

OAO Severstal and subsidiaries

Consolidated interim condensed financial statements
for the nine months ended September 30, 2010 and 2009

OAO Severstal and subsidiaries

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Independent Auditors' Report

To the Board of Directors

OA O Severstal

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OA O Severstal (the "Company") and its subsidiaries (the "Group") as at 30 September 2010, the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and nine-month periods ended 30 September 2010 and 2009, and the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month periods ended 30 September 2010 and 2009, and selected explanatory notes (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our reviews.

Scope of Reviews

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 September 2010, and for the three- and nine-month periods ended 30 September 2010 and 2009 is not prepared, in all material aspects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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12 November 2010

OAO Severstal and subsidiaries

Consolidated interim condensed income statements

Nine months ended September 30, 2010 and 2009

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

	Note	Nine months ended September 30,		Three months ended September 30,	
		2010 (unaudited)	2009 (unaudited)*	2010 (unaudited)	2009 (unaudited)*
Sales					
Sales - external		11,166,403	7,827,862	3,874,675	3,093,870
Sales - to related parties	5	155,859	87,354	60,428	11,683
	4	11,322,262	7,915,216	3,935,103	3,105,553
Cost of sales		(8,252,277)	(6,939,628)	(2,858,228)	(2,459,489)
Gross profit		3,069,985	975,588	1,076,875	646,064
General and administrative expenses		(527,180)	(426,619)	(188,720)	(109,831)
Distribution expenses		(719,078)	(570,067)	(254,843)	(221,147)
Other taxes and contributions		(128,078)	(113,811)	(46,424)	(45,256)
Share of associates' income/(loss)		9,875	6,718	(2,634)	1,551
Loss from securities operations		(98,750)	(6,571)	(38,614)	(473)
Loss on disposal of property, plant and equipment and intangible assets		(39,043)	(15,622)	(8,984)	(8,207)
Net other operating income/(expenses)		3,260	(22,684)	8,591	(9,839)
Profit/(loss) from operations		1,570,991	(173,068)	545,247	252,862
(Impairment)/reversal of impairment of non-current assets		(57,651)	(56,243)	2,975	(29,719)
Net other non-operating expenses		(29,694)	(29,889)	(10,290)	(8,208)
Profit/(loss) before financing and taxation		1,483,646	(259,200)	537,932	214,935
Interest income		86,187	66,073	23,462	22,292
Interest expense		(456,374)	(383,839)	(132,499)	(124,931)
Foreign exchange difference		103,037	(160,061)	132,659	54,997
Profit/(loss) before income tax		1,216,496	(737,027)	561,554	167,293
Income tax (expense)/benefit		(309,831)	100,284	(125,241)	(1,391)
Profit/(loss) from continuing operations		906,665	(636,743)	436,313	165,902
Loss from discontinued operation	3	(1,084,826)	(315,894)	(47,897)	(128,491)
(Loss)/profit for the period		(178,161)	(952,637)	388,416	37,411
Attributable to:					
shareholders of OAO Severstal		(224,943)	(875,069)	367,650	70,511
non-controlling interests		46,782	(77,568)	20,766	(33,100)
Weighted average number of shares outstanding during the period (millions of shares)		1,005.2	1,005.2	1,005.2	1,005.2
Basic and diluted (loss)/profit per share (US dollars)		(0.22)	(0.87)	0.37	0.07
Basic and diluted profit/(loss) per share - continuing operations (US dollars)		0.86	(0.56)	0.41	0.20

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

These consolidated interim condensed financial statements were approved by the Board of Directors on November 12, 2010.

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of comprehensive income

Nine months ended September 30, 2010 and 2009

(Amounts expressed in thousands of US dollars)

	Nine months ended September 30,		Three months ended September 30,	
	2010 (unaudited)	2009 (unaudited)*	2010 (unaudited)	2009 (unaudited)*
(Loss)/profit for the period	(178,161)	(952,637)	388,416	37,411
Other comprehensive (loss)/income				
Foreign exchange difference	(278,533)	(80,625)	58,664	225,242
Changes in fair value of cash flow hedges	(6,105)	(8,202)	(335)	(2,269)
Deferred tax on changes in fair value of cash flow hedges	1,776	1,902	-	555
Changes in fair value of available-for-sale investments	41,868	19,877	27,014	9,062
Deferred tax on changes in fair value of available-for-sale investments	(7,742)	(6,312)	(4,002)	(2,644)
Other comprehensive (loss)/ income for the period, net of tax	(248,736)	(73,360)	81,341	229,946
Total comprehensive (loss)/ income for the period	(426,897)	(1,025,997)	469,757	267,357
Attributable to:				
shareholders of OAO Severstal	(472,710)	(970,349)	442,738	278,010
non-controlling interests	45,813	(55,648)	27,019	(10,653)

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

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of financial position

September 30, 2010 and December 31, 2009

(Amounts expressed in thousands of US dollars)

	<u>Note</u>	<u>September 30, 2010</u> <u>(unaudited)</u>	<u>December 31, 2009</u>
Assets			
Current assets:			
Cash and cash equivalents		2,054,587	2,853,376
Short-term bank deposits		72,306	95,533
Short-term financial investments		69,378	73,129
Trade accounts receivable		1,151,110	1,457,651
Accounts receivable from related parties	6	20,752	26,716
Inventories		2,845,814	2,974,227
VAT recoverable		271,307	288,032
Income tax recoverable		27,177	106,019
Other current assets		344,275	285,453
Assets held for sale	3	1,994,774	24,415
Total current assets		<u>8,851,480</u>	<u>8,184,551</u>
Non-current assets:			
Long-term financial investments		203,912	128,616
Investments in associates and joint ventures		177,379	143,857
Property, plant and equipment		8,362,329	9,485,480
Intangible assets		1,818,269	1,369,204
Restricted cash		56,390	17,541
Deferred tax assets		150,280	239,835
Other non-current assets		93,276	74,802
Total non-current assets		<u>10,861,835</u>	<u>11,459,335</u>
Total assets		<u>19,713,315</u>	<u>19,643,886</u>
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		977,038	1,378,300
Accounts payable to related parties	6	18,512	16,656
Short-term debt finance	7	1,449,171	1,478,301
Income tax payable		50,252	34,150
Other taxes and social security payable		186,913	209,084
Dividends payable		5,421	5,704
Other current liabilities		666,479	693,844
Liabilities related to assets held for sale	3	2,033,484	11,979
Total current liabilities		<u>5,387,270</u>	<u>3,828,018</u>
Non-current liabilities:			
Long-term debt finance	7	5,008,738	5,748,559
Deferred tax liabilities		494,863	394,990
Retirement benefit liabilities		634,027	787,714
Other non-current liabilities		428,251	508,266
Total non-current liabilities		<u>6,565,879</u>	<u>7,439,529</u>
Equity:			
Share capital		3,311,288	3,311,288
Treasury shares		(26,303)	(26,303)
Additional capital		1,165,530	1,165,530
Foreign exchange differences		(325,292)	(52,478)
Retained earnings		3,285,232	3,436,270
Other reserves		68,647	43,600
Total equity attributable to shareholders of OAO Severstal		<u>7,479,102</u>	<u>7,877,907</u>
Non-controlling interests		<u>281,064</u>	<u>498,432</u>
Total equity		<u>7,760,166</u>	<u>8,376,339</u>
Total equity and liabilities		<u>19,713,315</u>	<u>19,643,886</u>

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of cash flows Nine months ended September 30, 2010 and 2009 (Amounts expressed in thousands of US dollars)

	Nine months ended	
	September 30,	
	2010	2009
	(unaudited)	(unaudited)*
Operating activities:		
Profit/(loss) before financing and taxation	1,483,646	(259,200)
Adjustments to reconcile profit/(loss) to cash generated from operations:		
Depreciation and amortization	588,781	583,245
Impairment of non-current assets	57,651	56,243
Movements in provision for inventories, receivables and other provisions	4,067	(351,180)
Loss on disposal of property, plant and equipment and intangible assets	39,043	15,622
Loss on remeasurement and disposal of financial investments	98,750	6,571
Share of associates' results less dividends from associates	(9,875)	(6,718)
Changes in operating assets and liabilities:		
Trade accounts receivable	(196,697)	(18,489)
Amounts receivable from related parties	792	44,520
VAT recoverable	(44,774)	83,938
Inventories	(499,294)	1,429,537
Trade accounts payable	74,250	(161,866)
Amounts payable to related parties	(1,655)	(48,613)
Other taxes and social security payables	46,904	(4,779)
Other non-current liabilities	(57,505)	(45,066)
Assets held for sale	(8,116)	3,469
Net other changes in operating assets and liabilities	(70,041)	(133,759)
Cash from operating activities - continuing operations	1,505,927	1,193,475
Interest paid	(415,121)	(400,693)
Income tax paid	(193,116)	(6,567)
Net cash from operating activities - continuing operations	897,690	786,215
Net cash (used in)/from operating activities - discontinued operation	(70,662)	57,195
Net cash from operating activities	827,028	843,410
Investing activities:		
Additions to property, plant and equipment	(800,483)	(583,600)
Additions to intangible assets	(71,446)	(19,911)
Net (increase)/decrease in short-term bank deposits	(99,316)	554,699
Additions to financial investments and associates	(941,492)	(188,866)
Net cash outflow on acquisitions of subsidiaries	(40,950)	-
Net cash inflow on disposals of subsidiaries	118,647	-
Proceeds from disposal of property, plant and equipment	3,267	22,620
Proceeds from disposal of financial investments	685,665	165,419
Interest received	74,549	68,799
Dividends received	-	8,629
Cash (used in)/from investing activities - continuing operations	(1,071,559)	27,789
Cash used in investing activities - discontinued operation	(86,836)	(103,590)
Cash used in investing activities	(1,158,395)	(75,801)
Financing activities:		
Proceeds from debt finance	3,083,227	3,397,565
Repayment of debt finance	(2,767,893)	(3,630,250)
Repayments under lease obligations	(4,834)	(12,112)
Dividends paid	-	(115,908)
Acquisitions of non-controlling interests	(435,467)	(23,387)
Cash from/(used in) financing activities - continuing operations	(124,967)	(384,092)
Cash used in financing activities - discontinued operation	(32,713)	(120,064)
Cash from/(used in) financing activities	(157,680)	(504,156)
Effect of exchange rates on cash and cash equivalents	(52,266)	19,962
Net (decrease)/increase in cash and cash equivalents	(541,313)	283,415
Less cash and cash equivalents of discontinued operation and assets held for sale at end of the period	(257,476)	-
Cash and cash equivalents at beginning of the period	2,853,376	2,653,742
Cash and cash equivalents at end of the period	2,054,587	2,937,157

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

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of changes in equity Nine months ended September 30, 2010 and 2009 (Amounts expressed in thousands of US dollars)

	Attributable to shareholders of OAO Severstal						Non- controlling interests	Total	
	Share capital	Treasury shares	Additional capital	Foreign		Other reserves			Total
				exchange differences	Retained earnings				
Balances at December 31, 2008	3,311,288	(26,303)	1,165,530	84,987	4,488,396	27,601	9,051,499	501,117	9,552,616
Loss for the period (unaudited)*	-	-	-	-	(875,069)	-	(875,069)	(77,568)	(952,637)
Foreign exchange difference (unaudited)*	-	-	-	(96,930)	-	-	(96,930)	16,305	(80,625)
Changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	(7,136)	(7,136)	(1,066)	(8,202)
Deferred tax on changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	1,655	1,655	247	1,902
Changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	10,449	10,449	9,428	19,877
Deferred tax on changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	(3,318)	(3,318)	(2,994)	(6,312)
Total comprehensive loss for the period (unaudited)*	-	-	-	-	-	-	(970,349)	(55,648)	(1,025,997)
Dividends (unaudited)	-	-	-	-	-	-	-	(3,550)	(3,550)
Effect of acquisitions and disposals without a change in control (unaudited)	-	-	-	-	(998)	-	(998)	(23,356)	(24,354)
Balances at September 30, 2009 (unaudited)*	<u>3,311,288</u>	<u>(26,303)</u>	<u>1,165,530</u>	<u>(11,943)</u>	<u>3,612,329</u>	<u>29,251</u>	<u>8,080,152</u>	<u>418,563</u>	<u>8,498,715</u>
Balances at December 31, 2009	3,311,288	(26,303)	1,165,530	(52,478)	3,436,270	43,600	7,877,907	498,432	8,376,339
(Loss)/profit for the period (unaudited)	-	-	-	-	(224,943)	-	(224,943)	46,782	(178,161)
Foreign exchange difference (unaudited)	-	-	-	(272,814)	-	-	(272,814)	(5,719)	(278,533)
Changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	(6,105)	(6,105)	-	(6,105)
Deferred tax on changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	1,776	1,776	-	1,776
Changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	35,618	35,618	6,250	41,868
Deferred tax on changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	(6,242)	(6,242)	(1,500)	(7,742)
Total comprehensive loss for the period (unaudited)	-	-	-	-	-	-	(472,710)	45,813	(426,897)
Effect of acquisitions and disposals without a change in control (unaudited)	-	-	-	-	73,905	-	73,905	(513,240)	(439,335)
Effect of acquisitions and disposals with a change in control (unaudited)	-	-	-	-	-	-	-	250,059	250,059
Balances at September 30, 2010 (unaudited)	<u><u>3,311,288</u></u>	<u><u>(26,303)</u></u>	<u><u>1,165,530</u></u>	<u><u>(325,292)</u></u>	<u><u>3,285,232</u></u>	<u><u>68,647</u></u>	<u><u>7,479,102</u></u>	<u><u>281,064</u></u>	<u><u>7,760,166</u></u>

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

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

OA0 Severstal and subsidiaries

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

1. Accounting policies and estimates

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

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended December 31, 2009, except that the Group has adopted those new/revised standards mandatory for financial annual periods beginning on January 1, 2010. The adoption of the pronouncements did not have a significant impact on the Group's consolidated interim condensed financial statements except for those discussed below.

Change in accounting policy for business combinations

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

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

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

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

Change in presentation of the statement of changes in equity

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

Change in presentation of the statement of cash flows

The Group applied amended IAS 7 *Statement of Cash Flows*, which became effective for annual periods beginning on or after July 1, 2009. The amendments require presentation of the cash outflows on acquisitions of non-controlling interests as financing activities in the statement of cash flows. The amendments were applied retrospectively to all the comparative information presented.

OAO Severstal and subsidiaries

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

2. Seasonality

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

3. Discontinued operation and assets held for sale

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

The results of the discontinued operation were as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Revenue	1,779,614	1,219,843	544,406	381,232
Expenses	(1,845,588)	(1,602,464)	(591,332)	(519,830)
Loss on remeasurement of the Lucchini disposal group to fair value less costs to sell	(1,010,280)	-	-	-
Loss before income tax	(1,076,254)	(382,621)	(46,926)	(138,598)
Income tax (expense)/benefit	(8,572)	66,727	(971)	10,107
Loss for the period	(1,084,826)	(315,894)	(47,897)	(128,491)
Attributable to:				
shareholders of OAO Severstal	(1,084,826)	(252,083)	(47,897)	(102,536)
non-controlling interests	-	(63,811)	-	(25,955)

Furthermore, there was a cumulative net loss of US\$ 51.6 million recognized in other comprehensive income as at September 30, 2010 in relation to foreign exchange differences and changes in cash flow hedges for the Lucchini segment.

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

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

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

OAO Severstal and subsidiaries

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

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

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

	September 30, 2010 (unaudited)	December 31, 2009
Current assets:		
Cash and cash equivalents	257,476	1,267
Trade accounts receivable	566,481	5,868
Inventories	708,384	1,617
VAT recoverable	17,520	263
Income tax recoverable	4,181	-
Other current assets	17,095	1,627
Total current assets	1,571,137	10,642
Non-current assets:		
Long-term financial investments	7,097	-
Investments in associates	1,001	-
Property, plant and equipment	342,816	13,773
Intangible assets	11,121	-
Deferred tax assets	58,148	-
Other non-current assets	3,454	-
Total non-current assets	423,637	13,773
Total assets	1,994,774	24,415
Current liabilities:		
Trade accounts payable	634,801	2,870
Short-term debt finance	867,558	-
Income tax payable	4,399	-
Other taxes and social security payable	43,541	111
Other current liabilities	96,559	8,360
Total current liabilities	1,646,858	11,341
Non-current liabilities:		
Long-term debt finance	206,309	-
Deferred tax liabilities	1,803	-
Retirement benefit liabilities	119,996	-
Other non-current liabilities	58,518	638
Total non-current liabilities	386,626	638
Total liabilities	2,033,484	11,979

OAO Severstal and subsidiaries

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

4. Sales

Sales by product were as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	3,378,651	2,100,408	1,131,204	845,151
Cold-rolled sheet	1,642,290	1,136,451	534,480	423,363
Galvanized and other metallic coated sheet	1,617,227	1,387,016	483,436	546,923
Metalware products	721,214	603,383	265,053	210,226
Large diameter pipes	671,685	522,433	204,834	180,204
Shipping and handling costs billed to customers	501,024	394,895	170,819	158,038
Coal and coking coal concentrate	495,308	169,944	193,510	72,693
Gold	482,181	339,861	183,766	130,140
Long products	356,497	251,095	162,665	95,501
Semifinished products	345,048	171,930	159,759	75,450
Color coated sheet	258,709	222,807	114,549	97,253
Other tubes and pipes, formed shapes	249,886	178,293	91,627	71,352
Pellets and iron ore	240,975	141,534	118,486	65,712
Scrap	72,985	38,429	26,348	20,026
Other	288,582	256,737	94,567	113,521
	<u>11,322,262</u>	<u>7,915,216</u>	<u>3,935,103</u>	<u>3,105,553</u>

Sales by delivery destination were as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Russian Federation	4,434,664	2,670,357	1,669,995	1,171,238
North America	3,956,215	3,050,366	1,207,552	1,110,122
Europe	1,644,858	992,428	523,202	347,195
Central and South America	376,162	69,178	108,106	27,695
China and Central Asia	288,524	613,954	119,435	187,293
South-East Asia	286,572	223,160	202,288	97,280
The Middle East	269,849	221,316	79,935	142,735
Africa	65,418	74,457	24,590	21,995
	<u>11,322,262</u>	<u>7,915,216</u>	<u>3,935,103</u>	<u>3,105,553</u>

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

5. Related party transactions

	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales to related parties:				
Sales to associates	22,550	2,510	7,924	992
Sales to joint ventures	108,288	50,500	43,757	283
Sales to other related parties	25,021	34,344	8,747	10,408
Interest income	14,364	11,821	3,906	4,749
	170,223	99,175	64,334	16,432
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	45,723	39,390	15,414	13,684
Purchases from joint ventures:				
Non-capital expenditures	67,686	39,207	22,656	17,048
Purchases from other related parties:				
Non-capital expenditures	22,497	44,921	5,413	4,431
Capital expenditures	3,227	15,948	222	-
	139,133	139,466	43,705	35,163

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6. Related party balances

	September 30, 2010 (unaudited)	December 31, 2009
Joint ventures' balances		
Short-term trade accounts receivable	8,029	-
Short-term trade accounts payable	8,273	6,136
Long-term loans	25,944	-
Associates' balances		
Short-term trade accounts receivable	2,795	-
Short-term trade accounts payable	6,542	-
Long-term loans	10,620	21,804
Short-term debt finance	1,580	-
Other related party balances		
Cash and cash equivalents at related party bank and pension fund	290,392	335,539
Short-term deposits with related party bank and pension fund	8,509	26,803
Accounts receivable from other related parties:		
Trade accounts receivable	2,522	12,560
Advances paid	5,499	10,606
Other accounts receivable	1,907	3,550
Short-term loans	5,570	12,697
Short-term promissory notes	4,393	4,940
Long-term loans	-	3,563
Available-for-sale securities	7,672	-
	27,563	47,916
Short-term trade accounts payable to other related parties:		
Trade accounts payable	2,089	8,572
Other accounts payable	1,608	1,948
	3,697	10,520
Debt finance includes the following balances with other related parties:		
Short-term debt finance	-	1,344
Long-term debt finance	4,314	-
	4,314	1,344

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

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Notes to the consolidated interim condensed financial statements

Nine months ended September 30, 2010 and 2009

(Amounts expressed in thousands of US dollars)

7. Debt finance

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

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

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

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

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

8. Acquisitions and disposals

Investments in associates and other equity investments

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

In May 2010, the Group acquired a 16.5% stake in Core Mining Limited ("CML") for a total consideration of US\$ 15.0 million. CML is a private company registered in the Isle of Man focused on the exploration, development and operation of iron ore projects in Central and Western Africa, mainly in Republic of Congo (Brazzaville) and Republic of Gabon.

In July 2010, the Group acquired an additional 13.8% stake in Crew Gold Corporation for a total consideration of US\$ 84.5 million, increasing its ownership interest up to 40.4%.

In September 2010, the Group acquired a 21.7% stake in Intex Resources ASA ("Intex Resources") for a total consideration of US\$ 13.0 million. Intex Resources is a public mining and exploration company listed on Oslo Stock Exchange with its headquarters in Oslo, Norway. Intex's main asset is the Mindoro Nickel Project — a substantial nickel laterite deposit in the Philippines. In addition, Intex has two molybdenum assets in Norway, as well as Maniitsoq, a diamond province in Greenland.

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Nine months ended September 30, 2010 and 2009

(Amounts expressed in thousands of US dollars)

During 2010, the Group acquired an 11% stake in Sacre-Coeur Minerals, Ltd. ("SCM") for a total consideration of US\$ 6.2 million, increasing its ownership up to 18.1%. SCM is engaged in the acquisition, exploration and development of properties for the potential mining of gold and metals in South America, initially focusing on exploration for gold on its properties in Guyana.

During 2010, the Group acquired a 25.6% stake in Iron Mineral Beneficiation Services (Proprietary) Limited (IMBS) for a total consideration of US\$ 7.5 million. IMBS is a research and development company based in Johannesburg, South Africa. IMBS has developed a coal-based Finesmelt technology capable of processing unusable iron ore fines and thermal coal into valuable metallic products similar to DRI/HBI. Currently IMBS is developing its first commercial project in Phalaborwa, South Africa.

Acquisitions of subsidiaries from third parties

In July 2010, the Group acquired an additional 9.8% stake in Crew Gold Corporation for a total consideration of US\$ 70.9 million, increasing its ownership interest up to 50.2%.

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.

The acquiree's profit from the beginning of the period to the date of acquisition comprised US\$ 10.8 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$ 140.6 million. Loss since the acquisition date included in the Group's loss for the period amounted to US\$ 8.4 million. Revenue since the acquisition date included in the Group's revenue for the period amounted to US\$ 22.9 million.

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

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

	Nine and three months ended September 30, 2010
Cash and cash equivalents	29,929
Trade accounts receivable	6,656
Inventories	57,366
Property, plant and equipment	185,611
Intangible assets	476,754
Other current assets	9,644
Other non-current assets	4,651
Trade accounts payable	(17,271)
Other taxes and social security payable	(51)
Deferred tax liabilities	(93,637)
Debt finance	(107,412)
Other current liabilities	(38,175)
Other non-current liabilities	(11,339)
Net identifiable assets and liabilities acquired	502,726
Non-controlling interests	(250,059)
Severstal's share of net identifiable assets and liabilities acquired	252,667
Investments in Crew Gold Corporation at equity	(182,846)
Fair value adjustment upon acquisition of subsidiary to previously held interest	(42,170)
Consideration:	
Consideration in cash	(70,879)
Positive goodwill on acquisition of subsidiaries	(43,228)
Net change in cash and cash equivalents	(40,950)

Acquisitions of non-controlling interests

In June 2009, the Group acquired all newly issued shares in High River Gold Mines Ltd., resulting in a 3.5% stake increase up to 57.3%. Furthermore, in August 2009, the Group acquired an additional 4.5% stake in High River Gold Mines, Ltd. from non-controlling shareholders for a total consideration of US\$8.0 million.

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

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

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Notes to the consolidated interim condensed financial statements

Nine months ended September 30, 2010 and 2009

(Amounts expressed in thousands of US dollars)

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

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

In September 2010, the Group acquired an additional 43.2% stake in Crew Gold Corporation for a total consideration of US\$ 214.8 million, increasing its ownership interest up to 93.4%.

Transaction with Majority Shareholder

In June 2010, the Group sold a 50.8% stake in Lucchini S.p.A. for a total consideration of € 1 (US\$ 1.2 at the transaction date exchange rate). The Group continues to consolidate the Lucchini segment primarily due to a call option exercisable within the following five years and a contractual entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party. At the transaction date the Lucchini segment's net assets were assessed at fair value less costs to sell as disclosed in Note 3.

Disposal of subsidiaries

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

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

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

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

9. Segment information

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

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

Russian Steel produces a wide range of products, including hot-rolled sheets, profiles, large-diameter pipes, and cold-rolled coated sheets encompassing special-grade sheets for the automotive industry, hot-rolled plates, metalware and long products on steel production facilities located in the Russian Federation. It sells steel products on domestic Russian market, serving the needs of the Russian automotive, construction, shipbuilding, oil and gas, engineering and other industries, as well as on the international market.

Severstal North America produces high-quality flat-rolled products, including hot-rolled, cold-rolled, electrogalvanized, hot-dip galvanized and tin plated steel, for customers in the automotive, converter, container, pipe and tube, building and construction, service centre and other markets in North America region. Severstal North America's production facilities are located in the USA.

Lucchini comprises several plants and service centers, located in Western Europe, primarily in Italy and France. It produces special and high quality steel and quality and specialty long products. This segment also includes its distribution network companies, which are located primarily in Western Europe.

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

	Nine months ended September 30,		Three months ended September 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Sales				
Severstal Resource	2,378,332	1,249,614	914,645	469,891
Russian Steel	6,342,341	4,224,735	2,263,514	1,727,951
Severstal North America	3,776,897	2,964,532	1,160,577	1,080,784
Intersegment transactions	(1,175,308)	(523,665)	(403,633)	(173,073)
	<u>11,322,262</u>	<u>7,915,216</u>	<u>3,935,103</u>	<u>3,105,553</u>
Profit/(loss) before financing and taxation				
Severstal Resource	798,464	(37,537)	366,436	(16,398)
Russian Steel	1,018,273	547,659	257,083	360,667
Severstal North America	(302,481)	(767,108)	(115,185)	(135,959)
Intersegment transactions	(30,610)	(2,214)	29,598	6,625
	<u>1,483,646</u>	<u>(259,200)</u>	<u>537,932</u>	<u>214,935</u>

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

	September 30,	December 31,
	2010	2009
	(unaudited)	2009
Total segment assets		
Severstal Resource	4,801,904	3,305,156
Russian Steel	15,323,040	14,206,573
Severstal North America	5,209,591	5,249,649
Lucchini (discontinued)	3,045,537	3,185,267
Intersegment balances	(8,666,757)	(6,302,759)
	<u>19,713,315</u>	<u>19,643,886</u>

10. Capital commitments

As of September 30, 2010 the Group had capital commitments of US\$ 1,488 million (December 31, 2009: US\$ 1,142 million).

11. Subsequent events

In October 2010, the Group issued US\$ 1 billion bonds denominated in US dollars maturing in 2017. Bonds bear an interest rate of 6.7 % per annum which is payable semi-annually in April and October each year, beginning in April 2011. These bonds were issued under the Group's newly established US\$ 3 billion Loan Participation Note Programme.

The proceeds from the bonds issuance were used to fund the purchase of US\$706.4 million nominal of Group's US\$ 1,250.0 million Eurobonds denominated in US dollars and for refinancing of certain other Group's debts. In October 2010, the Group repaid its bilateral loan facilities with the original maturity dates in 2011 in the total amount of US\$ 110.0 million.

In October 2010, the Group acquired an additional 2.3% stake in High River Gold Mines Ltd. for a total consideration of US\$ 19.7 million, increasing its ownership interest up to 72.6%.