	30,273	60,006
Purchases from other related parties:				
Non-capital expenditures	168,457	608,091	45,939	201,026
Capital expenditures	1,241	7,961	519	1,160
	<u>301,712</u>	<u>783,140</u>	<u>76,732</u>	<u>262,582</u>

6. Contingent liabilities and commitments

As of September 30, 2008, the Group had capital commitments of US\$ 1,703.6 million (December 31, 2007: US\$ 540.2 million).

In May 2008, ArcelorMittal filed a law suit against Esmark, which was subsequently acquired by the Group (refer to Note 7), seeking in excess of US\$ 540 million in connection with a breach of a contract to purchase the Sparrows Point steel manufacturing facility from ArcelorMittal. Management believes that the suit is without merit and will defend the action.

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**Notes to the consolidated condensed interim financial statements
for the nine months ended September 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

7. Acquisitions and disposals

Acquisitions of subsidiaries from Majority Shareholder

In July 2007, the Group acquired a 100% stake in OOO Petrovtormet and OOO Severstalskrap-Komi, for a total consideration of US\$ 0.02 million and US\$ 0.2 million, respectively, and a 75.01% and a 75.1% stake in OAO Arhangelskii vtormet and in OAO Murmanskvtormet, for a total consideration of US\$ 2.2 million and US\$ 2.9 million, respectively. OAO Arhangelskii vtormet, OAO Murmanskvtormet, OOO Petrovtormet and OOO Severstalskrap-Komi were acquired from the controlling shareholder.

The acquirees' profit since the acquisition dates included in the Group's profit for the period, as well as the revenue and profit of the acquired entities from the beginning of the period to the dates of acquisition, individually and in the aggregate, are insignificant to the Group's revenue and profit for the period.

In January 2008, the Group completed the acquisition of a 100% stake in Baracom Limited for a total consideration of US\$ 84.4 million. Baracom Limited owns 79.9% of the voting stock of the holding structure which controls 74.2% of SeverCorr. SeverCorr is mini-mill which produces high quality steel for motor-car, construction, pipe and engineering industries.

These acquisitions have been accounted for as if they had occurred at the beginning of the earliest comparative period presented.

Acquisitions of subsidiaries and associates from third and other related parties

In January 2007, the Group completed the acquisition of 84.8% of the share capital of ZAO Vtorchermet and its wholly-owned 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. 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.

In May 2007, the Group completed the acquisition of 100% of a stevedore company, ZAO Neva-Metall, for US\$ 98.7 million and 100% of the shipping agency ZAO Neva-Metall Trans for US\$ 1.3 million from a related party. The majority of their operations are located in Saint Petersburg. The acquisition was conducted to secure a self-supporting export logistic chain.

In July 2007, the Group acquired a 100% stake in each of the companies OOO Georesurs, OOO Severstal-Vtormet, and OOO SPB-Giproshakht for a total consideration of US\$ 2.1 million, US\$ 24.9 million, and US\$ 6.3 million, respectively.

During August and September 2007, the Group acquired a 29.7% stake in Celtic Resources Holdings Plc. from Aton International Ltd. for a total consideration of US\$ 76.5 million. Celtic Resources Holdings Plc is a gold producer which operates gold mines in Kazakhstan.

The acquirees' profit since the acquisition dates included in the Group's profit for the period, as well as the revenue and profit of the acquired entities from the beginning of the period to the date of acquisition, individually and in the aggregate, are insignificant to the Group's revenue and profit for the period.

In January 2008, the Group acquired a 91.57% stake in OAO StalMag for a total consideration of US\$ 17.6 million. OAO StalMag is a ferroniobium producer which production will be used by the Group's entities.

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**Notes to the consolidated condensed interim financial statements
for the nine months ended September 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

The acquiree's profit since the acquisition date included in the Group's profit for the period, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for the period.

In May 2008, the Group acquired a 100% stake in Sparrows Point LLC for a total consideration of US\$ 818 million, subject to certain adjustments of US\$ 48 million, resulting in a final consideration paid of US\$ 770 million. Sparrows Point LLC is an integrated steel plant on the East Coast of USA with its own deep water port and rail connection to the main East Coast rail networks. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, the initial accounting for the acquisition was determined provisionally. Final purchase price allocation is expected to be completed before December 31, 2008.

The acquiree's loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for the period. Profit since the acquisition date included in the Group's profit for the period amounted to US\$ 76 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$ 766.1 million.

In July 2008, the Group acquired a 100% stake in WCI Steel Inc. (re-named to Severstal Warren Inc.) for a total consideration of US\$ 443 million. WCI Steel Inc. operates a steel mill in Warren, Ohio, and is an integrated producer of flat-rolled steel products, including high carbon, alloy, ultra high strength, and heavy-gauge galvanized steel. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, the initial accounting for the acquisition was determined provisionally. Final purchase price allocation is expected to be completed before December 31, 2008.

The acquiree's loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for the period. Profit since the acquisition date included in the Group's profit for the period amounted to US\$ 26.3 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$ 498 million.

In July 2008, the Group acquired a 100% stake in Redaelli Tecna SpA for an approximate total consideration of € 35 million (US\$ 55 million at the transaction date exchange rate). Redaelli Tecna SpA is a manufacturer of high performance wire ropes for industrial hoisting, mining, cableways, material transportation, etc. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, the initial accounting for the acquisition was determined provisionally. Final purchase price allocation is expected to be completed before December 31, 2008.

The acquiree's profit since the acquisition date included in the Group's profit for the period, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for the period.

OA0 Severstal and subsidiaries

Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2008 and 2007

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

In August 2008, the Group acquired a 100% stake in Esmark (re-named to Severstal Wheeling Inc.) for a total consideration of US\$ 977.8 million. Esmark is a manufacturer and distributor of flat rolled and other steel products in the United States. The Group acquired all of Esmark's business, including the remaining 50% stake in Mountain State Carbon LLC, a blast furnace coking coal production facility in West Virginia. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, the initial accounting for the acquisition was determined provisionally. Final purchase price allocation is expected to be completed before December 31, 2008.

The acquiree's profit from the beginning of the period to the date of acquisition comprised US\$ 29.6 million. Loss since the acquisition date is insignificant to the Group's profit for the period. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$ 1,629 million.

In August 2008, the Group acquired a 100% stake in Balazhal, a gold mine in East Kazakhstan for a total consideration of US\$ 38.9 million. Management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, the initial accounting for the acquisition was determined provisionally. Final purchase price allocation is expected to be completed within one year starting from the date of acquisition.

The acquiree's profit since the acquisition date included in the Group's profit for the period, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for the period.

OAO Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements
for the nine months ended September 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

A summary of assets and liabilities acquired from third and other related parties excluding acquisitions from the Majority Shareholder during the nine and three months ended September 30, 2008 and 2007 is presented below:

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
Cash and cash equivalents	93,148	4,155	93,148	2,286
Trade accounts receivable	602,635	9,409	434,988	2,423
Inventories	1,314,825	15,134	765,092	2,522
Deferred tax assets	35,724	2,718	35,501	1,615
Other current assets	45,850	47,536	33,676	17,474
Property, plant and equipment	2,508,991	22,818	1,797,636	14,835
Intangible assets	156,778	16	86,001	3
Financial investments	41,256	-	29,737	-
Other non-current assets	10,686	-	10,686	-
Trade accounts payable	(551,503)	(7,702)	(301,507)	(6,394)
Other taxes and social security payable	(12,281)	(1,007)	(12,281)	(124)
Debt finance	(398,331)	(17,635)	(398,331)	-
Retirement benefit liability	(407,505)	-	(360,456)	-
Deferred tax liabilities	(312,976)	(118)	(187,976)	(118)
Other liabilities	(384,424)	(22,586)	(293,928)	-
Net identifiable assets and liabilities acquired	2,742,873	52,738	1,731,986	34,522
Minority interest	(4,172)	(223)	(2,352)	-
Severstal's share of net identifiable assets and liabilities acquired	2,738,701	52,515	1,729,634	34,522
Investments in Mountain State Carbon at equity	(117,805)	-	(117,805)	-
Fair value revaluation of investment in Mountain State Carbon	(95,361)	-	(95,361)	-
Consideration paid:				
Consideration paid in cash	(2,284,618)	(153,723)	(1,514,618)	(6,543)
Consideration paid in financial assets	(17,600)	(33,321)	-	(33,321)
Positive goodwill on acquisition of subsidiaries	(44,043)	(135,162)	(44,043)	(5,342)
Negative goodwill on acquisition of subsidiaries	267,360	633	45,893	-
Net change in cash and cash equivalents	(2,191,470)	(149,568)	(1,421,470)	(4,257)

Included in negative goodwill is US\$ 219 million which is the difference between purchase price and fair market value of the acquired net assets of Sparrows Point LLC. This difference arose primarily due to Severstal's competitive position in negotiations based on exclusive USW's (United Steelworkers of America) support in bidding and time restrictions in the administered sales process.

OAo Severstal and subsidiaries

Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2008 and 2007 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Final purchase price allocation

During nine months ended September 30, 2008, management completed the purchase price allocation of OOO Nerengi-Metalik and ZAO Mine Aprelkovo acquired in October 2007. The effect of the final purchase price allocation on these consolidated financial statements is the following:

	Increase/(decrease) compared to the provisional purchase price allocation at December 31, 2007
	US\$, thousand
Inventories	6,310
Other current assets	(4,350)
Property, plant and equipment	8,854
Intangible assets	42,965
Deferred tax assets	(3,283)
Other taxes and social security payable	(48)
Other current liabilities	(75)
Deferred tax liabilities	57,585
Other non-current liabilities	(6,412)
Retained earnings	(554)

The comparative information at December 31, 2007, has been restated as if the accounting for the business combination had been completed at the acquisition date.

Acquisitions of minority interest

In March 2007, the Group acquired a 2.01%, a 0.04%, and a 0.05% stake in OAO Karelsky Okatysh, OAO Olkon, and in OAO Vorkutaugol for a total consideration of US\$ 35.4 million, US\$ 0.1 million, and US\$ 0.4 million, respectively.

In May 2007, the Group acquired an additional 9% stake in Lucchini SpA from a Lucchini family company for a total consideration of € 85.2 million (US\$ 114.8 million at the transaction date exchange rate) increasing the Group's share in the capital of Lucchini SpA to 79.8%.

In May 2007, the Group acquired a 25.01% stake in ZAO Severgal for a total consideration of US\$ 20 million increasing the Group's share in the capital of ZAO Severgal to 100%.

In June 2007, the Group acquired a 1.94%, a 0.62%, a 3.56%, a 1.23%, and a 1.02% stake in OAO Karelsky Okatysh, OAO Olkon, OAO Vorkutaugol, OAO Mine Vorgashorskaya, and in OAO Mine Berezovskaya for a total consideration of US\$ 23.5 million, US\$ 1.9 million, US\$ 29.3 million, US\$ 0.6 million, and US\$ 0.7 million, respectively.

In January 2008, the Group completed the acquisition of a 100% stake in Celtic Resources Holdings Plc by acquiring the remaining 13.7% stake in the company for a total consideration of US\$ 44 million.

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

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

OA0 Severstal and subsidiaries

Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2008 and 2007

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

In August - September 2008, the Group acquired a 0.38%, a 2.83% and 0.89% stake in OAO Karelsky Okatysh, OAO Olkon and in OAO Vorkutaugol for a total consideration of US\$ 4.7 million, US\$ 12.0 million and US\$ 5.3 million, respectively.

Disposals of subsidiaries

In June 2007, the Group sold its 100% (effective ownership was 79.8%) of Lucchini Sidermeccanica SpA and its wholly owned subsidiaries (Lucchini UK Ltd, Lucchini Sweden AB and Lucchini Poland Spzoo) to members of the founding Lucchini family for a total consideration of € 127.8 million (US\$ 172.5 million at the transaction date exchange rate). To support this transaction an independent fairness opinion of the transaction was obtained from a properly qualified Italian bank.

In July 2007, the Group sold 100% (effective ownership was 79.8%) of Nitruvid SAS to a third party for a total consideration of € 6.5 million (US\$ 8.9 million at the transaction date exchange rate).

In April 2008, the Group sold its 97.9%, 99.46% and 100% participation in OAO Mine Berezovskaya, OAO Mine Pervomaiskaya and ZAO Zhernovskaya-3 respectively to ArcelorMittal for a total consideration of US\$ 652 million.

In June 2008, the Group sold its 100% and 40.03% participation in Relco Spzoo and Coimpex Spzoo respectively for a total consideration of € 12 million (US\$ 18 million at the transaction date exchange rate).

OAO Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements
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(Amounts expressed in thousands of US dollars, except as otherwise stated)

A summary of assets and liabilities disposed during the nine and three months ended September 30, 2008 and 2007 is presented below:

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
Cash and cash equivalents	-	(24,620)	-	(454)
Trade accounts receivable	-	(114,415)	-	-
Inventories	-	(84,821)	-	-
Other assets	-	(9,840)	-	(3,464)
Property, plant and equipment	-	(157,244)	-	-
Intangible assets	-	(2,268)	-	-
Deferred tax assets	-	(759)	-	-
Assets held for sale	(443,021)	-	-	-
Trade accounts payables	-	169,643	-	-
Income tax payable	-	8,939	-	-
Other taxes and social security payable	-	8,091	-	-
Deferred tax liabilities	-	9,250	-	-
Retirement benefit liability	-	15,864	-	-
Debt finance	-	30,819	-	-
Liabilities held for sale	88,942	-	-	-
Other liabilities	-	17,275	-	-
Net identifiable assets	(354,079)	(134,086)	-	(3,918)
Minority interest	92	-	-	-
Sub-total	(353,987)	(134,086)	-	(3,918)
Consideration in cash	670,451	181,400	-	8,925
Net gain on disposal	316,464	47,314	-	5,007
Net change in cash and cash equivalents	670,451	156,780	-	8,471

Net gain on disposal of subsidiaries is included in other non-operating income.

OAO Severstal and subsidiaries

**Notes to the consolidated condensed interim financial statements
for the nine months ended September 30, 2008 and 2007**
(Amounts expressed in thousands of US dollars, except as otherwise stated)

8. Segmental information – Income statement

	Nine months ended September 30,		Three months ended September 30,	
	2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
Sales				
Mining segment	2,017,064	1,342,169	708,318	424,740
Russian Steel segment	9,171,786	6,176,908	3,670,955	2,055,742
Lucchini segment	3,322,925	2,787,732	1,042,120	791,605
North America	3,966,373	1,302,821	2,312,489	385,392
IPM	791,097	312,250	358,704	153,586
Metalware segment	970,680	754,386	328,507	257,301
Intersegmental transactions	(2,087,728)	(1,372,782)	(815,988)	(503,476)
Total	18,152,197	11,303,484	7,605,105	3,564,890
Profit before financing and taxation :				
Mining segment	950,083	208,661	248,073	38,660
Russian Steel segment	2,592,647	1,763,303	1,323,399	551,910
Lucchini segment	307,379	228,903	58,457	(2,056)
North America	586,286	(25,891)	211,788	(56,321)
IPM	221,262	72,093	102,857	44,041
Metalware segment	105,923	31,822	30,764	3,198
Intersegmental transactions	(64,478)	(18,165)	(13,681)	4,854
Total	4,699,102	2,260,726	1,961,657	584,286

Acquisition of entities during the nine-month period ended September 30, 2008 (refer to Note 7) included in North America segment resulted in an US\$ 4.6 billion increase of Group's total assets compared to December 31, 2007.

In August 2008, the scrap businesses were transferred from Mining segment to Russian Steel segment following a change in the Group management structure. The comparative information has been presented as if the transfer occurred at the beginning of the earliest comparative period presented.

9. Net other operating income

In January 2008, an explosion occurred on one of Severstal North America's ("SNA") furnaces, blast furnace "B". Following the accident, SNA has ceased blast furnace "B" operation. SNA is insured against property damage and business interruption with a combined gross coverage of US\$ 500 million, subject to customary deductibles. The business interruption insurance covers fixed costs and loss of profits. Management has estimated net recoverable fixed costs and lost profits in the period from the accident until September 30, 2008 at US\$ 109.6 million (US\$ 77.5 million until June 30, 2008) and recognized related insurance coverage within operating income.

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

OAo Severstal and subsidiaries

Notes to the consolidated condensed interim financial statements for the nine months ended September 30, 2008 and 2007 *(Amounts expressed in thousands of US dollars, except as otherwise stated)*

10. Dividends

On June 15, 2007 the Meeting of Shareholders approved annual dividend of 5.0 rubles (US\$ 0.2 at June 15, 2007 exchange rate) per share and per GDR in respect of 2006.

On June 29, 2007 the Meeting of Shareholders approved a dividend of 2.6 rubles (US\$ 0.1 at June 29, 2007 exchange rate) per share and per GDR for the first quarter of 2007.

On September 28, 2007 the Meeting of Shareholders approved a dividend of 10.0 rubles (US\$ 0.4 at September 28, 2007 exchange rate) per share and per GDR for the first half of 2007.

On June 27, 2008 the Meeting of Shareholders approved annual dividend of 4.0 rubles (US\$ 0.2 at June 27, 2008 exchange rate) per share and per GDR in respect of 2007.

On June 27, 2008 the Meeting of Shareholders approved a dividend of 5.2 rubles (US\$ 0.2 at June 27, 2008 exchange rate) per share and per GDR for the first quarter of 2008.

On September 30, 2008 the Meeting of Shareholders approved a dividend of 18.35 rubles (US\$ 0.7 at September 30, 2008 exchange rate) per share and per GDR for the first half of 2008.

11. Subsequent events

During October 2008, the Group repurchased 1,750,431 shares of OAO Severstal for a total consideration of US\$ 16.3 million.

In October 2008, the Group completed the acquisition of 100% stakes in OAO Karelsky Okatysh, OAO Olkon and in OAO Severstal-Metiz by acquiring the remaining 4.84%, 4.47% and 2.99% stakes in entities for a total consideration of US\$ 65.9 million, US\$ 20.7 million and US\$ 9.7 million, respectively.

In October 2008, the Group drew US\$ 1.2 billion a previously signed on a 5-year syndicated loan facility. The facility bears an interest rate of LIBOR + 2.35% per annum and has a 1.5 year grace period followed by quarterly repayments.

In November 2008, the Group acquired a 100% stake in PBS Coals Ltd, a U.S. coal mining company for a total cash consideration of CAD 1,006 million (US\$ 829.5 million at the transaction date exchange rate). 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. Final purchase price allocation is expected to be completed within one year starting from the date of acquisition.

As a result of slower demand for steel products due to recent changes in global economic environment, OAO Severstal announced its decision to reduce production at its steel plants in Russia, North America and Europe commencing October 2008. As a consequence, the Group's workforce, plant and equipment experience downtimes. Their financial effect cannot be estimated at the date of these financial statements.