OAO SEVERSTAL

(Organised as an open joint stock company under the laws of the Russian Federation)

Offering of 85,000,000 Ordinary Shares in the form of Ordinary Shares and Global Depositary Receipts Offer Price: US$12.50 per Ordinary Share and Global Depositary Receipt

This prospectus relates to the offering by Frontdeal Limited, a company organised and existing under the laws of Cyprus, as selling shareholder, of 85,000,000 ordinary shares of OAO Severstal, or Severstal, an open joint stock company registered under the laws of the Russian Federation, each such ordinary share with a nominal value of RUR0.01, offered in the form of ordinary shares and global depositary receipts, or GDRs, with each GDR representing one ordinary share.

In addition, the selling shareholder has granted Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and UBS Limited, in connection with this offering, an option exercisable within 30 days of the announcement of the offer price to purchase up to 12,750,000 additional ordinary shares in the form of GDRs at the offer price, solely to cover overallotments, if any, in connection with the offering. The ordinary shares and GDRs offered hereby are offered severally by the managers, subject to receipt and acceptance by them of, and subject to their right to reject, any order in whole or in part. The managers expect to deliver the GDRs through the facilities of Euroclear SA/NV, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream, Luxembourg, for GDRs offered pursuant to Regulation S under the US Securities Act of 1933, as amended, or the Securities Act, and The Depository Trust Company, or DTC, for GDRs offered pursuant to Rule 144A under the Securities Act on or about 13 November 2006.

This offering comprises (i) an offering of ordinary shares and GDRs outside the United States and the Russian Federation in reliance on Regulation S under the Securities Act, (ii) an offering of ordinary shares and GDRs within the United States to qualified institutional buyers as defined in, and in reliance on, Rule 144A under the Securities Act, or Rule 144A, and (iii) an offering of ordinary shares in the Russian Federation. Concurrently with the offering, Severstal will issue up to 85,000,000 ordinary shares through an open subscription, or the capital increase, in which existing shareholders will have pre-emption rights. The selling shareholder and its affiliates intend to take part in the capital increase.

Neither the ordinary shares nor the GDRs offered in this offering have been or will be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The ordinary shares and the GDRs are subject to selling and transfer restrictions in certain jurisdictions.

The GDRs are specialised investments and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. See "Risk Factors" beginning on page 11 for a discussion of certain matters that prospective investors should consider prior to making an investment in the ordinary shares or the GDRs.

The ordinary shares offered in this offering have been registered by the Federal Service for Financial Markets of the Russian Federation, or FSFM, under registration number 1-02-00143-A. A statutory Russian prospectus for these ordinary shares was registered by the FSFM on 30 November 2004. The ordinary shares are listed on the quotation list "B" of the Russian Trading System, or RTS, and the Moscow Interbank Currency Exchange, or MICEX.

Prior to this offering, there has been no public market for the GDRs. Application has been made to the Financial Services Authority, or FSA, in its capacity as competent authority under the Financial Services and Markets Act 2000, or FSMA, for the admission of up to 355,524,632 GDRs to the official list maintained by the FSA and to the regulated main market of London Stock Exchange plc, or London Stock Exchange, for admission of the GDRs to trading. Admission to the official list maintained by the FSA together with admission to the regulated main market of the London Stock Exchange constitute admission to official listing on a stock exchange, or Admission. Application has been made to have the GDRs offered and sold within the United States in reliance on Rule 144A designated eligible for trading in The PORTAL Market of the NASDAQ Stock Market, Inc. Severstal expects that conditional trading through the International Order Book, or IOB, will commence on a "when and if issued" basis on or about 8 November 2006, and unconditional trading through the IOB will commence on or about 14 November 2006. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if the expected admission to the London Stock Exchange does not take place and will be at the sole risk of the parties concerned.**

The GDRs offered pursuant to Regulation S under the Securities Act, or Regulation S, will be evidenced by a master Regulation S GDR, which shall be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. The GDRs offered pursuant to Rule 144A will be evidenced by a master Rule 144A GDR, which shall be registered in the name of Cede & Co., as nominee for DTC in New York. The ordinary shares represented by the GDRs will be held by OOO Deutsche Bank, as custodian, for the depositary. Except as described herein, beneficial interests in the master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. It is expected that delivery of the GDRs against payment therefor will be made at the closing of this offering on or about 13 November 2006 through Euroclear and Clearstream, Luxembourg with respect to the GDRs offered pursuant to Regulation S and through DTC with respect to the GDRs offered pursuant to Rule 144A.

This document, upon approval by the FSA, constitutes a prospectus in accordance with the prospectus rules of the FSA made under section 73A of the FSMA, solely for the purposes of providing information with regard to Severstal and its subsidiaries and the GDRs in connection with the offering of GDRs to the public in the United Kingdom and the admission of the GDRs to the official list maintained by the FSA and to the London Stock Exchange for trading.

Joint Global Coordinators and Joint Bookrunners

Citigroup **Deutsche UFG** **UBS Investment Bank**

The date of this prospectus is 8 November 2006

Severstal accepts responsibility for the contents of this prospectus. Severstal declares that, having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This prospectus is being furnished by Severstal and the selling shareholder solely for the purpose of enabling a prospective investor to consider the purchase of the ordinary shares or the GDRs. No representation or warranty, express or implied, is made, nor any responsibility assumed, by any manager or any of their affiliates or advisors as to the accuracy or completeness of any information contained in this prospectus, and nothing contained in this prospectus is, or shall be relied upon as, a promise or representation by any manager or any of their affiliates or advisors as to the past or the future. Any reproduction or distribution of this prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the shares or the GDRs is prohibited, except to the extent that such information is otherwise publicly available. Each prospective investor, by accepting delivery of this prospectus, agrees to the foregoing.

Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and UBS Limited, or the managers, are acting exclusively for Severstal and the selling shareholder and no one else in connection with this offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to this offering.

This prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to purchase or otherwise acquire the ordinary shares or the GDRs. In making an investment decision, prospective investors should rely on their own investigation and analysis of Severstal, and their own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such prospective investors in connection with an investment in the ordinary shares and the GDRs. Any decision to buy the ordinary shares or the GDRs should be based solely on the information contained in this prospectus. No person has been authorised to give any information or to make any representations in connection with this offering other than those contained in this prospectus. If any such information is given or any such representations are made, such information or representations must not be relied upon as having been authorised by Severstal or the managers, any of their respective affiliates, advisers or selling agents or any other person. At any time following the date of this prospectus, the information contained in this prospectus may no longer be correct and Severstal's business, financial condition or results of operations may have changed.

No representation is made by Severstal or the managers or any of its or their respective representatives to prospective investors as to the legality of an investment in the ordinary shares or the GDRs. Prospective investors should not construe anything in this prospectus as legal, business, financial, investment, tax or related advice. Prospective investors should consult their own advisers as to the legal, business, financial, investment, tax and related aspects of an investment in the ordinary shares or the GDRs.

This prospectus does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the ordinary shares or the GDRs offered in this offering. The distribution of this prospectus and this offering of ordinary shares or GDRs may, in certain jurisdictions, be restricted by law and this prospectus may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised, or to any person to whom it is unlawful to make such an offer or solicitation. Persons into whose possession this prospectus comes are required to inform themselves of and observe all such restrictions and obtain any consent, approval or permission required. Neither Severstal nor any of the managers accepts any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions.

The selling shareholder and the managers reserve the right to reject any offer to purchase the ordinary shares or GDRs in whole or in part and to sell to any prospective investor less than the full amount of ordinary shares or GDRs sought by such prospective investor.

No action has been or will be taken in any jurisdiction, except for the registration of a prospectus in the Russian Federation in respect of the ordinary shares, that would permit a public offering of the ordinary shares or the GDRs or the possession, circulation or distribution of this prospectus or any other material relating to Severstal, the ordinary shares or the GDRs in any jurisdiction where action for that purpose is required. Accordingly, the ordinary shares and the GDRs may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with the ordinary shares or the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that would result in compliance with any applicable rules and regulations of any such country or jurisdiction.

In connection with this offering, each of Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and UBS Limited and any affiliate acting as an investor for its own account may purchase the ordinary shares or the GDRs and in that capacity may retain, purchase or sell for its own account such securities and any of Severstal's securities or related investments and may offer or sell such securities or other investments otherwise than in connection with this offering. Accordingly, references in this prospectus to the ordinary shares and the GDRs being offered or placed should be understood as including any offering or placement of securities to Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, UBS Limited and any affiliate acting in such capacity. Neither Citigroup Global Markets Limited, Deutsche Bank AG, London Branch nor UBS Limited intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

NEITHER THE US SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE ORDINARY SHARES OR THE GDRs OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

STABILISATION

In connection with this offering, Citigroup Global Markets Limited, as stabilising manager, or its agents may, after agreement with the other managers and for a limited period after the announcement of the offer price, overallot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might have otherwise prevailed in the open market. However, the stabilising manager or such agents have no obligation to do so. Such stabilisation, if commenced, may begin on the date of adequate public disclosure of the offer price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 calendar days after the date of such adequate public disclosure of the offer price. The managers do not intend to disclose the extent of any such stabilisation transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with this offering, the managers may over-allot GDRs as permitted by applicable law. For the purposes of allowing the managers to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by them during the stabilising period, the selling shareholder has granted the managers the over-allotment option pursuant to which the managers may require the selling shareholder to sell additional shares to be issued by the depositary as GDRs at the offer price. The over-allotment option is exercisable in whole or in part upon written notice by the managers on one or more occasions, any time on or before the thirtieth calendar day after adequate public disclosure of the offer price. Any GDRs made available pursuant to the over-allotment option will be issued on the same price, terms and conditions as the GDRs being issued in the offering and will form a single class for all purposes with the other GDRs.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This prospectus has been prepared on the basis that all offers of ordinary shares or GDRs, other than the offers of GDRs contemplated in this prospectus in the United Kingdom once the prospectus has been approved by the FSA and published in accordance with Directive 2003/71/EC, or Prospectus Directive, as implemented in the United Kingdom, will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the European Economic Area, or EEA, from the requirement to produce a prospectus for offers of securities. Accordingly, any person making or intending to make any offer within the EEA of the ordinary shares or the GDRs should only do so in circumstances under which no obligation arises for Severstal or any of the managers to produce a prospectus for such offer. Neither Severstal nor the managers have authorised, or will authorise, the making of any offer of the ordinary shares or the GDRs through any financial intermediary, other than offers made by the managers which constitute the final placement of the ordinary shares or GDRs contemplated in this prospectus.

Each person in a Member State of the EEA that has implemented the Prospectus Directive, or a Relevant Member State, other than, in the case of (a) below, persons receiving offers contemplated in this prospectus in the United Kingdom, who receives any communication in respect of, or who acquires any ordinary shares or GDRs under, the offering contemplated in this prospectus will be deemed to have represented, warranted and agreed to and with each manager and Severstal that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any ordinary shares or GDRs acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:

(i) The ordinary shares or GDRs acquired by it in this offering have not been acquired on behalf of, or with a view to the offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the managers has been given to the offer or resale; or

(ii) where the ordinary shares or the GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those ordinary shares or GDRs is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an "offer to the public" in relation to the ordinary shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offering and the ordinary shares or GDRs so as to enable an investor to decide to purchase the ordinary shares or GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the Prospectus Directive includes any relevant implementing measure in each Relevant Member State.

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

The GDRs have not been registered under the law of the Russian Federation "On the Securities Market" dated April 22, 1996, as amended, and are not being offered, sold or delivered in the Russian Federation or to any Russian resident except as may be permitted by Russian law.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

None of the ordinary shares or the GDRs offered in this offering have been or will be registered under the Securities Act, or with any securities authority of any state of the United States, and the ordinary shares and the GDRs may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The ordinary shares and the GDRs are only being offered pursuant to exemptions from, or in transactions not subject to, registration under the Securities Act, including (i) in the United States only to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (ii) outside the United States only in offshore transactions, as defined in, and in accordance with, Regulation S. Prospective investors are hereby notified that sellers of the GDRs may be relying on the exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A. For certain restrictions on sales and transfers of the shares and the GDRs, see "Selling and Transfer Restrictions".

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS IN CANADA

Neither the ordinary shares nor the GDRs have been or will be qualified by prospectus for sale to the public in Canada under applicable Canadian securities laws and, accordingly any offer or sale of the ordinary shares or

GDRs in Canada will be made pursuant to an exemption from the applicable prospectus filing requirements, and otherwise in compliance with applicable Canadian laws. Investors in Canada should refer to "Selling and Transfer Restrictions — Canada" and Ontario purchasers in particular should refer to the subsection entitled "Rights of Action for Damages or Rescission (Ontario)".

AVAILABLE INFORMATION

So long as any ordinary shares or GDRs representing the ordinary shares of Severstal are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, Severstal will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, furnish, upon request, to any holder or beneficial owner of such restricted securities, or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act. In such cases, Severstal will also furnish to each such holder or beneficial owner all notices of shareholders' meetings and other reports and communications that are generally available to the shareholders of Severstal.

ENFORCEMENT OF CIVIL LIABILITIES

Severstal is an open joint stock company incorporated under the laws of the Russian Federation, and as of the date of this prospectus, the majority of the members of its board of directors and management board are not residents of the United Kingdom or the United States. The selling shareholder is a limited liability company incorporated under the laws of Cyprus, and none of the members of its board of directors and management board are residents of the United Kingdom or the United States. As a result, it may not be possible for securityholders to:

- effect service of process within the United Kingdom or the United States upon Severstal or certain members of its board of directors or management board;
- enforce judgments against Severstal or certain members of its board of directors or management board that are obtained in courts of the United Kingdom or the United States;
- effect service of process within the United Kingdom or the United States upon the selling shareholder or any members of its board of directors; or
- enforce against most such persons judgments obtained in the courts of the United States.

Russian courts may not enforce any judgment obtained in a court in a country other than the Russian Federation unless:

- there is a treaty in effect between such country and the Russian Federation providing for the recognition and enforcement of court judgments; or
- the Russian Federation adopts a federal law providing for the recognition and enforcement of foreign court judgments.

No such treaty exists between the Russian Federation and the United Kingdom or the United States. Even if there were such a treaty, Russian courts could nonetheless refuse to recognise or enforce a foreign court judgment on the grounds set forth in such treaty and in Russian law in effect on the date on which such recognition or enforcement is sought. Moreover, the Russian Federation has adopted no such federal law.

In September 2002, the new Arbitration Procedural Code of the Russian Federation entered into force, setting forth procedures for the recognition and enforcement of judgments and grounds for refusal of such recognition and enforcement in the event that such a treaty or federal law were adopted. However, Russian procedural law may change further, and other grounds for refusal of the recognition and enforcement of foreign court judgments could arise in the future.

The deposit agreement relating to the Rule 144A GDRs and the deposit agreement relating to the Regulation S GDRs, each dated 26 September 2006 between the depositary and Severstal and the holders and beneficial owners of the GDRs from time to time, or the deposit agreements, require that actions brought by any holder or beneficial owners of GDRs be referred to arbitration in London, England, in accordance with the rules of the London Court of International Arbitration, or LCIA. Each of the United Kingdom, the United States and Russia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, or the New York Convention. Consequently, Russian courts should generally recognise and enforce in Russia an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention, subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and law. However, it may be difficult to enforce arbitral awards in Russia due to:

- the inexperience of Russian courts in enforcing international commercial arbitral awards;
- official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors;
- the Russian courts' inability or unwillingness to enforce such orders; and
- legal grounds (for example, the concept of "public order") and/or technical grounds (for example, the lack of capacity of the parties or the invalidity of an arbitration clause).

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as "according to estimates", "anticipates", "assumes", "believes", "could", "estimates", "expects", "intends", "is of the opinion", "may", "plans", "potential", "predicts", "projects", "should", "to the knowledge of", "will", "would" and similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans, or expectations regarding Severstal's business and management, Severstal's future growth or profitability and general economic and regulatory conditions and other matters affecting Severstal.

Forward-looking statements reflect Severstal's current views of future events, are based on Severstal's assumptions and involve known and unknown risks, uncertainties and other factors that may cause Severstal's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause Severstal's actual financial condition and results to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements. Severstal's business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become inaccurate. These risks include prices of steel products and raw materials produced and/or required by Severstal's operations, the costs of energy and transportation, Severstal's ability to compete successfully, changes in political, social, legal or economic conditions in Russia, inflation, interest rate and exchange rate fluctuations and Severstal's ability to timely and accurately identify future risks to its business and manage the risks mentioned above.

Accordingly, investors should not rely on the forward-looking statements in this prospectus and investors are strongly advised to read the following sections of this prospectus: "Summary", "Risk Factors", "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business". These sections include more detailed descriptions of factors that might have an impact on Severstal's business and the industry in which Severstal operates. None of Severstal, its management or the managers can give any assurance regarding the future accuracy of the opinions set forth herein or as to the actual occurrence of any predicted developments. After the date of this prospectus, neither Severstal nor the managers assume, and each of Severstal and the managers expressly disclaims, any obligation, except as required by law, the listing rules of the London Stock Exchange or the FSA, to update any forward-looking statements or to conform these forward-looking statements to Severstal's actual results.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

The financial statements included in this prospectus beginning on page F-1, except as otherwise noted as incorporated herein by reference (excluding in each case all information incorporated by reference into such documents), together with the notes thereto, or Financial Statements, were prepared in accordance with IFRS as issued by the International Accounting Standards Board, or IASB, in effect at the time of preparing these consolidated financial statements. Such IFRS differs from the IFRS that has been adopted for use in the European Union through the endorsement procedure established by the European Commission. IFRS adopted for use in the European Union does not include IAS 39 "Financial Instruments: Recognition and Measurement". Following the Accounting Regulatory Committee decision of October 2004, the Commission adopted Regulation 2086/2004 requiring the use of IAS 39, other than certain provisions on portfolio hedging of core deposits.

The consolidated financial statements of Severstal and Lucchini set out in this prospectus have been prepared in conformity with IFRS, which in certain respects differ significantly from US GAAP. The organisations that promulgate IFRS and US GAAP have projects ongoing that could result in additional differences in the future.

The consolidated financial statements of Severstal and Lucchini prepared in conformity with IFRS have not been reconciled to US GAAP and the prospectus does not attempt to identify any differences between IFRS and US GAAP. It is possible that the net effect of differences between the application of IFRS and US GAAP may be, individually or in the aggregate, material. If any such reconciliation were performed or an attempt were made to identify relevant differences between IFRS and US GAAP as they apply to Severstal and Lucchini, particular financial statement items are presented under US GAAP could vary materially and adversely from the corresponding items as presented under IFRS.

In making an investment decision, potential investors must rely upon their own examination of Severstal and Lucchini, the terms of the offering and the financial information included in this prospectus, and should consult their own professional advisors for an understanding of the differences between IFRS and US GAAP and how these differences might affect the financial information in this prospectus.

Severstal's four business divisions are Russian Steel and Metalware, Severstal North America, Lucchini and Severstal Mining.

The Financial Statements consist of:

Interim financial statements as at and for the period ended 30 June 2006

- Severstal's unaudited consolidated interim financial statements as at and for the period ended 30 June 2006, or Interim Consolidated Financial Statements, which include the financial results of Russian Steel and Metalware, Severstal North America and Severstal Mining on a consolidated basis. IFRS provides no guidance on accounting for business combinations of entities under common control. Severstal adopted its accounting policy for such transactions based on the relevant guidance of accounting principles generally accepted in the United States, or US GAAP. Severstal believes that this approach and the accounting policy disclosed in Note 2 of Severstal's unaudited consolidated interim financial statements as at and for the period ended 30 June 2006 are in compliance with IFRS; and
- Lucchini's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2006, or Lucchini Interim Financial Statements.

Annual financial statements as at and for the year ended 31 December 2005

- Severstal's audited annual consolidated financial statements as at and for the year ended 31 December 2005, or General Purpose Financial Statements, which do not include the financial results of Severstal North America for the year ended 31 December 2003 or the financial results of Severstal Mining, for the years ended 31 December 2003, 2004 or 2005. Severstal made certain classification and presentation restatements with respect to 2003 and 2004. See Note 2 to the General Purpose Financial Statements;
- Severstal's audited annual special purpose consolidated financial statements as at and for the years ended 31 December 2004 and 2005, or Special Purpose Financial Statements, which include the financial results of Russian Steel and Metalware, Severstal North America and Severstal Mining on a consolidated basis; and
- Lucchini's audited annual consolidated financial statements as at and for the years ended 31 December 2004 and 2005, or Lucchini Annual Financial Statements.

In addition, in order to comply with the prospectus rules of the FSA, the following financial statements are hereby incorporated by reference:

- Severstal's audited annual consolidated financial statements as at and for the year ended 31 December 2004; and
- Severstal's audited annual consolidated financial statements as at and for the year ended 31 December 2003.

This prospectus also presents the following *pro forma* financial information:

- Certain unaudited interim *pro forma* financial information as at and for the period ended 30 June 2006, or Interim Pro Forma Financial Information, which is based on the Interim Financial Statements and the Lucchini Interim Financial Statements, consolidated on a *pro forma* basis; and
- Certain unaudited annual *pro forma* financial information as at and for the year ended 31 December 2005, which is based on the Special Purpose Financial Statements and the Lucchini Annual Financial Statements, consolidated on a *pro forma* basis.

While Severstal continues to report its financial results in US dollars, some entities of its Russian Steel and Metalware business division changed the US dollar with the Russian rouble as their functional currency effective as of 1 January 2004. This change in functional currency was primarily due to an increase in selling and purchasing activities conducted in Russian rouble based transactions by Russian Steel and Metalware. The Russian rouble is also a functional currency of Severstal Mining. The Lucchini Interim Financial Statements and the Lucchini Annual Financial Statements used the Euro as their presentation currency.

The data from unaudited financial statements presented herein are, when shown in tabular format, identified as "unaudited" for the convenience of the reader. This should not be taken to imply that other financial data, whether in the same table or not, which is not so labelled, has been audited.

In this prospectus,

- "Russian rouble", "Russian roubles" or "RUR" refers to the lawful currency of the Russian Federation;
- "US dollar", "US dollars" or "US$" refers to the lawful currency of the United States of America;
- "British pound sterling", "British pounds sterling", "GBP" or "£" refers to the lawful currency of the United Kingdom; and
- "Euro", or "€" refers to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

Rounding adjustments have been made in calculating some of the financial information included in this prospectus, including in particular foreign currency equivalents of certain financial information relating to Lucchini which have been translated from Euro to US dollars as described in "Pro-Forma Financial Information". As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

Mining Reserves

All data relating to Severstal Mining's reserves and resources cited in "Business — Severstal Mining", and as cited specifically elsewhere in this prospectus, were prepared in accordance with Australasian Joint Ore Reserves Committee Code, or JORC, reporting standards and are derived from the report issued by IMC Consulting Ltd dated 14 August 2006. For additional information on JORC, please see "Industry — Mining Industry — International Reporting Methodologies".

Operating Data

All data relating to Severstal's production and operations, such as volumes of production, production capacity and certain sales information presented by sector, geography and product, cited in "Business", and as cited specifically elsewhere in this prospectus, were derived from management accounts and information, which were not reviewed or audited by KPMG Limited, the independent auditors of Severstal, or Reconta Ernst & Young S.p.A., the independent auditors of Lucchini.

INFORMATION DERIVED FROM THIRD PARTIES

Severstal has obtained certain statistical and market information that is presented in this prospectus on such topics as the Russian steel industry, the Russian economy in general and related subjects from the following third-party sources:

- *AIST.* The Association for Iron and Steel, or AIST, was established on 1 January 2004 with the goal of advancing the technical development, production, processing and application of iron and steel. It comprises two longstanding industry associations in the United States: the Association of Iron and Steel Engineers and the Iron & Steel Society.
- *AME Mineral Economics.* AME Mineral Economics is a global firm of independent analysts and economists in the metal and mineral industries with research offices in Australia and affiliations in North America, South America, Africa and China.
- *CDU-TEK.* CDU-TEK is the central dispatch unit of the Russian Federation Ministry of Industry and Energy.
- *Chermet Corporation.* The Chermet Corporation is a Russian company that provides and publishes information, statistics and analysic surveys relating to producers of ferrous metals.
- *CRU.* CRU is an independent business analysis and consultancy group focused on the mining, metals, power, cables and fertilisers and chemical sectors. It employs more than 150 experts in London, Beijing, Sydney and key centres in the United States.
- *European Bank for Reconstruction and Development.* The European Bank for Reconstruction and Development, or EBRD, is an international financial institution created to invest in Central and Eastern Europe and the former Soviet Union. It provides project financing for banks, industries and businesses in 28 countries in Central Europe and Central Asia.
- *Eurostat.* Eurostat is the Statistical Office of the European Communities and is the statistical arm of the European Commission and produces data for the European Union and promotes harmonisation of statistical methods across the member states.
- *Eurofer.* Eurofer is the European Confederation of Iron and Steel Industries. Founded in 1976 and located in Brussels, Eurofer is active in matters relating to the development of the European steel industry and the representation of the common interests of its members.
- *International Iron and Steel Institute.* The International Iron and Steel Institute, or IISI, is one of the largest industry associations in the world. IISI's members include more than 190 steel producers (including the world's 20 largest steel companies), national and regional steel industry associations, and steel research institutes. IISI members produce approximately 60 percent of the world's steel.
- *KWR International.* KWR International is a New York consulting firm specialising in the delivery of research, communications and advisory services relating to investor relations, business and technology development, public affairs, cross border transactions and market entry programmes.
- *Metal Bulletin.* Metal Bulletin plc is an independent company quoted on the London Stock Exchange. It provides news, prices, analysis and research to financial, metals, minerals, energy and other commodity markets through online services and print media.
- *MetallPress.ru.* MetallPress.ru is a news and information agency comprising a team of industry experts, consultants, analysts and journalists in the area of metallurgy and related industry sectors.
- *RudProm.* RudProm is an agency that collates statistics about iron ore producers in the former Soviet Union.
- *World Steel Dynamics.* World Steel Dynamics, or WSD, is a global steel information service. WSD's international clients include major integrated and non-integrated steel companies, steel users, equipment and raw materials suppliers, financial institutions, government agencies, steel service centres and trade associations.
- *Ventureforth.* Ventureforth, Inc. is a technology company that provides products and services to the global business community, including consulting, education and support services for industry solutions.

This third-party information is presented in the following sections of this prospectus: Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and Industry.

Severstal has accurately reproduced such information and, as far as Severstal is aware and is able to ascertain from information published by such third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that Severstal's estimates are based on such third-party information. Neither Severstal nor the managers have independently verified the figures, market data or other information on which third parties have based their studies.

Severstal has derived substantially all of the information contained in this prospectus concerning its competitors from publicly available information, such as annual reports, and has accurately reproduced such information and, as far as Severstal is aware and is able to ascertain from information published by such third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Severstal has relied on the accuracy of this information without independent verification. In addition, some of the information contained in this document has been derived from official data of Russian government agencies and the Central Bank of Russia, or CBR. The official data published by Russian federal, regional and local government agencies are substantially less complete or researched than those of more developed countries. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The contents of Severstal's website do not form any part of this prospectus.

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SUMMARY

This summary should be read as an introduction to this prospectus and any decision to invest in the ordinary shares or GDRs offered in this offering should be based on consideration of the prospectus as a whole. Under the national legislation of the individual member states of the EEA, if a claim relating to the information contained in this prospectus is brought as a legal proceeding before a court, the investor who is the plaintiff in the legal proceeding may have to bear the costs of translating this prospectus prior to initiation of the legal proceeding. Civil liability attaches to the persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus. Where a claim relating to the information contained in this prospectus is brought before a court in a member state of the EEA, the plaintiff may, under the national laws of the member state where the claim is brought, be required to bear the costs of translating the prospectus before the legal proceedings are initiated.

Severstal's Business

Severstal is a leading global steel producer by profitability, according to KWR International, with EBITDA, including Lucchini on a *pro forma* basis, of US$3.1 billion in 2005, and US$1.3 billion in the first half of 2006. Severstal combines the growth potential of Russia's emerging market with the margin sustainability of an international steel producer. Its focus on high value-added products in attractive niche markets and successful track record of acquiring and integrating high-quality assets in North America and Europe have enabled Severstal to realise greater earnings than those of other Russian steel producers.

Severstal has four business divisions: Russian Steel and Metalware, Severstal North America, Lucchini and Severstal Mining.

- During 2003-2005, Russian Steel and Metalware has invested more than US$1.6 billion in its steel production operations. It is currently the second largest producer of finished steel products in Russia, according to the Chermet Corporation. High value-added and niche products accounted for 26 percent and 20 percent of Russian Steel and Metalware's production in 2005. Production in 2006 will include high quality galvanised automotive steel produced by Severgal and 18-meter-length oil and gas pipes produced by Izhorsky Pipe Mill, which Severstal believes will be the only producer of such pipes in Russia. Russian Steel and Metalware's focus on high value-added and niche products limits its exposure to volatile commodities markets, such as the spot market for slabs. In addition, Russian Steel and Metalware benefits from low operational costs due to its strategic proximity to river ports and railways, its ability to procure a stable supply of raw materials from Severstal Mining and the on-going modernisation, technological advancement and expansion of its facilities and intends to further increase its production of high value-added and niche products in 2007.
- Severstal acquired substantially all of the assets of Rouge Steel in January 2004, which largely comprises its Severstal North America business division. Severstal North America is strategically located in Michigan close to a large number of US steel customers, including several major automotive customers. Approximately half of Severstal North America's annual steel production consists of high-quality automotive products.
- Lucchini is the second largest steel group in Italy by production and one of the largest European producers of special quality steel long products, according to KWR International, with 20 plants and service centres throughout Europe and more than 1,000 customers in niche markets such as automotive and rails. Lucchini benefits from its leadership position in several attractive European niche markets with high barriers to entry.
- Severstal Mining is the second largest producer of iron ore pellets and coking coal in Russia, according to RudProm, with estimated JORC iron ore and coking coal reserves for at least 14 years of operation. Severstal Mining believes it will be able to achieve significant reserve extension potential (increasing the life of mine to at least 28 years) through conversion of resources into reserves and acquisition of adjacent reserves. Its extensive mining network and ongoing modernisation programme enable it to sell premium products to both Severstal and third parties at cost-efficient prices. Severstal Mining's growth potential and its capacity to supply one hundred percent of the iron ore and coking coal needs of Russian Steel and Metalware form the basis of Severstal's balanced and vertically integrated business model.

Severstal's sales and production of crude steel, including Lucchini on a *pro forma* basis, were US$11.6 billion and approximately 16.9 million tonnes in 2005, respectively. According to IISI, Severstal's production of crude steel in 2005, including Lucchini on a *pro forma* basis, would have ranked Severstal in the top twelve in the world by production.

The Combined Strengths of Severstal's Business Divisions

Severstal's vertical integration, increasing focus on high value-added and niche products, substantial modernisation of operations and recent geographic expansion through attractive acquisitions have enabled it to leverage cost and technical synergies and generate sustainable cash flows and earnings.

High value-added products and niche products comprised 24 percent and 27 percent, respectively, of Severstal's total steel products sales in 2005 and resulted in EBITDA, including Lucchini on a *pro forma* basis, of US$3.1 billion in 2005, which according to Severstal estimates would have ranked Severstal sixth among the world's steel producers. In addition, Severstal is seeking to actively enhance its product portfolio with new products to meet customer demand, particularly in the automotive industry, producing high quality flat products in Russia and the United States, niche products in Russia, including large diameter pipes and wire drawn products, and specialty and high value products in Europe, including special bars and wire rods produced by Lucchini.

Severstal's commitment to large-scale modernisation, technological advancement and the expansion of its facilities for the production of high value-added and niche products was demonstrated by capital investments at its four business divisions totalling approximately US$2.0 billion in 2004 and 2005. In addition, Severstal intends to invest an additional US$6.9 billion from 2006 to 2010 as part of its capital improvement programme.

Severstal has a proven track record of turning around underperforming assets. The operating improvements brought about at Severstal North America and Lucchini demonstrate the value creation capabilities and technical expertise of Severstal's management team in pursuing attractive acquisition opportunities. In addition, Severstal has benefited from the sharing of industry know-how and best practices across its global business divisions.

Corporate Governance and Management

Severstal is implementing a best-practice corporate governance programme, including the appointment of an independent chairman of the board of directors and a board of directors comprised of ten board members which would include an equal number of independent and non-independent directors by the end of December 2006. On 2 November 2006, Severstal announced its nomination of Rolf Stomberg, the former head of BP Plc's German unit, as a senior independent director. Shareholders will vote on his appointment, and those of the other independent directors that have yet to be nominated, at an extraordinary shareholders' meeting in December 2006. In addition, Severstal expects to begin reporting its consolidated financial results under IFRS on a quarterly basis in 2007.

Severstal's senior management team combines extensive industrial knowledge with international management and financial expertise. Severstal has begun developing a management structure at the operational level that is focused on improving accountability, clarifying responsibilities and streamlining information reporting and decision making. The management team adheres to international corporate governance standards with best-in-class internal control procedures and internal audit functions. Backed by international experience and advanced business qualifications, the team has successfully implemented a disciplined acquisition strategy.

Severstal's experienced management team and board of directors intend to continue their strategic and disciplined approach to acquisitions, with acquisitions in excess of US$500 million and any transaction with a value of more than 10 percent of the book value of Severstal's assets requiring approval of two-thirds of the board of directors.

In addition, Severstal maintains favourable employee relations through the implementation of modernisation programmes, workforce training and incentive programmes. In particular, approximately five percent of Severstal's share capital is currently held by employees and approximately one percent of its share capital is expected to be allocated for share-based incentives.

Strategy

Severstal's corporate strategy is to become a global leader in profitable, value-added niches within the steel industry. To successfully implement this strategy, Severstal intends to continue to develop its existing assets through its capital improvement programme, increase its focus on high-value added and niche products, leverage global synergies, identify future profitable core businesses in both domestic and global markets, and continue its pursuit of an active, yet disciplined, M&A strategy to acquire such assets.

Risk Factors

An investment in the ordinary shares or the GDRs involves a high degree of risk, including but not limited to:

- Severstal's competitive position and future prospects are heavily dependent on its controlling shareholders' and senior management's experience and expertise.
- Any local or global economic downturn in significant steel-consuming industry sectors could adversely affect demand for Severstal's products.
- The steel and mining industries are cyclical which may result in unexpected fluctuations in the demand for Severstal's products.
- Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity.
- Political risks and governmental instability could adversely affect the value of investments in Russia, including the ordinary shares and GDRs.
- Arbitrary, selective or unlawful state action, in particular by the tax authorities, could have a material adverse effect on Severstal's business.
- An increase in existing trade barriers or the imposition of new trade barriers in Severstal's principal export markets could cause a significant decrease in the demand for its products in those markets.
- The reduction or elimination of trade barriers in Severstal's principal domestic markets may increase competition, which could adversely affect the demand for or prices of its products in those markets.
- The lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent Severstal or its shareholders from obtaining effective redress in a court proceeding and could materially adversely affect the value of the ordinary shares and GDRs.

Dividend Policy

In accordance with its dividend policy, Severstal intends to pay dividends on a quarterly basis, provided there are sufficient available annual profits to do so, subject to limitations under applicable law. While the amount of such annual dividends may vary according to Severstal's net profit and cash flow, Severstal intends to declare dividends every financial year until 2008 in an average amount equivalent to 25 percent of net profit, calculated in accordance with IFRS, for the relevant reporting period, subject to availability of funds. Severstal may also declare an interim dividend if it believes its financial position for that interim period is sustainable. The maximum dividend payable is restricted to the total accumulated retained earnings of Severstal, determined according to Russian law.

Use of Proceeds and Capital Increase

The selling shareholder will receive up to US$1,221.9 million in proceeds from this offering. In connection with this offering, Severstal will undertake a capital increase in which it will issue up to 85,000,000 ordinary shares.

The selling shareholder has committed to use not less than US$877.5 million of the proceeds it receives from this offering to exercise statutory pre-emption rights to subscribe, directly and through entities controlled by the controlling shareholder, for newly issued ordinary shares in the capital increase that Severstal will undertake in connection with this offering, at a subscription price equal to the offer price in this offering less the pro rata per share amount of certain commissions, fees and other expenses paid or incurred by the selling shareholder in this offering.

Assuming that all ordinary shares issued by Severstal in the capital increase are subscribed for and that the selling shareholder and the other entities controlled by the controlling shareholder fully exercise their statutory pre-emption rights to subscribe for ordinary shares issued by Severstal in the capital increase, Severstal will receive up to US$1,043.4 million in proceeds from the capital increase.

Severstal intends to use the net proceeds received from the capital increase in connection with this offering to improve the quality of its production facilities, increase operating efficiencies throughout its global platform, take advantage of potential opportunities to expand Severstal's core business in line with its corporate strategy, including the funding of potential acquisitions of assets and equity investments and participation in joint ventures, and for general corporate purposes.

Operating Data

The following tables set forth Severstal's steel sales by product and delivery destination, including Lucchini on a *pro forma* basis, for the year ended 31 December 2005:

Product	**Year ended 31 December 2005**
	(percent of total revenue)
Hot-rolled coil and hot-rolled long products	40
Niche products (automotive, HR plate, HR for large tubing, SBQ, long rails and special wire rod)	27
Value-added products (cold rolled and higher flat products; cold finishing and heat treated long products)	24
Semi-finished commercial products	8
Other products	1
Total	100

Delivery destination	Year ended 31 December 2005
	(percent of total revenue)
Russia	32
Europe	32
Americas	22
Asia	8
Rest of the world	6
Total	100

The tables above were derived from certain *pro forma* financial information for the year ended 31 December 2005; which was based on Severstal's Special Purpose Financial Statements, as at and for the year ended 31 December 2005, which include the financial results of Russian Steel and Metalware, Severstal North America and Severstal Mining on a consolidated basis, and Lucchini's audited annual consolidated financial statements for the year ended 31 December 2005, consolidated on a *pro forma* basis.

Summary Financial Information

The following summary financial information should be read in conjunction with the financial statements included in this prospectus beginning on page F-1, except as otherwise noted as incorporated herein by reference (excluding in each case all information incorporated by reference into such documents), together with the notes thereto, or the Financial Statements, and the pro forma financial information included in this prospectus. For a complete description of the Financial Statements, see "Presentation of Financial Information".

Summary financial information as at 30 June 2006 and for the six months ended 30 June 2006

The summary financial information set forth below is derived from:

- Severstal's unaudited consolidated interim financial statements as at and for the six months ended 30 June 2006, with comparative figures for the six months ended 30 June 2005, or Interim Consolidated Financial Statements, which include the financial results of Russian Steel and Metalware, Severstal North America and Severstal Mining on a consolidated basis;
- Lucchini's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2005 and 2006, or Lucchini Interim Financial Statements; and
- Certain unaudited interim *pro forma* financial information as at and for the six month period ended 30 June 2006, or Interim Pro Forma Financial Information, which are based on the Interim Consolidated Financial Statements and the Lucchini Interim Financial Statements, consolidated on a *pro forma* basis.

	Consolidated		Lucchini		Pro forma
	For the six month period ended 30 June				
	2005	2006	2005	2006	2006
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
	(US$ thousands, except for share data as noted)		*(€ thousands, except for share data as noted)*		*(US$ thousands)*
Income Statement Data:					
Sales	4,470,407	4,376,701	1,289,759	1,361,441	5,895,348
Cost of sales	(2,559,341)	(3,103,045)	(1,004,958)	(1,153,415)	(4,366,749)
Gross profit	1,911,066	1,273,656	284,801	208,026	1,528,599
Net operating expenses(1)	(533,907)	(563,719)	(133,056)	(116,935)	(711,067)
Profit from operations	1,377,159	709,937	151,745	91,091	817,532
Non-operating expenses(2)	(30,291)	(37,554)	(790)	(2,032)	(40,050)
Profit before financing and taxation	1,346,868	672,383	150,955	89,059	777,482
Net financing expense	(112,273)	(37,895)	(22,108)	(19,860)	(62,425)
Profit before income tax	1,234,595	634,488	128,847	69,199	715,057
Income tax expense	(334,220)	(222,496)	(44,020)	(37,153)	(267,481)
Discontinuing activities	—	—	2,963	(677)	(831)
Profit for the period	900,375	411,992	87,790	31,369	446,745
Attributable to:					
Parent company shareholders	877,190	405,040	85,722	31,153	426,965
Minority interest	23,185	6,952	2,068	216	19,780
Diluted weighted average number of shares outstanding during the period (millions of shares after split)	907.2	917.2	23.7	37.3	
Diluted continuing earnings per share (US dollars/Euros)	0.97	0.44	3.58	0.86	

Notes:

(1) Includes selling, general and administrative expenses, distribution expenses, indirect taxes and contributions, share of associates' (losses)/profits, net income from bank lending operations, net income from securities operations, loss on disposal of property, plant and equipment and net other operating expense.

(2) Includes reversal of impairment/(impairment) of property, plant and equipment, write off of goodwill, negative goodwill and net other non-operating expenses.

	Consolidated		Lucchini		Pro forma
	31 December 2005	30 June 2006	31 December 2005	30 June 2006	30 June 2006
		(unaudited)		*(unaudited)*	*(unaudited)*
	(US$ thousands)		*(€ thousands)*		*(US$ thousands)*
Balance Sheet Data:					
Assets					
Current assets	4,207,366	4,523,660	1,513,576	1,325,779	6,134,897
Non-current assets	8,385,372	9,513,147	1,296,469	1,254,523	10,430,803
Total assets	12,592,738	14,036,807	2,810,045	2,580,302	16,565,700
Liabilities					
Current liabilities	1,526,873	1,783,941	1,198,830	891,863	3,087,661
Non-current liabilities	2,964,375	3,104,692	704,010	751,633	4,065,599
Equity attributable to shareholders of parent	7,901,064	8,936,828	904,745	934,816	
Total equity	8,101,490	9,148,174	907,205	936,806	
Total equity and liabilities	12,592,738	14,036,807	2,810,045	2,580,302	
Other Financial Data:					
EBITDA for 6 months ended 30 June[1]	1,605,481	1,135,701	200,499	146,464	1,303,624
EBITDA margin, percent	35.9	25.9	15.5	10.8	22.1
Net debt[2]	169,353	636,611	635,084	499,085	1,229,440

Notes:

(1) Severstal defines EBITDA as profit from operations plus depreciation and amortisation and loss on disposal of property, plant and equipment.

EBITDA is presented as a supplemental measure of Severstal's operating performance, which Severstal believes is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry.

EBITDA has limitations as an analytical tool, and investors should not consider it in isolation, or as a substitute for analysis of Severstal's operating results as reported under IFRS. Some of these limitations are as follows:

- EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if Severstal incurs more debt, on Severstal's operating performance.
- EBITDA does not reflect the impact of income taxes on Severstal's operating performance.
- EBITDA does not reflect the impact of depreciation and amortisation on Severstal's operating performance. The assets of Severstal's businesses which are being depreciated, depleted and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect Severstal's future cash requirements for these replacements. EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment.
- Other companies in the steel and mining industries may calculate EBITDA differently or may use it for different purposes than Severstal, limiting its usefulness as a comparative measure.

Severstal relies primarily on its IFRS operating results and uses EBITDA only supplementally. See the Financial Statements included elsewhere in this prospectus. EBITDA is not defined by, or presented in accordance with, IFRS. EBITDA is not a measurement of Severstal's operating performance under IFRS and should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS or as an alternative to cash flow from operating activities or as a measure of Severstal's liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to Severstal to invest in the growth of its business.

(2) Severstal defines net debt as short-term and long-term debt finance less cash and cash equivalents less short-term bank deposits.

Summary financial information as at and for the years ended 31 December 2004 and 2005

The summary financial information set forth below is derived from:

- Severstal's audited annual consolidated financial statements as at and for the years ended 31 December 2004 and 2005, or Special Purpose Financial Statements, which include the financial results of Russian Steel and Metalware, Severstal North America and Severstal Mining on a consolidated basis;
- Lucchini's audited annual consolidated financial statements as at and for the years ended 31 December 2004 and 2005, or Lucchini Annual Financial Statements; and
- Certain unaudited annual *pro forma* financial information as at and for the year ended 31 December 2005, which is based on the Special Purpose Financial Statements and the Lucchini Annual Financial Statements, consolidated on a *pro forma* basis.

	Special purpose		Lucchini		Pro forma
	For the year ended 31 December				
	2004	2005	2004	2005	2005
	(US$ thousands except for share data as noted)		*(€ thousands except for share data as noted)*		*(US$ thousands)*
Income Statement Data:					
Sales	7,010,132	8,624,325	2,141,192	2,399,899	11,573,979
Cost of sales	(4,189,926)	(5,304,357)	(1,759,993)	(1,998,957)	(7,755,125)
Gross profit	2,820,206	3,319,968	381,199	400,942	3,818,854
Net operating expenses(1)	(864,339)	(1,069,714)	(234,920)	(235,872)	(1,339,468)
Profit from operations	1,955,867	2,250,254	146,279	165,070	2,479,386
Net non-operating (expenses)/income(2)	(9,527)	202,871	96,088	62,011	197,685
Profit before financing and taxation	1,946,340	2,453,125	242,367	227,081	2,677,071
Net financing expense	(106,106)	(170,594)	(63,341)	(44,227)	(230,406)
Profit before income tax	1,840,234	2,282,531	179,026	182,854	2,446,665
Income tax expense	(481,329)	(550,635)	(65,685)	(56,433)	(595,359)
Discontinuing activities	—	—	(3,536)	(5,716)	(7,125)
Profit for the year	1,358,905	1,731,896	109,805	120,705	1,844,181
Attributable to:					
Parent company shareholders	1,344,321	1,672,297	106,069	118,918	1,754,559
Minority interest	14,584	59,599	3,736	1,787	89,622
Diluted weighted average number of shares outstanding during the year (millions of shares after split)	872.6	908.7	16.9	30.5	
Diluted continuing earnings per share (US dollars/Euros)	1.54	1.84	6.72	4.14	

Notes:

(1) Includes selling, general and administrative expenses, distribution expenses, indirect taxes and contributions, share of associates' (losses)/profits, net income from bank lending operations, net income from securities operations, net expenses from insurance operations, loss on disposal of property, plant and equipment and net other operating (expense)/income.

(2) Includes reversal of impairment/(impairment) of property, plant and equipment, penalties on tax liabilities under restructuring, gain on restructuring of tax liabilities, negative goodwill and net other non-operating expenses.

	Special purpose		Lucchini		Pro forma
	As at 31 December				
	2004	2005	2004	2005	2005
	(US$ thousands, except ratios)		*(€ thousands, except ratios)*		*(unaudited) (US$ thousands except ratios)*
Balance Sheet Data:					
Assets					
Current assets	4,148,541	4,207,366	1,241,004	1,513,576	5,991,407
Non-current assets	3,688,493	8,385,372	1,481,439	1,296,469	9,372,949
Total assets	7,837,034	12,592,738	2,722,443	2,810,045	15,364,356
Liabilities					
Current liabilities	1,593,414	1,526,873	1,295,821	1,198,830	3,153,572
Non-current liabilities	1,999,645	2,964,375	1,082,215	704,010	3,818,212
Equity attributable to shareholders of parent	4,121,725	7,901,064	333,921	904,745	
Total Equity	4,243,975	8,101,490	344,407	907,205	
Total equity and liabilities	7,837,034	12,592,738	2,722,443	2,810,045	
Other Financial Data:					
EBITDA[(1)]	2,388,860	2,702,080	227,922	266,221	3,053,737
EBITDA margin, percent	34.1	31.3	10.6	11.1	26.4
Net debt[(2)]	26,578	169,353	1,101,892	635,084	923,645
Net debt/EBITDA, times	0.01	0.06	4.80	2.39	0.30

Notes:

(1) Severstal defines EBITDA as profit from operations plus depreciation and amortisation and loss on disposal of property, plant and equipment.

EBITDA is presented as a supplemental measure of Severstal's operating performance, which Severstal believes is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry.

EBITDA has limitations as an analytical tool, and investors should not consider it in isolation, or as a substitute for analysis of Severstal's operating results as reported under IFRS. Some of these limitations are as follows:

- EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if Severstal incurs more debt, on Severstal's operating performance.
- EBITDA does not reflect the impact of income taxes on Severstal's operating performance.
- EBITDA does not reflect the impact of depreciation and amortisation on Severstal's operating performance. The assets of Severstal's businesses which are being depreciated, depleted and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect Severstal's future cash requirements for these replacements. EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment.
- Other companies in the steel and mining industries may calculate EBITDA differently or may use it for different purposes than Severstal, limiting its usefulness as a comparative measure.

Severstal relies primarily on its IFRS operating results and uses EBITDA only supplementally. See the Financial Statements included elsewhere in this prospectus. EBITDA is not defined by, or presented in accordance with, IFRS. EBITDA is not a measurement of Severstal's operating performance under IFRS and should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS or as an alternative to cash flow from operating activities or as a measure of Severstal's liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to Severstal to invest in the growth of its business.

(2) Severstal defines net debt as short-term and long-term debt finance less cash and cash equivalents less short-term bank deposits.

Summary financial information as at and for the years ended 31 December 2003 and 2004

The summary financial information set forth below is derived from Severstal's audited annual consolidated financial statements as at and for the year ended 31 December 2005, or General Purpose Financial Statements, which do not include the financial results of Severstal North America for the year ended 31 December 2003 or the financial results of Severstal Mining for the years ended 31 December 2003 or 2004.

	General purpose	
	For the year ended 31 December	
	2003	2004
	(US$ thousands except for share data as noted)	
Income Statement Data:		
Sales	3,197,285	6,663,847
Cost of sales	(1,907,914)	(4,019,025)
Gross profit	1,289,371	2,644,822
Net operating expenses[1]	(527,313)	(706,288)
Profit from operations	762,058	1,938,534
Net non-operating (expenses)/income[2]	(31,708)	41,763
Profit before financing and taxation	730,350	1,980,297
Net financing (expense)/income	35,998	(90,156)
Profit before income tax	766,348	1,890,141
Income tax expense	(162,262)	(481,624)
Profit for the year	604,086	1,408,517
Attributable to:		
Shareholders of OAO Severstal	596,515	1,401,179
Minority interest	7,551	7,338
Weighted average number of shares outstanding during the year (millions of shares after split)	551.9	551.9
Basic and diluted earnings per share (US dollars)	1.08	2.54

Notes:

(1) Includes selling, general and administrative expenses, distribution expenses indirect taxes and contributions, net income from bank lending operations, income/expenses from securities operations, net expenses from insurance operations, loss on disposal of property, plant and equipment and net other operating (expense)/income.

(2) Includes impairment of property, plant and equipment, impairment of goodwill, negative goodwill and net other non-operating expenses.

	General purpose	
	As at 31 December	
	2003	2004
	(US$ thousands, except ratios)	
Balance Sheet Data:		
Assets		
Current assets	1,556,783	3,912,177
Non-current assets	2,307,020	2,671,421
Total assets	3,873,803	6,583,598
Liabilities		
Current liabilities	581,390	951,816
Non-current liabilities	630,551	1,708,305
Equity attributable to shareholders of parent	2,601,403	3,859,451
Total Equity	2,661,862	3,923,477
Total equity and liabilities	3,873,803	6,583,598
Other Financial Data:		
EBITDA(1)	1,009,008	2,214,674
EBITDA margin, percent	31.6	33.2
Net debt(2)	(122,933)	(83,633)
Net debt/EBITDA, times	(0.12)	(0.04)

Notes:

(1) Severstal defines EBITDA as profit from operations plus depreciation and amortisation and loss on disposal of property, plant and equipment.

EBITDA is presented as a supplemental measure of Severstal's operating performance, which Severstal believes is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry.

EBITDA has limitations as an analytical tool, and investors should not consider it in isolation, or as a substitute for analysis of Severstal's operating results as reported under IFRS. Some of these limitations are as follows:

- EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if Severstal incurs more debt, on Severstal's operating performance.
- EBITDA does not reflect the impact of income taxes on Severstal's operating performance.
- EBITDA does not reflect the impact of depreciation and amortisation on Severstal's operating performance. The assets of Severstal's businesses which are being depreciated, depleted and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect Severstal's future cash requirements for these replacements. EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment.
- Other companies in the steel and mining industries may calculate EBITDA differently or may use it for different purposes than Severstal, limiting its usefulness as a comparative measure.

Severstal relies primarily on its IFRS operating results and uses EBITDA only supplementally. See the Financial Statements included elsewhere in this prospectus. EBITDA is not defined by, or presented in accordance with, IFRS. EBITDA is not a measurement of Severstal's operating performance under IFRS and should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS or as an alternative to cash flow from operating activities or as a measure of Severstal's liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to Severstal to invest in the growth of its business.

(2) Severstal defines net debt as short-term and long-term debt finance less cash and cash equivalents less short-term bank deposits.

RISK FACTORS

An investment in the ordinary shares or the GDRs involves a high degree of risk. Prospective investors should consider carefully the risks set forth below and the other information contained in this prospectus prior to making any investment decision with respect to the ordinary shares or the GDRs. The risks described below could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Risk Factors Relating to Severstal and the Steel and Mining Industries

The steel and mining industries are cyclical which may result in adverse fluctuations in the demand for Severstal's products.

The industries in which a large proportion of Severstal's customers operate, such as the automotive, construction, oil and gas industries, are cyclical in nature, which can result in adverse fluctuations in the demand for steel products. Demand for the raw materials necessary for the production of steel products, such as iron ore and coking coal, is generally correlated with the demand for steel products. In addition, increased competition from emerging or established steel producers and mining operations may cause oversupply or undersupply of steel and mining products on the global markets. Adverse fluctuations in the demand for Severstal's products or the supply of competing products may result in overproduction or underproduction, increased costs or general uncertainty in the industry, any of which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Any change in prices or supply of raw materials may cause Severstal's financial results to vary, and this could have a material adverse affect on its results of operations.

Severstal requires substantial amounts of raw materials in the steel-production process, in particular coal and iron ore. Although the addition of Severstal Mining into Severstal has secured a supply of iron ore and coal for Russian Steel and Metalware, the availability of coal, iron ore and slabs for Severstal North America and Lucchini, and the availability of other necessary raw materials such as scrap may be negatively affected by a number of factors largely beyond the control of Severstal, including interruptions in production by suppliers, supplier allocation to other purchasers, price fluctuations and transport costs. In addition, Severstal's operations require substantial amounts of other raw materials, including various types of limestone, alloys, refractories, oxygen, fuel and gas, the price and availability of which are also subject to market conditions. Severstal may not be able to adjust its prices to recover the costs of increases in the prices of such raw materials. Any change in the prices or supply of raw materials could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Any local or global economic downturn in significant steel-consuming industry sectors could adversely affect demand for Severstal's products.

Certain significant steel-consuming industry sectors, such as the automotive and construction industries, are particularly sensitive to changes in general economic conditions. As a result, the demand for steel products in these industry sectors may decrease disproportionately as economic conditions deteriorate. Significant decreases in the demand for steel products in any industry sector in which Severstal generates substantial portions of its revenues, for example any decrease in demand caused by the recent downturn in the US automotive industry, would have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal may incur losses as the result of fluctuations in the foreign currency exchange rates of the Russian rouble, the US dollar or the Euro.

Severstal is exposed to translational and transactional foreign currency exchange rate risks. Translational foreign currency exchange rate risks are the result of translating assets and liabilities denominated in the Russian rouble or Euro into US dollar amounts for financial reporting purposes. Transactional foreign currency exchange rate risks arise as a result of payments Severstal makes or receives that involve foreign currency exchange. As Severstal reports its financial results in US dollars and must frequently exchange or translate foreign currency into Russian roubles or Russian roubles into foreign currency, fluctuations in foreign currency exchange rates could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Shareholder liability under Russian legislation could cause Severstal to become liable for the obligations of its Russian subsidiaries and its Russian joint venture entities.

Under Russian law, Severstal may be jointly and severally liable for the obligations of its Russian subsidiaries or joint venture entities together with such entities if (i) Severstal has the ability to make decisions for such Russian subsidiaries or joint venture entities as a result of its ownership interest, the terms of a binding contract or in any other way, (ii) Severstal has the ability to issue mandatory instructions to such Russian subsidiaries or joint venture entities and that ability is provided for by the charter of the relevant Russian subsidiary or joint venture entity or in a binding contract and (iii) the relevant Russian subsidiary or joint venture entity concluded the transaction giving rise to the obligations pursuant to Severstal's mandatory instructions. In addition, Severstal may have secondary liability for the obligations of its Russian subsidiaries or joint venture entities if (i) Severstal has the ability to make decisions for the relevant Russian subsidiary or joint venture entity as a result of its ownership interest, the terms of a binding contract, or in any other way and (ii) the relevant Russian subsidiary or joint venture entity becomes insolvent or bankrupt due to Severstal's fault (i.e., Severstal has used its ability referred to in (i) above knowing that this would result in insolvency or bankruptcy of the relevant Russian subsidiary or joint venture entity). This type of liability could result in significant losses, and could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal will require a significant amount of cash to fund its capital investment programme. If Severstal is unable to generate this cash through operations or external sources, this programme may not be completed on schedule or at all.

Steel production and mining are capital-intensive businesses. In particular, Severstal is currently completing an extensive programme to modernise and develop its existing steel production and mining facilities, which will require significant capital expenditures. Severstal plans to rely on cash generated from its operations, and to a lesser extent external financing, to provide the capital needed for investment. However, there can be no assurance that Severstal will be able to generate adequate cash from operations or that external financing, if necessary, will be available on reasonable terms. In addition, capital improvement programmes are subject to a variety of potential problems and uncertainties, including changes in economic conditions, delays in completion, cost overruns and defects in design or construction, which may require additional cash investment. A failure or delay of Severstal's capital investment programme could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal has grown rapidly and intends to pursue opportunities to grow its operations through further acquisitions, but there can be no assurance that Severstal will be able to successfully integrate such acquired companies or identify suitable acquisition targets.

In recent years, Severstal has increased its ownership interests in a number of companies and acquired other companies, businesses and production assets, in particular Severstal North America, Lucchini and Severstal Mining. Severstal intends to consider future acquisitions of assets or companies that will enable it to expand its current operations and increase integration and production synergies.

The success of past, current and future acquisitions will depend on Severstal's ability to manage the assimilation of the acquired assets or companies into its operations despite the inherent difficulties, such as cultural differences, redundancies of personnel, incompatibility of equipment and information technology, production failures or delays, loss of significant customers, problems with minority shareholders in acquired companies and their material subsidiaries, the potential disruption of Severstal's own business, the assumption of liabilities relating to the acquired assets or businesses, the possibility that indemnification agreements with the sellers of such assets may be unenforceable or insufficient to cover potential liabilities, the impairment of relationships with employees and counterparties as a result of difficulties arising out of integration, poor records or internal controls and difficulty in establishing immediate control over cash flows.

Furthermore, the value of any business Severstal acquires or invests in may be lower than the amount that Severstal pays for it if, for example, there is a decline in the position of that business in the market or markets in which it operates or there is a decline in the market generally. Severstal may not be able to identify suitable acquisition targets, and future acquisitions may not be available to Severstal on terms as favourable as in the past. Severstal faces significant competition for potential acquisitions. When making acquisitions it may not be possible for Severstal to conduct a detailed investigation of the nature of the assets being acquired due to, for example, time constraints in making the acquisition decision and other factors. Severstal may also become responsible for additional liabilities or obligations not foreseen by Severstal at the time of an acquisition, including in particular with respect to any financial liabilities entered into by previous management prior to completion.

Any or all of these difficulties could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal may experience equipment failure or other unanticipated events, which may result in significant interruption in manufacturing processes, production curtailment and shutdowns.

Severstal's manufacturing processes depend on critical pieces of steel-making equipment, such as furnaces, continuous casters and rolling equipment, and electrical equipment, such as transformers. This equipment may, on occasion, be out of service as a result of malfunction or defect. In addition, Severstal's facilities are subject to the risk of damage due to unanticipated events, such as fires, explosions or adverse weather conditions. In the event of equipment failure or damage to its facilities, Severstal may experience loss of revenues or customers due to material plant shutdowns or periods of reduced production and may require large capital expenditures to repair or replace faulty machinery or to repair damaged facilities. Loss of revenues or customers or large unexpected capital expenditures would have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal's mining operations are subject to hazards and risks that could lead to unexpected production delays, increased costs, damage to property or injury or death to persons.

Hazards associated with Severstal's open-pit mining operations include flooding of the open pit, collapses of the open-pit wall, accidents related to the operation of large open-pit mining and rock transportation equipment, accidents related to the preparation and ignition of large-scale open-pit blasting operations, production disruptions due to weather and hazards related to the disposal of mineralised wastewater, such as groundwater and waterway contamination. Hazards associated with Severstal's underground mining operations include underground fires and explosions, including those caused by flammable gas, cave-ins or ground falls, discharges of gases and toxic chemicals, flooding, sinkhole formation and ground subsidence and other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine. If any of these hazards or accidents results in significant injury to employees and damage to equipment or other property, Severstal may experience unexpected production delays or increased production costs. Such delays and costs could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Additional or stricter environmental rules and regulations may significantly increase Severstal's cost of compliance.

Severstal's steel-making plants and mining operations involve potential environmental problems including the generation of pollutants and the storage and disposal of wastes and other hazardous materials. As a result, Severstal must comply with stringent regulatory requirements necessitating the commitment of significant financial resources and expects that the global trend towards stricter environmental laws and regulations will continue. Any significant increase in the cost of complying with such environmental rules and regulations in the future could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Estimates of Severstal's mining reserves and resources are subject to uncertainties and estimates of its resources are speculative.

Estimates of Severstal's iron ore and coal reserves and resources provided by IMC Consulting Ltd summarised in this prospectus, were based on interpretations of geological data obtained from sampling techniques and projected rates of production. See "Presentation of Financial and Other Information — Mining Reserves". Sampling techniques and projections are inherently uncertain and variances in reserve and resource estimates under different methodologies may be difficult to determine and evaluate. In addition, reserve and resource estimates do not account for the possibility that the initial phase of drilling and exploration may take several years before production is possible or for the effect of market prices of iron ore or coal on the economic feasibility of mining any particular deposit.

If Severstal's actual production of iron ore and coal in the future is significantly less than Severstal's planned production based on these estimates of its reserves, Severstal may not be able to supply iron ore and coal to its steel operations at an economically feasible price or at all, which would have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

An increase in existing trade barriers or the imposition of new trade barriers in Severstal's principal export markets could cause a significant decrease in the demand for its products in those markets.

Severstal's products are subject to various trade barriers, such as anti-dumping duties, tariffs and quotas, in its principal export markets, which include the European Union, Asia, the Middle East and North America. These trade barriers affect the demand for Severstal's products by effectively increasing the prices for those products compared to domestically available products. An increase in existing trade barriers, or the imposition of new trade barriers, could cause a significant decrease in the demand for Severstal's products in its principal export markets, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

The reduction or elimination of trade barriers in Severstal's principal domestic markets may increase competition, which could adversely affect the demand for or prices of its products in those markets.

The Russian government has enacted various trade barriers, such as import customs duties, specific kinds of duties (including anti-dumping duties) and licensing against imports of foreign steel products. For example, Russia has in place import customs duties with respect to certain steel products imported from outside of Russia, excluding countries in the Commonwealth of Independent States, or CIS. These customs duties generally amount to 5 percent of the value of the products, but increase to up to 20 percent for certain high value-added products. These trade barriers provide protection for domestic steel producers in Russia against foreign competition by effectively increasing the prices of imported products compared to domestically available products. However, Russia's entry into the WTO, currently expected in 2007, may involve agreements requiring Russia to reduce or eliminate these trade barriers and there can be no assurance that other similar agreements will not be concluded in the future. The reduction or elimination of trade barriers would increase competition in the Russian steel industry, resulting in lower prices for steel products. Significant decreases in prices for domestic steel products in Russia would have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

The business areas in which Severstal operates entail significant environmental liability risks, and Severstal's existing and future insurance coverage may not be sufficient to cover costs arising from hazards and other operational risks arising from its European steel and mining operations.

Severstal operates many industrial facilities in Europe where heavy metals or hazardous substances that are liable to present significant risks to the health or safety of neighbouring populations and to the environment are present. In this respect, Severstal has in the past and may in the future incur liability (a) for having caused injury or damages to persons or property, or (b) for the pollution of the environment. In addition, Severstal's plants may be the source of safety risks and, in particular, risks of accidents, fire and pollution.

Should claims arise involving Severstal's businesses or products, the possibility that it may be held liable for amounts exceeding the coverage ceilings or for uninsured events cannot be excluded. Furthermore, any accident, whether it occurs at a production site or during the transport or use of products made by Severstal, may result in production delays or claims for compensation, particularly contractual claims, or product liability claims.

The amounts covered by provisions may prove to be insufficient if Severstal incurs liability for environmental claims, due to the intrinsic uncertainties involved in projecting expenditures and liabilities relating to health, safety and the environment. It is likely that the assumptions used to determine these provisions will need to be adjusted, mainly due to changes in regulations, changes in the interpretation or application of regulations by the relevant authorities, or, with respect to issues related to restoration of the environment, changes in technical, hydrological or geological restrictions, or the discovery of pollution that is not yet known. Any such liability shortfalls could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal's existing and future insurance coverage may not be sufficient to cover costs arising from hazards and other operational risks arising from its steel and mining operations in Russia.

Severstal maintains Russian market standard levels of insurance on its existing Russian production facilities and limited levels of insurance against business interruption, at cost, but does not have insurance against third-party liabilities for property or environmental damage. Severstal would therefore suffer significant losses in the event of damage to or destruction of any of its principal operating assets in Russia or in the event that any claim is brought against Severstal relating to personal injury, death or property damage caused by Severstal's operations in Russia. In addition, no assurance can be given that Severstal will be able to maintain existing insurance or obtain additional insurance coverage at commercially reasonable rates, which could lead to future shortfalls between Severstal's liability and its insurance coverage. Any such liability shortfalls could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal maintains a significant part of the social and physical infrastructure in the Cherepovets area, which requires a substantial commitment of resources and may limit its ability to make rapid or significant reductions in the number of its employees.

Severstal has been responsible for maintaining a portion of the social and physical infrastructure in and around the city of Cherepovets and currently owns various social assets. Severstal is by far the largest employer in Cherepovets, and it estimates that its payments to the City of Cherepovets accounted for a significant proportion of the City's total budget for the year ended 31 December 2005. Severstal expects that the City of Cherepovets will continue to rely on it for a substantial portion of its budget and that it will continue to maintain its current commitments in respect of social, employment and welfare infrastructure in the Cherepovets area.

As a result, Severstal's ability to change the number of its employees may be subject to political and social considerations. This substantial commitment of resources and inability to make rapid or significant reductions in the number of its employees reduces Severstal's ability to adjust its operations to respond to changes in market conditions. Severstal's limited flexibility and significant level of additional fixed resource commitments could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

The steel industry is highly competitive, and Severstal may not be able to compete successfully.

The markets for steel and steel products are highly competitive. Steel producers are also in competition with producers of substitute materials, particularly in the automotive, construction and packaging industries. Severstal's competitors include major international steel producers, some of which are larger or have greater capital resources than Severstal or, in some cases, have lower raw materials costs than Severstal. Competitors may have competitive advantages in terms of location and access to key suppliers and transport routes. Severstal's competitive position may also be affected by the recent trend towards consolidation in the steel industry. The highly competitive nature of the industry combined with excess production capacity for some steel products has exerted, and may in the future continue to exert, downward pressure on prices of certain of Severstal's products. There can be no assurance that Severstal will be able to compete effectively in the future.

In addition, as major Russian steel and metalware producers, Severstal and Severstal-Metiz appear on the register of the Russian Federal Antimonopoly Service, or FAS, maintained for companies with a 35 percent share in a particular goods market. The measures applicable to Severstal and Severstal-Metiz as a result of this inclusion could restrict their ability to set prices for such goods.

Failure by Severstal to compete effectively for any of these reasons could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal obtains significant amounts of its electricity and natural gas supply from government-controlled companies that are currently the subject of a liberalisation programme, which could result in increased prices or supply interruptions.

In 2005, Severstal purchased significant amounts of electricity from RAO UES, or UES, the government-controlled national holding company for the Russian power sector, and significant volumes of natural gas, from subsidiaries of OAO Gazprom, or Gazprom. A restructuring plan is currently being implemented for the Russian power sector aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market-based system by 2008. Liberalisation may result in higher prices for electricity or natural gas and potential interruptions in their supply. In addition, in May 2004, in connection with an agreement on Russia's accession to the WTO, Russia and the European Union agreed to raise Russian domestic natural gas prices to US$37-42 per thousand cubic metres by 2006, as is currently the case and to US$49-57 per thousand cubic metres by 2010.

Any interruption in the supply of energy or substantial increase in costs could adversely affect Severstal's future profitability to the extent it is unable to pass on higher costs to its customers. This could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal's competitive position and future prospects are heavily dependent on its controlling shareholder's and senior management's experience and expertise.

Severstal's controlling shareholder, who will terminate his position as chairman of Severstal's board of directors and become the CEO by the end of 2006, and senior management team have been and, Severstal believes, will continue to be important in the implementation of Severstal's strategy and the operation of Severstal's day-to-day activities. The experience, personal connections and relationships of members of senior management are important to the conduct of its business. There can be no assurance that these individuals will continue to make their services available to Severstal in the future. Severstal does not maintain key man or key personnel life insurance covering any of its senior managers. Moreover, competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and this situation could seriously affect Severstal's ability to retain its existing senior management and attract additional suitably qualified senior management personnel. The loss or diminution in the services of members of Severstal's senior management team or an inability to attract and retain additional senior management personnel could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severe weather conditions could significantly affect Severstal's business and financial results.

The climate of the region of Russia where Severstal's main operational site is located limits operations during certain times of the year. In addition, a substantial part of Severstal's sales volumes from its Russian steel operations to be sold internationally are routed through the port of St. Petersburg, which experiences occasional shutdowns due to bad weather and can only be fully utilised during the summer navigation period, while the river is not frozen over. Unusually severe weather conditions could negatively affect distribution and therefore revenues from international sales. Any of these climatic limits could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Disruption in rail transport and increased rail costs could significantly hinder Severstal's operations and product distribution in Russia.

Severstal's Russian operations depend on the Russian railway system and rely predominantly on the rail freight network operated by OAO Russian Railways, or Russian Railways, for transport of raw materials and deliveries of its steel products to its facilities, consignment agents and customers. Russian Railways is a state-owned company handling 83 percent of all freight in Russia and is scheduled for partial privatisation between 2006 and 2010.

The Russian railway system is subject to risks of disruption as a result of the declining physical condition of the facilities, a shortage of rail cars, the limited capacity of border stations and load shedding, including those due to poorly maintained rail cars and train collisions. In particular, the rolling stock of Russian Railways is generally in a poor state of repair. While Severstal owns and leases railcars, and rents additional railcars, such assets are sufficient for only a portion of Severstal's total transportation requirements. The failure of Russian Railways to upgrade its rolling stock within the next few years could result in a shortage of available working rolling stock, a disruption in transportation of Severstal's raw materials and products and increased costs of rail transport.

In addition, the Russian government sets rail tariffs and may further increase these tariffs, as it has done in the past. Such increases in railway tariffs have resulted in significant increases in Severstal's transportation costs. Both the privatisation of Russian Railways and its cost of upgrading its rolling stock and other facilities could further contribute to increased tariffs.

Any disruption in transportation or increase in tariffs could significantly increase Severstal's costs, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal may be subject to administrative sanctions, required divestitures or limitations on operations if it fails, or is found to have failed, to comply with the prior approval or subsequent notification requirements of the Russian Federal Antimonopoly Service with respect to its acquisitions of companies that are incorporated and operating in Russia or assets located in Russia.

Severstal has expanded its operations through the acquisition of companies that are incorporated and operating in Russia or assets that are located in Russia, such as the mining companies that currently comprise Severstal Mining. Some of these acquisitions are, or were, subject to the prior approval or subsequent notification requirements of the FAS, or its predecessor agencies. Certain portions of these requirements are vaguely worded and there can be no assurance that Severstal will be able to comply fully or that the FAS will not challenge Severstal's past compliance, which could result in administrative sanctions, required divestitures or limitations on operations. Any such sanctions, divestitures or limitations would materially adversely affect Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal's business could be adversely affected if it fails to obtain or renew necessary licences or fails to comply with the terms of its licences.

Severstal's business depends on the continuing validity of its licences, the issuance to it of new licences and its compliance with the terms of its licences, including subsoil licences for Severstal's mining operations in Russia. Regulatory authorities exercise considerable discretion in the timing of licence issuance and renewal and in monitoring of licensees' compliance with licence terms. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and procedures by which licences are issued are often arguably inconsistent with legislation.

In certain circumstances, state authorities in Russia may seek to interfere with the issuance of licences, for example by initiating legal proceedings alleging that the issuance of a licence violates the civil rights or legal interests of a person or legal entity. The licensing process may also be influenced by outside commentary, political pressure and other extra-legal factors. In the case of subsoil licences, unsuccessful applicants may bring direct claims against the issuing authorities that the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the licence. Accordingly, licences that Severstal requires may be invalidated or may not be issued or renewed. Licences that are issued or renewed may not be issued or renewed in a timely fashion or may involve conditions that restrict Severstal's ability to conduct its operations or to do so profitably.

As part of their obligations under licensing regulations and the terms of their licences, Severstal's Russian subsidiaries are also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor Severstal's operations, maintain appropriate filings and, upon request, submit appropriate information to licensing authorities, which are entitled to control and inspect their activities. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources of the Russian Federation has not issued any new interpretive guidance on the meaning of "significant" or "material" terms of licences. Court decisions on the meaning of these terms have been inconsistent and, under Russia's civil law system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licensees. As a result, while Severstal seeks to comply with the terms of its subsoil licences and believes that it is currently in material compliance with the terms of such licences, there can be no assurance that its licences will not be suspended or terminated. In the event that the licensing authorities in Russia discover a material violation by a subsidiary of Severstal, that subsidiary may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation, which could have an adverse effect on Severstal's business or results of operations.

Any or all of these factors may affect Severstal's ability to obtain, maintain or renew necessary licences. If Severstal is unable to obtain, maintain or renew necessary licences or is only able to obtain or renew them with newly introduced material restrictions, it may be unable to benefit fully from its reserves, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal depends on key accounting staff for the preparation and timely reporting of its consolidated IFRS financial information.

The preparation of Severstal's consolidated IFRS financial statements is a difficult task requiring IFRS-experienced accounting personnel at each of Severstal's principal subsidiaries and at its Moscow corporate offices. However, there is an increasing demand for the small number of IFRS-experienced accounting personnel as more Russian companies begin to prepare financial statements on the basis of IFRS or other international standards. Such competition combined with the relatively remote locations of Severstal's Russian subsidiaries may hinder Severstal's efforts to hire and retain key staff. A lack of qualified accounting staff would substantially increase the difficulty in preparing Severstal's consolidated IFRS financial statements and possibility that such financial statements would not be reported on a timely basis, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal has engaged and may continue to engage in related party transactions.

Severstal has engaged in transactions with certain of its shareholders, including its controlling shareholder, directors and executive officers and companies controlled by them or in which they or Severstal own an interest. See "Related Party Transactions". Severstal believes that these related party transactions have been and will continue to be concluded at arm's length. However, there can be no assurance that the terms on which these related party transactions are conducted have not and will not differ significantly from the terms on which third party transactions have been and are conducted. The practice of related party transactions may result in transactions conducted on terms less favourable to Severstal than would otherwise have been negotiated with third parties and could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Achieving environmental compliance at sites that are currently in operation or that have been decommissioned entails a risk that could generate substantial financial costs for Severstal.

The competent authorities have made, are making or may in the future make specific requests that Severstal rehabilitates or controls emissions at certain of its sites in Europe that it is currently operating, or that it operated or disposed of in the past, at neighbouring sites or at sites where Severstal stored or disposed of waste. Severstal may be required to incur significant costs to fulfil these obligations, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Employees and former employees of Severstal and service providers or customers of Severstal (as well as neighbouring populations) may have been exposed, and, to a certain extent, may still be exposed, to toxic or hazardous substances.

Severstal's European steel operations use and have in the past used large quantities of heavy metals, chemical, toxic or hazardous substances. In spite of safety and monitoring procedures implemented by Severstal and each production site, employees and in some cases the employees of other companies and service providers have been or may have been exposed to such substances and some employees may have developed specific pathologies from such exposure, which could induce them to file claims against Severstal in future years.

Certain employees of Severstal or of other companies and service providers that work with Severstal have been exposed to materials or equipment containing asbestos. Severstal is involved in legal actions and occupational illness claims due to past exposure to asbestos. Owing to the latency periods for various asbestos-related pathologies, the possibility that an increasing number of legal actions or occupational illness claims will be filed in the years ahead cannot be excluded. In addition, employees of Severstal or its service providers or customers or persons living near Severstal's manufacturing facilities are exposed or have in the past been exposed to certain substances that are currently considered not to be hazardous. However, chronic toxicity, even in very low concentrations or exposure doses, could be discovered in the future. This could also lead to claims against Severstal.

If any of the claims described above is filed against Severstal, this could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Severstal's non-Russian subsidiaries could be deemed to have a taxable presence in Russia, adversely affecting Severstal's business, financial condition and results of operations.

Severstal's subsidiaries incorporated outside of Russia are generally considered to be non-residents of Russia for tax purposes. However, there can be no assurance that Russian tax authorities will not deem any of Severstal's non-Russian subsidiaries to have a permanent establishment in Russia. For example, there have been instances in the market where foreign companies that perform holding or financing functions have been challenged by Russian tax authorities as having a permanent establishment in Russia as a result of exercising management and control from within Russia, for example by virtue of the location of the relevant group's corporate headquarters in Russia. Such a challenge or any other challenge by the Russian tax authorities in relation to certain operations of any of Severstal's non-Russian subsidiaries could result in one or more of those subsidiaries being subject to Russian profits tax computed under Russian tax principles on profits attributable to such permanent establishments, and to all other applicable Russian taxes and Russian income tax withholding on dividend, interest and other payments of Russian source income from such companies to the extent those payments would be deemed attributable to such permanent establishments. Such occurrences could increase Severstal's tax liabilities, which could have a material adverse effect on Severstal's business, financial condition, results of operations and future prospects, and, therefore, on the value of the ordinary shares or GDRs, or both.

A significant portion of Severstal's shares may be subject to claims by a former spouse of Severstal's principal beneficial shareholder.

The former spouse of Severstal's principal beneficial shareholder applied to the Russian courts seeking a portion of the shares of Severstal owned by him. The courts rejected all the claims of this former spouse and a final court decision was entered into force. Severstal believes that there are no legal grounds for any further claims by this former spouse against shares of Severstal. However, judicial decisions in the Russian Federation are difficult to predict and effective redress is uncertain. In addition, court claims are often used to further political agendas. As a result, there can be no assurance that a significant portion of the outstanding shares of Severstal will not become subject to additional claims by this former spouse, which, if successful, could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Russia's property law is subject to uncertainty and contradiction

The legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real estate to the same extent as is common in some of the more developed market economies of North America and Europe. It is often difficult to determine with certainty the validity and enforceability of title to land in Russia and the extent to which it is encumbered. Moreover, in order to use and develop real property in Russia, approvals, consents and registrations of various federal, regional and local governmental authorities are required. Further, it is not always clear which governmental body or official has the right to lease or otherwise regulate the use of real property. In addition, building and environmental regulations often contain requirements that are impossible to fully comply with in practice. Failure to obtain or comply with the required approvals, consents, registrations or other regulations may lead to severe consequences for the landowners and other real estate owners and lessees, including in respect of any current construction activities. If the real property owned or leased by Severstal is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, Severstal may lose the use of such real property, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Risk Factors Relating to Russia

Severstal is a Russian company and a substantial portion of Severstal's fixed assets are located in Russia and a significant portion of Severstal's revenues are derived from Russia. There are certain risks associated with an investment in Russia.

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt Severstal's business, as well as cause the price of the ordinary shares and GDRs to suffer.

Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and who fully appreciate the significance of the risks involved in investing in emerging markets.

Investors should note that emerging markets such as Russia are subject to rapid change and that the information set out in this prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could adversely affect Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Political Risks

Conflict between federal and regional authorities and other domestic political conflicts could create an uncertain operating environment and hinder Severstal's ability to plan long-term and adversely affect the value of Severstal's investments in Russia.

The Russian Federation is a federation of 88 sub-federal political units, some of which exercise considerable autonomy over their internal affairs pursuant to agreements with the federal authorities. In practice, the division of authority between federal and regional authorities remains uncertain and contested. This uncertainty could hinder Severstal's long-term planning efforts, create uncertainties in Severstal's operating environment in Russia and prevent Severstal from effectively and efficiently carrying out its business strategy.

In the past, ethnic, religious, historical and other divisions have given rise to tensions and, in certain cases, military conflict such as in Chechnya where normal economic activity ceased for a period of time. Violence and attacks in connection with this conflict also spread to other parts of Russia and resulted in terrorist attacks in Moscow. In the future, such tensions, military conflict or terrorist activities could result in significant political consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which may disrupt normal economic activity and have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Political and governmental instability could adversely affect the value of investments in Russia, including the ordinary shares and GDRs.

Since 1991, Russia has moved from a one-party state with a centrally planned economy to a federal republic with democratic institutions and a market-oriented economy. However, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian government — the prime minister and the other heads of federal ministries — has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. During his term as president, President Putin has generally maintained governmental stability. In addition, the elections to the lower house of the legislature, the State Duma, in December 2003 resulted in a substantial majority for parties supporting President Putin.

In February 2004, just prior to his election to a second term as president, President Putin dismissed his entire cabinet, including the prime minister. He subsequently appointed Mikhail Fradkov as prime minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various agencies of the Russian government and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. For example, the Ministry of Energy, which was responsible for the practical implementation of Russian government fuel and energy industry policy and co-ordinating the activities of federal executive bodies in the energy sector, was abolished and its functions divided between the Ministry of Industry and Energy and the Federal Energy Agency. President Putin has also introduced reforms by which executives of 33 sub-federal political units in the Russian Federation are no longer elected by the population, but instead are nominated by the president of the Russian Federation and confirmed by the legislature of the sub-federal political unit. Pursuant to legislation that was adopted on 18 May 2005 and took effect on 7 December 2005, single-member-district elections for the State Duma are to be eliminated, and all votes are instead to be cast on a party-list basis.

Future changes in the Russian government, as well as major policy shifts or lack of consensus among President Putin, the government, Russia's parliament and powerful economic groups, could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally. Further governmental instability or discontinuation of reform policies could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Arbitrary, selective or unlawful state action, in particular by the tax authorities, could have a material adverse effect on Severstal's business.

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law. Possible state actions include withdrawal of licences, interference with or nullification of contracts and transactions entered into in connection with privatisations, invalidation of share issuances and registrations, sudden and unexpected tax audits, criminal prosecutions and civil actions.

In particular, the Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has begun to attack certain Russian companies' use of tax-optimisation schemes, and press reports have speculated that these enforcement actions have been selective. In 2003, Russian authorities arrested Mikhail Khodorkovsky and Platon Lebedev, key shareholders and managers of OAO NK Yukos, or Yukos, then Russia's largest oil company by production, on tax evasion and related charges, and on 31 May 2005 each was sentenced to nine years' imprisonment on these charges. Significant back tax claims have since been brought against Yukos, resulting in the auction of its major production subsidiary, OAO Yuganskneftegaz, or Yuganskneftegaz, and the global bankruptcy of Yukos. Yuganskneftegaz was acquired, indirectly, by OJSC OC Rosneft, a state-owned oil company, resulting in the first effective renationalisation of a significant company that had been privatised in the 1990s. In addition, the press has reported significant claims for back taxes and related penalties against other oil companies, including TNK-BP and Sibneft as well as against Vimpelcom.

Partly in response to a statement by President Putin that tax authorities should not "terrorise" taxpayers, the State Duma recently approved amendments to the Tax Code to facilitate the procedure for tax inspections and to make the activities of tax authorities more transparent. However, some of the amendments reduce the rights of taxpayers, and there can be no assurance that the Russian Federal Tax Service will not become more aggressive in respect of future tax audits. In addition, as Severstal is the largest taxpayer in the region where it is located, any substantial decrease in its tax liabilities may be investigated by the tax authorities in more aggressive fashion than would usually be the case.

Arbitrary, selective or unlawful state action, if directed at Severstal, could lead to the loss of key licences, termination of contracts, invalidation of share issuances, civil litigation, criminal proceedings and imprisonment of key personnel, any of which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Economic Risks

Economic instability in Russia could adversely affect Severstal's business.

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;

- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- the growth of "black" and "grey" market economies;
- high levels of capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

In particular, the Russian economy has been subject to abrupt downturns. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its rouble-denominated securities, the CBR stopped its support of the rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of 17 August 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies and resulted in the loss of bank deposits in some cases. In 2004, several Russian banks experienced a sharp reduction in liquidity, and the licences of certain of them were withdrawn.

There can be no assurance that the positive trends in the Russian economy, such as the increase in the gross domestic product, a relatively stable rouble and a reduced rate of inflation, will continue or will not be abruptly reversed. As Russia produces and exports large quantities of oil and natural gas, the Russian economy is particularly vulnerable to fluctuations in the prices of oil and natural gas on the world market, which reached record high levels in 2005. A significant or sustained decline in the price of oil or natural gas could significantly slow or disrupt the Russian economy. The occurrence of any of these events could adversely affect Russia's economy and Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Russian currency regulation and control legislation may limit Severstal's ability to execute its strategy or operate its business or could otherwise adversely affect the Russian capital markets.

During the 1990s, Russia's currency regulation and control regime severely limited, and at times prohibited, certain hard currency payments and operations. Despite recent liberalisation, there can be no assurance that Russia's currency regulation and control regime will not impose new restrictions or prohibitions. Restrictions or prohibitions on hard currency payments and operations could limit Severstal's ability to invest in its capital improvement programmes, pursue attractive acquisition opportunities or purchase raw materials or sell its products internationally. In addition, such restrictions or prohibitions may limit an investor's ability to repatriate earnings from securities of Russian issuers, including Severstal, or otherwise have a negative impact on the Russian capital markets. The consequences of any new restrictions or prohibitions could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Sustained periods of high inflation could adversely affect Severstal's business.

The majority of Severstal's production activities are located in Russia, and the majority of Severstal's direct costs are incurred in Russia. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4 percent in that year. Notwithstanding recent reductions in the inflation rate, which was 12.0 percent in 2003, 11.7 percent in 2004 and 10.9 percent in 2005, Severstal tends to experience inflation-driven increases in certain of its costs, such as salaries, that are linked to the general price level in Russia. However, Severstal may not be able to increase the prices that it receives for its products sufficiently to preserve operating margins, particularly in the case of Severstal's export sales, when such inflation is accompanied by real appreciation of the rouble against the US dollar. Accordingly, high rates of inflation in Russia could increase Severstal's costs and decrease Severstal's operating margins, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

The Russian banking system remains underdeveloped, with a limited number of creditworthy Russian banks, and another banking crisis could place severe liquidity constraints on Severstal's business.

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April through July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. As a result, there are currently also only a limited number of creditworthy Russian banks, most of which are located in Moscow. Russian banks owned or controlled by the Government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil.

There are few, safe rouble-denominated instruments in which Severstal may invest the excess rouble cash. Another banking crisis or the bankruptcy or insolvency of the banks with which Severstal holds funds could result in the loss of Severstal's deposits or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Russia's physical infrastructure is in a poor condition.

The physical infrastructure in Russia, including rail and road networks, power generation and transmission, communication systems, and building stock, largely dates back to Soviet times and has not been adequately funded and maintained. Electricity and heating shortages in some regions of Russia have seriously disrupted the local economies. In May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for one day, disrupting normal business activity. Other parts of the country face similar problems.

Road conditions throughout Russia are also poor, with many roads not meeting modern quality requirements. Some areas within Russia, particularly those surrounding ageing nuclear power plants, are potentially hazardous. The federal government is actively pursuing the reorganisation of the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt access to communications, increase the cost of doing business in Russia or disrupt business operations, any or all of which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Social Risks

Crime and corruption could disrupt Severstal's ability to conduct its business and could materially adversely affect Severstal's financial condition and results of operations.

Organised criminal activity has reportedly increased significantly since the dissolution of the Soviet Union in 1991, particularly in large metropolitan centres. In addition, the Russian and international press have reported high levels of official corruption in Russia and other CIS countries, including the bribery of officials for the purpose of initiating investigations by state agencies. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment. Severstal's business, financial condition, results of operations and future prospects and the value of the ordinary shares and the GDRs could be adversely affected by illegal activities, corruption or by claims implicating Severstal in illegal activities.

Social instability could increase support for renewed centralised authority, nationalism or violence and thus materially adversely affect Severstal's ability to conduct its business effectively.

The failure of the state and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. For example, in early 2005, pensioners in cities across

Russia protested against the replacement of certain in-kind benefits with cash allowances. These protests periodically blocked highways and streets in major Russian cities. Such labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including restrictions on foreign involvement in the economy of Russia, and increased violence. Any of these could restrict Severstal's operations and lead to a loss of revenue, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Risks Relating to the Russian Legal System and Russian Legislation

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity.

Russia continues to develop its legal framework in accordance with the international standards and requirements of a market economy. Since 1991, new Russian domestic legislation has been put into place. Currently, this system includes the Constitution of the Russian Federation of 1993; the Civil Code of the Russian Federation, or Civil Code; and other federal laws, decrees, orders and regulations issued by the President, government and federal ministries, which can be complemented by regional and local rules and regulations, adopted in certain spheres of regulation. These legal norms on the one hand can overlap or contradict one another and on the other hand can leave gaps in the regulatory infrastructure. Several Russian laws have only recently become effective. Consequently, certain areas of judicial practice are not yet formed, and are often difficult to predict.

Among the risks of the current Russian legal system are:

- inconsistencies among (1) federal laws, (2) decrees, orders and regulations issued by the president, the Russian government, federal ministries and regulatory authorities and (3) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation, particularly business and corporate law;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- a high degree of unchecked discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

All of these weaknesses could affect Severstal's ability to enforce its rights under contracts, or to defend itself against claims by others, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

The lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent Severstal or its shareholders from obtaining effective redress in a court proceeding and could materially adversely affect the value of the ordinary shares and GDRs.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia is also less than complete. The Russian court system in the past has been and may still be understaffed and underfunded. Russia, along with many western European states, such as Germany and France, is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court judgments by law enforcement agencies can sometimes be time consuming because of the large number of outstanding court judgments. Additionally, court claims are often used in furtherance of political aims. Severstal may be or become subject to such claims and may not be able to receive a fair trial.

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that, due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation, or in the event that Severstal's business is reorganised. Expropriation or nationalisation of any of Severstal's entities, their assets or portions thereof, or their break-up into separate companies, potentially without adequate compensation, could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

In the event that the title to any company acquired by Severstal through privatisation, bankruptcy sale or by other means is successfully challenged, Severstal may lose its ownership interest in that company or its assets.

Almost all of Severstal's steel making and mining assets consist of companies that have been privatised or that Severstal acquired through bankruptcy proceedings or directly or indirectly from others who acquired them through privatisation or bankruptcy proceedings, and Severstal may seek to acquire additional companies that have been privatised or that have undergone bankruptcy proceedings. Privatisation legislation in Russia is vague, internally inconsistent and in conflict with other elements of Russian legislation. Although the statute of limitations for challenging transactions entered into in the course of privatisations is currently three years, privatisations may still be vulnerable to challenge, including through selective action by governmental authorities motivated by political or other extra-legal considerations.

If any of Severstal's acquisitions is challenged as having been improperly conducted and Severstal is unable successfully to defend itself, Severstal may lose its ownership interests, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

The recently introduced Russian corporate governance code has not yet proven effective at ensuring strong corporate governance practices in Russia and Severstal, being a joint stock company incorporated in the Russian Federation, is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other European Union member states or the United States.

In 2002, Russia introduced its first corporate governance code, which is recommended for companies listed on Russian stock exchanges in January 2006. However, the Russian legal system continues to suffer from a lack of effectiveness and fails to provide adequate support for strong corporate governance practices. According to the European Bank for Reconstruction and Development, failures of the Russian corporate governance regime include using political connections in hostile takeovers, unlawfully engaging police or other law enforcement agencies in corporate conflicts and exercising improper influence over judicial verdicts, in particular those involving state-owned or other major business interests. In addition, as a joint stock company incorporated in the Russian Federation, Severstal is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other European Union member states or the United States.

Nevertheless, a material failure to comply with corporate governance requirements that are mandatory for obtaining and manintaining a Russian stock exchange "B" listing may constitute grounds for de-listing a company such as Severstal. Although a Russian stock exchange listing is a condition to the issuance by FSFM of a permit for GDRs, Russian securities law and regulations are silent as to whether a de-listing constitutes grounds for revocation of the FSFM permit for the GDRs. While Severstal is not aware of any other Russian issuer that has been de-listed on such grounds or has had its GDR permit revoked due to de-listing, this gap in the Russian securities regulatory regime creates uncertainty as to whether a failure to comply with corporate governance requirements may have such consequences. A Russian stock exchange de-listing and/or a GDR permit revocation would have a material adverse effect on the value of the ordinary shares or the GDRs, or both.

Changes and inconsistencies in the Russian tax system could adversely affect Severstal's business.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value-added tax or VAT, excise taxes, social and pension contributions and property tax. All of these taxes are subject to change. The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in the ordinary shares and the GDRs.

The tax environment in Russia has historically been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation. Because of the political changes that have occurred in Russia over the past several years, there have recently been significant changes to the Russian taxation system.

Tax reform commenced in 1999 with the introduction of Part One of the Russian Tax Code, which sets out general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax

Code. For instance, new chapters of the Tax Code on VAT, unified social tax and personal income tax came into force on 1 January 2001; the profits tax and mineral extraction tax chapters came into force on 1 January 2002; and the corporate property tax chapter of the Tax Code came into force on 1 January 2004.

In practice, the Russian tax authorities have their own interpretation of the tax laws that rarely favours taxpayers, who must often resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayer activities are subject to inspection for the three-year period immediately preceding the year in which the tax audit is carried out. As previous audits do not exclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that effectively allowed the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the Tax Code if a court determines that the taxpayer has obstructed the course of tax inspection. Recent amendments to Part One of the Tax Code effective as of 1 January 2007 provide for the possibility of extension of the three-year term in cases where actions of the audited taxpayer created insurmountable obstructions to the tax authorities' audit. Since the term "obstructed" is not specifically defined in the Russian Law, the tax authorities may attempt to interpret this term broadly, effectively linking any difficulty experienced in the course of their tax audit with the obstruction by the taxpayer and using that as a basis to seek tax adjustment and penalties beyond the three-year term. In some instances, changes in tax regulations have been given retrospective effect.

In its decision of 26 July 2001, the Constitutional Court also introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for it. Similarly, this concept is not defined in Russian tax law. Nonetheless, this concept is increasingly used by the tax authorities to deny, for instance, the taxpayer the right to rely on the letter of the tax law. The tax authorities often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

There is no concept of a tax group in Russia, nor can a consolidated filing be made by Russian companies for tax purposes. Therefore, Russian companies and each of their Russian subsidiaries pay their own Russian taxes and may not surrender profit or losses to other group companies for tax purposes.

In addition, payments of dividends between two Russian companies are currently subject to a withholding income tax of 9 percent at the time they are paid out of profits albeit the effective rate of this tax may be lower than 9 percent if the company paying the dividends has received, in the same or a preceding tax period, dividends from other Russian companies. This may give rise to additional tax liabilities and inefficiencies in multi-level Russian groups such as Severstal.

The conditions mentioned above create tax risks in Russia that are more significant than those typically found in countries with more developed tax systems, imposing additional burdens and costs on Severstal's operations and management resources. In addition to creating a substantial tax burden, these risks and uncertainties complicate Severstal's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant fines and penalties and enforcement measures, and could adversely affect Severstal's business, financial condition and results of operations. In addition, there can be no assurance that the current tax rates will not be increased or that new taxes will not be introduced. In some instances, the Russian tax authorities have applied new provisions retroactively in violation of Russian law. Increases in the taxes payable by Severstal and the imposition of fines, penalties or interest charges, could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may affect Severstal's results of operations.

Russian transfer pricing rules came into force in 1999, giving the tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of "controlled" transactions, provided that the transaction price differs from the market price by more than 20 percent. "Controlled" transactions currently include transactions with related parties, barter (in-kind exchange) transactions, foreign trade transactions and any transactions with significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20 percent within a short period of time). Transfer pricing adjustments are also applicable to transactions with securities and derivatives.

The transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by the tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by the tax authorities, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction.

At the moment a draft law is under discussion in the Russian government that will potentially tighten transfer pricing rules further. At this point it cannot be predicted when this law will be enacted, if at all, and what the provisions or effect on taxpayers, including Severstal, may be.

While Severstal and certain of its subsidiaries engage in numerous transactions that may be deemed to be related-party transactions, they seek to conduct such transactions at prices that would be considered market prices in transactions between unrelated parties. However, it is not always possible to determine a market price for a specific transaction, and the Russian tax authorities may take a view as to what constitutes an appropriate market price that differs from Severstal's view. As a result, the Russian tax authorities may challenge prices in such transactions and propose tax adjustments. If any such tax adjustments are implemented, Severstal could incur significant additional liabilities on account of taxes, interest and penalties. Such additional liabilities could have an adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Risks Relating to the Ordinary Shares and GDRs

Minority shareholders may have little protection or legal recourse if Severstal's controlling shareholder exerts its influence over Severstal to take actions that conflict with their interests.

Severstal's controlling shareholder, Alexey Mordashov, controlled 90.09 percent of Severstal's total share capital as at 4 October 2006 and is expected to continue to control a substantial portion of its share capital after completion of the capital increase in connection with this offering. Mr. Mordashov intends to remove the current board of directors, of which he is chairman, at a special shareholders' meeting at the end of 2006, become the CEO of Severstal and elect a 10-member board of directors, 5 of whom will be independent. Mr. Mordashov will retain his ability as controlling shareholder to remove any board of directors. Through this mechanism, Mr. Mordashov retains the ability to pursue acquisitions or other transactions or make large dividend payments or other distributions in line with his interests. As the concept of fiduciary duties of directors to minority shareholders is not well-developed in Russia and Russian courts have little experience with actions brought by minority shareholders, any legal redress for damage to minority shareholders resulting from Mr. Mordashov's actions as the controlling shareholder may be limited.

This offering may not result in an active or liquid trading market for the ordinary shares or the GDRs.

Although Severstal's ordinary shares are admitted to trading on the RTS and MICEX, an active trading market may not develop or be sustained for the ordinary shares or the GDRs. Although the ordinary shares will remain listed on the RTS and MICEX and Severstal has applied to the UK FSA and the LSE for the GDRs to be admitted to the Official List maintained by the FSA and to the regulated main market of the London Stock Exchange, there can be no assurance that upon completion of this offering investors will be able to resell the ordinary shares or the GDRs purchased in this offering at or above the purchase price paid by them or at all.

The ordinary shares and the GDRs may be subject to market price volatility and the market price of the ordinary shares and the GDRs may decline disproportionately in response to adverse developments that are unrelated to Severstal's operating performance.

The market prices of the ordinary shares and the GDRs may fluctuate due to a variety of factors, including, but not limited to, those referred to in this section, as well as period-to-period variations in operating results or changes in turnover or profit estimates by Severstal, industry participants or financial analysts. In addition, the price of the ordinary shares and the GDRs may be adversely affected by developments unrelated to Severstal's operating performance such as the operating and share price performance of other companies that investors may consider comparable to Severstal, speculation about Severstal in the press or the investment community, strategic actions by competitors, such as acquisitions and restructurings, and changes in market conditions or the regulatory environment.

The number of ordinary shares that may be deposited into the GDR programme is limited, and changes in Russian regulatory policy with respect to the placement and circulation of the ordinary shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the ordinary shares and GDRs offered in this offering.

Whenever the depositary believes that it exceeds or would upon accepting additional ordinary shares for deposit exceed any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies or would upon accepting additional ordinary shares for deposit satisfy any condition for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, it may, under certain circumstances after prior consultation with Severstal, (i) close its books to deposits of additional ordinary shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (ii) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of underlying ordinary shares from the depositary receipt program to the extent necessary or desirable to so comply. See "Terms and Conditions of the Global Depositary Receipts — General Restrictions — Restrictions on Deposits".

The Russian securities regulatory authorities impose certain restrictions on the placement and circulation of the securities of Russian companies outside Russia in the form of GDRs or otherwise. Currently, no more than 35 percent of any given class of a Russian company's shares may be circulated abroad through depositary receipt programmes, whether sponsored or unsponsored. Severstal has received a permit from the Russian securities regulatory authorities for up to approximately 25 percent of its enlarged share capital to be circulated abroad in the form of GDRs. At 6 November 2006, Severstal had approximately 2.6 million of its ordinary shares in the existing GDR facility. It is expected that, following the offering, the balance of this facility will be transferred into the new GDR programme. Therefore, upon completion of the offering and the capital increase and assuming exercise of the overallotment option in full and taking into account the number of GDRs issued and outstanding immediately prior to the offering, Severstal's GDR programme would have a remaining approved capacity of approximately 15.12 percent of its outstanding ordinary shares, assuming that all of the ordinary shares offered in the offering, including the overallotment option, are ultimately held in the form of GDRs. There can be no assurance that Severstal will be able to obtain approval for a deposit of a greater number of ordinary shares in the GDR programme than it currently has approval for, and any remaining capacity may be used by Severstal's other existing shareholders. Therefore, it may not be possible to deposit shares into Severstal's GDR programme in order to receive GDRs.

Under Russian corporate law, a person that has acquired more than 30, 50 or 75 percent of an open stock company's ordinary shares and voting preferred shares, including the shares already owned by such person and its affiliates, will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares. From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30, or as the case may be, 50 or 75, percent of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). See "Description of Share Capital — Anti-Takeover Protection and Minority Shareholder Redemption Procedures." Under Russian law, the depositary may be considered the owner of the ordinary shares underlying the GDRs, and as such may be subject to the mandatory public tender offer rules described in the above paragraph. See "Risk Factors — Risks Relating to the Ordinary Shares and the GDRs — Under Russian law, the depositary may be considered the owner of ordinary shares represented by the GDRs, in which case the ordinary shares could be subject to seizure in legal proceedings in Russia against the depositary." In addition, in a letter to the depositary in July 2006, the Russian securities regulatory authority took the general position that the mandatory public tender offer rules do apply to a depositary bank. Accordingly, at present, the mandatory tender offer rules result in a de facto cap on Severstal's GDR programme of 30 percent of its ordinary shares, less one share.

In addition, under Russian anti-monopoly legislation, transactions exceeding a certain amount involving companies the combined value of whose assets under Russian accounting standards exceed a certain threshold or companies registered as having more than a 35 percent share of a certain commodity market, and resulting in a shareholder (or a group of affiliated shareholders) holding more than 25, 50 or 75 percent of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets the value of which exceeds a certain amount, must be approved in advance by the Russian Federal Anti-Monopoly Service, or FAS. The depositary has received general interpretive guidance from FAS that it need not obtain the approval referred to in the preceding sentence in connection with depositary receipt programs such as the

Severstal GDR programme. If, however, FAS were to rescind or disregard its above mentioned interpretation, Severstal's GDR programme would be subject to a de facto cap of 25 percent of its ordinary shares, less one share, unless the depositary could obtain FAS approval for a higher percentage.

Therefore, it may not be possible to deposit shares into Severstal's GDR programme in order to receive GDRs, and under certain circumstances you may be required to withdraw shares from the GDR programme, which may in either case affect the liquidity and the value of your investment.

The aforementioned restrictions have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, and there can be no assurance that the authorities will not reduce the permitted percentage of trading in GDRs or impose other restrictions. Such new or extended regulations could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

Regulation of Russian capital markets provides inadequate protection to securityholders.

Russia's regulation and supervision of its securities market, financial intermediaries and issuers is less developed than those of countries in Western Europe and in the United States. Russian companies and their management find it necessary to become familiar with the relatively new concepts of corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties. Violations of corporate governance, disclosure and reporting requirements and breaches of anti-fraud safeguards, insider trading restrictions and fiduciary duties could have a material adverse effect on the value of an investment in the ordinary shares and GDRs offered in this offering. In addition, the several different agencies regulating the Russian securities market, including the FSFM, the Ministry of Finance, the FAS, the CBR and various professional self-regulatory organisations lack coordination, which often results in contradictions.

In addition, Russian corporate and securities regulations can change rapidly, which may adversely affect Severstal's ability to conduct transactions in securities. While some important areas are subject to virtually no supervision, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to Severstal. Moreover, the FSFM has recently introduced a number of regulations relating to offerings of shares in and outside Russia, including offerings of existing shares, which remain largely untested and subject to varying interpretations. Any challenges of such regulations or transactions consummated pursuant to them could have an adverse effect on the offering and our ability to effect similar equity offering in the future. From time to time, Severstal may not be in full compliance with Russian securities law reporting requirements. Violation of these reporting requirements can result in the imposition of fines or difficulties in registering subsequent share issuances. As a result, Severstal may be subject to fines or other enforcement measures, which could have a material adverse effect on Severstal's business, financial condition, results of operations, future prospects and the value of the ordinary shares or GDRs, or both.

The lack of a properly regulated share registration system in the Russian Federation may harm share liquidity.

Ownership of shares in Russian joint stock companies is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in the Russian Federation. The FSFM, and its predecessor the Federal Commission on Securities Market, had issued regulations regarding the licensing conditions for the registrars maintaining such registers and the procedures to be followed by them when performing their functions. In practice, however, these regulations have not been strictly enforced and registrars generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a rigorously regulated share registration system in the Russian Federation, transactions in respect of Severstal's ordinary shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or mere oversight by registrars incapable of compensating shareholders for their misconduct. Further, the depositary, under the terms of the deposit agreements, will not be liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. This creates a risk of loss not normally associated with investments in other securities markets.

Consequently, any misconduct by Severstal's registrar as a result of such lack of regulation or otherwise may put Severstal's shareholders at risk and Severstal's registrar may not be able to compensate its shareholders for any wrongdoing.

Shareholder rights provisions under Russian law may impose additional costs on Severstal.

Russian law provides that shareholders, including holders of the ordinary shares of Severstal, who vote against or who do not take part in voting on certain matters have the right to require that Severstal purchase their ordinary shares at market value. The decisions that trigger this right to sell include: a reorganisation; approval by shareholders of a "major transaction", which, in general terms, is a transaction involving property worth more than 50 percent of the book value of Severstal's assets as of its last reporting date; and any amendment of the charter of Severstal that limits shareholder rights.

Severstal's obligation to purchase ordinary shares in these circumstances, which is limited to 10 percent of Severstal's net assets, calculated in accordance with the Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on its business, financial condition, results of operations, future prospects and the value of the ordinary shares and the GDRs.

Potential investors will experience an effective dilution of their shareholding as a result of the ordinary shares issued in the capital increase in connection with this offering.

In connection with this offering, Severstal intends to issue and sell its ordinary shares through an open subscription. The selling shareholder, as well as other existing shareholders of Severstal will be entitled to pre-emption rights with respect to the newly issued shares of OAO Severstal. The issuance of the newly issued ordinary shares will result in an effective dilution to investors who purchase ordinary shares or GDRs in this offering and could adversely affect the market price of the ordinary shares and the GDRs.

If the share capital increase is not completed, Severstal may not receive and retain the proceeds from the share capital increase and its shareholding structure may differ substantially from what is currently contemplated.

Shortly after this offering, the selling shareholder will transfer a substantial portion of the proceeds that it receives from this offering to Severstal in consideration for the ordinary shares to be acquired by the selling shareholder pursuant to the capital increase in connection with this offering, see "Use of Proceeds". However, under certain circumstances, the Russian securities regulator or a court of law could invalidate the issuance of these ordinary shares. In addition, the contemplated economic effect of the capital increase (see "Use of Proceeds") may fail if the selling shareholder does not subscribe for the ordinary shares issued in the capital increase or Severstal fails to file the requisite notification on the results of the issue or for other reasons.

If the capital increase fails for any reason and Severstal, the selling shareholder and the managers cannot reach an agreement for a lawful and effective transfer of the proceeds that Severstal expects to receive pursuant to the capital increase in connection with this offering, Severstal would not receive or retain any proceeds from this offering.

Future sales of ordinary shares may affect the market price of the ordinary shares and the GDRs.

Sales, or the possibility of sales, by Severstal's controlling shareholder of substantial numbers of ordinary shares in the public markets, including the Russian stock market, following this offering could have an adverse effect on the market trading prices of the GDRs or could affect Severstal's ability to obtain further capital through an offering of equity securities. Any subsequent equity offering by Severstal may also affect the market price of the ordinary shares and the GDRs.

Trading interruptions or other developments on the RTS and MICEX could negatively affect the market for the ordinary shares and the GDRs.

The ordinary shares have been listed on the RTS and MICEX. In the past, the RTS and MICEX have experienced extreme price and volume fluctuations that have caused trading interruptions. The occurrence of such market fluctuations or trading interruptions in the future could adversely affect the value of the ordinary shares and the GDRs.

Non-Russian resident shareholders may be unable to expatriate their earnings from the ordinary shares.

Russian foreign exchange control legislation currently provides that dividends paid on ordinary shares held by non-Russian residents may be paid in Russian roubles. We currently intend that dividends on our ordinary shares will be paid in Russian roubles. In this case, the depositary will also receive dividends in respect of the shares underlying GDRs in Russian roubles. These dividend payments may be converted into foreign currency and expatriated from Russia without restriction. However, this legislation is subject to change and there can be no assurance that dividend payments will not be subject to currency controls in the future.

US holders may not be able to exercise their pre-emptive rights.

Generally, existing holders of ordinary shares of Russian companies are in certain circumstances entitled to pre-emptive rights pursuant to Russian law and the charter of OAO Severstal, as described in "Description of Share Capital". US holders of GDRs may not be able to exercise pre-emptive rights for the ordinary shares represented by GDRs unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirement thereunder is available. Severstal is unlikely to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such US holders to exercise such pre-emptive rights.

Under Russian law, the depositary may be considered the owner of ordinary shares represented by the GDRs, in which case the ordinary shares could be subject to seizure in legal proceedings in Russia against the depositary.

Many jurisdictions, such as the United Kingdom and the United States, recognise a distinction between legal owners of securities, such as the depositary, and the beneficial owners of securities, such as the GDR holders. In these jurisdictions, the ordinary shares held by the depositary on behalf of the GDR holders would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the ordinary shares. However, Russian law may not recognise a distinction between a legal owner and a beneficial owner of securities and, as a result, the ordinary shares held by the depositary on behalf of the GDR holders may be subject to seizure in connection with legal proceedings that are unconnected with the ordinary shares.

Voting rights with respect to the ordinary shares underlying the GDRs may only be exercised in accordance with the terms of the deposit agreements governing the GDRs and applicable requirements of Russian law.

GDR holders will not have direct voting rights with respect to the ordinary shares underlying the GDRs. GDR holders may exercise voting rights with respect to the ordinary shares underlying the GDRs only in accordance with the provisions of the deposit agreements governing the GDRs and applicable requirements of Russian law. See "Description of the Global Depositary Receipts — Voting Rights" for a description of the voting rights of holders of GDRs.

In addition, there may be practical limitations on the ability of GDR holders to exercise their voting rights, for example, due to the additional procedural steps involved in communicating with the GDR holders through the depositary. Upon notice of a shareholder meeting by Severstal, the depositary is obliged, as soon as reasonably practicable thereafter and provided there are no UK, US or Russian legal prohibitions, to mail to GDR holders notice of the meeting, copies of voting materials and a statement as to the manner in which instructions may be given by the GDR holders. In order to exercise their voting rights, GDR holders must instruct the depositary to vote the ordinary shares represented by the GDRs they hold. GDRs for which the depositary does not receive timely voting instructions will not be voted. In addition, although Russian securities regulations expressly permit the depositary to split the votes with respect to the ordinary shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested, and the depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the ordinary shares in the same manner.

The depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the depositary to (i) vote the shares represented by their GDRs on a cumulative basis, (ii) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called, or (iii) nominate candidates for the board of directors or the audit commission, or otherwise exercise the rights of minority ownership arising under applicable law. See "Description of Share Capital and Applicable Russian Law". If GDR holders wish to take such actions, they must timely request that their GDRs be cancelled and take delivery of the shares and thus become the owner of the shares on OAO Severstal's share register.

GDR holders and beneficial owners also will not be given the benefit of dissenting or abstaining shareholders' rights to put their shares to Severstal under the circumstances described in "Description of Share Capital and Applicable Russian Law — Rights of Holders of Ordinary Shares" unless Severstal has taken all steps necessary to ensure that this would not violate applicable law, including without limitation, the US securities laws.

GDR holders may therefore have more difficulty in exercising their voting rights, or rights relating thereto, than holders of OAO Severstal's ordinary shares.

Holders of the ordinary shares or the GDRs may not benefit from double tax treaties in respect of the dividends.

Under Russian law, dividends paid to a non-resident holder of the ordinary shares or the GDRs will generally be subject to Russian withholding income tax at a rate of 15 percent for legal entities and organisations and at a rate of 30 percent for individuals. This tax may be reduced under the provisions of the relevant double tax treaty between Russia and the country in which the holder of the ordinary shares or GDRs is resident for tax purposes. However, Russian tax rules applicable to GDR holders are characterised by significant uncertainties and, until recently, an absence of interpretive guidance. See "Taxation — Russian Tax Considerations" for further details. In the absence of any specific provisions in the tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat the GDR holders in this regard.

In order to obtain a reduction of the withholding income tax rate under the double tax treaty between Russia and the country in which the holder of the ordinary shares or GDRs is tax resident, a non-resident holder of the ordinary shares or the GDRs that is a legal entity or organisation should provide Severstal with an apostilled or legalised certificate of its tax residence for treaty purposes issued by the competent authority of the country in which it is tax resident for treaty purposes with an attached notarised translation into Russian. The confirmation needs to be renewed on an annual basis and provided to Severstal before the first payment of dividends in each calendar year. In practice, both obtaining and submitting this certificate may be difficult, especially in the case of GDR holders.

Owing to practical difficulties arising from the interpretation of the Russian tax legislation by the Russian tax authorities, it is impossible for non-resident holders of the ordinary shares or GDRs who are individuals to obtain an advance reduction in the withholding income tax rate in accordance with any applicable double tax treaty and a refund of the excess tax withheld can only be obtained by submitting a tax return and supporting documentation in accordance with the procedures described more fully in "Taxation — Russian Tax Considerations".

Obtaining the application of the treaty benefits may, therefore, be a time-consuming and administratively burdensome procedure and, as a practical matter, these benefits may be unavailable to some non-resident holders, including those residing in the US or UK. See "Taxation — Russian Tax Considerations" for further details.

Capital gains from the sale of the ordinary shares or GDRs may be subject to Russian income tax.

Under current Russian tax legislation, capital gains arising from the sale, exchange or other disposition of the ordinary shares or GDRs by non-resident holders (legal entities or organisations) should not be subject to tax in Russia if Severstal's immovable property located in Russia constitutes 50 percent or less of its assets. Severstal believes that its immovable property located in Russia does not currently, and will not, constitute more than 50 percent of its assets. However, because the determination of whether 50 percent or less of Severstal's assets consist of immovable property located in Russia is inherently factual and is made on an on going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that the immovable property located in Russia will not in the future be found to constitute more than 50 percent of Severstal's assets.

If more than 50 percent of Severstal's assets were to consist of immovable property located in Russia, non-resident holders (legal entities or organisations) may be subject to:

- 24 percent withholding income tax on the capital gain realised from the sale of ordinary shares or GDRs being the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the ordinary shares or GDRs; or
- 20 percent withholding income tax on the gross proceeds from the sale of the ordinary shares or GDRs.

Gains arising from the sale, exchange or other disposition of the ordinary shares or GDRs that are circulated (i.e. listed and traded) on foreign stock exchanges on such stock exchanges by non-resident holders that are legal entities or organisations fall outside the scope of Russian tax. Therefore, so long as the GDRs remain listed and traded on the London Stock Exchange, gains arising from their sale, exchange or other disposition on the London Stock Exchange by non-resident legal entities or organisations that have no permanent establishment in Russia to which such sale, exchange or disposition could be connected, should not be subject to Russian withholding income tax and, hence, to taxation in Russia. Furthermore, if the GDRs are listed and traded in the PORTAL Market of the NASDAQ Stock Market, Inc., gains arising from their sale, exchange or other disposition in the PORTAL Market of the NASDAQ Stock Market, Inc. by non-resident legal entities or organisations that have no permanent establishment in Russia to which such sale, exchange or disposition could be connected, should not be subject to Russian withholding income tax and, hence, to taxation in Russia.

If a withholding income tax liability arises on the sale, exchange or other disposition of the ordinary shares or GDRs, the tax must be withheld by the Russian legal entity or foreign legal entity or organisation with a permanent establishment in Russia (though in practice Russian tax authorities may claim that an obligation to withhold exists for any registered presence of a foreign legal entity in Russia) that acquires the ordinary shares or GDRs from a non-resident holder (legal entities and organisations). There is also a risk that such entities that are obligated to withhold tax on capital gains may not have sufficient information regarding Severstal's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the non-resident holders (legal entities and organisations) selling the ordinary shares or GDRs.

Where the buyer is neither a Russian entity nor a non-Russian entity or organisation with a permanent establishment in Russia (or, arguably, with any registered presence), the tax liability referred to above for the holder still exists, but there may be no practical mechanism to withhold the tax.

Gains arising from the sale, exchange or other disposition of the ordinary shares or GDRs outside of Russia by holders who are individuals not resident in Russia for tax purposes would not be considered Russian source income and therefore should not be taxable in Russia. However, as there is no definition of what should be considered to be a "sale in Russia" or "sale outside Russia", the Russian tax authorities have a certain amount of freedom to conclude whether transactions take place inside or outside of Russia. Gains arising from sale, exchange or other disposition of the ordinary shares or GDRs in Russia by holders who are individuals not resident in Russia for tax purposes will be subject to tax either at source in Russia or based on a tax return, which they may be required to submit to the Russian tax authorities. See "Taxation — Russian Tax Considerations".

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in Russia for persons qualifying for the relevant treaty benefits. See "Taxation — Russian Tax Considerations" regarding the details of the United States-Russia Tax Treaty and the United Kingdom-Russia Tax Treaty.

However, there is a risk that non-resident holders of ordinary shares or GDRs may not be able to benefit from double taxation treaties in respect of capital gains realised on such ordinary shares and GDRs. See "Taxation — Russian Tax Considerations".

Non-Resident and Resident Holders (individuals) of the GDRs may suffer from an increased effective rate of tax on dividends due to the lack of clarity in Russian tax law in respect of beneficial ownership and the difficulties in applying the treaties.

Russian tax law is silent as to whether the depositary or the GDR holders must be viewed by the payer of dividends as the beneficial owner of dividends. Private clarifications by the Ministry of Finance suggest that the beneficial owners will be the GDR holders; however, these clarifications are not a statement of law and there can be no assurance that this position will be sustained in the future. Since the depositary rather than the GDR holder is the legal owner of the dividends, if the information on the beneficial owners of such dividends is not available or incomplete, Severstal may be obligated to withhold income tax at a rate of 15 percent from dividend payments on ordinary shares represented by GDRs. As defined in "Taxation — Russian Tax Considerations", Non-Resident Holders-Individuals may nevetherless have a filing obligation in respect of dividends received through the depositary and be liable to additional individual income tax at a rate of 30 percent, depending on the approach taken by the tax authorities at the time when such income is received. It is unlikely that the tax authorities would allow a credit for the 15 percent of tax already withheld at distribution.

A similar risk exists for Resident Holders (individuals) of GDRs, who may be required to report the dividends in their tax returns, and pay additional tax on the declared amount at a rate of 9 percent, and may likely be unable to reclaim the tax withheld at a rate of 15 percent by Severstal initially.

There may be some delay between the time at which notices published in relation to the ordinary shares on the RTS and MICEX (or otherwise in Russia) are published on the London Stock Exchange.

The ordinary shares are traded on the RTS and MICEX while the GDRs will be traded on the London Stock Exchange's regulated market for listed securities. The RTS, MICEX and the London Stock Exchange are not open for trading simultaneously at all times. As a result of the different opening times and dates of the RTS and MICEX, on which the ordinary shares are listed, and the London Stock Exchange, on which Severstal has applied to have the GDRs listed, there may be some delay between the time at which notices published in relation to the ordinary shares on the RTS and MICEX (or otherwise in Russia) are published on the London Stock Exchange.

OFFERING SUMMARY

Issuer	OAO Severstal
Offering	This offering comprises (i) an offering of GDRs and ordinary shares outside the United States and the Russian Federation in reliance on Regulation S, (ii) an offering of GDRs and ordinary shares within the United States to qualified institutional buyers as defined in, and in reliance on, Rule 144A and (iii) an offering of ordinary shares in the Russian Federation. This offering of ordinary shares and GDRs may be extended or revoked at any time without cause, in particular any trading that happens on a conditional basis prior to admission may be revoked should admission not occur.
Selling Shareholder	Frontdeal Limited. See "Principal Shareholders", "The Selling Shareholder" and "Related Party Transactions".
Managers	Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and UBS Limited.
Shares	The selling shareholder is offering 85,000,000 ordinary shares, each such ordinary share with a nominal value of RUR0.01, of OAO Severstal, in the form of ordinary shares and GDRs, with each GDR representing one ordinary share. The share capital of OAO Severstal consists of 930,784,663 ordinary shares, which are fully paid, issued and outstanding. In addition, OAO Severstal has decided to undertake a capital increase pursuant to which it will issue up to 85,000,000 new ordinary shares. See "— Capital Increase". See also "Description of Share Capital and Applicable Russian Law".
GDRs	Each GDR will represent one ordinary share on deposit with the custodian on behalf of the depositary. The GDRs will be issued by the depositary pursuant to two separate deposit agreements, one relating to the Rule 144A GDRs, and another relating to the Regulation S GDRs, among OAO Severstal, the depositary and holders and beneficial owners from time to time of the relevant GDRs. The GDRs will be evidenced initially by master GDR certificates, each to be issued by the depositary pursuant to the relevant deposit agreement. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the master GDR certificates. See "Terms and Conditions of the Global Depositary Receipts".
Depositary	Deutsche Bank Trust Company Americas, an affiliate of Deutsche Bank AG, London Branch.
Over-Allotment	The selling shareholder has granted to the managers an over-allotment option to purchase or procure purchasers for up to 12,750,000 additional ordinary shares in the form of GDRs forming part of the offering. Such over-allotment option shall be exercisable on one or more occasions for the purpose of covering over-allotments that may be made in connection with this offering and short positions resulting from stabilisation transactions on the date hereof, or from time to time, up to and including the thirtieth day following the pricing of this offering upon written notice from the managers, to the selling shareholder and to the extent not previously exercised by the managers may be terminated by the managers at any time. See "Plan of Distribution".

Offer Price	US$12.50 per ordinary share and GDR.
Listing	Application has been made to the FSA under the FSMA for the admission of the GDRs to the official list maintained by the FSA and to the London Stock Exchange for admission of up to 355,524,632 GDRs to trading. Application has been made to have the GDRs offered and sold within the United States in reliance on Rule 144A designated eligible for The PORTAL Market of the NASDAQ Stock Market, Inc. The ordinary shares are listed on the RTS and MICEX.
Lock-Up	Severstal, the selling shareholder and the other entities through which the controlling shareholder holds his ordinary shares in OAO Severstal have agreed, subject to certain exceptions, as part of the selling shareholder agreement and the listing agreement, not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, or publicly announce any such offer, sale, contract to sell, pledge, charge, option or disposal of, directly or indirectly, any ordinary shares of Severstal or securities convertible or exchangeable into or exercisable for any shares of Severstal or warrants or other rights to purchase shares of Severstal or any security or financial product whose value is determined directly or indirectly by reference to the price of the GDRs, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities, for a period of 180 days from the closing of this offering, without the prior written consent of the managers. See "Plan of Distribution".
Voting Rights	Voting at a general shareholders' meeting is generally based on the principle of one vote per ordinary share. For voting rights of holders of the GDRs, see "Terms and Conditions of the Global Depositary Receipts".
Dividend Rights	Holders of the ordinary shares will be entitled to receive amounts, if any, paid by OAO Severstal as dividends, subject to certain provisions. See "Share Capital and Shareholder Structure — Dividends and Dividend Rights".
Taxation	For a discussion of certain Russian, United States federal and United Kingdom tax consequences of purchasing and holding the ordinary shares or GDRs, see "Taxation".
Use of Proceeds	The selling shareholder will receive all of the proceeds of this offering, after the deduction of certain commissions, fees and expenses. OAO Severstal will indirectly receive a portion of the proceeds of this offering through the participation by the selling shareholder and other entities controlled by the controlling shareholder, for an amount of not less than US$877.5 million, in OAO Severstal's capital increase comprising up to 85,000,000 new ordinary shares. See "— Capital Increase" and "Use of Proceeds".
Payment and Settlement	The ordinary shares and the GDRs are being offered by the managers subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. The depositary has applied to have the GDRs issued pursuant to Regulation S accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg and the GDRs issued pursuant to Rule 144A accepted for clearance through DTC. In order to take delivery of the ordinary shares or GDRs, investors must pay for them in same-day funds on or about the closing of this

offering and must have an appropriate securities account. In addition, any investor wishing to purchase ordinary shares and pay for such ordinary shares in Russian roubles will pay an amount of Russian roubles calculated on the basis of the US dollar offer price and the CBR exchange rate for the day immediately preceding such payment. See "Settlement and Transfer".

The security identification numbers of the ordinary shares and the GDRs offered hereby are as follows:

Ordinary Shares ISIN:	RU0009046510
Regulation S GDRs ISIN:	US8181503025
Regulation S GDRs Common Code:	027254624
Regulation S GDRs CUSIP Number:	818150302
Rule 144A GDRs ISIN:	US8181501045
Rule 144A GDRs Common Code:	027181031
Rule 144A GDRs CUSIP Number:	818150104
London Stock Exchange GDR trading symbol:	SVST
PORTAL identification number:	SGDNP201
RTS Ordinary Shares trading symbol:	CHMF
MICEX Ordinary Shares trading symbol:	CHMF

Capital Increase

The issuance of up to 85,000,000 new ordinary shares of OAO Severstal was approved by the board of directors on 14 September 2006 and registered with the FSFM on 17 October 2006. The newly issued ordinary shares are to be placed through an open subscription, in which the selling shareholder and other entities controlled by the controlling shareholder will participate, on the basis of their statutory pre-emption rights as existing shareholders of OAO Severstal. See "Use of Proceeds" and see "Description of Share Capital and Applicable Russian Law — Minority Shareholder Redemption".

USE OF PROCEEDS

The selling shareholder will receive up to US$1,221.9 million in proceeds in this offering.

In connection with this offering, Severstal will undertake a capital increase in which it will issue up to 85,000,000 newly issued ordinary shares. The newly issued shares will be placed through an open subscription, in which existing shareholders of Severstal may exercise their statutory pre-emption rights to subscribe for the newly issued shares on a pro rata basis to their ownership of existing shares of Severstal, which shall be determined as at the specified record date of 14 September 2006, and other subscribers may subscribe for the newly issued shares to the extent not taken up by the existing shareholders of Severstal exercising their statutory pre-emption rights.

The selling shareholder has committed to use not less than US$877.5 million of the proceeds it receives from this offering to exercise pre-emption rights to subscribe for newly issued shares, directly and through entities under the control of the controlling shareholder, issued in the capital increase undertaken in connection with this offering, at a subscription price equal to the offer price in this offering less the pro rata per share amount of certain commissions, fees and other expenses paid or incurred by the selling shareholder in this offering.

Assuming that all ordinary shares issued by Severstal in the capital increase are subscribed for and that the selling shareholder and the other entities controlled by the controlling shareholder fully exercise their statutory pre-emption rights to subscribe for ordinary shares issued by Severstal in the capital increase, Severstal will receive up to US$1,043.4 million in proceeds of the capital increase. Severstal intends to use the proceeds of the capital increase undertaken in connection with this offering to improve the quality of its production facilities and operating efficiencies throughout its global operating platform, take advantage of potential opportunities to expand Severstal's business in line with its strategy, including the funding of potential acquisitions of assets and participation in joint ventures, and for general corporate purposes.

DIVIDEND POLICY

In accordance with its dividend policy, Severstal intends to pay dividends on a quarterly basis, provided there are sufficient available annual profits to do so, subject to limitations under applicable law. While the amount of such annual dividends may vary according to Severstal's net profit and cash flow, Severstal intends to declare dividends every financial year until 2008 in an average amount equivalent to 25 percent of net profit, calculated in accordance with IFRS, for the relevant reporting period, subject to availability of funds. Severstal may also declare an interim dividend if it believes its financial position for that interim period is sustainable. The maximum dividend payable is restricted to the total accumulated retained earnings of Severstal, determined according to Russian law.

Dividend Payment History

The table below sets out the dividends declared by Severstal during the last three year financial years.

	2003	2004	2005	2006
	(RUR)	*(RUR)*	*(RUR)*	*(RUR)*
Dividend per share				
Three months	—	1.68[1]	4.0	—
Six months	7.76[1]	4.0[1]	3.9	3.6
Nine months	8.2[1]	9.2[1]	3.0	NA
Year end	1.12[1]	3.0	4.0	NA

Note:

(1) Adjusted for a 1-for-25 share split (effective 30 December 2004).

EXCHANGE RATE INFORMATION

The official currency of Russia, where the majority of Severstal's assets and operations are located, is the Russian rouble, which is the functional currency of entities based in Russia. However, to facilitate comparability of Severstal financial results, the presentation currency of its financial statements is the US dollar. Part of Severstal's revenues and indebtedness, as well as certain capital and operating expenditures, are US dollar-denominated. As a result, fluctuations in the value of the Russian rouble against the US dollar may affect Severstal's results.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Russian rouble and the US dollar. This information is based on the Central Bank of the Russian Federation's exchange rates, which uses a composite pricing source. Fluctuations in the exchange rate between the Russian rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other information presented in this prospectus.

	RUR per US$1.00			
	High	Low	Period average	Period end
Year ended 31 December				
2001	30.30	28.16	29.22	30.14
2002	31.86	30.13	31.39	31.78
2003	31.88	29.25	30.61	29.45
2004	29.45	27.75	28.73	27.75
2005	29.00	27.46	28.32	28.78
Month ended				
31 January 2006	28.78	27.97	28.41	28.12
28 February 2006	28.26	28.10	28.20	28.12
31 March 2006	28.12	27.66	27.88	27.76
30 April 2006	27.77	27.27	27.57	27.27
31 May 2006	27.27	26.92	27.06	26.98
30 June 2006	27.10	26.71	26.98	27.08
31 July 2006	27.05	26.84	26.92	26.87
31 August 2006	26.80	26.67	26.77	26.74
30 September 2006	26.80	26.64	26.74	26.78
31 October 2006	26.97	26.73	26.87	26.75
8 November 2006	26.78	26.70	26.73	26.72

The buying rate of the US dollar was RUR26.72 on 8 November 2006. The above rates may differ from the actual rates used in the preparation of Severstal's IFRS consolidated financial statements and other financial data appearing in this prospectus.

The Russian rouble is generally not convertible outside Russia. A market exists within Russia for the conversion of Russian roubles into other currencies, but the limited availability of other currencies may inflate their value relative to the Russian rouble. No representation is made that the Russian rouble or US dollar amounts referred to herein could have been or could be converted into Russian roubles or US dollars, as the case may be, at these rates, at any particular rate or at all.

See "Risk Factors — Risks Relating to Severstal and the Steel and Mining Industry — Severstal may incur losses as the result of fluctuations in the foreign currency exchange rates of the Russian rouble, the US dollar or the Euro" for a description of Russian currency exchange controls.

CAPITALISATION

The following table sets forth Severstal's cash and cash equivalents, short-term debt finance and capitalisation as at 30 June 2006 on a consolidated basis and as adjusted for this offering and the issue and sale of up to 85,000,000 newly issued ordinary shares of Severstal pursuant to the capital increase in connection with this offering, assuming that all 85,000,000 ordinary shares are issued by Severstal in the capital increase and are subscribed for and that the selling shareholder and the other entities controlled by the controlling shareholder fully exercise their statutory pre-emption rights to subscribe for ordinary shares issued by Severstal in the capital increase.

Prospective investors should read this table in conjunction with "Selected Consolidated Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements including the notes thereto, which are included in this prospectus beginning on page F-1.

	As at 30 June 2006	
	Actual	As adjusted for this offering and the capital increase
	(unaudited) *(US$ thousands)*	
Cash and cash equivalents	939,868	1,983,268
Short-term debt finance	406,351	406,351
Long-term debt finance	1,508,760	1,508,760
Equity		
Share capital	3,311,259	3,311,290
Additional capital	222,541	1,265,910
Revaluation reserve	2,901,272	2,901,272
Foreign exchange differences	505,493	505,493
Unrealised gains on available-for-sale investments	77,421	77,421
Accumulated earnings	1,918,842	1,918,842
Equity attributable to shareholders of the parent	8,936,828	9,980,228
Minority interest	211,346	211,346
Total equity	9,148,174	10,191,574
Total capitalisation	10,656,934	11,700,334

DILUTION

OAO Severstal's net assets on a consolidated basis as at 30 June 2006 were US$8.9 billion, or US$9.56 per ordinary share, based on 930,784,663 ordinary shares outstanding as at that date. Net assets per ordinary share is determined by dividing OAO Severstal's total assets less total liabilities and minority interest by the number of outstanding ordinary shares.

Generally, dilution per ordinary share to new investors is determined by subtracting net assets per ordinary share after an offering from the combined estimated offer price paid by the new investor for the ordinary shares in the offering. This offering will have no effect on OAO Severstal's net assets per ordinary share as OAO Severstal will not directly receive any of the proceeds from this offering. However, the selling shareholder has committed to use not less than US$877.5 million of the proceeds it receives in this offering to exercise statutory pre-emption rights to subscribe for the newly issued ordinary shares, directly and through entities under the control of the controlling shareholder, in the capital increase that Severstal will undertake in connection with this offering at a subscription price equal to the offer price less the pro rata per share amount of certain commissions, fees and other expenses paid or incurred by the selling shareholder in connection with this offering. See "Use of Proceeds".

After the placement of up to 85,000,000 newly issued ordinary shares pursuant to the capital increase in connection with this offering, assuming that all 85,000,000 ordinary shares are issued by Severstal in the capital increase and are subscribed for and that the selling shareholder and the other entities controlled by the controlling shareholder fully exercise their statutory pre-emption rights to subscribe for ordinary shares issued by Severstal in the capital increase, OAO Severstal will receive up to US$1,043.4 million in proceeds from the capital increase. After giving effect to the capital increase as if it had taken place on 30 June 2006, OAO Severstal's net assets as at 30 June 2006 would have been US$9.79 per ordinary share. This represents an immediate increase in Severstal's net assets per ordinary share of US$0.23 to existing shareholders and an immediate dilution in Severstal's net assets per ordinary share of US$2.71 to new investors who purchased ordinary shares, including in the form of GDRs, from the selling shareholder in this offering.

Dilution per ordinary share, including in the form of GDRs, to new investors is determined by subtracting OAO Severstal's net assets per ordinary share after the capital increase in connection with this offering from the combined offer price paid by investors for the ordinary shares, including in the form of GDRs, to the selling shareholder in this offering. The following table illustrates the dilution per ordinary share, including in the form of GDRs, to investors who purchased ordinary shares, including in the form of GDRs, in this offering, without giving effect to the exercise of the overallotment option by the managers:

Offer price		US$12.50
Net assets per share as at 30 June 2006	US$9.56	
Increase per ordinary share attributable to investors purchasing ordinary shares, including in the form of GDRs, in this offering	US$0.23	
Net assets per ordinary share, including in the form of GDRs, after the capital increase in connection with this offering		US$ 9.79
Dilution per ordinary share, including in the form of GDRs, to investors purchasing ordinary shares, including in the form of GDRs, in this offering, after giving effect to the capital increase in connection with this offering		US$ 2.71

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected financial information should be read in conjunction with the financial statements included in this prospectus beginning on page F-1, except as otherwise noted as incorporated herein by reference, together with the notes thereto, or the Financial Statements, and the pro forma financial information included in this prospectus beginning on page 51. For a complete description of the Financial Statements and pro forma financial information, see "Presentation of Financial Information".

Selected financial information as at and for the six month periods ended 30 June 2005 and 2006

The selected financial information set forth below is derived from:

- Severstal's unaudited consolidated interim financial statements as at and for the period ended 30 June 2006, or Interim Consolidated Financial Statements, which include the financial results of Russian Steel and Metalware, Severstal North America and Severstal Mining on a consolidated basis. IFRS provides no guidance on accounting for business combinations of entities under common control. Severstal adopted its accounting policy for such transactions based on the relevant guidance of accounting principles generally accepted in the United States, or US GAAP. Severstal believes that this approach and the accounting policy disclosed in Note 2 of Severstal's unaudited consolidated interim financial statements as at and for the period ended 30 June 2006 are in compliance with IFRS;
- Lucchini's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2005 and 2006, or Lucchini Interim Financial Statements; and
- Certain unaudited interim *pro forma* financial information as at and for the period ended 30 June 2006, or Interim Pro Forma Financial Information, which are based on the Interim Financial Statements and the Lucchini Interim Financial Statements, consolidated on a *pro forma* basis, as set forth beginning on page 51 of this prospectus. This *pro forma* financial information is prepared in accordance with the requirements of Annex II of the Commission Regulation (EC) No 809/2004.

	Consolidated		Lucchini		Pro forma
	For the six month period ended 30 June				
	2005	**2006**	**2005**	**2006**	**2006**
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
	(US$ thousands except for share data as noted)		*(€ thousands except for share data as noted)*		*(US$ thousands)*
Income Statement Data:					
Sales					
Sales — external	4,156,232	3,993,436	1,288,491	1,270,219	5,553,483
Sales — to related parties	314,175	383,265	1,268	91,222	341,865
	4,470,407	4,376,701	1,289,759	1,361,441	5,895,348
Cost of sales	(2,559,341)	(3,103,045)	(1,004,958)	(1,153,415)	(4,366,749)
Gross profit	1,911,066	1,273,656	284,801	208,026	1,528,599
Selling, general and administrative expenses	(172,018)	(195,823)	(95,191)	(94,809)	(312,263)
Distribution expenses	(293,353)	(290,602)	(27,584)	(23,579)	(319,561)
Indirect taxes and contributions	(33,230)	(58,875)	—	—	(58,875)
Share of associates' profits/(losses)	(1,629)	3,396	75	111	3,532
Net income from bank lending operations	3,527	3,976	—	—	3,976
Net income/(expenses) from securities operations	(8,055)	17,027	—	—	13,292
Loss on disposal of property, plant and equipment	(26,427)	(31,398)	—	—	(31,398)
Net other operating (expenses)/income	(2,722)	(11,420)	(10,356)	1,342	(9,770)
Profit from operations	1,377,159	709,937	151,745	91,091	817,532
(Impairment)/reversal of impairment of property, plant and equipment	2,470	(7,169)	(790)	(2,032)	(9,665)
Penalties on tax liabilities under restructuring	(17,728)	—	—	—	—
(Write off of goodwill)/negative goodwill, net	2,653	(2,485)	—	—	(2,485)
Net other non-operating expenses	(17,686)	(27,900)	—	—	(27,900)
Profit before financing and taxation	1,346,868	672,383	150,955	89,059	777,482
Net financing expense	(112,273)	(37,895)	(22,108)	(19,860)	(62,425)
Profit before income tax	1,234,595	634,488	128,847	69,199	715,057
Income tax expense	(334,220)	(222,496)	(44,020)	(37,153)	(267,481)
Profit from continuing activities	900,375	411,992	84,827	32,046	447,576
Discontinuing activities	—	—	2,963	(677)	(831)
Profit for the period	900,375	411,992	87,790	31,369	446,745
Attributable to:					
Parent company shareholders	877,190	405,040	85,722	31,153	426,965
Minority interest	23,185	6,952	2,068	216	19,780
Weighted average number of shares outstanding during the period (millions of shares after split)					
Basic	907.2	917.2	17.9	31.6	
Diluted	907.2	917.2	23.7	37.3	
Continuing earnings per share (US dollars/Euros)					
Basic	0.97	0.44	4.73	1.02	
Diluted	0.97	0.44	3.58	0.86	

	Consolidated		Lucchini		Pro forma
	31 December 2005	30 June 2006	31 December 2005	30 June 2006	30 June 2006
		(unaudited)		*(unaudited)*	*(unaudited)*
	(US$ thousands)		*(€ thousands)*		*(US$ thousands)*
Balance Sheet Data:					
Assets					
Current assets:					
Cash and cash equivalents	941,609	939,868	323,839	219,345	1,215,080
Short-term bank deposits	674,512	338,632	—	—	372,005
Short-term financial investments	262,440	567,227	6,681	34,488	577,127
Trade accounts receivable	497,275	627,646	567,915	486,955	1,238,629
Amounts receivable from related parties	176,807	190,245	12,659	26,358	171,441
Inventories	1,089,967	1,243,688	533,020	501,850	1,873,016
VAT receivable	390,121	404,509	42,553	23,956	434,567
Income tax receivable	17,064	6,595	9,343	8,929	17,798
Other current assets	157,571	205,250	17,566	23,898	235,234
Total current assets	4,207,366	4,523,660	1,513,576	1,325,779	6,134,897
Non-current assets:					
Amounts receivable from related parties	22,026	—	11,004	11,004	13,807
Long-term financial investments	653,150	992,683	19,931	17,431	304,797
Investment in associates	208,317	338,377	1,966	1,966	340,844
Property, plant and equipment	7,464,629	8,138,683	1,113,403	1,086,623	9,555,431
Deferred tax assets	—	—	68,950	57,759	72,470
Assets held for sale	—	—	55,668	54,500	68,381
Intangible and other assets	37,250	43,404	25,547	25,240	75,073
Total non-current assets	8,385,372	9,513,147	1,296,469	1,254,523	10,430,803
Total assets	12,592,738	14,036,807	2,810,045	2,580,302	16,565,700
Liabilities					
Current liabilities:					
Trade accounts payable	369,765	431,614	415,236	439,455	982,998
Government grants	—	—	3,318	3,240	4,065
Bank customer accounts	98,867	22,731	—	—	22,731
Amounts payable to related parties	264,943	399,559	18,106	36,708	630,315
Income taxes payable	45,284	68,601	34,393	13,271	85,252
Other taxes and social security payable	150,198	129,180	90,280	57,534	201,368
Short-term debt finance	344,170	406,351	546,477	248,547	718,203
Dividends payable	12,275	17,158	—	—	17,158
Other current liabilities	241,371	308,747	91,020	93,108	425,571
Total current liabilities	1,526,873	1,783,941	1,198,830	891,863	3,087,661
Non-current liabilities:					
Long-term debt finance	1,441,304	1,508,760	412,446	469,883	2,098,322
Deferred tax liabilities	1,111,597	1,149,416	101,824	99,723	1,292,371
Trade account payables	—	—	8,346	7,972	10,002
Government grants	—	—	2,417	2,315	2,905
Lease liabilities	—	—	7,874	7,138	8,956
Retirement benefit liability	203,458	232,404	113,689	114,505	376,073
Provisions for contingencies	—	—	57,230	47,779	59,948
Other non-current liabilities	208,016	214,112	184	2,318	217,022
Total non-current liabilities	2,964,375	3,104,692	704,010	751,633	4,065,599
Equity					
Share capital	3,311,254	3,311,259	694,200	694,200	
Legal reserve	—	—	11,578	12,079	
Additional capital	60,367	222,541	—	—	
Revaluation reserve	3,093,608	2,901,272	—	—	
Foreign exchange differences	24,877	505,493	1,162	80	
Unrealised gains on available-for-sale investments	14,124	77,421	—	—	
Accumulated earnings	1,396,834	1,918,842	197,805	228,457	
Total equity attributable to shareholders of parent	7,901,064	8,936,828	904,745	934,816	
Minority interest	200,426	211,346	2,460	1,990	
Total equity	8,101,490	9,148,174	907,205	936,806	
Total equity and liabilities	12,592,738	14,036,807	2,810,045	2,580,302	

Selected financial information as at and for the years ended 31 December 2004 and 2005

The selected financial information set forth below is derived from:

- Severstal's audited annual special purpose consolidated financial statements as at and for the years ended 31 December 2004 and 2005, or Special Purpose Financial Statements, which include the financial results of Russian Steel and Metalware, Severstal North America and Severstal Mining on a consolidated basis; and
- Lucchini's audited annual consolidated financial statements as at and for the years ended 31 December 2004 and 2005, or Lucchini Annual Financial Statements; and
- Certain unaudited annual *pro forma* financial information as at and for the year ended 31 December 2005, which are based on the Special Purpose Financial Statements and the Lucchini Annual Financial Statements, consolidated on a *pro forma* basis as set forth beginning on page 53 of this prospectus. This *pro forma* financial information is prepared in accordance with the requirements of Annex II of the Commission Regulation (EC) No 809/2004.

	Special purpose		Lucchini		Pro forma
	For the year ended 31 December				
	2004	2005	2004	2005	2005
	(US$ thousands except for share data as noted)		*(€ thousands except for share data as noted)*		*(unaudited) (US$ thousands)*
Income Statement Data:					
Sales					
Sales — external	6,407,518	7,964,490	2,135,859	2,364,808	10,912,078
Sales — to related parties	602,614	659,835	5,333	35,091	661,901
	7,010,132	8,624,325	2,141,192	2,399,899	11,573,979
Cost of sales	(4,189,926)	(5,304,357)	(1,759,993)	(1,998,957)	(7,755,125)
Gross profit	2,820,206	3,319,968	381,199	400,942	3,818,854
Selling, general and administrative expenses	(343,544)	(379,914)	(170,065)	(176,797)	(600,281)
Distribution expenses	(442,748)	(590,568)	(49,366)	(41,405)	(642,177)
Indirect taxes and contributions	(56,781)	(71,826)	—	—	(71,826)
Share of associates' profits/(losses)	7,158	(4,266)	361	164	(4,062)
Net income from bank lending operations	4,263	9,982	—	—	9,982
Net income from securities operations	18,592	6,841	—	—	31,088
Net expenses from insurance operations	(18,237)	—	—	—	—
Loss on disposal of property, plant and equipment	(41,111)	(35,551)	—	—	(34,908)
Net other operating expenses	8,069	(4,412)	(15,850)	(17,834)	(27,284)
Profit from operations	1,955,867	2,250,254	146,279	165,070	2,479,386
(Impairment)/reversal of impairment of property, plant and equipment	(16,097)	73,710	96,088	62,011	68,524
Penalties on tax liabilities under restructuring	(16,699)	(26,675)	—	—	(26,675)
Gain on restructuring of tax liabilities	6,793	200,853	—	—	200,853
Negative goodwill	61,274	7,630	—	—	7,630
Non-operating expenses	(44,798)	(52,647)	—	—	(52,647)
Profit before financing and taxation	1,946,340	2,453,125	242,367	227,081	2,677,071
Net financing expense	(106,106)	(170,594)	(63,341)	(44,227)	(230,406)
Profit before income tax	1,840,234	2,282,531	179,026	182,854	2,446,664
Income tax expense	(481,329)	(550,635)	(65,685)	(56,433)	(595,359)
Profit from continuing activities	1,358,905	1,731,896	113,341	126,421	1,851,306
Discontinuing activities	—	—	(3,536)	(5,716)	(7,125)
Profit for the year	1,358,905	1,731,896	109,805	120,705	1,844,181
Attributable to:					
Parent company shareholders	1,344,321	1,672,297	106,069	118,918	1,754,559
Minority interest	14,584	59,599	3,736	1,787	89,622
Weighted average number of shares outstanding during the year (millions of shares after split)					
Basic	872.6	908.7	10.7	24.7	
Diluted	872.6	908.7	16.9	30.5	
Continuing earnings per share (US dollars/Euros)					
Basic	1.54	1.84	10.61	5.11	
Diluted	1.54	1.84	6.72	4.14	

	Special purpose		Lucchini		Pro forma
	As at 31 December				
	2004	2005	2004	2005	2005
	(US$ thousands)		*(€ thousands)*		*(unaudited) (US$ thousands)*
Balance Sheet Data:					
Assets					
Current assets:					
Cash and cash equivalents	1,090,061	941,609	165,830	323,839	1,326,234
Short-term bank deposits	556,623	674,512	—	—	674,512
Short-term financial investments	191,540	262,440	20,331	6,681	270,375
Trade accounts receivable	479,781	497,275	544,282	567,915	1,171,790
Amounts receivable from related parties	297,089	176,807	3,572	12,659	178,201
Inventories	1,122,700	1,089,967	437,422	533,020	1,723,037
VAT receivable	201,632	390,121	38,214	42,553	440,661
Income tax receivable	46,322	17,064	11,766	9,343	28,161
Other current assets	162,793	157,571	19,587	17,566	178,436
Total current assets	4,148,541	4,207,366	1,241,004	1,513,576	5,991,407
Non-current assets:					
Amounts receivable from related parties	19,976	22,026	11,090	11,004	35,096
Long-term financial investments	96,594	653,150	61,045	19,931	81,489
Investment in associates	85,770	208,317	1,877	1,966	210,652
Property, plant and equipment	3,477,886	7,464,629	1,091,957	1,113,403	8,830,111
Deferred tax assets	—	—	88,914	68,950	81,892
Assets held for sale	—	—	195,726	55,668	66,117
Intangible and other assets	8,267	37,250	30,830	25,547	67,592
Total non-current assets	3,688,493	8,385,372	1,481,439	1,296,469	9,372,949
Total assets	7,837,034	12,592,738	2,722,443	2,810,045	15,364,356
Liabilities					
Current liabilities:					
Trade accounts payable	359,848	369,765	465,235	415,236	862,943
Government grants	—	—	5,404	3,318	3,941
Bank customer accounts	44,695	98,867	—	—	98,867
Amounts payable to related parties	198,998	264,943	30,003	18,106	489,291
Income taxes payable	42,705	45,284	8,963	34,393	86,133
Other taxes and social security payable	422,130	150,198	91,230	90,280	257,424
Short-term debt finance	273,995	344,170	626,295	546,477	993,223
Dividends payable	18,440	12,275	—	—	12,275
Other current liabilities	232,603	241,371	68,691	91,020	349,475
Total current liabilities	1,593,414	1,526,873	1,295,821	1,198,830	3,153,572
Non-current liabilities:					
Long-term debt finance	1,399,267	1,441,304	641,427	412,446	1,931,168
Deferred tax liabilities	339,616	1,111,597	108,620	101,824	1,250,215
Trade accounts payable	—	—	2,840	8,346	9,913
Government grants	—	—	1,112	2,417	2,871
Lease liabilities	2,803	32	9,296	7,874	9,384
Retirement benefit liability	158,022	203,458	112,067	113,689	338,487
Provisions for contingencies	—	—	58,827	57,230	67,972
Other non-current liabilities	99,937	207,984	148,026	184	208,202
Total non-current liabilities	1,999,645	2,964,375	1,082,215	704,010	3,818,212
Equity					
Share capital	3,311,248	3,311,254	444,000	694,200	
Additional capital	60,367	60,367	—	—	
Legal reserve	—	—	554	11,578	
Revaluation reserve	631,996	3,093,608	—	—	
Foreign exchange differences	191,770	24,877	6,497	1,162	
Unrealised gains on available-for-sale investments	—	—	—	—	
Accumulated earnings/(deficit)	(73,656)	1,410,958	(117,130)	197,805	
Equity attributable to shareholders of parent	4,121,725	7,901,064	333,921	904,745	
Minority interest	122,250	200,426	10,486	2,460	
Total equity	4,243,975	8,101,490	344,407	907,205	
Total equity and liabilities	7,837,034	12,592,738	2,722,443	2,810,045	

Selected financial information as at and for the years ended 31 December 2003 and 2004

The selected financial information set forth below is derived from Severstal's audited annual consolidated financial statements as at and for the year ended 31 December 2005, or General Purpose Financial Statements, which do not include the financial results of Severstal North America, for the year ended 31 December 2003 or the financial results of Severstal Mining, for the years ended 31 December 2003 and 2004. Severstal made certain classification and presentation restatements with respect to 2003 and 2004, see Note 2 to the General Purpose Financial Statements.

	General purpose	
	For the year ended 31 December	
	2003	2004
	(US$ thousands except for share data as noted)	
Income Statement Data:		
Sales		
Sales — external	2,915,510	6,282,694
Sales — to related parties	281,775	381,153
	3,197,285	6,663,847
Cost of sales	(1,907,914)	(4,019,025)
Gross profit	1,289,371	2,644,822
Selling, general and administrative expenses	(157,876)	(240,097)
Distribution expenses	(314,954)	(434,811)
Indirect taxes and contributions	(17,671)	(25,266)
Share of associates' profits/(losses)	(280)	7,158
Net income from bank lending operations	1,956	4,263
Net income/(expenses) from securities operations	(7,585)	25,830
Net expenses from insurance operations	(14,297)	(18,237)
Loss on disposal of property, plant and equipment	(20,345)	(26,102)
Net other operating expenses	3,739	974
Profit from operations	762,058	1,938,534
Impairment of property, plant and equipment	(5,413)	(16,066)
Impairment of goodwill	(10,548)	—
Negative goodwill	5,099	61,274
Net other non-operating expenses	(20,846)	(3,445)
Profit before financing and taxation	730,350	1,980,297
Net financing (expense)/income	35,998	(90,156)
Profit before income tax	766,348	1,890,141
Income tax expense	(162,262)	(481,624)
Profit for the year	604,086	1,408,517
Attributable to:		
Shareholders of OAO Severstal	596,515	1,401,179
Minority interest	7,571	7,338
Weighted average number of shares outstanding during the year (units after split)	551,854,800	551,854,800
Basic and diluted earnings per share (US dollars)	1.08	2.54

	General purpose	
	As at 31 December	
	2003	2004
	(US$ thousands)	
Balance Sheet Data:		
Assets		
Current assets:		
Cash and cash equivalents	523,999	1,081,419
Short-term bank deposits	127,939	555,359
Short-term financial investments	180,308	167,423
Trade accounts receivable	167,059	456,132
Amounts receivable from related parties	52,280	287,213
Inventories	344,713	1,024,304
VAT receivable	83,635	173,372
Income tax receivable	2,216	43,945
Other current assets	84,634	123,010
Total current assets	1,566,783	3,912,177
Non-current assets:		
Amounts receivable from related parties	181,443	—
Long-term financial investments	126,620	90,494
Investment in associates	809	85,770
Property, plant and equipment	1,995,581	2,488,771
Intangible and other assets	2,567	6,386
Total non-current assets	2,307,020	2,671,421
Total assets	3,873,803	6,583,598
Liabilities		
Current liabilities:		
Trade accounts payable	108,759	311,971
Bank customer accounts	50,879	44,695
Amounts payable to related parties	42,540	112,093
Income taxes payable	5,967	30,465
Other taxes and social security payable	17,632	32,520
Short-term debt finance	186,088	227,821
Dividends payable	39,481	18,440
Other current liabilities	130,044	173,811
Total current liabilities	581,390	951,816
Non-current liabilities:		
Long-term debt finance	342,917	1,325,324
Deferred tax liabilities	247,643	277,831
Other non-current liabilities	39,991	105,150
Total non-current liabilities	630,551	1,708,305
Equity		
Share capital	3,311,129	3,311,129
Revaluation reserve	728,467	631,455
Foreign exchange differences	—	169,735
Accumulated (deficit)	(1,438,193)	(252,868)
Total equity attributable to shareholders of parent	2,601,403	3,859,451
Minority interest	60,459	64,026
Total equity	2,661,862	3,923,477
Total equity and liabilities	3,873,803	6,583,598

Pro forma of Severstal and Lucchini for the six months ended 30 June 2006

	Severstal Group USD'000	Lucchini Group(1) USD'000	Adjustments USD'000	Pro forma Group USD'000
Sales				
Sales - external	3,993,436	1,560,020	—	5,553,456
Sales - to related parties	383,265	112,034	(153,407)	341,892
	4,376,701	1,672,054	(153,407)	5,895,348
Cost of sales	(3,103,045)	(1,416,567)	152,863	(4,366,749)
Gross profit	1,273,656	255,487	(544)	1,528,599
Selling, general and administrative expenses	(195,823)	(116,440)	—	(312,263)
Distribution expenses	(290,602)	(28,959)	—	(319,561)
Indirect taxes and contributions	(58,875)	—	—	(58,875)
Share of associates' profits	3,396	136	—	3,532
Net income from bank lending operations	3,976	—	—	3,976
Net income from securities operations	17,027	—	(3,735)	13,292
Loss on disposal of property, plant and equipment	(31,398)	—	—	(31,398)
Net other operating (expense)/income	(11,420)	1,650	—	(9,770)
Profit from operations	709,937	111,874	(4,279)	817,532
Impairment of property, plant and equipment	(7,169)	(2,496)	—	(9,665)
Negative goodwill	(2,485)	—	—	(2,485)
Net other non-operating expenses	(27,900)	—	—	(27,900)
Profit before financing and taxation	672,383	109,378	(4,279)	777,482
Net financing expense	(37,895)	(24,391)	(139)	(62,425)
Profit before income tax	634,488	84,987	(4,418)	715,057
Income tax expense	(222,496)	(45,629)	644	(267,481)
Profit from continuing activities	411,992	39,358	(3,774)	447,576
Discontinuing activities	—	(831)	—	(831)
Profit for the period (before minority interest)	411,992	38,527	(3,774)	446,745
Additional information				
EBITDA(2)	1,135,701	179,880	(11,957)	1,303,624

(1) Translation of Euro amounts into US Dollar amounts done at the average exchange rate of US$1.2282 to Euro 1.00, calculated in accordance with Severstal Group's accounting policies.

(2) Severstal defines EBITDA as profit from operations plus depreciation and amortisation and loss on disposal of property, plant and equipment.

EBITDA is presented as a supplemental measure of Severstal's operating performance, which Severstal believes is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry.

EBITDA has limitations as an analytical tool, and investors should not consider it in isolation, or as a substitute for analysis of Severstal's operating results as reported under IFRS. Some of these limitations are as follows:

- EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if Severstal incurs more debt, on Severstal's operating performance.
- EBITDA does not reflect the impact of income taxes on Severstal's operating performance.
- EBITDA does not reflect the impact of depreciation and amortisation on Severstal's operating performance. The assets of Severstal's businesses which are being depreciated, depleted and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect Severstal's future cash requirements for these replacements. EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment.
- Other companies in the steel and mining industries may calculate EBITDA differently or may use it for different purposes than Severstal, limiting its usefulness as a comparative measure.

Severstal relies primarily on its IFRS operating results and uses EBITDA only supplementally. See the Financial Statements included elsewhere in this prospectus. EBITDA is not defined by, or presented in accordance with, IFRS. EBITDA is not a measurement of Severstal's operating performance under IFRS and should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS or as an alternative to cash flow from operating activities or as a measure of Severstal's liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to Severstal to invest in the growth of its business.

Pro forma of Severstal and Lucchini for the six months ended 30 June 2006

Assets	Severstal Group USD'000	Lucchini Group[(1)] USD'000	Adjustments USD'000	Pro forma Group USD'000
Current assets:				
Cash and cash equivalents	**939,868**	**275,212**	**—**	**1,215,080**
Short-term bank deposits	**338,632**	**33,373**	**—**	**372,005**
Short-term financial investments	**567,227**	**9,900**	**—**	**577,127**
Trade accounts receivable	**627,646**	**610,983**	**—**	**1,238,629**
Amounts receivable from related parties	**190,245**	**33,071**	**(51,875)**	**171,441**
Inventories	**1,243,688**	**629,671**	**(343)**	**1,873,016**
VAT receivable	**404,509**	**30,058**	**—**	**434,567**
Income tax receivable	**6,595**	**11,203**	**—**	**17,798**
Other current assets	**205,250**	**29,984**	**—**	**235,234**
Total current assets	**4,523,660**	**1,663,455**	**(52,218)**	**6,134,897**
Non-current assets:				
Amounts receivable from related parties	—	**13,807**	**—**	**13,807**
Long-term financial investments	**992,683**	**21,871**	**(709,757)**	**304,797**
Investment in associates	**338,377**	**2,467**	**—**	**340,844**
Property, plant and equipment	**8,138,683**	**1,363,386**	**53,362**	**9,555,431**
Deferred tax assets	—	**72,470**	**—**	**72,470**
Assets held for sale	—	**68,381**	**—**	**68,381**
Intangible and other assets	**43,404**	**31,669**	**—**	**75,073**
Total non-current assets	**9,513,147**	**1,574,051**	**(656,395)**	**10,430,803**
Total assets	**14,036,807**	**3,237,506**	**(708,613)**	**16,565,700**
LIABILITIES				
Current liabilities:				
Trade accounts payable	**431,614**	**551,384**	**—**	**982,998**
Government grants	—	**4,065**	**—**	**4,065**
Bank customer accounts	**22,731**	**—**	**—**	**22,731**
Amounts payable to related parties	**399,559**	**46,058**	**184,698**	**630,315**
Income taxes payable	**68,601**	**16,651**	**—**	**85,252**
Other taxes and social security payable	**129,180**	**72,188**	**—**	**201,368**
Short-term debt finance	**406,351**	**311,852**	**—**	**718,203**
Dividends payable	**17,158**	**—**	**—**	**17,158**
Other current liabilities	**308,747**	**116,824**	**—**	**425,571**
Total current liabilities	**1,783,941**	**1,119,022**	**184,698**	**3,087,661**
Non-current liabilities:				
Long-term debt finance	**1,508,760**	**589,562**	**—**	**2,098,322**
Deferred tax liabilities	**1,149,416**	**125,122**	**17,833**	**1,292,371**
Trade accounts payable	—	**10,002**	**—**	**10,002**
Government grants	—	**2,905**	**—**	**2,905**
Lease liabilities	—	**8,956**	**—**	**8,956**
Retirement benefit liability	**232,404**	**143,669**	**—**	**376,073**
Provisions for contingencies	—	**59,948**	**—**	**59,948**
Other non-current liabilities	**214,112**	**2,910**	**—**	**217,022**
Total non-current liabilities	**3,104,692**	**943,074**	**17,833**	**4,065,599**
Total liabilities	**4,888,633**	**2,062,096**	**202,531**	**7,153,260**
Net assets	**9,148,174**	**1,175,410**	**(911,144)**	**9,412,440**

(1) Translation of Euro amounts into US Dollar amounts done at the exchange rate on 30 June 2006 of US$1.2547 to Euro 1.00, calculated in accordance with Severstal Group's accounting policies.

Pro forma of Severstal and Lucchini for the year ended 31 December 2005

	Severstal Group USD'000	Lucchini Group[(1)] USD'000	Adjustments USD'000	Pro Forma Group USD'000
Sales				
Sales — external	7,964,490	2,947,588	—	10,912,078
Sales — to related parties	659,835	43,750	(41,684)	661,901
	8,624,325	2,991,338	(41,684)	11,573,979
Cost of sales	(5,304,357)	(2,491,587)	40,819	(7,755,125)
Gross profit	3,319,968	499,751	(865)	3,818,854
Selling, general and administrative expenses	(379,914)	(220,367)	—	(600,281)
Distribution expenses	(590,568)	(51,609)	—	(642,177)
Indirect taxes and contributions	(71,826)	—	—	(71,826)
Share of associates' (losses)/profits	(4,266)	204	—	(4,062)
Net income from bank lending operations	9,982	—	—	9,982
Net income from securities operations	6,841	4,415	19,832	31,088
Loss on disposal of property, plant and equipment	(35,551)	643		(34,908)
Net other operating expense	(4,412)	(22,872)	—	(27,284)
Profit from operations	2,250,254	210,165	18,967	2,479,386
Reversal of impairment/(impairment) of property, plant and equipment	73,710	77,294	(82,480)	68,524
Penalties on tax liabilities under restructuring	(26,675)	—	—	(26,675)
Gain on restructuring of tax liabilities	200,853	—	—	200,853
Negative goodwill	7,630	—	—	7,630
Net other non-operating expenses	(52,647)	—	—	(52,647)
Profit before financing and taxation	2,453,125	287,459	(63,513)	2,677,071
Net financing expense	(170,594)	(59,541)	(271)	(230,406)
Profit before income tax	2,282,531	227,918	(63,784)	2,446,665
Income tax expense	(550,635)	(70,341)	25,617	(595,359)
Profit from continuing activities	1,731,896	157,577	(38,167)	1,851,306
Discontinuing activities	—	(7,125)	—	(7,125)
Profit for the year (before minority interest)	1,731,896	150,452	(38,167)	1,844,181
Additional information				
EBITDA[(2)]	2,702,080	331,825	19,832	3,053,737

(1) Translation of Euro amounts into US Dollar amounts done at the average exchange rate of US$1.2464 to Euro 1.00, calculated in accordance with Severstal Group's accounting policies.

(2) Severstal defines EBITDA as profit from operations plus depreciation and amortisation and loss on disposal of property, plant and equipment.

EBITDA is presented as a supplemental measure of Severstal's operating performance, which Severstal believes is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry.

EBITDA has limitations as an analytical tool, and investors should not consider it in isolation, or as a substitute for analysis of Severstal's operating results as reported under IFRS. Some of these limitations are as follows:

- EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if Severstal incurs more debt, on Severstal's operating performance.
- EBITDA does not reflect the impact of income taxes on Severstal's operating performance.
- EBITDA does not reflect the impact of depreciation and amortisation on Severstal's operating performance. The assets of Severstal's businesses which are being depreciated, depleted and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect Severstal's future cash requirements for these replacements. EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment.
- Other companies in the steel and mining industries may calculate EBITDA differently or may use it for different purposes than Severstal, limiting its usefulness as a comparative measure.

Severstal relies primarily on its IFRS operating results and uses EBITDA only supplementally. See the Financial Statements included elsewhere in this prospectus. EBITDA is not defined by, or presented in accordance with, IFRS. EBITDA is not a measurement of Severstal's operating performance under IFRS and should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS or as an alternative to cash flow from operating activities or as a measure of Severstal's liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to Severstal to invest in the growth of its business.

Pro forma of Severstal and Lucchini for the year ended 31 December 2005

	Severstal Group USD'000	Lucchini Group(1) USD'000	Adjustments USD'000	Pro forma Group USD'000
Assets				
Current assets:				
Cash and cash equivalents	941,609	384,625	—	1,326,234
Short-term bank deposits	674,512	—	—	674,512
Short-term financial investments	262,440	7,935	—	270,375
Trade accounts receivable	497,275	674,515	—	1,171,790
Amounts receivable from related parties	176,807	15,035	(13,641)	178,201
Inventories	1,089,967	633,070	—	1,723,037
VAT receivable	390,121	50,540	—	440,661
Income tax receivable	17,064	11,097	—	28,161
Other current assets	157,571	20,865	—	178,436
Total current assets	4,207,366	1,797,682	(13,641)	5,991,407
Non-current assets:				
Amounts receivable from related parties	22,026	13,070	—	35,096
Long-term financial investments	653,150	23,672	(595,333)	81,489
Investment in associates	208,317	2,335	—	210,652
Property, plant and equipment	7,464,629	1,322,394	43,088	8,830,111
Deferred tax assets	—	81,892	—	81,892
Assets held for sale	—	66,117	—	66,117
Intangible and other assets	37,250	30,342	—	67,592
Total non-current assets	8,385,372	1,539,822	(552,245)	9,372,949
Total assets	12,592,738	3,337,504	(565,886)	15,364,356
Liabilities				
Current liabilities:				
Trade accounts payable	369,765	493,178	—	862,943
Government grants	—	3,941	—	3,941
Bank customer accounts	98,867	—	—	98,867
Amounts payable to related parties	264,943	21,505	202,843	489,291
Income taxes payable	45,284	40,849	—	86,133
Other taxes and social security payable	150,198	107,226	—	257,424
Short-term debt finance	344,170	649,053	—	993,223
Dividends payable	12,275	—	—	12,275
Other current liabilities	241,371	108,104	—	349,475
Total current liabilities	1,526,873	1,423,856	202,843	3,153,572
Non-current liabilities:				
Long-term debt finance	1,441,304	489,864	—	1,931,168
Deferred tax liabilities	1,111,597	120,937	17,681	1,250,215
Trade accounts payable	—	9,913	—	9,913
Government grants	—	2,871	—	2,871
Lease liabilities	32	9,352	—	9,384
Retirement benefit liability	203,458	135,029	—	338,487
Provisions for contingencies	—	67,972	—	67,972
Other non-current liabilities	207,984	218	—	208,202
Total non-current liabilities	2,964,375	836,156	17,681	3,818,212
Total liabilities	4,491,248	2,260,012	220,524	6,971,784
Net assets	8,101,490	1,077,492	(786,410)	8,392,572

Notes:

(1) Translation of Euro amounts into US Dollar amounts done at the exchange rate on 31 December 2005 of US$1.1877 to Euro 1.00, calculated in accordance with Severstal Group's accounting policies.

(2) On 26 April 2005, Severstal acquired 19.99 percent of the share capital of Lucchini and simultaneously Severstal's related parties acquired 41.9 percent of the share capital of Lucchini, increasing its ownership to 50.8 percent during 2005. In October 2006, Severstal acquired 50.8 percent ownership in Lucchini from its related parties.

(3) The above pro forma financial information for the year ended 31 December 2005 was prepared on the basis that Severstal acquired 70.8 percent ownership of Lucchini at the commencement of the full-year period being reported on. The purpose of preparation of this pro forma financial information is to show financial results and financial position of these two groups, as if they were a single group for the whole year ended 31 December 2005 and for the six months ended 30 June, 2006. Accordingly, this pro forma financial information is prepared for illustrative purposes only. This *pro forma* financial information is prepared in accordance with the requirements of Annex II of the Commission Regulation (EC) No 809/2004.

(4) The net assets and income statement of Severstal have been derived without material adjustment from the special purpose audited financial statements of Severstal for the year ended 31 December 2005 and from the unaudited financial statements of Severstal for the six month period ended 30 June 2006, included in this prospectus beginning on page F-1, together with the notes thereto.

(5) The net assets and income statement of Lucchini have been derived without material adjustment from the audited financial statements of Lucchini for the year ended 31 December 2005 and from the unaudited condensed financial statements of Lucchini for the six month period ended 30 June 2006, included in this prospectus beginning on page F-119, together with the notes thereto. These financial statements were translated from Euros into US dollars in accordance with Severstal's accounting policy.

(6) The other adjustments, calculated on the basis of the accounting records of Severstal and Lucchini, reflect:

(i) elimination of intercompany trade receivables and payables balances between Severstal and Lucchini;

(ii) elimination of sales between Severstal and Lucchini;

(iii) elimination of 19.99 percent equity stake that Severstal Group had in Lucchini Group;

(iv) elimination of loans issued by Severstal to finance acquisitions of 50.8 percent equity stake in Lucchini by Severstal Group's related parties, and interest-related gains and losses recognized on those loans;

(v) recognition of amount payable by Severstal to its related parties to acquire from them the 50.8 percent equity stake in Lucchini; and

(vi) change of Lucchini's accounting policy for property, plant and equipment from cost model to revaluation model, to comply with Severstal's accounting policy. This adjustment was made on the basis of an independent valuation report of Lucchini's property, plant and equipment as of 30 April 2005.

(7) Because of its nature, the above pro forma financial information addresses a hypothetical situation and, therefore, does not represent Severstal's actual position or results. The financial results and financial position shown in the above pro forma financial information will be different from the respective numbers in Severstal's consolidated financial statements. In particular, pro forma financial information for the year ended 31 December 2005 will be different from the numbers that will be shown as comparatives figures in Severstal's consolidated financial statements for the year ending 31 December 2006 due to the following principal reasons:

(i) financial results of Lucchini are shown in the above pro forma financial information for the whole 12 months period of 2005, while comparative figures in the consolidated financial statements of Severstal for 2006 would show financial results of Lucchini only for 8 months of 2005, from the moment of its acquisition, 26 April 2005 until 31 December 2005.

(ii) for the purposes of this pro forma financial information, no adjustment has been made to the individual net assets of Lucchini to reflect their fair value, except for the adjustment to items of property, plant and equipment, which was made to conform to Severstal's accounting policy.

(iii) Severstal would apply purchase accounting at 26 April 2005 and expects to recognise in its consolidated financial statements negative goodwill on acquisition of the shares in Lucchini. This negative goodwill is not shown in the above pro forma income statement for the year ended 31 December 2005 because this pro forma financial information is presented to show the financial results of Severstal and Lucchini as if they were a single group for the entire reported periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial statements included, or incorporated by reference (except in each case all information incorporated by reference into such documents), in this prospectus beginning on page F-1, together with the notes thereto, or the Financial Statements. For a description of the Financial Statements, see "Presentation of Financial Information".

In addition, the following discussion contains certain forward-looking statements that reflect the plans, estimates and beliefs of Severstal. The actual results of Severstal may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed below and elsewhere in this prospectus, including "Risk Factors".

Basis of Presentation

The Financial Statements were prepared in accordance with IFRS as issued by the International Accounting Standards Board, or IASB, in effect at the time of preparing the Financial Statements. However, IFRS that was adopted for use in the European Union through the endorsement procedure established by the European Commission does not include IAS 39 "Financial Instruments: Recognition and Measurement" for certain provisions on portfolio hedging of core deposits. Despite this exception, the accounting policies applied in the preparation of the Financial Statements in accordance with IFRS as issued by the IASB, and in effect at that time, did not differ materially from IFRS as adopted for use in the European Union.

In addition, IFRS differs in various material respects from generally accepted accounting principles in the United States, or US GAAP. See "Presentation of Financial and Other Information".

Scope of Consolidation

Severstal originally consisted of its core Russian steel production operations, which were 100 percent state-owned until privatised in 1993. Since that time, Severstal has expanded its operations by identifying attractive acquisition opportunities and by consolidating substantially all of the controlling shareholder's Russian steel assets into its Russian Steel and Metalware division. In addition to acquiring numerous steel production facilities in Russia, Severstal acquired substantially all of the principal steel-making and finishing assets of US steel producer Rouge Steel in 2004, forming its Severstal North America division. In June 2006, Severstal acquired controlling interests from the controlling shareholder in OAO Karelsky Okatysh, OAO Olkon, OAO Vorkutaugol, OAO Mine Vorgashorskaya and Kuzbassugol mines — OAO Mine Berezovskaya and OAO Mine Pervomaiskaya, which are currently the principal production assets of the Severstal Mining division. On 2 October 2006, Severstal acquired a controlling interest in European steel producer Lucchini S.p.A., which comprises the Lucchini division.

For the period under review, the divisions included in Severstal's financial statements on a consolidated basis have differed from year to year and period to period.

Russian Steel and Metalware (Steel Segment — Russia and Metalware Segment)

Russian Steel and Metalware has historically formed the basis of Severstal's operations and its financial results were reported on a consolidated basis in Severstal's unaudited interim consolidated financial statements as at and for the periods ended 30 June 2005 and 2006, or the Interim Financial Statements, and in Severstal's audited annual consolidated financial statements as at and for the years ended 31 December 2005, with comparative figures as at and for the years ended 31 December 2003 and 2004, or Annual Financial Statements. In addition, Russian Steel and Metalware's financial results were reported on a consolidated basis in Severstal's audited annual consolidated financial statements as at and for the year ended 31 December 2005 with comparative figures for the year ended 31 December 2004, or Special Purpose Financial Statements.

Russian Steel and Metalware is reported on a segmental basis in the Interim Financial Statements, Annual Financial Statements and the Special Purpose Financial Statements as two separate segments: the Steel segment — Russia and the Metalware segment.

Severstal North America (Steel Segment — USA)

As Severstal acquired a controlling interest in Severstal North America in January 2004, its financial results were reported on a consolidated basis in the Interim Financial Statements, in the Annual Financial Statements as at and for the years ended 31 December 2004 and 2005 and in the Special Purpose Financial Statements.

Severstal North America is also reported on a segmental basis as the Steel segment — USA in the Interim Financial Statements, Annual Financial Statements as at and for the years ended 31 December 2004 and 2005 and the Special Purpose Financial Statements.

Severstal Mining (Mining segment)

As Severstal acquired a controlling interest in the entities that comprise Severstal Mining in June 2006, its financial results were included on a consolidated basis in the Interim Financial Statements and on a consolidated basis in the Special Purpose Financial Statements. The financial results of Severstal Mining were not reported in the Annual Financial Statements.

Severstal Mining was also reported on a segmental basis as the Mining segment in the Interim Financial Statements and the Special Purpose Financial Statements.

Lucchini

As Severstal acquired a controlling interest in Lucchini in October 2006, the following discussion presents a separate analysis of Lucchini's results of operations based on its unaudited interim consolidated financial statements as at and for the six-month periods ended 30 June 2005 and 2006, or the Lucchini Interim Financial Statements, and audited annual consolidated financial statements as at and for the years ended 31 December 2004 and 2005 or the Lucchini Annual Financial Statements.

Key Factors Affecting Severstal's Financial Results

Exchange Rate Movements and Inflation

The majority of Severstal's operations and sales are based in Russia. After extensive reviews of Severstal's operations management, Severstal's functional currency was changed from US dollars to Russian roubles effective 1 January 2004 to reflect the consequences of the changes in the Russian economic environment. Accordingly, selling and purchasing activities were moved from mainly US dollar based transactions to Russian rouble based transactions.

Since Severstal's consolidated financial statements prior to 1 January 2004 were presented in US dollars, management has elected to continue the use of US dollars as the group's presentation currency in order to facilitate the comparability of its financial results.

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

The Russian rouble is not a fully convertible currency outside of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation. Market rates may differ from the official rates although these differences are generally within narrow parameters. However, any conversion of rouble amounts into US dollars should not be construed as a representation that rouble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates used, or at any other exchange rate.

Commodity Price Risk

Severstal regards Russia as its single most important market. Russian Steel and Metalware's sales within Russia constituted approximately 54 percent of Severstal's total sales by revenue in 2005, compared with 50 percent in 2004. Severstal has always maintained a strong presence in the Russian market, where, compared to other Russian producers, it focuses on customers requiring high value-added products. In the Russian market, Severstal benefits from good market conditions, rapid demand-growth and low transportation costs.

Severstal's revenue is exposed to the market risk of price fluctuations related to the sale of steel products. Prices for the steel products that Severstal sells both inside and outside of Russia are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global and Russian economic growth.

Adverse changes in any of these factors may reduce the revenue that Severstal receives from the sale of its steel or mined products.

Costs

Severstal requires substantial amounts of raw materials in the steel production process, in particular iron ore, coal and scrap. Prices for almost all raw materials that Severstal uses increased steadily during 2003 and significantly in 2004 and the first quarter of 2005. Prices for these raw materials, other than scrap, fell from the second quarter of 2005 but increased again in the second half of 2005 and the first half of 2006. In furtherance of Severstal's vertical integration strategy, it has consolidated Severstal Mining primarily to secure a supply of iron ore and coal concentrate at competitive market rates and, to a significant extent, to largely insulate it, on a consolidated basis, from the impact of increases in prices of iron ore and coal. However, Severstal continues to rely on external suppliers for a number of its key raw materials.

Severstal also consumes large volumes of electricity and natural gas, which are largely supplied to Steel Segment – Russia and Severstal Mining by monopoly providers in Russia and to Severstal North America and Lucchini by market participants, including certain local monopoly providers. In 2005 Severstal's integrated electricity generation facilities supplied approximately 48 percent of the electricity requirements of its steel segment – Russia. In 2004 and 2005 natural gas and electricity tariffs increased. These rates of increase may be higher than the rates at which Severstal is able to increase its steel prices. In addition, railway transport is also under government ownership in Russia and Severstal is in part dependent on the state-owned railways for delivery of both raw materials and products. The Russian monopoly providers regularly increase prices for their services at a rate that may be higher than the rate at which Severstal is able to increase the price of its steel products.

Restructured tax liabilities

OAO Vorkutaugol and OAO Mine Vorgashorskaya had significant amounts of taxes in arrears when they were acquired by the controlling shareholder in June 2003.

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

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

	30 June 2006	**31 December 2005**
	(unaudited)	
	(US$ thousands)	
Payable within one year	28,362	26,059
Payable after one year	91,805	97,368
	120,167	123,427

Acquisitions of subsidiaries from related parties during 2006

In May and June 2006, Severstal completed the acquisitions of controlling stakes in mining and repair assets previously controlled by Severstal's controlling shareholder. The consolidated interim financial statements for the six months ended 30 June 2006 take account of such acquisitions as if they had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the controlling shareholder.

Severstal's board of directors approved Rosaexpertiza's, the independent appraiser, valuations of its shares being issued at RUR320.74 per share, or US$11.24 at the exchange rate on the date of valuation on 1 October 2005, and of the mining assets being acquired at RUR117,202 million, or US$4,107 million at the exchange date on the date of valuation on 1 October 2005. Citigroup also provided a fairness opinion on this transaction.

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

Shareholders of Severstal, which were entitled to voting on 27 March 2006 but did not participate in it or voted against the deal, had the right to participate in the additional share issue by purchasing for cash the amount of shares that maintained their current shareholding interest at a price of RUR320.74 per share. The market price of shares on 27 March 2006 was RUR384, or US$13.79 per share. Severstal issued 13,516,489 shares to the shareholders that used these pre-emptive purchase rights.

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

Acquisitions of subsidiaries from third parties during 2006

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

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

These acquisitions were conducted to strengthen the Severstal's position in the metalware market.

Business combination with Lucchini SpA

On 2 October 2006 Severstal's controlling shareholder sold the majority stake in Lucchini SpA, a European steel and metalware products producer to Severstal. Lucchini SpA is not consolidated in financial statements of Severstal for any of the periods presented.

Acquisition of Severstal North America

Severstal North America was created when Severstal acquired substantially all of the assets of Rouge Steel in January 2004. Therefore, Severstal's financial position and results of operations for the years subsequent to 31 December 2003 are not directly comparable to those as at and for the year ended 31 December 2003.

Economic environment

A significant portion of Severstal's business is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect Severstal's operations and the realization and settlement of its assets and liabilities.

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

- Exports of hot-rolled coils and thin sheets from Russia to the United States are restricted by the minimum prices issued quarterly by the US Department of Commerce and quotas. Since September 2005, Severstal is the first Russian company, for which minimum prices for certain types of steel plate were established based on producer's actual cost and finance data.
- The Canadian market of hot-rolled plate is restricted by minimum prices as well. Work directed to getting minimum prices based on Severstal's actual data was performed in 2005 and 2006.

- The European Union market is protected by quotas. During the last few years quotas have been raised about 2-2.5 percent each year after adjusting for the effects of EU enlargements. Severstal traditionally gets approximately 35 percent of the total Russian quota and strives to utilize it fully because the EU market is a key market for Severstal.
- The Chinese market is open to Russian exporters. No antidumping or safeguard measures are in force.

Results of Operations Severstal

For the six months ended 30 June 2005 and 2006

The following discussion is based on, and should be read in conjunction with, Severstal's unaudited consolidated interim financial statements for the six months ended 30 June 2006, beginning on page F-2 of this prospectus, which include the results of operations of Russian Steel and Metalware, Severstal North America and Severstal Mining on a consolidated basis.

The following table sets forth Severstal's unaudited consolidated interim income statements for the six months ended 30 June 2005 and 2006:

	For the six months ended 30 June	
	2005	2006
	(unaudited) *(US$ thousands)*	
Sales		
Sales — external	4,156,232	3,993,436
Sales — to related parties	314,175	383,265
	4,470,407	4,376,701
Cost of sales	(2,559,341)	(3,103,045)
Gross profit	1,911,066	1,273,656
Selling, general and administrative expenses	(172,018)	(195,823)
Distribution expenses	(293,353)	(290,602)
Indirect taxes and contributions	(33,230)	(58,875)
Share of associates' profits/(losses)	(1,629)	3,396
Net income from bank lending operations	3,527	3,976
Net income/(expenses) from securities operations	(8,055)	17,027
Loss on disposal of property, plant and equipment	(26,427)	(31,398)
Net other operating expenses	(2,722)	(11,420)
Profit from operations	1,377,159	709,937
(Impairment)/reversal of impairment of property, plant and equipment	2,470	(7,169)
Penalties on tax liabilities under restructuring	(17,728)	—
(Write off of goodwill)/negative goodwill, net	2,653	(2,485)
Non-operating expenses	(17,686)	(27,900)
Profit before financing and taxation	1,346,868	672,383
Net financing expense	(112,273)	(37,895)
Profit before income tax	1,234,595	634,488
Income tax expense	(334,220)	(222,496)
Profit for the period	900,375	411,992

Sales

Compared to the prior period, Severstal's sales decreased US$93,706 thousand, or 2.1 percent, from US$4,470,407 thousand in the first half of 2005 to US$4,376,701 thousand in the first half of 2006. This decrease was primarily due to a US$231,552 thousand decrease in sales of Steel Segment — Russia and a US$118,154 thousand decrease in sales of Severstal Mining, which was partially offset by a US$114,902 thousand increase in sales of Severstal North America, a US$44,997 thousand increase in the sales of Metalware, and a US$96,101 thousand decrease in intersegment sales.

Compared to the prior period, Severstal's sales to related parties increased by US$69,090 thousand, or 22.0 percent, from US$314,175 thousand in the first half of 2005 to US$383,265 thousand in the first half of 2006, which partially offset the overall decrease in Severstal's sales to third parties of US$162,796 thousand, or 3.9 percent, in the first half of 2006, as compared to the prior period. See *"Related Party Transactions"*.

Sales by product

The following table sets forth Severstal's sales by product for the six months ended 30 June 2005 and 2006:

	For the six months ended 30 June	
	2005	2006
	(unaudited) (US$ thousands)	
Hot rolled sheet	1,684,109	1,633,850
Cold rolled sheet	809,891	671,283
Galvanized sheet	523,757	542,092
Hot rolled sections	208,140	272,250
Semi finished products	223,250	132,615
Further processed products	124,753	193,231
Wire	134,184	184,611
Pellets and iron ore	208,916	146,555
Coke(1)	99,451	129,000
Shipping and handling costs billed to customers	208,839	188,802
Other products and services(2)	245,117	282,412
Sales	4,470,407	4,376,701

(1) Includes coke and coal.

(2) Includes fastenings, wire rope, netting, electric arc welding rods, chemical by-products, repair services, manufactured equipment and other.

Hot rolled sheet, cold rolled sheet and galvanised sheet are produced primarily by Steel segment — Russia and Severstal North America. Sales of these products comprised 67.5 percent and 65.1 percent of Severstal's total consolidated sales in the first half of 2005 and 2006, respectively. Pellets and iron ore and coke and coal are produced primarily by Severstal Mining. Sales of these products comprise 6.9 percent and 6.3 percent of Severstal's total consolidated sales in the first half of 2005 and 2006, respectively.

Hot rolled sheet. Steel segment — Russia's sales of hot rolled sheet accounted for 75.9 and 69.9 percent of Severstal's total hot rolled sheet sales in the first half of 2005 and 2006, respectively. Severstal North America's sales of hot rolled sheet accounted for 24.1 and 30.1 percent of Severstal's total hot rolled sheet sales in the first half of 2005 and 2006, respectively.

Cold rolled sheet. Steel segment — Russia's sales of cold rolled sheet accounted for 71.4 and 63.9 percent of Severstal's total cold rolled sheet sales in the first half of 2005 and 2006, respectively. Severstal North America's sales of cold rolled sheet accounted for 28.6 and 36.1 percent of Severstal's total cold rolled sheet sales in the first half of 2005 and 2006, respectively.

Galvanised sheet. Steel segment — Russia's sales of galvanised sheet accounted for 42.2 and 41.8 percent of Severstal's total galvanised sheet sales in the first half of 2005 and 2006, respectively. Severstal North America's sales of galvanised sheet accounted for 57.8 and 58.2 percent of Severstal's total galvanised sheet sales in the first half of 2005 and 2006, respectively.

Pellets and iron ore, coke and coal. Severstal Mining accounted for all of Severstal's sales of iron ore pellets and concentrate and of coke and coal in the first half of 2005 and 2006.

Sales by delivery destination

The following table sets forth Severstal's sales by delivery destination for the six months ended 30 June 2005 and 2006:

	For the six months ended 30 June	
	2005	2006
	(unaudited) *(US$ thousands)*	
Russian Federation	1,828,339	2,009,685
United States of America	1,126,932	1,281,778
Europe	629,902	790,562
Rest of world(1)	885,234	294,676
Sales	4,470,407	4,376,701

Note:

(1) Includes China and Central Asia, the Middle East, South-East Asia, the Americas, excluding the United States, and Africa.

Russian Federation. Severstal's sales to the Russian Federation increased by US$181,346 thousand, or 9.9 percent, from US$1,828,339 thousand in the first half of 2005 to US$2,009,685 thousand in the first half of 2006. This increase is primarily due to an increase in sales of Steel segment — Russia in the Russian Federation, which Severstal considers to be a strategic market. Severstal focuses on the Russian market because it generally yields higher margins than other markets as a result of lower transportation costs for deliveries to domestic customers, high demand from domestic industries and the ability to develop long-term strategic alliances with customers.

United States. Severstal's sales to the United States increased US$154,846 thousand, or 13.7 percent, from US$1,126,932 thousand in the first half of 2005 to US$1,281,778 thousand in the first half of 2006. This increase was primarily due to an increase in sales of Severstal North America.

Europe. Severstal's sales to Europe increased by US$160,660 thousand, or 25.5 percent, from US$629,902 thousand in the first half of 2005 to US$790,562 thousand in the first half of 2006. Europe, in particular Western Europe, is a strategic market for Severstal's products and Severstal has well-developed customer relationships with customers in this region and the ability to distribute its products efficiently through river and sea transportation in the summer. As described below, during the first half of 2006, Severstal redirected some volumes to Europe from the rest of the world.

Rest of world. Sales to the rest of the world decreased by US$590,558 thousand, from US$885,234 thousand in the first half of 2005 to US$294,676 thousand in the first half of 2006. This sharp decrease is primarily driven by decreases in sales to China, Central Asia and South-East Asia mainly as a result of increased steel production in China. Volumes that were shipped to those regions in the first half of 2005 due to attractive prices and increased demand were sold to the Russian and European markets in the first half of 2006.

Sales by business division

The following table sets forth Severstal's sales by business division for the six months ended 30 June 2005 and 2006:

	For the six month period ended 30 June	
	2005	2006
	(unaudited) *(US$ thousands)*	
Steel segment — Russia(1)	3,054,627	2,823,075
Metalware segment(1)	314,332	359,329
Steel segment — USA(2)	947,707	1,062,609
Mining segment(3)	802,345	684,191
Intersegment transactions	(648,604)	(552,503)
Sales	4,470,407	4,376,701

Note:

(1) The Russian Steel and Metalware business division is currently comprised of the Steel segment — Russia and the Metalware segment.

(2) Which comprises the Severstal North America business division.

(3) Which comprises the Severstal Mining business division.

Russian Steel and Metalware (Steel segment — Russia and Metalware segment)

Steel segment — Russia's sales decreased US$231,552 thousand, or 7.6 percent, from US$3,054,627 thousand in the first half of 2005 to US$2,823,075 thousand in the first half of 2006. Sales of Metalware segment increased US$44,997 thousand, or 14.3 percent, from US$314,332 thousand in the first half of 2005 to US$359,329 thousand in the first half of 2006. Included in the above amounts are intersegment sales of US$172,676 thousand in the first half of 2006 and US$176,890 thousand in the first half of 2005. Accordingly, sales to external customers, which includes related parties, by those two segments decreased by US$185,772 thousand, or 5.8 percent, from US$3,192,069 thousand in the first half of 2005 to US$3,009,728 thousand in the first half of 2006. This decrease was primarily due to a decrease in average prices, which was partially offset by an increase in sales volume.

Set forth below are the sales, excluding intersegment sales, of Russian Steel and Metalware by product:

Hot rolled sheet. Sales of hot rolled sheet decreased by US$136,219 thousand, or 10.7 percent, from US$1,278,609 thousand in the first half of 2005 to US$1,142,390 thousand in the first half of 2006. This decrease was primarily due to a decrease in average price per metric tonne of US$95, which was partially offset by an increase in sales volume of 149 thousand metric tonnes.

Cold rolled sheet. Sales of cold rolled sheet decreased by US$149,274 thousand, or 25.8 percent, from US$577,891 thousand in the first half of 2005 to US$428,617 thousand in the first half of 2006. This decrease was primarily due to a decrease in sales volume of 111 thousand metric tonnes and a decrease in average price per metric tonne of US$99.

Galvanised sheet. Sales of galvanised sheet increased by US$5,877 thousand, or 2.7 percent, from US$220,957 thousand in the first half of 2005 to US$226,834 thousand in the first half of 2006. This increase was primarily due to an increase in sales volume of 14 thousand metric tonnes, which was partially offset by a decrease in average price per metric tonne of US$15.

Hot rolled sections. Sales of hot rolled sections increased by US$64,110 thousand, or 30.8 percent, from US$208,140 thousand in the first half of 2005 to US$272,250 thousand in the first half of 2006. This increase was primarily due to an increase in sales volume of 194 thousand metric tonnes, which was partially offset by a decrease in average price per metric tonne of US$49.

Semi finished products. Sales of semi finished products decreased by US$90,635 thousand, or 40.6 percent, from US$223,250 thousand in the first half of 2005 to US$132,615 thousand in the first half of 2006. This decrease was primarily due to a decrease in sales volume of 125 thousand metric tonnes and a decrease in average price per metric tonne of US$94.

Further finished products. Sales of further finished products increased by US$68,478 thousand, or 54.9 percent, from US$124,753 thousand in the first half of 2005 to US$193,231 thousand in the first half of 2006. This increase was primarily due to an increase in sales volume of 100 thousand metric tonnes and an increase in average price per metric tonne of US$6.

Wire. Sales of wire increased by US$50,427 thousand, or 37.6 percent, from US$134,184 thousand in the first half of 2005 to US$184,611 thousand in the first half of 2006. This increase was primarily due to the US$51,945 thousand of sales of two wire producers acquired in 2006: Dneprometiz in February 2006 and Carrington Wire LLC in April 2006.

Severstal North America (Steel segment — USA)

Severstal North America's sales increased US$114,902 thousand, or 12.1 percent, from US$947,707 thousand in the first half of 2005 to US$1,062,609 thousand in the first half of 2006. This increase was primarily due to an increase of US$85,960 thousand in sales of hot rolled sheet, US$10,666 thousand in sales of cold rolled sheet and US$12,455 thousand in sales of galvanized sheet.

Hot rolled sheet. Severstal North America's sales of hot rolled sheet increased by US$85,960 thousand, or 21.2 percent, from US$405,500 thousand in the first half of 2005 to US$491,460 thousand in the first half of 2006. This increase was primarily due to an increase in sales volume of 158,972 metric tonnes, or

25.2 percent, which was partially offset by a decrease in the average price of US$21 per metric tonne, or 3.3 percent.

Cold rolled sheet. Severstal North America's sales of cold rolled sheet increased by US$10,666 thousand, or 4.6 percent, from US$232,000 thousand in the first half of 2005 to US$242,666 thousand in the first half of 2006. This increase was primarily due to an increase in sales volume of 23,468 metric tonnes, which was partially offset by a decrease in average price per metric tonne of US$18, or 2.5 percent.

Galvanized sheet. Severstal North America's sales of galvanized sheet increased by US$12,458 thousand, or 4.1 percent, from US$302,800 thousand in the first half of 2005 to US$315,258 thousand in the first half of 2006. This increase was primarily due to an increase in sales volume of 14,271 metric tonnes, or 3.9 percent and an increase in average price per metric tonne of US$2, or 0.3 percent.

Severstal Mining (Mining segment)

Severstal Mining's sales decreased by US$118,154 thousand, or 14.7 percent, from US$802,345 thousand in the first half of 2005 to US$684,191 thousand in the first half of 2006. Included in these amounts are intersegment sales, primarily to Steel segment — Russia, of US$471,713 thousand in the first half of 2005 and US$379,828 thousand in the first half of 2006. Accordingly, sales, excluding intersegment sales, of Severstal Mining decreased US$26,269 thousand, or 7.9 percent, from US$330,632 thousand in the first half of 2005 to US$304,363 thousand in the first half of 2006. This decrease was primarily due to a decrease in average prices, which was partially offset by an increase in sales volume.

Pellets and iron ore. Severstal Mining's sales of pellets and iron ore decreased by US$62,361 thousand, or 29.8 percent, from US$208,916 thousand in the first half of 2005 to US$146,555 thousand in the first half of 2006. This decrease was primarily due to a decrease in average price per tonne of US$26 and a decrease in volume by 62 thousand tonnes.

Coke. Severstal Mining's sales of coke, which includes coke and coal, increased by US$29,549 thousand, or 29.7 percent, from US$99,451 thousand in the first half of 2005 to US$129,000 thousand in the first half of 2006. This increase was primarily due to an increase in sales volume of 762 thousand tonnes, which was partly offset by a US$5 decrease in average price.

Cost of sales

Severstal's cost of sales increased US$543,704 thousand, or 21.2 percent, from US$2,559,341 thousand in the first half of 2005 to US$3,103,045 thousand in the first half of 2006. This increase was primarily due to a US$177,730 thousand increase in Steel segment—Russia's cost of sales, a US$112,834 thousand increase in Severstal North America's cost of sales and a US$116,733 thousand increase in Severstal Mining's cost of sales.

Cost of sales by business division

The following table sets forth Severstal's cost of sales by business division for the six month periods ended 30 June 2005 and 2006:

	For the six months ended 30 June	
	2005	2006
	(unaudited) *(US$ thousands)*	
Steel segment — Russia(1)	(1,711,428)	(1,889,158)
Metalware segment(1)	(286,029)	(308,114)
Steel segment — USA(2)	(875,988)	(988,822)
Mining segment(3)	(362,070)	(478,803)
Intersegment transactions	676,174	561,852
Cost of sales	(2,559,341)	(3,103,045)

(1) The Russian Steel and Metalware business division is currently comprised of the Steel segment — Russia and the Metalware segment.
(2) Which comprises the Severstal North America business division.
(3) Which comprises the Severstal Mining business division.

Russian Steel and Metalware (Steel segment — Russia and Metalware segment)

Steel segment — Russia's cost of sales increased US$177,730 thousand, or 10.4 percent, from US$1,711,428 thousand in the first half of 2005 to US$1,889,158 thousand in the first half of 2006, and Metalware segment's cost of sales increased US$22,085 thousand, or 7.7 percent, from US$286,029 thousand in the first half of 2005 to US$308,114 thousand in the first half of 2006.

Steel segment — Russia. The increase in Steel segment — Russia's cost of sales was primarily due to a US$151,120 thousand increase in depreciation expense, a US$257,118 thousand increase in raw materials, fuel and energy costs as a result of increased production levels at Cherepovets Steel plant and a US$25,867 thousand increase in labour costs, which were partially offset by a US$110,044 thousand decrease in prices of raw materials and a US$146,413 thousand increase in inventory levels of finished goods and work-in-progress. The remainder of the increase in cost of sales was primarily related to increases in repair and other production services.

Depreciation expense. The increase of US$151,120 thousand in depreciation expense was primarily due to revaluation of fixed assets performed by an independent appraiser as of 31 December 2005, which increased the value of fixed assets and, accordingly, the depreciation charge. Additions to fixed assets during the period under review have also contributed to the increase in the related depreciation charge.

Labour costs. The increase in labour costs was primarily due to inflation in the Russian Federation, combined with the appreciation of the Russian rouble against the US dollar.

Prices of raw materials. The decrease in prices for pellets and coking coal resulted in a decrease in cost of sales of US$99,994 thousand and US$54,948 thousand, respectively, which was partially offset by a US$30,216 thousand increase due to the related price of scrap.

Inventory levels. During the first half of 2006, Steel segment — Russia significantly increased inventory of levels of finished products and work-in-progress to minimise the effects of a scheduled relining of its largest blast furnace.

Metalware segment. The increase in Metalware segment's cost of sales was primarily due to the US$50,352 thousand effect resulting from the first time consolidation of the results of operations of certain subsidiaries acquired by Metalware segment in the first half of 2006. Dneprometiz was acquired in February 2006, resulting in four months of consolidation, and Carrington Wire LLC was acquired in April 2006, resulting in two months of consolidation.

Severstal North America (Steel segment — USA)

Severstal North America's cost of sales increased US$112,834 thousand, or 12.9 percent in the first half of 2006. This increase was primarily due to a US$41,000 thousand increase in the cost of raw materials, approximately US$18,000 thousand increase in the number of purchased slabs and a US$20,000 thousand increase in consumption per tonne.

The increase in the cost of raw materials was primarily due to increase in the price of coke, which was partially offset by a decrease in natural gas prices.

The increase in the number of purchased slabs was primarily due to increased production capacity in the hot strip mill resulting from an improvement in production efficiency.

Severstal Mining (Mining segment)

Mining segment's cost of sales increased US$116,733 thousand, or 32.2 percent, from US$362,070 thousand in the first half of 2005 to US$478,803 thousand in the first half of 2006. This increase was primarily due to a US$44,008 thousand increase in production costs, a US$39,143 thousand increase in depreciation expense, a US$19,000 thousand increase in utilities expenses and a US$4,000 thousand increase in labour costs.

Production costs. The increase in production costs was primarily due to a 1.3 million metric tonne increase in sales volumes.

Depreciation expense. The increase in depreciation expense was primarily due to the revaluation of fixed assets performed by an independent appraiser as of 31 December 2005, which increased the value of those fixed assets and accordingly increased the depreciation charge. Additions to fixed assets during the period under review also contributed to the increase in depreciation expense.

Utilities expenses. The increase in utilities expenses is primarily due to a US$6,240 thousand increase in electricity expense and a US$9,440 thousand increase in heating oil expense. The increases in price of electricity and heating oil were partly offset by decreases in utility consumption per tonne of output.

Profit from operations

Profit from operations is calculated by subtracting operating expenses from gross profit. Compared to the prior period, Severstal's profit from operations decreased by US$667,222 thousand, or 48.4 percent, from US$1,377,159 thousand in the first half of 2005 to US$709,937 thousand in the first half of 2006. This decrease was due to a US$637,410 thousand decrease in gross profit and a US$29,812 thousand increase in operating expenses.

The decrease in gross profit was primarily due to the factors discussed above. The increase in operating expenses was primarily due to a US$25,645 thousand increase in indirect taxes and contributions and a US$23,805 thousand increase in selling, general and administrative expenses, which was partially offset by a US$25,082 thousand increase in net income from securities operations.

The following table sets forth Severstal's operating expenses for the six months ended 30 June 2005 and 2006:

	For the six months ended 30 June	
	2005	2006
	(unaudited) *(US$ thousands)*	
Selling, general and administrative expenses	(172,018)	(195,823)
Distribution expenses	(293,353)	(290,602)
Indirect taxes and contributions	(33,230)	(58,875)
Share of associates' (losses)/profits	(1,629)	3,396
Net income from bank lending operations	3,527	3,976
Net income from securities operations	(8,055)	17,027
Loss on disposal of property, plant and equipment	(26,427)	(31,398)
Net other operating expenses	(2,722)	(11,420)
Total operating expenses	(533,907)	(563,719)

Russian Steel and Metalware (Steel segment — Russia and Metalware segment)

Compared to the prior period, Steel segment — Russia's profit from operations decreased US$419,472 thousand, or 43.9 percent, and Metalware segment's profit from operations increased by US$17,014 thousand, from a loss of US$2,189 thousand to a profit of US$14,825 thousand, in the first half of 2006.

Steel segment — Russia. The decrease in Steel segment — Russia's profit from operations was primarily due to a US$409,282 thousand decrease in gross profit, primarily due to the factors described above, and a US$10,190 thousand increase in operating expenses.

The increase in Steel segment — Russia's operating expenses was primarily due to a US$18,826 thousand increase in indirect taxes and contributions, a US$13,039 thousand increase in loss on disposal of property, plant and equipment and a US$12,405 thousand increase in selling, general and administrative expenses, which was partially offset by a US$23,064 thousand decrease in distribution costs and an increase in net income from securities operations in the amount of US$16,422 thousand.

Metalware segment. The increase in Metalware segment's profit from operations was primarily due to an increase in gross profit of US$22,912 thousand, which was partially offset by a US$5,898 thousand increase in operating expenses. Distribution expenses increased by US$5,659 thousand, which was partially due to the US$3,719 thousand effect from the first time consolidation of four months and two months, respectively, of the operations of Dneprometiz and Carrington Wire LLC.

Severstal North America (Steel segment — USA)

Compared to the prior period, Severstal North America's profit from operations increased US$7,884 thousand, or 14.6 percent in the first half of 2006. This increase was due to a US$2,068 thousand increase in gross profit, primarily due to the factors described above, and a US$5,816 thousand decrease in operating expenses.

The decrease in operating expenses was primarily due to a US$5,308 thousand increase in share of associates' profits and a US$2,173 thousand decrease in selling, general and administrative expenses, which was partially offset by a US$1,540 thousand increase in net other operating expense.

The increase in share of associates' profits was primarily due to an increase in profits from Severstal North America's joint venture, Spartan Steel Coating, LLC, which resulted from gains from zinc hedges maintained in the ordinary course of business.

The decrease in selling, general and administrative expenses was primarily due to prior period effect of expenses relating to acquisition activities undertaken by Severstal North America on behalf of Severstal.

Severstal Mining (Mining segment)

Compared to the prior period, Mining segment's profit from operations decreased US$260,731 thousand, or 75.3 percent, from US$346,186 thousand to US$85,455 thousand, in the first half of 2006. The decrease in profit from operations was due to a US$234,887 thousand decrease in gross profit, primarily as a result of factors described above, and a US$25,844 thousand increase in operating expenses.

This increase in Severstal Mining's operating expenses was primarily due to a US$12,723 thousand increase in selling, general and administrative expenses and US$14,654 thousand increase in distribution expenses, which was partially offset by US$9,218 thousand decrease in loss on disposal of property, plant and equipment.

The increase in selling, general and administrative expenses was primarily due to costs of labour safety and productivity improvement programmes. The increase in distribution costs was primarily due to a greater proportion of sales on DAF/FOB terms, as defined by Incoterms-2000, in the first half of 2006 compared to the first half of 2005. Decrease in loss on disposal of property, plant and equipment was primarily due to the disposal of assets in the ordinary course of business.

Profit before financing and taxation

Profit before financing and taxation is calculated by subtracting non-operating expenses from profit from operations. Compared to the prior period, Severstal's profit before financing and taxation decreased US$674,485 thousand, or 50.1 percent, from US$1,346,868 thousand in the first half of 2005 to US$672,383 thousand in the first half of 2006. This decrease was due to a US$667,222 thousand decrease in profit from operations as described above and a US$7,263 thousand increase in non-operating expenses.

The increase in non-operating expenses was primarily due to a US$10,214 thousand increase in net other non-operating expenses and a US$9,639 thousand increase in net impairment of property, plant and equipment, which was partially offset by the effect in the prior period of US$17,728 thousand in penalties on tax liabilities under restructuring.

The following table sets forth Severstal's non-operating expenses for the six month periods ended 30 June 2005 and 2006:

	For the six month period ended 30 June	
	2005	2006
	(unaudited) *(US$ thousands)*	
Reversal of impairment/(impairment) of property, plant and equipment	2,470	(7,169)
Penalties on tax liabilities under restructuring	(17,728)	—
(Write off of goodwill)/negative goodwill, net	2,653	(2,485)
Net other non-operating expenses	(17,686)	(27,900)
Total non-operating expenses	(30,291)	(37,554)

Net other non-operating expenses

The increase in net other non-operating expenses was primarily due to a US$5,919 thousand increase in charitable donations and a US$2,973 thousand increase in social expenditures.

Net impairment of property, plant and equipment

The increase in net impairment of property, plant and equipment was primarily due to costs of construction in progress on social assets, which are not expected to generate profits, that are impaired as incurred.

Penalties on tax liabilities under restructuring

The penalties on tax liabilities under restructuring incurred in the first half of 2005 were penalties due on tax arrears of OAO Vorkutaugol and OAO Mine Vorgashorskaya primarily related to tax arrears that existed prior to June 2003 when these companies were acquired by the controlling shareholder. These tax liabilities were restructured in late 2005.

Profit for the period

Profit for the period is calculated by subtracting net financing expense and income tax expense from profit before financing and taxation. Compared to the prior period, Severstal's profit for the period decreased by US$488,383 thousand, or 54.2 percent, from US$900,375 thousand in the first half of 2005 to US$411,992 thousand in the first half of 2006. This decrease was primarily due to a US$674,485 thousand decrease in profit before financing and taxation, which was partially offset by a US$111,724 thousand decrease in income tax expense and a US$74,378 thousand decrease in net financing expense. The decrease in profit before financing and taxation is primarily due to the factors described above.

Net financing expense

Net financing expense comprises interest income, interest expense, including amortisation of transaction costs, and foreign exchange gains or losses. Net financing expense decreased by US$74,378 thousand, from US$112,273 thousand in the first half of 2005 to US$37,895 thousand in the first half of 2006. This decrease was primarily due to a US$75,308 thousand net change in foreign exchange gains/(losses), from a US$56,965 thousand loss in the first half of 2005 to a US$18,343 thousand gain in the first half of 2006, and a US$13,294 thousand increase in interest income, which was offset by a US$14,224 thousand increase in interest expense.

The foreign exchange gain, compared to the foreign exchange loss in the prior period, was primarily due to changes in the foreign currency exchange rates between the US dollar, the Euro and the Russian rouble. The Russian rouble depreciated approximately 3 percent against the US dollar in nominal terms in the first half of 2005, while the Russian rouble appreciated approximately 6 percent against the US dollar in nominal terms in the first half of 2006.

The increase in interest income was primarily due to higher average cash and financial investment balances during the first half of 2006 compared to the first half of 2005.

The increase in interest expense was partially due to an increase in interest expense on external borrowings used to finance the construction of the Severgal plant in 2005. As a result of the completion of construction, US$4,535 thousand in interest expense from these external borrowings were recognised in the first half of 2006, while interest expense incurred in the first half of 2005 was capitalised. The remainder of the increase is primarily due to an increase in interest bearing liabilities, including debt financing and discounted long-term obligations, which was partly offset by a reduction in interest rates on certain debt financing.

Income tax expense

Income tax expense decreased by US$111,724 thousand, or 33.4 percent, from US$334,220 thousand in the first half of 2005 to US$222,496 thousand in the first half of 2006. This decrease was primarily due to the US$600,107 thousand decrease in profit before income tax, which was partly offset by the increase in effective interest tax rate from 27.1 percent to 35.1 percent. A substantial portion of Severstal's profit before income tax is generated within Russia and subject to a flat 24 percent statutory income tax rate. In addition, certain expenses are not tax deductible, which typically increases the effective income tax rate by approximately 1.0 to 2.0 percent above the statutory income tax rate. Severstal North America is subject to United States federal and state income tax, which generally results in an effective income tax rate above 30 percent of profit before income tax.

For the years ended 31 December 2004 and 2005

The following discussion is based on, and should be read in conjunction with, Severstal's Special Purpose Financial Statements, included in this prospectus beginning on page F-38, which include the financial results of Russian Steel and Metalware, Severstal North America, and Severstal Mining on a consolidated basis.

The following table sets forth Severstal's audited annual consolidated income statements for the years ended 31 December 2004 and 2005:

	For the year ended 31 December	
	2004	2005
	(US$ thousands)	
Sales		
Sales — external	6,407,518	7,964,490
Sales — to related parties	602,614	659,835
	7,010,132	8,624,325
Cost of sales	(4,189,926)	(5,304,357)
Gross profit	2,820,206	3,319,968
Selling, general and administrative expenses	(343,544)	(379,914)
Distribution expenses	(442,748)	(590,568)
Indirect taxes and contributions	(56,781)	(71,826)
Share of associates' profits/(losses)	7,158	(4,266)
Net income from bank lending operations	4,263	9,982
Net income/(expenses) from securities operations	18,592	6,841
Net expenses from insurance operations	(18,237)	—
Loss on disposal of property, plant and equipment	(41,111)	(35,551)
Net other operating expenses	8,069	(4,412)
Profit from operations	1,955,867	2,250,254
(Impairment)/reversal of impairment of property, plant and equipment	(16,097)	73,710
Penalties on tax liabilities under restructuring	(16,699)	(26,675)
Gain on restructuring of tax liabilities	6,793	200,853
(Write off of goodwill)/negative goodwill, net	61,274	7,630
Non-operating expenses	(44,798)	(52,647)
Profit before financing and taxation	1,946,340	2,453,125
Net financing expenses	(106,106)	(170,594)
Profit before income tax	1,840,234	2,282,531
Income tax expense	(481,329)	(550,635)
Profit for the year	1,358,905	1,731,896

Sales

Compared to the prior year, Severstal's consolidated sales increased by US$1,614,193 thousand, or 23.0 percent, from US$7,010,132 thousand in 2004 to US$8,624,325 thousand in 2005. This increase was primarily due to a US$843,104 thousand increase in sales of Steel segment — Russia, a US$479,277 thousand increase in sales of Severstal North America and a US$525,918 thousand increase in sale of Mining segment.

Severstal's sales to related parties increased by US$57,221 thousand, or 9.5 percent, from US$602,614 thousand in 2004 to US$659,835 thousand in 2005. Severstal's sales to related parties comprised 8.6 percent and 7.7 percent of Severstal's total sales in 2004 and 2005, respectively. See "Related Party Transactions".

Sales by product

The following table sets forth Severstal's sales by product for the years ended 31 December 2004 and 2005:

	For the year ended 31 December	
	2004	2005
	(US$ thousands)	
Hot rolled sheet	2,447,882	3,279,885
Cold rolled sheet	1,331,408	1,468,927
Galvanized sheet	797,078	1,041,711
Hot rolled sections	480,015	493,078
Semi finished products	323,502	348,330
Further processed products	262,102	277,905
Wire	249,402	253,894
Pellets and iron ore	133,316	400,194
Coke[(1)]	201,901	142,819
Shipping and handling costs billed to customers	334,801	405,829
Other products and services[(2)]	448,725	511,753
Sales	7,010,132	8,624,325

(1) Includes coke and coal.

(2) Includes fastenings, wire rope, netting, electric arc welding rods, chemical by-products, repair services, manufactured equipment and other.

Hot rolled sheet, cold rolled sheet and galvanized sheet are produced primarily by Steel segment — Russia and Severstal North America. In 2004, aggregate sales from these products accounted for 65.3 percent of Severstal's total consolidated sales for the year, or US$4,576,368 thousand. In 2005, aggregate sales from these products accounted for 67.1 percent of Severstal's total consolidated sales for the year, or US$5,790,523 thousand. Pellets and iron ore and coke are produced by Severstal Mining. In 2004, aggregate sales from these products accounted for 4.8 percent of Severstal's total consolidated sales for the year, or US$335,217 thousand. In 2005, aggregate sales from these products accounted for 6.3 percent of Severstal's total consolidated sales for the year, or US$543,013 thousand.

Hot rolled sheet. Steel segment — Russia's external sales of hot rolled sheet accounted for 76.7 percent and 75.7 percent of Severstal's total hot rolled sheet sales in 2004 and 2005, respectively. Severstal North America's sales of hot rolled sheet accounted for 23.3 and 24.3 percent of Severstal's total hot rolled sheet sales in 2004 and 2005, respectively.

Cold rolled sheet. Steel segment — Russia's sales of cold rolled sheet accounted for 74.2 percent and 70.9 percent of Severstal's total cold rolled sheet sales in 2004 and 2005, respectively. Severstal North America's sales of cold rolled sheet accounted for 25.8 and 29.1 percent of Severstal's total cold rolled sheet sales in 2004 and 2005, respectively.

Galvanized sheet. Steel segment — Russia's sales of galvanized sheet accounted for 47.2 percent and 44.0 percent of Severstal's total galvanized sheet sales in 2004 and 2005, respectively. Severstal North America's sales of galvanized sheet accounted for 52.8 and 56.0 percent of Severstal's total galvanized sheet sales in 2004 and 2005, respectively.

Iron ore pellets and concentrate and coke and coal. Severstal Mining's sales accounted for all of Severstal's sales of pellets and iron ore and coke and coal in 2004 and 2005.

Sales by delivery destination

The following table sets forth Severstal's consolidated sales by delivery destination for the years ended 31 December 2004 and 2005:

	For the year ended 31 December	
	2004	2005
	(US$ thousands)	
Russian Federation	2,892,991	3,736,437
United States of America	1,787,659	2,052,284
Europe	1,372,241	1,205,056
Rest of world(1)	957,241	1,630,548
Sales	7,010,132	8,624,325

(1) Includes China and Central Asia, the Middle East, South East Asia, Africa and the Americas, excluding the United States.

Russian Federation. Severstal's sales to the Russian Federation increased US$843,446 thousand, or 29.2 percent, from US$2,892,991 thousand in 2004 to US$3,736,437 thousand in 2005. This increase is primarily due to an increase in sales of Steel segment — Russia in the Russian Federation, which Severstal believes is a strategic market. Severstal focuses on the domestic market due to lower transportation costs for deliveries to domestic customers, high demand from domestic industries and the ability to develop long-term strategic alliances with customers. Sales in Russia increased by 574 thousand tons in 2005 compared to 2004.

United States. Severstal's sales to the United States increased US$264,625 thousand, from US$1,787,659 thousand in 2004 to US$2,052,284 thousand in 2005. This increase was primarily due to the additional sales generated by Severstal North America, partly offset by decrease in export sales from Russia to the United States.

Europe. Severstal's sales to Europe decreased by US$167,185 thousand, or 12.2 percent, from US$1,372,241 thousand in 2004 to US$1,205,056 thousand in 2005. Europe, in particular Western Europe, is a strategic market for Severstal's products and Severstal has well-developed customer relationships with customers in this region and the ability to distribute its products efficiently through river and sea transportation in the summer.

Rest of world. Sales to the rest of the world increased by US$673,307 thousand, or 70.3 percent, from US$957,241 thousand in 2004 to US$1,630,548 thousand in 2005. This increase was primarily due to increases in sales to China, Central Asia and South-East Asia mainly as a result of increased steel consumption in China.

Sales by business division

The following table sets forth Severstal's sales by business division for the years ended 31 December 2004 and 2005:

	For the year ended 31 December	
	2004	2005
	(US$ thousands)	
Steel segment — Russia(1)	5,102,762	5,945,866
Metalware segment(1)	567,215	618,830
Steel segment — USA(2)	1,343,296	1,822,573
Mining segment(3)	845,740	1,371,658
Intersegment transactions	(848,881)	(1,134,602)
Sales	7,010,132	8,624,325

(1) The business division, Russian Steel and Metalware, is currently comprised of the Steel segment — Russia and the Metalware segment.

(2) Currently Severstal North America.

(3) Currently Severstal Mining.

Russian Steel and Metalware (Steel segment — Russia and Metalware segment)

Compared to the prior year, Steel segment — Russia's sales increased US$843,104 thousand, or 16.5 percent, from US$5,102,762 thousand in 2004 to US$5,945,866 thousand in 2005. This increase was primarily due to greater demand and more favourable market conditions.

Hot rolled sheet. Steel segment — Russia's sales of hot rolled sheet increased by US$605,203 thousand, or 32.2 percent, from US$1,878,182 thousand in 2004 to US$2,483,385 thousand in 2005. This increase was primarily due to an increase in average price of US$45 and an increase in sales volume of 809,835 metric tonnes.

Cold rolled sheet. Steel segment — Russia's sales of cold rolled sheet increased by US$52,419 thousand, or 5.3 percent, from US$988,508 thousand in 2004 to US$1,040,927 thousand in 2005. This increase was primarily due to an increase in average price per metric tonne of US$54, which was partially offset by a decrease in sales volume of 76,247 metric tonnes.

Galvanized sheet. Steel segment — Russia's sales of galvanized sheet increased by US$81,633 thousand, or 21.7 percent, from US$376,478 thousand in 2004 to US$458,111 thousand in 2005. This increase was primarily due to an increase in average price of US$92 and an increase in sales volume of 39,589 metric tonnes.

Hot rolled sections. Steel segment — Russia's sales of hot rolled sections increased by US$13,063 thousand, or 2.7 percent, from US$480,015 thousand in 2004 to US$493,078 thousand in 2005. This increase was primarily due to an increase in sales volume of 51,073 metric tonnes, which was partially offset by a decrease in average price per metric tonne of US$10.

Semi finished products. Steel segment — Russia's sales of semi finished products increased by US$24,828 thousand, or 7.8 percent, from US$323,502 thousand in 2004 to US$348,330 thousand in 2005. This increase was primarily due to an increase in sales volume of 209,128 metric tonnes, which was partially offset by a decrease in average price per metric tonne of US$76.

Further processed products. Steel segment — Russia's sales of further processed products increased by US$15,803 thousand, or 6.0 percent, from US$262,102 thousand in 2004 to US$277,905 thousand in 2005. This increase was primarily due to an increase in average price per metric tonne of US$51, which was partially offset by a decrease in sales volume of 11,509 metric tonnes.

Severstal North America (Steel segment — USA)

Severstal North America's sales increased US$479,277 thousand, or 35.7 percent, from US$1,343,296 thousand in 2004 to US$1,822,573 thousand in 2005. This increase was primarily due to a US$226,800 thousand increase in sales of hot rolled, a US$85,100 thousand increase in sales of cold rolled and a US$163,000 thousand increase in sales of galvanized sheet.

Hot rolled sheet. Severstal North America's sales of hot rolled sheet increased by US$226,800 thousand, or 39.8 percent, from US$569,700 thousand in 2004 to US$796,500 thousand in 2005. Severstal North America was consolidated only for 11 months of 2004. Sales in January 2004 were US$31,284 thousand, so the increase in sales compared to full 2004 year was US$195,516. This increase was primarily due to an increase in sales volume of 344,400 metric tonnes, or 34.8 percent, which was partially offset by a decrease in the average price of US$10 per metric tonne, or 1.7 percent.

Cold rolled sheet. Severstal North America's sales of cold rolled sheet increased by US$85,100 thousand, or 24.8 percent, from US$342,900 thousand in 2004 to US$428,000 thousand in 2005. Severstal North America was consolidated only for 11 months of 2004. Sales in January 2004 were US$26,317 thousand, so the increase in sales compared to full 2004 year was US$58,783. This increase was primarily due to an increase in sales volume of 30,604 metric tonnes, or 5.2 percent, and an increase in average price per metric tonne of US$64, or 10.1 percent.

Galvanized sheet. Severstal North America's sales of galvanized sheet increased by US$163,000 thousand, or 38.8 percent, from US$420,600 thousand in 2004 to US$583,600 thousand in 2005. Severstal North America was consolidated only for 11 months of 2004. Sales in January 2004 were US$39,443 thousand, so the increase in sales compared to full 2004 year was US$123,557. This increase was primarily due to an increase in sales volume of 60,476 metric tonnes, or 9.2 percent and an increase in average price per metric tonne of US$113, or 16.2 percent.

Severstal Mining (Mining segment)

Severstal Mining's sales increased US$525,918 thousand, or 62.2 percent, from US$845,740 thousand in 2004 to US$1,371,658 thousand in 2005. This increase was primarily due to increased demand and more favorable pricing conditions. Intersegment sales were US$470,136 thousand in 2004 and US$784,868 thousand in 2005. Accordingly, sales, excluding intersegment sales, increased US$211,186 thousand, or 56.2 percent, from US$375,604 thousand in 2004 to US$586,790 thousand in 2005.

Set forth below are sales, excluding intersegment sales, of Severstal Mining:

Pellets and iron ore. Severstal Mining's sales of pellets and iron ore increased by US$266,878 thousand, or 200.2 percent, from US$133,316 thousand in 2004 to US$400,194 thousand in 2005. This increase was primarily due to an increase in average prices of US$45 per tonne and increase in external sales volumes of 1.3 million tonnes.

Coke. Severstal Mining's sales of coke, which includes coke and coal, decreased by US$59,082 thousand, or 29.3 percent, from US$201,901 thousand in 2004 to US$142,819 thousand in 2005. This decrease was primarily due to a decrease by 2.1 million tonnes in sales volumes which was partly offset by US$5 increase in average price.

Cost of sales

Severstal's cost of sales increased US$1,114,431 thousand, or 26.6 percent, from US$4,189,926 thousand in 2004 to US$5,304,357 thousand in 2005.

Cost of sales by business division

The following table sets forth Severstal's cost of sales by business division for the years ended 31 December 2004 and 2005:

	For the year ended 31 December	
	2004	**2005**
	(US$ thousands)	
Steel segment — Russia(1)	(2,675,127)	(3,395,194)
Metalware segment(1)	(487,544)	(556,963)
Steel segment — USA(2)	(1,201,880)	(1,716,332)
Mining segment(3)	(658,629)	(742,385)
Intersegment transactions	833,254	1,106,517
Cost of sales	(4,189,926)	(5,304,357)

(1) The business division, Russian Steel and Metalware, is currently comprised of the Steel segment — Russia and the Metalware segment.

(2) Which comprises Severstal North America.

(3) Which comprises Severstal Mining.

Russian Steel and Metalware (Steel segment — Russia and Metalware segment).

Steel segment— Russia's cost of sales increased by US$720,067 thousand, or 26.9 percent, from US$2,675,127 thousand in 2004 to US$3,395,194 thousand in 2005. This increase was primarily due to a US$417,550 thousand increase in prices of raw materials, a US$263,415 thousand increase due to the effect of changes in inventory levels of finished goods and work-in-progress, a US$36,790 thousand increase in labour costs, a US$36,449 thousand increase in raw materials, fuel and energy costs as a result of increased production levels at Cherepovets Steel Plant and a US$8,256 thousand increase in depreciation expense.

Price of raw materials. The increases in prices for coking coal, pellets and iron ore concentrate have led to increases in cost of sales by US$140,364 thousand, US$136,042 thousand and US$75,376 thousand respectively.

Inventory levels. A decrease in inventory levels of finished goods and work-in-progress during 2005 and an increase in such inventories during 2004 led to a total increase of US$263,415 thousand in cost of sales.

Labour costs. The increase in labour costs was primarily due to inflation in the Russian Federation and appreciation of the Russian rouble against the US dollar.

Depreciation expense. The increase in depreciation expense was primarily due to additions to fixed assets during 2005.

Severstal North America (Steel segment — USA)

Severstal North America's cost of sales increased US$514,452 thousand, or 42.8 percent, from US$1,201,880 thousand in 2004 to US$1,716,332 thousand in 2005. This increase was primarily due to a US$251,000 thousand increase in production volumes and purchased steel, a US$130,000 thousand increase in raw material prices, in particular the price of coke, and a US$100,000 thousand effect due to the consolidation of only eleven months in 2004.

The increase in production volumes and purchase steel was primarily due to production efficiencies and availability of purchased slabs.

The increase in raw material prices was primarily due to increases in the prices of natural gas and coking coal.

The less than full year consolidation effect was the result of Severstal's purchase of Severstal North America's predecessor, Rouge Steel, in late January 2004.

Severstal Mining (Mining segment)

Severstal Mining's cost of sales increased US$83,756 thousand, or 12.7 percent in 2005. This increase was primarily due to a US$44,839 thousand increase in distribution expenses, a US$10,371 thousand increase in indirect taxes and contributions and a US$11,437 thousand increase in net other operating (expenses) income, which was partially offset by a US$15,199 thousand decrease in selling, general and administrative expenses, a US$12,741 thousand increase net income from security operations and a US$11,129 thousand decrease in loss on disposal of property, plant and equipment.

Distribution expenses: The increase in distribution expenses was primarily due to a greater proportion of DAF/FOB deliveries in 2005 compared to FCA deliveries in 2004.

Indirect taxes and contributions: The increase in indirect taxes and contributions was primarily due to an increase in such taxes associated with an increase in extraction cost.

Selling, general and administrative expenses: The decrease in selling, general and administrative expenses was primarily due to lower pension provision in Vorkutaugol lower expenses associated with pension provisions.

Net income from security operations: The increase in net income from security operations was primarily due to the adjustment to fair value of loans to related parties to fair value in 2004.

Profit from operations

Profit from operations is calculated by subtracting operating expenses from gross profit. Severstal's profit from operations increased US$294,387 thousand, or 15.1 percent, from US$1,955,867 thousand in 2004 to US$2,250,254 thousand in 2005. This increase was due to a US$499,762 thousand increase in gross profit, primarily due to the factors discussed above, which was partially offset by a US$205,375 thousand increase in operating expenses.

The increase in operating expenses was primarily due to a US$147,820 thousand increase in distribution expenses.

The following table sets forth Severstal's operating expenses for the years ended 31 December 2004 and 2005:

	For the year ended 31 December	
	2004	2005
	(US$ thousands)	
Selling, general and administrative expenses	(343,544)	(379,914)
Distribution expenses	(442,748)	(590,568)
Indirect taxes and contributions	(56,781)	(71,826)
Share of associates' (losses)/profits	7,158	(4,266)
Net income from bank lending operations	4,263	9,982
Net income from securities operations	18,592	6,841
Net expenses from insurance operations	(18,237)	—
Loss on disposal of property, plant and equipment	(41,111)	(35,551)
Net other operating (expense)/income	8,069	(4,412)
Total	(864,339)	(1,069,714)

Russian Steel and Metalware (Steel segment — Russia and Metalware segment)

Steel segment — Russia. Steel segment — Russia's profit from operations decreased US$11,680 thousand, or 0.7 percent, from US$1,760,920 thousand in 2004 to US$1,749,240 thousand in 2005. This decrease was primarily due to an increase in distribution expenses.

Metalware segment. Metalware segment's profit from operations decreased by US$36,215 thousand, from a profit of US$26,173 thousand in 2004 to a loss of US$10,042 thousand in 2005. This decrease was primarily due to a US$17,804 thousand decrease in gross profit, which is primarily due to the factors discussed above, a US$4,001 thousand increase in selling, general and administrative expenses, and a US$8,972 thousand increase in distribution expenses.

Severstal North America (Steel segment — USA)

Severstal North America's profit from operations decreased US$49,449 thousand, or 37.7 percent, from US$131,202 thousand in 2004 to US$81,753 thousand in 2005. This decrease was primarily due to a US$35,175 thousand decrease in gross profit and a US$14,274 thousand increase in operating expenses.

The decrease in gross profit was primarily due to the factors described above. The increase in operating expenses was primarily due to a US$11,791 thousand increase in sales, general and administrative expenses and a US$4,158 thousand decrease in share of associates' profits, which was partially offset by a US$1,335 thousand increase in operating income.

The increase in sales, general and administration was primarily due to US$5,000 thousand in strategic expenses incurred in 2005 in connection with acquisition activities conducted by Severstal North America on behalf of Severstal, US$2,000 thousand in fees in connection with compliance with the Sarbanes Oxley-Act and an increase of US$2,000 thousand in profit sharing for employees.

The decrease in share of associates' profits was primarily due to write-off of the Toledo coke venture of $3,000 thousand.

Severstal Mining (Mining segment)

Severstal Mining's profit from operations increased US$414,584 thousand, from US$27,285 thousand in 2004 to US$441,869 thousand in 2005. This increase was primarily due to a US$442,162 thousand increase in gross profit, primarily due to factors discussed above, which was partly offset by a US$27,578 thousand increase in operating expenses. Increase in operating expenses was primarily due to a US$44,839 thousand increase in distribution expenses due to larger portion of DAF/FOB deliveries in 2005, which was partly offset by a US$15,199 thousand decrease in selling, general and administrative expenses mainly due to decrease in expenses related to employee benefits liabilities.

Profit before financing and taxation

Profit before financing and taxation is calculated by subtracting non-operating expenses from profit from operations. Compared to the prior year, Severstal's profit before financing and taxation increased US$506,785 thousand, or 26.0 percent in 2005. This increase was due to a US$294,387 thousand increase in profit from operations and a US$212,398 thousand increase in non-operating income.

The increase in profit from operations was due to the factors discussed above. The increase in non-operating expenses was primarily due to a US$194,060 thousand increase in gain on restructuring of tax liabilities and a US$89,807 thousand reversal of impairment on property, plant and equipment, which was partially offset by a US$53,644 thousand decrease in negative goodwill.

The following table sets forth Severstal's non-operating (expenses)/income for the years ended 31 December 2004 and 2005:

	For the year ended 31 December	
	2004	**2005**
	(US$ thousands)	
Reversal of impairment/(impairment) of property, plant and equipment	(16,097)	73,710
Penalties on tax liabilities under restructuring	(16,699)	(26,675)
Gain on restructuring of tax liabilities	6,793	200,853
Negative goodwill	61,274	7,630
Net other non-operating expenses	(44,798)	(52,647)
Total (expenses)/income	(9,527)	202,871

Gain on restructuring of tax liabilities

The increase in gain on restructuring of tax liabilities was primarily due to Severstal's belief that US$186.8 million of interest on tax liabilities incurred by OAO Vorkutaugol and OAO Mine Vorgashorskaya will be forgiven under the tax restructuring agreements signed by these subsidiaries in November 2005. This interest relates to tax arrears that existed when the controlling shareholder acquired these companies in June 2003.

Reversal of impairment/(impairment) of property, plant and equipment

The change in net reversal of impairment of property, plant and equipment was primarily due to a net gain in 2005 of US$90,541 thousand related to the revaluation of property, plant and equipment of key entities of the Russian steel segment.

Negative goodwill

The decrease in negative goodwill was primarily due to the effect on the prior year of the negative goodwill reported in connection with the acquisition of Rouge Steel assets by Severstal in January 2004.

Profit for the year

Profit for the year is calculated by subtracting net financing expense and income tax expense from profit before financing and taxation. Severstal's profit for the year increased US$372,991 thousand, or 27.4 percent, from US$1,358,905 thousand in 2004 to US$1,731,896 thousand in 2005. This increase was due to a US$506,785 thousand increase in profit before financing and taxation, which was partially offset by a US$69,306 thousand increase in income tax paid and a US$64,488 thousand increase in net financing expense.

Net financing expense

Interest income increased by US$17,017 thousand primarily due to higher average cash, short-term bank deposits and financial investment balances, in 2005 compared to 2004.

Interest expense increased by US$32,365 thousand primarily due to a net increase in debt financings during 2005 in the amount of US$112,212 thousand and due to the fact that Eurobonds issued in February and April of 2004 in the aggregate amount of US$700,000 thousand were outstanding only for a portion of 2004. The increase in interest expense was partially offset by a decrease in the interest rates for certain borrowings, such as a 1.65 percent decrease, from 9.75 percent to 8.1 percent, in coupon rates for Russian rouble denominated bonds issued in Russia.

Foreign exchange losses increased by US$49,040 thousand in 2005 compared to 2004. Severstal has assets and liabilities primarily in US dollar, Euro and Russian rouble, and the exchange rates fluctuations between those currencies led to foreign currency exchange gains and losses. Severstal does not use hedging instruments to cover exposure to foreign currency exchange rate fluctuations and believes that it is naturally hedged due to its revenues in Euros, US dollars and Russian roubles that allow it to repay its obligations in the respective currencies. However, appreciation of the Russian rouble against the Euro generally results in foreign currency exchange losses due to Severstal's receivables and loans, which are issued in Euros. In 2005, the Russian rouble depreciated against the US dollar by 3.7 percent in nominal terms, compared to an appreciation of the US dollar against the Russian rouble in 2004 of 5.8 percent.

Income tax expense

Income tax expense increased by US$69,306 thousand in 2005, primarily due to an increase in profit before tax of US$442,297 thousand, which was partially offset by the decrease in effective tax rates from 26.2 percent to 24.1 percent. The majority of Severstal's profits are generated within Russia and are subject to non-deductibility for tax purposes of certain items, which increase the effective income tax rate by approximately one to two percent above the statutory rate. Severstal North America is subject to US income tax, which generally reflects the effective US tax rate of approximately 30 percent of profit before tax. Other international subsidiaries of Severstal are subject to their respective national tax legislation and statutory tax rates.

For the years ended 31 December 2003 and 2004

The following discussion is based on, and should be read in conjunction with, Severstal's audited annual consolidated financial statements as at and for the year ended 31 December 2005, with comparative figures as at and for the years ended 31 December 2003 and 2004, or General Purpose Financial Statements, beginning on page F-78 of this prospectus, which do not include the financial results of Severstal North America, for the year ended 31 December 2003 or the financial results of Severstal Mining, for the years ended 31 December 2003, 2004 or 2005.

The following tables set forth Severstal's income statements for the years ended 31 December 2003 and 2004:

	For the year ended 31 December	
	2003	2004
	(US$ thousands)	
Sales		
Sales — external	2,915,510	6,282,694
Sales — to related parties	281,775	381,153
	3,197,285	6,663,847
Cost of sales	(1,907,914)	(4,019,025)
Gross profit	1,289,371	2,644,822
Selling, general and administrative expenses	(157,876)	(240,097)
Distribution expenses	(314,954)	(434,811)
Indirect taxes and contributions	(17,671)	(25,266)
Share of associates' profits/(losses)	(280)	7,158
Net income from bank lending operations	1,956	4,263
Net income/(expenses) from securities operations	(7,585)	25,830
Net expenses from insurance operations	(14,297)	(18,237)
Loss on disposal of property, plant and equipment	(20,345)	(26,102)
Net other operating expenses	3,739	974
Profit from operations	762,058	1,938,534
(Impairment)/reversal of impairment of property, plant and equipment	(5,413)	(16,066)
Negative goodwill	5,099	61,274
Impairment of goodwill	(10,048)	—
Non-operating expenses	(20,846)	(3,445)
Profit before financing and taxation	730,350	1,980,297
Net financing (expense)/income	35,998	(90,156)
Profit before income tax	766,348	1,890,141
Income tax expense	(162,262)	(481,624)
Profit for the year	604,086	1,408,517

Sales

Severstal's sales increased US$3,466,562 thousand, or over a hundred percent, from US$3,197,285 thousand in 2003 to US$6,663,847 thousand in 2004. This increase was primarily due to a US$2,016,277 thousand increase in sales of Steel segment — Russia and a US$1,343,296 thousand increase due to the first time consolidation of the sales of Severstal North America for the first eleven months of 2004.

Severstal's sales to related parties increase by US$99,378 thousand, or 35.3 percent, from US$281,775 thousand in 2003 to US$381,153 thousand in 2004. Severstal's sales to related parties comprised 8.8 percent and 5.7 percent of Severstal's total sales in 2003 and 2004, respectively. See "Related Party Transactions".

Sales by delivery destination

Severstal's products are sold both in the international and domestic markets. Total sales revenues increased by US$3,466.6 million or 108.4 percent compared with 2003, and reached US$6,663.8 million. Such an increase in sales revenue resulted from substantial growth in prices for Severstal's steel products and revenues from Severstal North America, Severstal's new subsidiary, which added US$1,343.3 million to sales in 2004.

During 2004, in line with its international diversification strategy, Severstal North America acquired production facilities in the United States, which, combined with increased exports from Russia to the United

States, allowed increasing international sales to the United States to 45.2 percent of total international sales in 2004 compared to 0.2 percent in 2003. Europe, in particular Western Europe, is a strategic market for exports and accounted for 30.6 percent of Severstal's total international sales in 2004 and 32.8 percent in 2003. Severstal has strong relationships with its European customer base and is able to export efficiently through river and sea transport during the summer. International sales from China, Central Asia, and South-East Asia dropped to 5.73 percent of total international sales in 2004, compared with 38.74 percent in 2003. This decrease was, in particular, due to the import duties imposed on 14 January 2004 by the Chinese government and increased domestic production in China. Other export markets include Central and South America, Africa and the Middle East.

Cost of sales

Cost of sales increased in 2004 by US$2,111.1 million, or by 110.6 percent compared with 2003, and amounted to US$4,019.0 million. The share of cost of sales in revenues increased to 60.3 percent in 2004 from 59.7 percent in 2003. The major reason for the increase in cost of sales was the continued growth in prices for basic materials, fuel and electricity and railway tariffs. The addition of Severstal North America's results of operations in 2004 contributed US$1,202 million to the increase in costs, and also adversely affected Severstal's gross profit margin, because gross margins earned by Severstal North America are significantly lower than those of the Russian operations. In the context of rising prices, Severstal continued its cost-saving program aimed at the optimization of the procurement process and the reduction of consumption rates. Despite the slight decrease in gross profit to sales ratio – to 39.7 percent in the year ended December 31, 2004 from 40.3 percent in the year ended December 31, 2003, the increase in total sales has led to an increase in gross profit of 105.1 percent to US$2,644.8 million in the year ended December 31, 2004 from US$1,289.4 million in the year ended December 31, 2003.

Profit from operations

Profit from operations is calculated by subtracting operating expenses from gross profit. Severstal's profit from operations increased by US$1,176.4 million, or over one hundred percent, from US$762.1 million in 2003 to US$1,938.5 milllion in 2004. This increase was due to a US$1,355.5 million increase in gross profit, which was partially offset by a US$179.0 million increase in operating expenses.

Distribution costs, which comprise the costs of shipping goods to customers, increased by US$119.9 million or 38.1 percent in the year ended December 31, 2004 compared with the year ended December 31, 2003. This change was mainly due to increases in sales volumes and increases in freight charges and costs of transport logistics.

Selling, general and administrative expenses increased by US$82.2 million or 52.1 percent and amounted to US$240.1 million in the year ended December 31, 2004. This change was primarily due to the US$42.6 million increase in actuarial losses related to the retirement obligations. The consolidation of eleven months of the results of operations of Severstal North America contributed a further US$18 million to the total selling, general and administrative expenses.

Profit before financing and taxation

Profit before financing and taxation is calculated by subtracting non-operating expenses from profit from operations. Severstal's profit before financing and taxation increased US$1,249.9 million, or over one hundred percent, from US$730.4 million in 2003 to US$1,980.3 million in 2004. This increase was due to a US$1,176.4 million increase in profit from operations, as described above, and a US$73.5 million change from net non-operating expenses in the year ended 31 December 2003 to non-operating income in the year ended 31 December 2004. This increase was mostly due to negative goodwill totaling US$61.3 million in the year ended 31 December 2004 compared with US$5.1 million in the year ended 31 December 2003. The negative goodwill, recognized as income, in 2004 relates primarily to the acquisition of the assets and business of Rouge Industries.

Total expenses related to the impairment of goodwill and property, plant and equipment of US$16.1 million in the year ended 31 December 2004 were similar to the US$16.0 million for the year ended 31 December 2003. The major recurring components of non-operating expenses are social expenditure and charitable donations, which Severstal incurs not only for the benefit of its employees but also for the benefit of the population of the cities where Severstal operates.

Profit for the year

Profit for the year is calculated by subtracting net financing expense and income tax expense from profit before financing and taxation. Severstal's profit for the year increased by US$804.4 million, or over one hundred percent, from US$604.1 million in 2003 to US$1,408.5 million in 2004. This increase was primarily due to a US$1,249.9 million increase in profit before financing and taxation, which was partially offset by a US$319.5 million increase in income tax expense and a US$126.2 million increase in net financing expense.

The increase in profit before financing and taxation is primarily due to the factors described above.

Net financing expense

Net financing expense comprises interest income, interest expense, including amortisation of transaction costs, and foreign exchange gains or losses. Net financing expense increased by US$126.2 million, from a net financing income of US$36.0 million in 2003 to a net financing expense of US$90.2 million in 2004.

The increase in net financing expense was primarily due to a change in foreign exchange (losses) / gains from a US$44.6 million gain in 2003 to a US$19.1 million loss in 2004.

Income tax expense

Income tax expense increased by US$319.4 million, or over one hundred percent, from US$162.2 million in 2003 to US$481.6 million in 2004, primarily due to increased profit before tax.

Results of Operations — Lucchini

For the six months ended 30 June 2005 and 2006

The following tables are based on, and should be read in conjunction with, Lucchini's unaudited interim financial statements for the six months ended 30 June 2005 and 2006 beginning on page F-119 of this prospectus.

	For the six months ended 30 June	
	2005	2006
	(unaudited) (€ thousands)	
Sales	1,289,759	1,361,441
Cost of sales	(1,004,958)	(1,153,415)
Gross profit	284,801	208,026
Selling, general and administrative expenses	(95,191)	(94,809)
Distribution expenses	(27,584)	(23,579)
Share of associates' profits/(losses)	75	111
Net other operating income/(expenses)	(10,356)	1,342
Profit from operations	151,745	91,091
Net (impairment)/reversal of impairment of property, plant and equipment	(790)	(2,032)
Profit before financing and taxation	150,955	89,059
Net financing (expense)/income	(22,108)	(19,860)
Profit before income tax	128,847	69,199
Income tax expense	(44,020)	(37,153)
Profit from continuing activities	84,827	32,046
Discontinuing activities	2,963	(677)
Profit for the period	87,790	31,369

The following discussion is based on Lucchini's unaudited interim consolidated income statements as at and for the six months ended 30 June 2005 and 2006.

Sales

Lucchini's sales increased €71,682 thousand, or 5.6 percent, from €1,289,759 thousand in the first half of 2005 to €1,361,441 thousand in the first half of 2006.

Sales by division

Piombino. Piombino's sales increased by €64,000 thousand, or 11.5 percent, from €558,000 thousand in the first half of 2005 to €622,000 thousand in the first half of 2006. This increase was primarily due to a €89,000 thousand increase in sales to related parties, a €33,000 thousand increase in other sales, a €27,000 thousand increase in sales of wire rod, and a €23,000 thousand increase in sales of rails, which was partially offset by a €77,000 thousand decrease in sales of semi-finished products and a €31,000 thousand decrease in sales of bars.

Sales to related parties. The increase in sales to related parties reflected sales to Severstal North America that commenced after Lucchini came under common control in May 2005.

Other sales. Piombino's other sales were comprised primarily of sales of by-products, reimbursement of transport, sales of energy to Piombino, and sales of energy to Servola.

Wire Rod. The increase in Piombino's sales of wire rod was primarily due to a 116 thousand metric tonne increase in sales volume, which was partially offset by a €79 per tonne decrease in average sales price.

Rails. The increase in Piombino's sales of rails was primarily due to a 51 thousand metric tonne increase in sales volume, which was partially offset by a €19 per tonne decrease in average sales price.

Semi-finished products. The decrease in Piombino's sales of semi-finished products was primarily due to a 169 thousand metric tonne decrease in sales volume and a €64 per tonne decrease in average sales price.

Bars. The decrease in Piombino's sales of bars was primarily due to a 31 thousand metric tonne decrease in sales volume and a €95 per tonne decrease in average sales price.

Ascometal. Ascometal's sales increased by €3,200 thousand, or 0.6 percent, from €484,100 thousand in the first half of 2005 to €487,300 thousand in the first half of 2006.

Sidermeccanica. Sidermeccanica's sales increased by €5,970 thousand, or 12.5 percent, from €47,725 thousand in the first half of 2005 to €53,695 thousand in the first half of 2006. This increase was primarily due to a €7,161 thousand increase in sales of wheels and a €550 thousand increase in sales of tyres, which were partially offset by a €1,776 thousand decrease in sales of wheelsets.

Wheels. The increase in Sidermeccanica's sales of wheels was primarily due to a 5,660 piece increase in sales volume and a €63 per piece increase in average sales price.

Tyres. The increase in Sidermeccanica's sales of tyres was primarily due to a 997 piece increase in sales volume and a €15 per piece increase in average sales price.

Wheelsets. The decrease in Sidermeccanica's sales of wheelsets was primarily due to an 805 piece decrease in sales volume, which was partially offset by a €269 per piece decrease in average sales price.

Cost of sales

Lucchini's cost of sales increased €148,457 thousand, or 14.8 percent, from €1,004,958 thousand in the first half of 2005 to €1,153,415 thousand in the first half of 2006.

Cost of Sales by division

Piombino. Piombino's cost of sales increased by €166,403 thousand, or 39.0 percent, from €426,730 thousand in the first half of 2005 to €593,133 thousand in the first half of 2006. Piombino's cost of raw materials comprised 67.6 percent and 61.2 percent of its cost of sales in the first half of 2005 and the first half of 2006, respectively. Piombino's cost of raw materials increased by €74,321 thousand, or 25.8 percent, from €288,483 thousand in the first half of 2005 to €362,804 thousand in the first half of 2006. This increase was primarily due to a €35,550 million increase in the cost of pellets and a €25,970 increase in the cost of coal.

Pellets. The increase in Piombino's cost of pellets was primarily due to a 255,500 thousand metric tonne increase in volume and a €15 per tonne increase in average price.

Coal. The increase in Piombino's cost of coal was primarily due to a 6,800 thousand metric tonne increase in volume and a €43 per tonne increase in average price.

Ascometal. Ascometal's cost of sales increased by €5,066 thousand, or 1.3 percent, from €403,289 thousand in the first half of 2005 to €408,355 in the first half of 2006. This increase was primarily due to a €6,588 thousand increase in the cost of energy and a €2,794 thousand increase in the cost of labour, which were partially offset by a €9,327 thousand decrease in the cost of raw materials. Ascometal's cost of energy, labour and raw materials comprised 9.0 percent, 21.1 percent and 51.7 percent, respectively, of its cost of sales in the first half of 2005 and 10.5 percent, 21.5 percent and 48.7 percent, respectively, of its cost of sales in the first half of 2006.

Energy. Ascometal's cost of energy increased by €6,588 thousand, or 18.0 percent, from €36,484 thousand in the first half of 2005 to €43,042 thousand in the first half of 2006.

Labour. Ascometal's cost of labour increased by €2,794 thousand, or 3.3 percent, from €84,968 thousand in the first half of 2005 to €87,762 thousand in the first half of 2006..

Raw materials. Ascometal's cost of raw materials decreased by €9,327 thousand, or 7.2 percent, from €208,322 thousand in the first half of 2005 to €198,995 thousand in the first half of 2006.

Sidermeccanica. Sidermeccanica's cost of sales increased by €5,437 thousand, or 5.4 percent, from €101,081 thousand in the first half of 2005 to €106,518 thousand in the first half of 2006. This increase was primarily due to a €5,320 thousand increase in the cost of energy and a €1,788 thousand increase in the cost of raw materials. Sidermeccanica's cost of energy and raw materials comprised 6.2 percent and 64.3 percent, respectively, of its cost of sales in the first half of 2005 and 14.5 percent and 62.7 percent, respectively, of its cost of sales in the first half of 2006.

Energy. Sidermeccanica's cost of electricity comprised 61.4 percent and 62.5 percent of its cost of energy in the first half of 2005 and 2006, respectively. Sidermeccanica's cost of electricity increased by €3,443 thousand, or 5.4 percent, from €6,244 thousand in the first half of 2005 to €9,687 thousand in the first half of 2006. This increase was primarily due to a 4,386 thousand kilowatt hour increase in volume and a €0.0127 per kilowatt hour increase in average price.

Profit from operations

Profit from operations is calculated by subtracting operating expenses from gross profit. Lucchini's profit from operations decreased by €60,654 thousand, or 40.0 percent, from €151,745 thousand in the first half of 2005 to €91,091 thousand in the first half of 2006. This decrease was primarily due to a €76,775 thousand decrease in gross profit, as discussed above, which was partially offset by a €16,121 thousand decrease in operating expenses.

Lucchini's operating expenses decreased by €16,121 thousand, or 12.1 percent, from €133,056 thousand in the first half of 2005 to €116,935 thousand in the first half of 2006. This decrease was primarily due to a €11,698 thousand increase in net other operating income.

Profit before financing and taxation

Profit before financing and taxation is calculated by subtracting non-operating expenses from profit from operations. Lucchini's profit before financing and taxation decreased €61,896 thousand, or 41.0 percent, from €150,955 thousand in the first half of 2005 to €89,059 thousand in the first half of 2006. This increase was primarily due to the decrease in profit from operations and a €1,242 thousand increase in net impairment of property, plant and equipment.

Profit for the period

Profit for the period is calculated by subtracting net financing expense, income tax expense and discontinuing activities from profit before financing and taxation. Lucchini's profit for the period decreased €56,421 thousand, or 64.3 percent, from €87,790 thousand in the first half of 2005 to €31,369 thousand in the first half of 2006.

Lucchini's net financing expense and income tax expense decreased by €2,248 thousand and €6,867 thousand, respectively, from the first half of 2005 to the first half of 2006.

For the years ended 31 December 2004 and 2005

The following tables are based on, and should be read in conjunction with, Lucchini's consolidated annual financial statements for the years ended 31 December 2004 and 2005, beginning on page F-130 of this prospectus.

	For the year ended 31 December	
	2004	2005
	(€ thousands)	
Sales	2,141,192	2,399,899
Cost of sales	(1,759,993)	(1,998,957)
Gross profit	381,199	400,942
Selling, general and administrative expenses	(170,065)	(176,797)
Distribution expenses	(49,366)	(41,405)
Share of associates' profits	361	164
Net other operating expenses	(15,850)	(17,834)
Profit from operations	146,279	165,070
Net reversal of impairment of property, plant and equipment	96,088	62,011
Profit before financing and taxation	242,367	227,081
Net financing (expense)/income	(63,341)	(44,227)
Profit before income tax	179,026	182,854
Income tax expense	(65,685)	(56,433)
Profit from continuing activities	113,341	126,421
Discontinuing activities	(3,536)	(5,716)
Profit for the year	109,805	120,705

Sales

Compared to the prior year, Lucchini's sales increased €258,707 thousand, or 12.1 percent in 2005.

Sales by delivery destination

The following table sets forth Lucchini's sales by delivery destination for the years ended 31 December 2004 and 2005:

	For the year ended 31 December	
	2004	2005
	(€ thousands)	
Italy	986,283	1,101,804
Rest of European Union	858,794	975,194
Rest of the world(1)	296,115	322,901
Sales	2,141,192	2,399,899

(1) Includes the rest of Europe, the Americas, Asia and the rest of the world.

Italy. Compared to the prior year, sales delivered to Italy increased €115,521 thousand, or 11.7 percent in 2005. This increase was primarily due to an increase in the tonnage of products sold domestically.

Rest of European Union. Compared to the prior year, sales delivered to the rest of the European Union increased €116,400 thousand, or 13.6 percent in 2005.

Sales by division

Piombino. Piombino's sales increased by €58 million, or 5.8 percent, from €998 million in 2004 to €1,056 million in 2005. This increase was primarily due to a €50 million increase in sales of semi-finished products, a €29 million increase in sales of rails, and a €29 million increase in sales to related parties, which were partially offset by a €50 million decrease in sales of wire rod.

Semi-finished products. The increase in Piombino's sales of semi-finished products was primarily due to an 89 thousand metric tonne increase in sales volume and a €25 per tonne increase in average sales price.

Rails. The increase in Piombino's sales of rails was primarily due to a 12 thousand metric tonne increase in sales volume and a €102 per tonne increase in average sales price.

Sales to related parties. The increase in sales to related parties reflected sales to Severstal North America that commenced after Lucchini came under common control in May 2005.

Wire Rod. The decrease in Piombino's sales of wire rod was primarily due to a 189 thousand metric tonne decrease in sales volume, which was partially offset by a €55 per tonne increase in average sales price.

Ascometal. Ascometal's sales increased by €162,000 thousand, or 22.3 percent, from €725,300 thousand in 2004 to €887,300 thousand in 2005.

Sidermeccanica. Sidermeccanica's sales decreased by €8,319 thousand, or 8.6 percent, from €97,015 thousand in 2004 to €88,696 thousand in 2005. This decrease was primarily due to a €9,640 thousand decrease in sales of wheelsets and a €760 thousand decrease in sales of axles, which were partially offset by a €1,719 thousand increase in sales of wheels and a €362 thousand increase in sales of tyres.

Wheelsets. The decrease in Sidermeccanica's sales of wheelsets was primarily due to a 2,193 piece decrease in sales volume and a €208 per piece decrease in average sales price.

Axles. The decrease in Sidermeccanica's sales of axles was primarily due to a 1,122 piece decrease in sales volume, which was partially offset by a €77 per piece increase in average sales price.

Wheels. The increase in Sidermeccanica's sales of wheels was primarily due to a 1,062 piece increase in sales volume and a €14 per piece increase in average sales price.

Tyres. The increase in Sidermeccanica's sales of tyres was primarily due to a €24 per piece increase in average sales price and a 997 piece increase in sales volume.

Cost of sales

Lucchini's cost of sales increased €238,964 thousand, or 13.6 percent, from €1,759,993 thousand in 2004 to €1,998,957 thousand in 2005.

Piombino. Piombino's cost of sales increased by €88,231 thousand, or 10.5 percent, from €841,783 thousand in 2004 to €930,014 thousand in 2005. Piombino's cost of raw materials comprised 64.6 percent and 66.8 percent of its cost of sales in 2004 and 2005, respectively. Piombino's cost of raw materials increased by €77,920 thousand, or 14.3 percent, from €543,625 thousand in 2004 to €621,545 thousand in 2005. This increase was primarily due to a €42 million increase in the cost of pellets, a €29 million increase in the cost of coal and a €19 million increase in the cost of lump ore.

Pellets. The increase in Piombino's cost of pellets was primarily due to a €21 per tonne increase in average price, which was partially offset by a 133 thousand metric tonne decrease in volume.

Coal. The increase in Piombino's cost of coal was primarily due to a €24 per tonne increase in average price, which was partially offset by a 5 thousand metric tonne decrease in volume.

Lump ore. The increase in Piombino's cost of lump ore was primarily due to a 110 thousand metric tonne increase in volume and a €14 per tonne increase in average price.

Ascometal. Ascometal's cost of sales increased by €89,958 thousand, or 13.3 percent, from €673,708 thousand in 2004 to €763,666 thousand in 2005. This increase was primarily due to a €24,546 thousand increase in the cost of raw materials and a €15,916 thousand increase in the cost of labour. Ascometal's cost of raw materials and labour comprised 50.7 percent and 21.9 percent, respectively, of its cost of sales in 2004 and 47.9 percent and 21.4 percent, respectively, of its cost of sales in 2005.

Raw materials. Ascometal's cost of raw materials increased by €24,546 thousand, or 7.2 percent, from €341,465 thousand in 2004 to €366,011 thousand in 2005.

Labour. Ascometal's cost of labour increased by €15,916 thousand, or 10.8 percent, from €147,575 in 2004 to €163,491 in 2005.

Sidermeccanica. Sidermeccanica's cost of sales increased by €22,118 thousand, or 12.9 percent, from €171,773 thousand in 2004 to €193,891 thousand in 2005. This increase was primarily due to a €14,713 thousand increase in the cost of raw materials, a €15,916 thousand increase in the cost of labour and a €1,795 thousand increase in the cost of electricity. Sidermeccanica's cost of raw materials, labour and electricity comprised 61.6 percent, 15.4 percent and 7.3 percent, respectively, of its cost of sales in 2004 and 63.8 percent, 14.5 percent and 7.6 percent, respectively, of its cost of sales in 2005.

Raw Materials. Sidermeccanica's cost of raw materials increased by €14,713 thousand, or 28.2 percent, from €52,238 thousand in 2004 to €66,951 thousand in 2005. This increase was primarily due to a €16,152 thousand increase in the cost of ferroalloys, which was partially offset by a €1,438 thousand decrease in the cost of scraps.

The increase in Sidermeccanica's cost of ferroalloys was primarily due to a 879 metric tonne increase in volume and a €1,715 per tonne increase in average price.

The decrease in Sidermeccanica's cost of scraps was primarily due to a €16 per tonne decrease in average price, which was partially offset by a 5,086 metric tonne increase in volume.

Labour. Sidermeccanica's cost of labour increased by €15,916 thousand, or 5.8 percent, from €26,512 thousand in 2004 to €28,054 thousand in 2005.

Electricity. The increase in Sidermeccanica's cost of electricity was primarily due to a 12,305 thousand kilowatt hour increase in volume and a €0.0054 per kilowatt hour increase in average price.

Lucchini's cost of sales increased €238,964 thousand, or 13.6 percent, from €1,759,993 thousand in 2004 to €1,998,957 thousand in 2005.

Profit from operations

Profit from operations is calculated by subtracting operating expenses from gross profit. Compared to the prior year, Lucchini's profit from operations increased €18,791 thousand, or 12.8 percent in 2005.

Profit before financing and taxation

Profit before financing and taxation is calculated by subtracting non-operating expenses from profit from operations. Compared to the prior year, Lucchini's profit before financing and taxation decreased €15,286 thousand, or 6.3 percent, in 2005.

Profit for the year

Profit for the year is calculated by subtracting net financing expense, income tax expense and discontinuing activities from profit before financing and taxation. Compared to the prior year, Lucchini's profit for the year increased €10,900 thousand, or 9.9 percent in 2005.

LIQUIDITY AND CAPITAL RESOURCES

As of 30 June 2006, Severstal had US$1,278,500 thousand in liquid reserves, of which US$939,868 thousand was cash and cash equivalents and US$338,632 thousand was short-term bank deposits. Severstal's working capital was US$2,739,719 thousand as of 30 June 2006.

Severstal's funds its operations primarily through net cash from operations, proceeds from debt financings and share issuances. Substantial capital investment is required to modernise and maintain Severstal's existing production facilities. In addition, Severstal has made a number of acquisitions in recent years. Severstal has also paid a significant amount in dividends to its shareholders in the period under review.

Cash flows

For the six months ended 30 June 2005 and 2006

The following table sets forth Severstal's consolidated cash flow for the six months periods ended 30 June 2005 and 2006. This table is based on, and should be read in conjunction with, Severstal's unaudited consolidated interim financial statements for the six months ended 30 June 2006, beginning on page F-2 of this prospectus.

	For the period ended 30 June	
	2005	**2006**
	(unaudited)	*(unaudited)*
	(US$ thousands)	
Net cash provided from operating activities	1,144,588	705,461
Cash used for investing activities	(1,171,642)	(897,307)
Cash provided from/(used for) financing activities	(12,572)	149,245
Effect of exchange rates on cash and cash equivalents	(43,653)	40,860
Cash and cash equivalents at the beginning of the period	1,090,062	941,609
Cash and cash equivalents at the end of the period	1,006,783	939,868

Net cash provided from operation activities. Compared to the prior period, net cash provided from operating activities decreased by US$439,127 thousand, or 38.4 percent, from US$1,144,588 thousand in the first half of 2005 to US$705,461 thousand in the first half of 2006. This was primarily due to a US$674,485 thousand decrease in profit before financing and taxation primarily due to the factors discussed under "Results of Operations — Severstal — For the six month periods ended 30 June 2005 and 2006" and a US$60,680 thousand increase in trade accounts receivable primarily due to efforts directed to increase the market share at Russian steel market. These increases were partly offset by a US$192,471 thousand increase in depreciation and amortization expenses, which occurred primarily due to revaluation of items of property, plant and equipment, which was performed as of 31 December 2005, and a US$132,573 thousand increase in cash flow due to a change in a VAT receivable. The change in VAT receivable primarily relates to increase in such receivable during the first half of 2005 due to a number of factors, including longer process of recovering VAT on export operations and increase in capital construction in progress, on which VAT is generally recovered upon completion of construction of related objects. The remaining changes in net cash provided from operating activities primarily relate to changes in components of working capital and generally represent fluctuations in the normal course of business.

Cash used for investing activities. Compared to the prior period, cash used for investing activities decreased by US$274,335 thousand, or 23.4 percent, from US$1,171,642 thousand in the first half of 2005 to US$897,307 thousand in the first half of 2006. Cash used for investing activities decreased primarily due to a US$325,540 thousand effect of changes in short-term bank deposits and a US$63,297 thousand decrease in additions to financial investments and associates, net of proceeds for their disposals, which were partly offset US$108,448 thousand increase in additions to property, plant and equipment.

Additions to financial investments and associates, net of proceeds for their disposals decreased by US$70,732 thousand. The additions to financial investments in the first half of 2005 were primarily related to Severstal's acquisition of shares of Lucchini S.p.A. and issue of loans by Severstal to its related parties for this purpose. Major additions to financial investments during the first half of 2006 included issue of loans to Severstal's related parties in the amount of US$175,482 thousand for placement of funds on escrow account related to the intended business combination with Arcelor S.A. (in July 2006, when this business combination was terminated, this amount has been repaid in full to Severstal) and investments in form of loans and equity contributions of approximately US$220,000 thousand into two equity associate projects: Severcorr project (construction of mini-mill in the USA) and Mountain State Carbon LLC (production of coke in the USA).

A US$108,448 thousand increase in additions to property, plant and equipment primarily due to increase in capital investments programme to modernize the production facilities.

Severstal has its most liquid funds in form of cash, cash equivalents and short-term bank deposits, and allocates the available funds between these categories depending on expected short-term cash requirements and relative interest income that these categories may provide. Short-term bank deposits decreased by US$325,540 thousand more in the first half of 2006 compared to the same period of 2005.

Cash provided from/(used for) financing activities. Compared to the prior period, cash provided from financing activities increased by US$161,817 thousand, from a US$12,572 thousand net cash outflow in the first half of 2005 to a US$149,245 thousand net cash inflow in the first half of 2006.

The primary reason for such increase in cash flow from financing activities were US$162,179 thousand of proceeds from share issue to the shareholders, who elected to exercise their pre-emptive rights related to the share issue for acquiring the mining assets from controlling shareholder in June 2006.

Parent company dividend payments decreased by US$52,782 thousand primarily due to the fact that Severstal was not declaring dividends for the first quarter of 2006 as a result of the intended business combination with Arcelor S.A.

Proceeds from debt finance decreased by US$76,923 thousand primarily due to sufficiency of existing cash and cash equivalents and of cash flows from operating activities to meet Severstal's investing needs.

Effect of exchange rates on cash and cash equivalents. Compared to the prior period, the net effect of exchange rates on cash and cash equivalents was a change from a US$43,653 thousand loss in the first half of 2005 to a US$40,860 thousand gain in the first half of 2006. This was primarily due to a 6% nominal appreciation of the Russian rouble against the US dollar in the first half of 2006, compared to a 3.3% nominal depreciation of the Russian rouble against the US dollar in the respective period of 2005.

For the years ended 31 December 2004 and 2005

The following table sets forth Severstal's consolidated cash flow for the years ended 31 December 2004 and 2005. This table is based on, and should be read in conjunction with, Severstal's Special Purpose Financial Statements, beginning on page F-38 of this prospectus.

	For the year ended 31 December	
	2004	2005
	(US$ thousands)	
Net cash provided from operating activities	1,224,575	2,026,272
Cash used for investing activities	(1,366,378)	(2,022,629)
Cash provided from/(used for) financing activities	703,689	(120,207)
Effect of exchange rates on cash and cash equivalents	264	(31,888)
Cash and cash equivalents at the beginning of the period	527,911	1,090,061
Cash and cash equivalents at the end of the period	1,090,061	941,609

Net cash provided from operation activities. Compared to the prior period, net cash provided from operating activities increased by US$801,697 thousand, or 65.5 percent, from US$1,224,575 thousand in 2004 to US$2,026,272 thousand in 2005. This was primarily due to a US$506,785 thousand increase in profit before financing and taxation mostly as a result of the factors discussed under "Results of Operations — Severstal — For the years ended 31 December 2004 and 2005", a US$497,979 thousand increase in cash flows due to changes in inventories, and a US$169,665 thousand increase in cash flows due to changes in trade accounts receivable. These increases were partly offset by a US$194,060 thousand effect of a non-cash gain on restructuring of tax liabilities and a US$100,371 thousand decrease in cash flows due to change in VAT receivable.

Cash flows increased by a US$497,979 thousand due to changes in inventory levels, primarily related to the effect of an increase in inventory levels during 2004 as a result of significant increase in prices of key raw materials and, accordingly, in carrying value of finished goods and work-in-progress.

Cash flows increased by a US$169,665 thousand due to changes in trade accounts receivable, primarily related to the effect of an increase in trade accounts receivable during 2004 that occurred as a result of increased sales in 2004 compared to prior period.

Cash flows decreased by a US$100,371 thousand due to changes in VAT receivable, which occurred for a number of reasons, including increase in the time needed to recover VAT on export operations and increase in capital construction in progress, on which VAT is generally recovered upon completion of construction of related objects.

Gains on restructuring of tax liabilities, which are discussed under "Results of Operations — Severstal — For the years ended 31 December 2004 and 2005.", are a non-cash item and accordingly included in the adjustments to reconcile profit before financing and taxation to net cash provided from operating activities.

Cash used for investing activities. Compared to the prior year, cash used for investing activities increased by US$656,251 thousand, or 48.0 percent, from US$1,366,378 thousand in 2004 to US$2,022,629 thousand in 2005. This increase was primarily due to a US$770,956 thousand increase in additions to financial investments and associates, net of proceeds from disposal of financial investments, and a US$420,010 thousand increase in additions to property, plant and equipment, which was partly offset by a US$250,047 thousand decrease in net cash outflow on acquisitions of subsidiaries and decrease in cash outflow due to a US$286,705 thousand effect of changes in net additions to short-term bank deposits.

A US$770,956 thousand increase in additions to financial investments and associates, net of proceeds from disposal of financial investments, primarily relates to investments during 2005 in shares of Lucchini S.p.A. and loans issued to related parties to acquire such shares as well as investments during 2005 in equity associates Severstal US Holdings (holding company for Severcorr project -construction of mini-mill in the USA) and Mountain State Carbon LLC (production of coke in the USA).

A US$420,010 thousand increase in additions to property, plant and equipment primarily relates to construction of Izhorsky Pipe Mill, and increases in capital expenditure projects at Cherepovets Steel Mill and at Severstal Mining.

A US$250,047 thousand decrease in net cash outflow on acquisitions of subsidiaries primarily relates to the acquisition of Rouge Steel assets in the first half of 2004 and absence of any major acquisitions during 2005.

Severstal has its most liquid funds in form of cash, cash equivalents and short-term bank deposits, and allocates the available funds between these categories depending on expected short-term cash requirements and relative interest income that these categories may provide. Net additions to short-term bank deposits decreased by US$286,705 thousand in 2005.

Cash provided from/(used for) financing activities. Compared to the prior year, cash provided from financing activities decreased by US$823,896 thousand, from a US$703,689 thousand cash inflow in 2004 to a US$120,207 thousand cash outflow in 2005. This was primarily due to a US$895,227 thousand decrease in net proceeds from debt finance, net of repayment of debt finance, partly offset by a US$59,650 thousand decrease in parent company dividends paid.

A US$895,227 thousand decrease in net proceeds from debt finance, net of repayment of debt finance, was primarily due to US$700,000 thousand placements of Eurobonds (in a form of credit linked notes) in February and April of 2004 and an US$80,000 thousand increase during 2004 in debt to European Bank for Reconstruction and Development, which as taken to construct Severgal plant.

Effect of exchange rates on cash and cash equivalents. Compared to the prior year, the change in exchange rates on cash and cash equivalents was a US$32,152 thousand loss, from a US$264 thousand gain in 2004 to a US$31,888 thousand loss in 2005.

For the years ended 31 December 2003 and 2004

The following table sets forth Severstal's consolidated cash flow for the years ended 31 December 2003 and 2004:

	For the year ended 31 December	
	2003	**2004**
	(US$ thousands)	
Net cash provided from operating activities	500,851	1,122,519
Cash used for investing activities	(230,057)	(1,219,605)
Cash provided from/(used for) financing activities	29,049	655,410
Effect of exchange rates on cash and cash equivalents	10,628	(904)
Cash and cash equivalents at the beginning of the period	213,528	523,999
Cash and cash equivalents at the end of the period	523,999	1,081,419

Net cash provided from operation activities. Compared to the prior period, net cash provided from operating activities increased by US$621,668 thousand, or 124.1 percent, in 2004. This increase was primarily due to a US$1,249,947 thousand increase in profit before financing and taxation and a US$185,101 thousand increase in cash flow due to changes in trade accounts payable, which were partly offset by a US$416,214 thousand decrease in cash flows due to changes in inventories levels, a US$212,191 thousand decrease in cash flows due to changes in trade accounts receivable and a US$307,705 thousand increase in income tax paid.

Increase in profit before financing and taxation was primarily due to the factors discussed under "Results of Operations — Severstal — For the years ended 31 December 2003 and 2004", and increase in income tax paid was primarily due to increase in profit before income tax.

A US$416,214 thousand decrease in cash flows due to changes in inventory levels was partly driven by increase during 2004 in physical volumes of inventories and in unit costs of inventories, as a result of increases in prices of major inputs. Increase in inventory levels was partly offset by increase in trade creditors for key inputs.

A US$212,191 thousand increase in trade accounts receivable was primarily due to increased sales in 2004 compared to 2003.

Cash used for investing activities. Compared to the prior year, cash used for investing activities increased by a US$989,548 thousand, or 430.1 percent, from US$230,057 thousand in 2003 to US$1,219,605 thousand in 2004. This increase was primarily due to a US$362,975 thousand increase in additions to property, plant and equipment, a US$193,479 thousand increase in net cash outflow on acquisition of subsidiaries, a US$315,894 thousand increase in net additions to short-term bank deposits and a US$110,910 thousand increase in additions to financial investments and associates, net of proceeds from disposal of financial investments.

Increase in additions to property, plant and equipment was due to increased capital construction programme at Cherepovets Steel Mill and construction of Izhorsky Pipe Mill and Severgal plant.

Increase in net outflow on acquisition of subsidiaries was primarily due to US$259,500 thousand of acquisition of Rouge Steel assets.

The increase in short-term bank deposits was primarily due to increase in available cash due to higher cash flows from operating and financing activities.

Cash provided from steel financing activities. Compared to the prior year, cash provided from financing activities increased by US$626,361 thousand in 2004. This increase was primarily due to a US$673,191 thousand increase in proceeds from debt finance, net of repayment of debt finance, mainly as a result of a total of US$700,000 thousand placement of Eurobonds (in a form of credit linked notes) in February and April of 2004.

Effect of exchange rates on cash and cash equivalents. Compared to the prior year, the net effect of exchange rates on cash and cash equivalents was a US$11,532 thousand loss.

Long-term financial investments

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

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

Severstal acquired a controlling stake in Lucchini SpA from the controlling shareholder. Severstal commissioned a leading international investment bank to appraise the value of this controlling stake and used this valuation report to determine the fair value of its 19.99 percent stake in Lucchini SpA at June 30, 2006, resulting in a US$73.7 million gain being recognised directly in the statement of changes in equity.

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

Net indebtedness

Severstal's net proceeds from debt finance were US$60,965 thousand and its debt to equity ratio was 0.02 as of 30 June 2006.

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

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

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

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

Commitments and contingencies

In the normal course of business, Severstal enters into long-term purchase contracts for raw materials and long-term sales contracts. These contracts allow for periodic adjustments in prices depending on prevailing market conditions. As of 30 June 2006, Severstal had contractual commitments of US$203.0 million (December 31, 2005: US$358.8 million).

Guarantees

As at 30 June 2006, Severstal had US$18.2 million compared to US$23.8 million as at 31 December 2005 of guarantees issued.

For litigation, tax and other liabilities

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

Quantitative and Qualitative Disclosure on Market Risk

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

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

	As at 30 June 2006		
	Market value	**Book value**	**Difference**
Citibank CLN — Eurobonds 2009[(1)]	332,339	325,000	7,339
Citibank CLN — Eurobonds 2014[(1)]	391,091	375,000	16,091
	723,430	700,000	23,430

(1) Excluding accrued interest.

Credit risk

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

Liquidity risk

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

Foreign currency exchange risk

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

Interest rate risk

Interest rates on Severstal's debt financing are either fixed or variable, at a fixed spread over LIBOR or Euribor for the duration of each contract. Changes in interest rates impact primary loans and borrowings by changing either their fair value, as with fixed rate debt, or their future cash flows, as with variable rate debt. Management does not have a formal policy of determining how much of Severstal's exposure should be to fixed or variable rates. However, at the time of raising additional debt financing, Severstal used its judgement to decide whether a fixed or variable rate would be more favourable over the expected term.

The following table sets forth the weighted average effective interest rates of income-earning financial assets and interest-bearing financial liabilities as at 30 June 2006:

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

Critical Accounting Policies

Financial statements require the selection and application of accounting policies and require management to make significant estimates and assumptions. The management believes that the following are the most critical accounting policies that currently affect Severstal's financial condition and results of operation.

Property, plant and equipment

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

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

Asset impairment

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

Calculation of recoverable amount

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

Reversal of impairment

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

Provisions

Retirement benefits

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

Decommissioning liability

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

INDUSTRY

The following information includes extracts from information, data and statistics publicly released by officials and has been extracted from public and other sources Severstal believes to be reliable. Severstal accepts responsibility for extracting and reproducing accurately such information, data and statistics. As far as Severstal is aware no facts have been omitted that would render such information, data and statistics misleading, but Severstal accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

Steel Industry

Global Overview

The global steel industry is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity and the existence of, and fluctuations in, steel imports and protective trade measures. Steel prices respond to supply and demand and fluctuate in response to general and industry-specific economic conditions.

The steel industry is cyclical and highly competitive and historically has been characterised by excess world supply. From 1997 to 2001, the business environment in the steel industry was challenging, resulting in financial difficulties for a number of steel companies. At the same time, difficult market conditions encouraged several companies to implement operational efficiency programmes in order to improve their respective financial profiles. By 2004, worldwide supply and demand were more in balance and supply was constrained by the availability of raw materials largely due to growing demand in China. This led to substantial price increases that continued into early 2005. In the second half of 2005, there was downward pressure on prices due in part to increased steel production in China. Prices have strengthened again recently as worldwide supply and demand have returned to a more balanced position. At the same time, the steel sector has had to face increasing raw materials and energy costs.

The steel industry operates predominantly on a regional basis as a result of the high cost of transporting steel. For example, the top five producers in each of Japan and the EU control more than 60 percent of their respective regional markets. However, despite the limitations associated with transportation costs, as well as the restrictive effects of protective tariffs, duties and quotas, levels of global imports and exports have generally increased in the last decade as production has shifted towards low-cost production regions such as China and the CIS, which includes Russia, Ukraine and other former Soviet states.

While steel production has historically been concentrated in the EU, North America, Japan and the former Soviet Union, steel production in China and elsewhere in Asia has grown in importance over the past decade. In 2005, China was the largest single producer of steel in the world, producing approximately 349 million tonnes of crude steel, as well as the largest consumer of steel, consuming more than 315 million tonnes of crude steel. World steel production in 2005 increased by 6.9 percent from 2004, to 1.1 billion tonnes, according to the International Iron and Steel Institute, or IISI. The value of the global steel market was estimated to be US$958 billion at the end of 2005. In 2005, Chinese production increased by 28 percent as compared with 2004, accounting for 32 percent of global steel production. According to the IISI, world steel production in the first half of 2006 increased by 8.2 percent compared to the first half of 2005, to 593 million tonnes.

The following table sets forth estimated crude steel production data by country or region for 2000 through 2005:

World Steel Production	2000	2001	2002	2003	2004	2005
			(million tons)			
Europe	208	203	204	209	222	216
CIS	96	98	100	106	113	112
US	101	90	92	91	99	93
North America (excluding the US)	33	30	32	33	34	33
Central and South America	39	37	41	43	46	45
Middle East/Africa	22	25	27	29	30	32
China	126	143	180	219	274	352
Japan	106	103	108	111	113	112
Asia and Oceania (excluding China and Japan)	96	96	101	105	108	113
World total	827	825	885	946	1,039	1,108
Annual change (percent)	7.4	0.0	7.3	6.9	9.8	6.6

Source: IISI

While production in Europe, Japan and the United States remains significant, steel producers in those regions have increasingly focused on rolling and finishing of semi-finished products. The industry is currently seeing a shift in demand from "commodity steel" to "high value-added steel" or "specialised steel" in developed markets.

The term "commodity steel" refers to low-grade steel used primarily for construction and in other basic structural components. Asian steel producers have emerged as the largest producers of commodity steel, as the majority of consumption of commodity steel is in Asian and other emerging markets. The terms "high value-added steel" or "specialised steel" refer to high-grade steel, typically produced with varying alloys to improve strength and/or durability. High value-added steel is used primarily by the automotive, aerospace and railway industries. Prices and margins for high value-added steel tend to be higher than for commodity steel due to the unique structural/chemical characteristics of high-value added steel which end users of high value-added steel typically require.

The following table sets forth estimated crude steel consumption data by country or region for 2000 through 2005.

World steel consumption	2000	2001	2002	2003	2004	2005
			(million tons)			
Europe	180	174	175	178	193	186
Former Soviet Union	35	38	38	44	47	48
US	120	106	107	101	116	105
North America (excluding the US)	32	28	30	30	33	31
Central and South America	28	28	28	29	33	31
Middle East/Africa	34	39	43	46	51	57
China	141	174	213	266	334	315
Japan	76	73	72	73	73	77
Asia and Oceania (excluding China and Japan)	128	130	143	145	162	236
World total	774	790	848	911	1,041	1,078
Annual change	8.1 *percent*	2.1 *percent*	7.3 *percent*	7.5 *percent*	14.2 *percent*	3.6 *percent*

Source: AME Mineral Economics Pty Ltd.

Despite producing significant quantities of steel, the United States is a net importer of steel. By contrast, China, Japan and Russia are net exporters of steel. Major traded steel products worldwide include semi-finished products, hot and cold-rolled sheets and coils, steel tubes and fittings, galvanised sheet, wire rod and angles and sections.

The strategy and product mix of steel producers generally varies between producers in industrial countries and producers in emerging markets. Historically, commodity steel producers in industrialised countries had limited export markets due to the high cost of transporting steel relative to the low value of commodity steel grades. In the second half of the twentieth century, producers in emerging markets began to compete with steel producers in industrialised countries by taking advantage of the lower manufacturing costs in their countries to offset high transportation costs. In response, producers in Western Europe and Japan invested heavily in new technology and capacity to produce high value-added steel grades in order to differentiate their product portfolio and protect their margins by reducing their exposure to commodity steel prices. However, these similar and simultaneous investments resulted in production overcapacity and put pricing pressures on value-added segments. Recently, the growth and consolidation of both steel consumers and raw material suppliers has weakened the bargaining power of steel producers and put further pressure on their margins. Steel producers have responded with a phase of industry consolidation. In 2002, Usinor, Arbed and Aceralia in Europe merged to form Arcelor, and Kawasaki Steel and NKK in Japan merged to form JFE. In 2002, Nucor acquired the assets of Birmingham Steel and International Steel Group, or ISG, acquired the assets of Acme, LTV and Bethlehem Steel in the United States. In 2004, Ispat International N.V. and LNM Holdings N.V., which comprised the LNM Group, merged to form Mittal Steel, and in early 2005 Mittal Steel merged with ISG.

Consolidation has enabled steel companies to lower their production costs, has allowed for more stringent supply-side discipline, including through selective capacity closures, and has enabled some steel companies to maintain pricing power. Despite the recent consolidation, the global steel market remains highly fragmented. In 2005 the five largest producers — Mittal Steel (63 million tonnes); Arcelor (53 million tonnes); Nippon Steel (32 million tonnes); POSCO (30.5 million tonnes); and JFE Steel (30 million tonnes) — accounted for approximately 18 percent of total worldwide steel production, with Mittal Steel, the largest, accounting for less than 5.5 percent. The 20 largest steel producers accounted for approximately 39 percent of total global steel production in 2005.

Earlier this year, the steel sector experienced further consolidation with Mittal Steel's merger with Arcelor. As a result of this merger, Mittal Steel's global market share is expected to increase to 10 percent and its annual production capacity to reach 116 million tonnes of steel, or 10.2 percent of total global steel production in 2005.

The Arcelor-Mittal transaction reflects the desire of many steel companies to integrate and consolidate in order to maintain pricing power and margin stability through the cycle. The steel industry remains one of the most fragmented industrial sectors and is widely affected by economic cycles. Further merger and acquisition activity is expected in the future as industry players look to acquire greater influence over market pricing, thereby reducing their vulnerability to future declines in demand. Industries including automotive and aerospace are similarly affected by economic cycles and have sought to consolidate in order to minimise fluctuations in prices and margins throughout the cycle.

Russian Steel Industry

The Soviet Union produced approximately 160 million tonnes of crude steel a year at the end of the 1980s. Following the collapse of the Soviet Union, the steel industry suffered a substantial decline in production, to about 75 million tonnes of crude steel for all the newly independent states combined in 1997. At that point, Russia was producing approximately 38 million tonnes of rolled products annually.

However, steel production started to recover following the devaluation of the rouble in 1998 due in part to the significant cost benefits that steel exporters experienced in 1999 and 2000. While the major mills were export-oriented and their sales receipts were mostly US dollar-based, their operating costs fell substantially in US dollar terms following the devaluation. In addition, the strength of steel prices in 2000 led to increased capacity utilisation rates, even at technologically inferior mills. Though steel prices decreased in the second half of 2001 and the first half of 2002, beginning in the third quarter of 2002 the steel market demonstrated robust recovery in terms of both prices and volumes. In 2003, 2004 and 2005, production of steel grew approximately 5.1 percent, 6.8 percent and 0.8 percent, respectively, compared to the previous year.

Privatisation of the Russian steel industry. Privatisation of the Russian steel industry began in 1993 and was primarily "insider" focused, meaning that factories were sold to their employees and management. The privatisation programme provided for Roskommetallurgiya (successor to the USSR Ministry of Metals) to supervise the privatisation process, but no special regime was implemented for the privatisation of the steel industry and accordingly the number of state-owned steel companies declined rapidly so that, by mid-1994, the state's shareholding in iron and steel production companies amounted only to 15 to 25 percent. By the end of 1995, control over most of the largest Russian steel producers such as Severstal, MMK, Mechel and NLMK was transferred to private management and ownership. However, because no plan for the privatisation of the steel industry was ever put in place, the state failed to attract the required investment, technology and know-how into this sector. Therefore, starting in 1995, the Russian government changed the method of privatisation to attract strategic investors into the sector. Pursuant to an edict of President Yeltsin, a holding company, OAO Rossiyskaya Metallurgiya, was established, to which 10 percent stakes in steel-producing companies remaining in state ownership and 100 percent stakes in five leading steel-production scientific-research institutes were transferred. The Russian government intended to sell 49 percent of shares in OAO Rossiyskaya Metallurgiya, thus retaining control over the companies and attracting investments at the same time. However, investors did not show any interest in the project and OAO Rossiyskaya Metallurgiya was liquidated in 1997. Stakes in several companies were sold in cash auctions. Stakes in the remaining companies were retransferred into the ownership of the Ministry of Property Relations.

The Russian steel industry is now consolidated among six large producers including Severstal, Evraz Group SA, Novolipetsk Iron & Steel Corp (NLMK), Magnitogorsk Iron & Steel Works OJSC (MMK) and Metalloinvest/Gazmetall and Mechel Steel Group OAO. These producers largely control the domestic Russian market. Despite being predominantly focused on the Russian marketplace only (except for Severstal which has significant assets in Europe and the United States), international interest has enabled the successful issuance of primary and secondary shares on international markets. Mechel Steel Group OAO issued ADRs in on the NYSE in October 2004. Evraz Group SA issed GDRs in June 2005 on the London Stock Exchange. NLMK also issued GDRs on the London Stock Exchange in December 2005.

Russian steel production. In 2005, Russia ranked as the world's fourth-largest producer of steel, producing 66.1 million tonnes of steel, or approximately 5.8 percent of global production. The metals and mining sector is one of the most important sectors of the Russian economy. In 2005, it accounted for approximately 17 percent of the country's industrial output. Russian enterprises produce a wide range of metal products for the domestic economy, in particular for the oil and gas, defence and construction industries. The sector has developed considerably since 1991 and is currently over 90 percent privatised.

Russian market. Russian steel production decreased from 1991 through 1998 as a result of the general economic decline in Russia during this period and the consequent reduced demand from the primary steel product consumers: the construction, infrastructure and engineering industries and the military sector. Consumption of rolled steel products in Russia has followed a U-shaped trend since 1990. Consumption was 65 million tonnes in 1990 and then declined steadily, due to reduced consumption by heavy industry, to only 18 million tonnes in 1998. However, the devaluation of the rouble in 1998 resulted in economic growth and a sharp increase in domestic demand for steel products, and by 2005, Russia's total steel consumption had increased to 30.4 million tonnes.

Export market. Asia, the Middle East and the EU are the primary export destinations for Russian steel producers. China, which is the largest steel consumer in the world, accounted for 8 percent of Russia's total steel exports in 2004. In 2004, Russian producers exported 29 million tonnes of rolled products, of which semi-finished products (including pig iron, slabs and billets) accounted for 47 percent, flat products for 38 percent and long products for 15 percent. The abolition of steel export duties in 2002 by the Russian government has also improved export market opportunities.

Steel Production Process

The primary components of steel production are coke production, iron making, steelmaking and steel rolling. Steel companies actively seek captive iron ore and coking coal mines to ensure a secure supply of raw materials for their steel production.

Following is a brief summary of these processes.

Coke production. Coke is a solid product of coal coking. Coke contains 86 to 90 percent carbon and is used as the main fuel in blast furnaces. Coke is produced by heating coking coal that has been ground and dressed without excess air at temperatures of 1,100 to 1,200 degrees Celsius (pyrolysis) for 16 to 18 hours in coke ovens. After discharge from the ovens, coke is delivered to blast furnaces for use in iron making.

Other products of the coking process include coke-oven gas and various by-products made from the coke-oven gas. Coke-oven gas is used as gaseous fuel in other shops of steel plants, and by-products are often supplied to chemical departments for further processing.

Iron making. Prepared iron ore raw materials (sinter and pellets) and coke are used for hot metal production. Coke and natural gas serve as fuel for the blast furnaces. Coke-oven gas, together with top gas from the blast furnaces, is used as fuel for the heating of stoves. Sinter, pellets and coke are mixed and added into a blast furnace from the top using skips. Fuel combustion, reduction of iron from oxides, carbonisation of iron with partial reduction of silicon and manganese, melting of all components of burden and slag-making all occur inside a blast furnace.

Once produced, hot metal (pig iron) sinks to the bottom of the blast furnace where it is tapped off into hot metal transfer ladles and delivered to the steel making machinery to be converted into steel. Hot metal can also be delivered to a pig iron casting machine that produces pig iron for sale as a semi-finished product. Once cooled, slag from the blast furnaces is fed to slag processing units, where it is crushed and sold to be used in a variety of products.

At many steel plants, top gas produced in the blast furnaces during the iron making process is also used as a fuel for stoves, coke ovens, boilers, rolling mills and for other purposes.

Steel making. Steel is produced from raw materials using one of three production techniques.

Oxygen converter process. The oxygen converter process is based on the interaction of process oxygen (practically pure oxygen) with impurities in liquid hot metal. By blowing oxygen through molten pig iron, the carbon content of the alloy is lowered and the material is changed into low-carbon steel.

Scrap and hot metal are charged into the vessel and oxygen is then blown via a lance into the vessel, oxidising carbon and other impurities (silicon, manganese, etc.), thus lowering the carbon content of the molten iron and removing unwanted chemical elements. Metallurgical lime and fluor-spar are fed into the vessel to form slag, which absorbs impurities during the steel making process. The steel is then poured into a giant ladle where further alloying materials can be added.

The oxygen converter process is generally the most modern and efficient means by which to produce large volumes of high-quality steel.

Electric arc furnaces. Electric arc furnaces produce steel by applying heat generated by electricity arcing between graphite electrodes and a metal bath. The main components of the electric arc furnace are a furnace shell with a tapping device and work opening and a retractable roof with graphite electrodes and a tilting device.

The steps in the electric arc furnace production process consist of charging, melting, oxidising or purifying, deoxidising or refining. The charge includes scrap, iron ore, fluxes (lime, fluorspar), reducing agents (carbon) and ferro-alloys. Further scrap may be added after the ignition of the electric arc and melting. Temperatures in the electric arc furnace may reach as high as 3,500 degrees Celsius in order to melt alloying components that are otherwise difficult to melt.

During the refining stage, iron oxides contained in the slag react with the carbon of the bath, which has the effect of rinsing away impurities. The metallurgical process of the oxidisation and reduction phases can be replaced by secondary metallurgical treatment further downstream in the production process.

Once the steel is ready, it is tapped out into a preheated ladle through tilting the furnace. Often some liquid steel is left to aid the melting of the next charge.

Open hearth process. Steel is produced in the open hearth process by melting scrap and hot metal on the hearth of a combustion reverberating furnace bath. Scrap, flux and ore are charged into the furnace prior to heating. Fuel is burned in the furnace and the heat necessary to melt the raw materials is provided by radiation from the burning fuel. Hot metal is charged and slag is formed and flushed. During melting, the oxidisation of carbon and other impurities (such as silicon and manganese) takes place. Metallurgical lime, fluor-spar and brickbats are used to form slag, which absorbs impurities during the steel making process.

Open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, high levels of pollutants and relatively low productivity. Open hearth furnaces are also less well suited for continuous casting than oxygen converters or electric arc furnaces, and as a result open hearth furnaces generally work through the less efficient ingot casting process. For a number of years, the general trend worldwide has been for open hearth furnaces to be replaced by more efficient and environmentally cleaner oxygen converters and electric arc furnaces.

Steel rolling. Cast steel is a relatively weak mass of coarse uneven metal crystals or "grains". Rolling the steel makes this coarse grain structure re-crystallise into a much finer grain structure, giving greater toughness, shock resistance and tensile (stress) strength. Rolling is also the main method used to shape steel into different products.

The rolling process consists of passing the steel between two rolls revolving at the same speed but in opposite directions. The gap between the rolls is less than the thickness of the steel being rolled, resulting in the steel being reduced in thickness and, at the same time, lengthened. In addition to hot rolling, in which the steel is rolled at a high temperature, steel may also be rolled at ambient temperatures, resulting in a different set of properties.

Mining Industry

Iron Ore

The global iron ore industry is characterised by a high degree of consolidation, with BHP Billiton Ltd., Companhia Vale de Rio Doce SA, or CVRD and Rio Tinto Ltd. accounting for approximately 70 percent of the global seaborne iron ore trade. The major iron ore producing countries are Australia, Brazil and China. Several development projects in Australia, Brazil and South Africa are expected to increase global production.

Iron ore production costs have declined in recent years, largely due to productivity enhancements. Freight rates remain a major cost constraint, constituting approximately half of total costs, according to Metal Bulletin, and helping to maintain the regional segregation of the industry. Iron ore prices increased significantly during 2004 and 2005, reflecting strong global demand. Prices for iron ore continued to increase in the first half of 2006 and, according to industry analysts, are expected to remain high for the next several years.

The following table sets forth iron ore production by country or region for the years 2000 through 2005:

Iron ore production	2000	2001	2002	2003	2004	2005
			(wet m tons)			
China	224.0	217.0	231.4	261.1	335.5	420.5
Brazil	209.5	210.6	215.2	233.3	255.1	277.6
Australia	171.8	180.7	187.2	215.6	237.6	264.8
CIS	157.2	151.3	158.5	171.6	181.3	181.9
India	74.9	79.2	86.4	99.1	120.6	145.5
USA	63.1	45.9	51.3	48.5	54.8	54.8
South Africa	33.7	34.8	36.5	38.1	38.5	39.5
Europe	29.7	28.0	28.3	29.0	31.1	35.5
South America (ex Brazil)	30.7	29.5	30.2	32.4	34.5	37.4
North America (ex USA)	49.0	37.8	40.8	44.5	39.9	43.3
Others	33.8	29.5	28.9	30.9	33.3	35.3
World Total	1,077	1,044	1,095	1,204	1,362	1,536
Annual Change	6.6 *percent*	(3.1) *percent*	4.9 *percent*	10.0 *percent*	13.1 *percent*	12.8 *percent*

Source: AME Mineral Economics Pty Ltd.

Historically, Europe, Japan and China have been the major iron ore consumption centres, but areas such as the CIS, South Korea and Thailand have recently exhibited higher growth rates as the European and Japanese markets have matured. Following an economic slowdown in 2001 and corresponding reduction in iron ore demand, markets rebounded in 2002, with China and certain countries in the CIS showing significant increases in demand in connection with increases in steel production in these countries. Since that time, global consumption of steel, and thus of iron ore, has significantly increased. China has experienced the highest growth in consumption, with an increase in demand of more than 1,000 percent from 342.9 wet million tonnes in 2002 to 695.8 wet million tonnes in 2005.

The major exporting countries of iron ore globally include Australia, Brazil and India, and the major importers are major steel producing countries: China, Japan and South Korea.

Russian market. Total iron ore production in Russia in 2005 was approximately 95 million tonnes. Total iron ore exports exceeded 12 million tonnes, and total imports exceeded 10 million tonnes. Imports to Russia are generally limited by high transportation costs and the lack of port facilities in the Far East and on the Black Sea that are capable of handling large sizes of ore carrying vessels. Russian iron ore production is highly concentrated, and the three largest producers accounted for approximately 53 percent of total iron ore production in Russia in 2005. Russian steel producers have increasingly sought to acquire control of iron ore production assets, and attained control over nearly all of the major Russian producers of iron ore by the end of 2004. For example, during 2004, Evraz acquired control over KGOK, NLMK acquired control over Stoilensky GOK, and Ural Steel acquired control over Mikhailovsky GOK. This trend continued in 2005 and 2006, as Evraz acquired a 50 percent stake in Yuzhkuzbassugol (owner and operator of coal mines in Novokuznetsk, Russia), Mechel acquired a 25 percent stake in Yakutugol (owner and operator of coal deposits in Sakha Republic of Russia) and Severstal fully consolidated Severstal Mining (which included the significant coal mining operations of Vorkutaugol and Kuzbassugol). Production of iron ore in Russia is concentrated in the Kursk region (55 percent), the northwest district (18 percent) and the Urals district (15 percent). Iron ore produced in Russia is mainly magnetite, not hematite, which is common in Australia and Brazil.

Production process. Approximately 90 percent of iron ore mined in Russia is extracted by open-pit methods, with the balance extracted from underground mines. After extraction, the ore is processed further in order to increase its iron concentration. The iron ore is then crushed to a powder-like consistency, and iron-rich particles are separated from the waste rock by magnetic separation to produce iron ore concentrate. This concentrate is then formed into pellets or sinter that are suitable for use as blast furnace feed.

To produce sinter, iron ore, iron ore concentrates and iron-bearing materials (blast furnace dust, screenings of sinter and pellets, scale, waste and slime), flux (limestone) and coke breeze are weighed and mixed to form sinter burden. This sinter burden is then granulated and laid in two layers in sinter machines. The sinter burden becomes sinter at temperatures of 1,070-1,200 degrees Celsius through the combustion of carbon from the coke breeze, while air is simultaneously drawn through the sinter burden by means of exhausters. After crushing, screening and cooling the sinter is ready for delivery to blast furnaces.

In producing iron ore pellets, concentrate is mixed with water and other additives, such as magnetite ore. The resulting slurry is dried, mixed with binding agents and baked at approximately 1,300 degrees Celsius. After the pellets have been screened and undersized material removed, they are prepared for use in blast furnaces.

Coal

Coal may be divided into steam (thermal) coal and coking (metallurgical) coal. Steam coal is used in electricity generation and industrial applications, while coking coal is used to manufacture coke for use in steel manufacture and other metallurgical applications. Coking coal swells when heated in coke ovens to produce hard coke, which characteristic is essential in steel making operations. Approximately 400-500 kilograms of coke is used per tonne of steel produced. Coke is supplemented by the direct injection of pulverised coal, or PCI, at rates of 100-200 kilograms per tonne of steel. PCI uses less expensive steam and semi-soft coking coal to reduce costs.

In recent years, the global coal industry has consolidated, partly as a result of oil companies and other non-mining companies exiting the sector. In 2005, the top five export coal producers (Anglo-American plc, BHP Billiton Ltd., Rio Tinto Ltd., Xstrata plc and BT Bumi Resources TbK) produced 31 percent of total internationally traded volumes, according to AME Mineral Economics Ltd., with the top ten producers controlling approximately 45 percent of the total traded coal market. As a result of consolidation, coal suppliers have gained more pricing power.

The following table sets forth coal supply by country for the years 2000 through 2005:

Total Coal Supply	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
			(m tonnes)			
Australia	186.8	194.0	203.8	215.4	224.7	233.7
USA	53.0	44.1	35.8	38.9	43.4	45.1
South Africa	70.5	70.3	70.4	70.4	67.9	75.4
Indonesia	58.0	66.8	73.6	90.1	105.9	129.0
Canada	32.5	29.6	25.1	25.0	25.7	27.7
Poland	23.2	23.0	22.6	20.1	19.6	20.8
China	55.0	90.9	83.9	93.9	86.6	71.7
Columbia	33.7	37.1	35.4	46.1	51.7	55.4
Russia	36.4	37.5	43.5	60.5	76.3	78.7
Other	53.1	55.5	60.7	57.1	74.2	62.9
World Total	602.2	648.8	654.7	717.5	776.0	800.4
Annual Change	*10.9 percent*	*7.7 percent*	*0.9 percent*	*9.6 percent*	*8.1 percent*	*3.1 percent*

Source: AME Mineral Economics Pty Ltd.

Russian market. Russia has the world's second largest coal reserves, after the United States. Its proven coal reserves total approximately 157 billion tonnes, accounting for 16 percent of the world's proven coal reserves.

In 2005, Russia exported 76.7 million tonnes of coal, of which approximately 79 percent was steam coal and the balance was coking coal. Approximately 70 percent of Russia's coking coal production capacity was owned by or affiliated with Russian steel producers in 2005.

Coal production in Russia is concentrated in the Kuznetsk Basin and the Kansko-Achinskii Basin, which are east of the Ural Mountains and together account for the majority of Russia's total coal production.

Exports of coal from Russia have increased over the past several years. In 2005 Russian companies exported approximately 76.7 million tonnes of coal, a slight increase from 76.3 million tonnes in 2004.

Producers. The following table presents the largest Russian coal producers in 2005:

Company	Production, million tons	Coal type	Controlling shareholder
SUEK	84.4	Mostly steaming	MDM-Group
Kuzbassrazrezugol	42.8	Mostly steaming	Private
Yuzhkuzbassugol	17.1	Mostly coking	Evraz, management
South Kuzbass	15.6	Coking/steaming	Mechel
Russkiy Ugol	15.6	Steaming, anthracite	Private
Sibuglemet	11.1	Coking/steaming	Private
SDS-Holding	9.0	Coking/steaming	Private
Yakutugol	9.0	Mostly coking	Government, Mechel
Vorkutaugol	9.0	Coking/steamimg	Severstal
Raspadskaya	8.6	Coking	Evraz, management
LuTEK	6.1	Steaming	UES, Primorskugol
Prokopievskugol	5.1	Coking/steaming	NLMK
PGHO	4.9	Steaming (brown)	TVEL
Kuzbassugol	1.8	Coking	Severstal

Source: Rosinformugol.

Production process. Approximately two-thirds of the coal mined in Russia is extracted by open pit methods, with the balance extracted from underground mining. At surface mines, a combination of shovels and draglines is used for moving coal and overburden after drilling and blasting. Production at underground mines in Russia is predominantly from long-wall mining. After mining, depending upon the amount of impurities in the coal, the coal is processed in a wash plant, where it is crushed and beneficiated. Coking coal is then transported to steel plants for conversion to coke for use in steel making. Steam coal is shipped to utilities that use it in boilers to generate steam used in producing electricity.

Russian Methodologies for Reserve and Resource Reporting

Severstal Mining has traditionally used Russia's long-established system of reserve and resource reporting, set forth by the Russian Federation Ministry of Natural Resources. In 2005, Severstal Mining began voluntarily using the internationally recognised JORC code of reserves and resource reporting (see "— International Reporting Methodologies"). All data relating to Severstal Mining's reserves and resources summarised in this prospectus are based on the report issued by IMC Limited on 14 August 2006, which was prepared in accordance with JORC reporting standards, except Severstal Mining's expected reserves extension based on adjacent reserves acquisition.

The primary difference between Russian and international methodologies is that Russian methodologies rely on "geometrical" methods to determine reserves, as compared to international methodologies, which utilise sampling and extrapolation techniques.

According to the Russian system, deposits are classified into one of four classes, based on the complexity of their geological structure. This classification may take into account quantitative results measuring the inconsistencies in the basic features of mineralisation. This initial classification is intended to identify those resources warranting further study. Depending on the extent of further exploration, mineral resources are subsequently divided into "explored" and "evaluated" deposits. Explored deposits have been sufficiently explored to proceed with a feasibility study relating to commercial development, and evaluated deposits have been explored to the extent necessary to determine whether continued exploration is warranted. Resources that do not meet the standards for explored or evaluated deposits are classified as projected resources.

Explored and evaluated deposits are further classified based on the type, quantity and quality of the measurements taken to evaluate the reserves.

Category A reserves include only explored deposits, and must meet the following criteria:

1. the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and off-grade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;
2. the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its compositions and properties have been verified; and the quality of all categories and grades of the identified minerals have been characterised in terms of all parameters stipulated by industrial regulations;
3. the distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated; and
4. the mineral reserves have been mapped based on test wells, mine workings and detailed trial runs.

Category B reserves include only explored deposits. Category B reserves have been subject to a high level of investigation, though their boundaries have been determined with less accuracy than Category A reserves. Category B reserves meet the criteria established for Category A reserves, except that Category B reserves may contain a limited extrapolation zone that is substantiated on the basis of geological criteria and geophysical and geochemical research.

Category C1 reserves are characterised by a lower level of accuracy than the determination of Category B reserves. Most explored deposits are Category C1 reserves. Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2 reserves consist of evaluated deposits. Category C2 reserves must meet the criteria established for Category C1, except that:

1. the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and
2. the boundaries of the deposit (including core samples and outcroppings) are mapped based on data gathered from only a limited number of test wells, and a geologically substantiated extrapolation of deposit parameters is permitted.

Resources that do not meet the standards for classification as A, B, C1 or C2 reserves may be classified as probable resources, in categories P1, P2 or P3. Such deposits have undergone some exploration, but require further geological work in order to be upgraded to A, B, C1 or C2 reserves.

While a direct comparison between international and Russian reporting methodologies is difficult because each is founded on different principles, it is often the case that category A and B Russian reserves correlate to proved reserves, and C1 Russian reserves to probable reserves. However, these relationships may vary among deposits, and at different times for the same deposits.

International Reporting Methodologies

Several codes exist for reporting reserves in the international mining industry. The technical differences between these codes are minor, and results are generally comparable regardless of which methodology is employed in assessing a particular deposit. The principal reporting codes in current use are:

- United States Geologic Survey Circular 831 (United States);
- Ontario Securities Commission Instrument 43-101 (Canada);
- Australasian Joint Ore Reserves Committee, or JORC, Code (Australia);
- Institute of Materials, Minerals and Mining Reporting Code (United Kingdom and Ireland); and
- South African Institute of Mining and Metallurgy Reporting Code (South Africa).

Each of these codes recognises the difference between mineral resources and reserves. Conversion from a mineral resource to an ore reserve requires the application of "modifying factors", including mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. A "resource" is geologically defined; it becomes a "reserve" when the modifying factors, especially technical and economic factors, are taken into account. Each of these codes also includes strict guidelines for data quality and reporting in mining commodities.

The Council of Mining and Metallurgical Institutions, or CMMI, which includes representatives of the major international standard-setting organisations, is currently working to establish a common international reporting code standard. CMMI has promulgated common definitions that have been adopted by each of its member organisations in their respective reporting codes, including the principal reporting codes noted above, and these definitions are also incorporated into reporting standards that have been adopted by the United Nations Economic Commission for Europe.

A *mineral resource* is a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust, or deposit, in such a form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are subdivided, in order of increasing geological confidence, into inferred, indicated and measured categories. Portions of a deposit that do not have reasonable prospects for eventual economic extraction are not included as mineral resources.

An *inferred mineral resource* is that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity, and based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is limited or of uncertain quality and/or reliability.

An *indicated mineral resource* is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological continuity and/or grade continuity but are spaced closely enough for continuity to be assumed.

A *measured mineral resource* is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

Ore reserves are the economically mineable parts of an indicated or measured mineral resource. Ore reserves take account of diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out on the deposit and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments establish that at the time of reporting extraction is reasonably justified.

A *probable ore reserve* is the economically mineable part of an indicated and, in some circumstances, a measured mineral resource.

A *proved ore reserve* is the economically mineable part of a measured mineral resource.

BUSINESS

Overview of Severstal

Severstal is one of the world's most profitable steel producers and is the most vertically-integrated steel producer in Russia, according to KWR International. With a focus on high value-added products in attractive niche markets and a successful track record of acquiring and integrating high-quality assets in America and Europe, Severstal's strategy is to become a global leader in profitable, value-added niches within the steel industry. Severstal's global coverage reaches three continents and eight countries, contributing to a more diverse product mix and greater earnings generation than those of other Russian steel producers. Severstal combines the growth potential of Russia's emerging market and the margin sustainability of an international steel producer.

Severstal has four business divisions: Russian Steel and Metalware, Severstal North America, Lucchini and Severstal Mining.

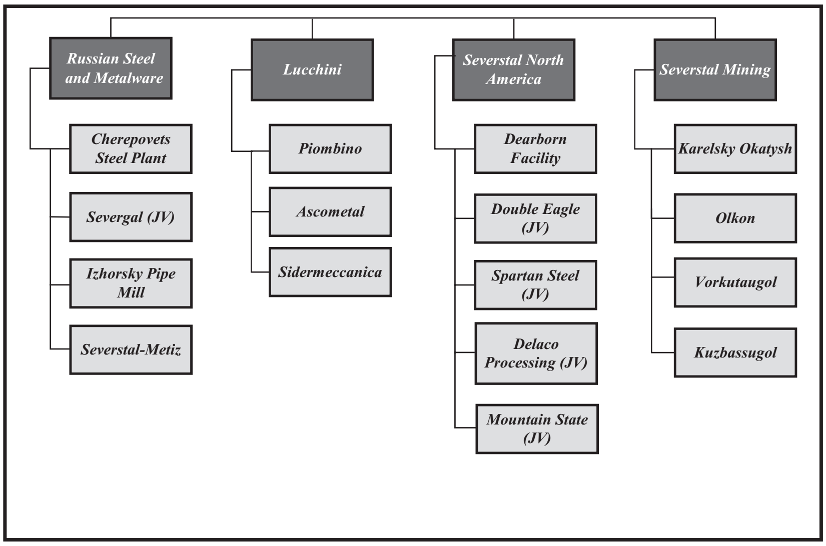
- Russian Steel and Metalware is the second largest producer of finished steel products in Russia by volume of production, according to the Chermet Corporation. With a market share of 16.7 percent in domestic crude steel production in 2005, Russian Steel and Metalware is one of the world's five largest single-site steelmakers on a crude steel production basis according to the Chermet Corporation. Russian Steel and Metalware consists of four sub-segments: its steel production facilities at the Cherepovets Steel Plant, its high-grade automotive galvanising facilities at its Severgal joint venture, the Izhorsky Pipe Mill and its wire drawing and metalware manufacturing business, Severstal-Metiz. As at 31 December 2005, Russian Steel and Metalware's steelmaking capacity was 11.6 million tonnes of crude steel per year. In 2005, Russian Steel and Metalware's total steel production was approximately 10.8 million tonnes of crude steel and 9.8 million tonnes of finished steel. With a metalware capacity of 1.2 million tonnes, in 2005, Severstal-Metiz had a market share of more than one-third of domestic Russian metalware production and 53 percent of Russian metalware exports, according to Eurostat.

- Severstal North America is the fourth largest integrated steel producer by volume of production in the United States, based on the 2005 AIST Directory of Iron and Steel Plants. It is strategically located in Michigan close to a large number of US steel customers, including several major automotive customers. Severstal North America has a crude steel capacity of 3.0 million tonnes per year, a flat hot rolling capacity of 3.6 million tonnes per year, a cold rolling capacity of 1.8 million tonnes per year and a galvanising capacity of 0.8 million tonnes per year. In 2005, Severstal North America's total steel production was approximately 2.7 million tonnes of crude steel and 2.9 million tonnes of finished steel.

- Lucchini is the second largest steel group in Italy and one of the largest European producers of special quality steel long products by volume of production, according to KWR International, with 20 plants and service centres throughout Europe. With more than 1,000 customers in niche markets such as automotive, rails, bearings, springs and wire rod, Lucchini has a steelmaking capacity of 4 million tonnes of crude steel per year. In 2005, Lucchini's total production was 3.4 million tonnes of crude steel and 3.3 million tonnes of finished products. Lucchini comprises the Piombino business unit, the Ascometal business unit and the Sidermeccanica business unit. Piombino is a well-known European producer of rails and high-quality wire rods; Ascometal is a well-known producer of high-quality, tailored products, such as ingots, billets, blooms, bars, wire rod and drawn wire; and Sidermeccanica is a well-known European producer of rolling stock materials manufacturer.

- Severstal Mining consists of four high-quality mining complexes in northwest and east Russia producing iron ore and coking coal and is the second largest producer of pellets and coking coal in Russia, according to RudProm. With the capacity to supply all of the iron ore and coking coal needs of Russian Steel and Metalware, Severstal Mining forms the basis of Severstal's balanced and vertically integrated business model. With a focus on high value-added products, such as export quality pellets and coking coal concentrate, Severstal Mining had a total output of 12.8 million tonnes of iron ore and 8.7 million tonnes of coking coal in 2005. According to the report issued by IMC Limited dated 14 August 2006, which was prepared in accordance with JORC reporting standards, Severstal Mining had estimated iron ore reserves and resources of 792 million tonnes and 962 million tonnes, respectively, as at 1 January 2006, and estimated coal reserves and resources of 419 million tonnes and 249 million tonnes, respectively, as at 1 April 2006.

Severstal's Business Divisions



Severstal originally consisted of its core Russian steel-making business, which was state-owned until its privatisation in 1993. Since that time, Severstal has expanded by identifying attractive acquisition opportunities and by consolidating all of the selling shareholder's steel and mining assets into its business. In addition to acquiring numerous steel production facilities in Russia, Severstal acquired substantially all of the principal steel-making and finishing assets of US steel producer Rouge Steel, subsequently renamed Severstal North America, in 2005. In June 2006, Severstal acquired controlling interests in OAO Karelsky Okatysh, OAO Olkon, OAO Vorkutaugol, OAO Mine Vorgashorskaya, OAO Mine Pervomaiskaya and OAO Mine Berezovskaya, which currently constitute Severstal Mining. On 2 October 2006, Severstal acquired a controlling interest in European steel producer Lucchini S.p.A.

For more information, see "— History and Development of Severstal".

Investment Highlights

The Combined Strengths of Severstal's Business Divisions

Severstal's vertical integration, increasing focus on high value-added and niche products, substantial modernisation of operations and recent geographic expansion through attractive acquisitions have enabled it to leverage cost and technical synergies and generate sustainable cash flows and earnings.

High value-added products and niche products comprised 24 percent and 27 percent, respectively, of Severstal's total steel products sales in 2005 and resulted in EBITDA, including Lucchini on a *pro forma* basis, of US$3.1 billion in 2005, which according to Severstal estimates would have ranked Severstal sixth among the world's steel producers. In addition, Severstal is seeking to actively enhance its product portfolio with new products to meet customer demand, particularly in the automotive industry, producing high quality flat products in Russia and the United States, niche products in Russia, including large diameter pipes and wire drawn products, and specialty and high value-added products in Europe, including special bars and wire rods produced by Lucchini.

Severstal's commitment to large-scale modernisation, technological advancement and the expansion of its facilities for the production of high value-added and niche products was demonstrated by capital investments at its four business divisions totalling approximately US$2.0 billion in 2004 and 2005. In addition, Severstal intends to invest an additional US$6.9 billion from 2006 to 2010 as part of its capital improvement programme.

Severstal has a proven track record of turning around underperforming assets. The operating improvements brought about at Severstal North America and Lucchini demonstrate the value creation capabilities and technical expertise of Severstal's management team in pursuing attractive acquisition opportunities. In addition, Severstal has benefited from the sharing of industry know-how and best practices across its global business divisions.

Corporate Governance and Management

Severstal is implementing a best-practice corporate governance programme, including the appointment of an independent chairman of the board of directors and a board of directors comprised of ten board members which would include an equal number of independent and non-independent directors by the end of December 2006. On 2 November 2006, Severstal announced its nomination of Rolf Stomberg, the former head of BP Plc's German unit, as a senior independent director. Shareholders will vote on his appointment, and those of the other independent directors that have yet to be nominated, at an extraordinary shareholders' meeting in December 2006. In addition, Severstal expects to begin reporting its consolidated financial results under IFRS on a quarterly basis in 2007.

Severstal's senior management team combines extensive industry knowledge with international management and financial expertise. Severstal has begun developing a management structure at the operational level that is focused on improving accountability, clarifying responsibilities and streamlining information reporting and decision making. The management team adheres to international corporate governance standards with best-in-class internal control procedures and internal audit functions. Backed by international experience and advanced business qualifications, the team has successfully implemented a disciplined acquisition strategy.

Severstal's experienced management team and board of directors intend to continue their strategic and disciplined approach to acquisitions, with acquisitions in excess of US$500 million and any transaction with a value of more than 10 percent of the book value of Severstal's assets requiring approval of two-thirds of the board of directors.

In addition, Severstal maintains favourable employee relations through the implementation of modernisation programmes, workforce training and incentive programmes. In particular, approximately five percent of Severstal's share capital is currently held by employees and approximately one percent of its share capital is expected to be allocated for share-based incentives.

Status as One of the World's Most Profitable Steelmakers

As an integrated low-cost, high value-added steelmaker that has invested substantially in modernising its operations, Severstal has benefited from the improved market environment in recent years and generated strong cash flows and returns. Severstal believes it has successfully leveraged the combination of a broad range of products and a low-cost base to maximise margin without a reduction in quality.

- As a highly vertically-integrated steelmaker, Severstal believes its exposure to high and variable raw material prices is limited by its significant internal sources of raw materials. Based on Rudprom and CDU TEK industry data, Severstal Mining constitutes one of the largest mining businesses in Russia with a product portfolio focused on higher value-added products such as pellets and hard coking coal. According to CRU, Severstal Mining is favourably positioned on the cost curve for its products and is well located to service both domestic and the wider export markets through easy access to a well established rail and sea network. Russian Steel and Metalware's steel operations procured 66 percent of their iron ore requirements in 2005 from Severstal Mining's mining operations at Karelsky Okatysh and Olkon mines, which have the capacity to supply 100 percent of such requirements. Severstal also obtains significant quantities of coking and thermal coal from Severstal Mining's mining operations at Vorkutaugol/Vorgashorskaya and Kuzbassugol mines, which collectively have the capacity to supply more than 135 percent of the total coking coal requirements of Russian Steel and Metalware's steel operations.
- Severstal North America has a long term contract with Cleveland-Cliffs (expiring at the end of 2012) that provides 100 percent of Severstal North America's requirements for iron ore pellets at prices that are competitive in the world market. Mountain State, Severstal North America's joint venture with Wheeling-Pittsburgh, provides a reliable high-quality supply of coke at a competitive cost. Severstal expects that approximately one third of Severstal North America's coke requirements for 2006 will be supplied by Mountain State at competitive prices, rising to two thirds in 2007.
- Lucchini's primary plant, Piombino, sources approximately 90 percent of its carbon coke requirements from its own coke ovens. In 2006, Severstal expects that Piombino will also procure more than 1.5 million tonnes of pellets from Severstal Mining and sell approximately 500,000 tonnes of high-quality slabs to Severstal North America to optimise the production structure at both operations.

STRATEGY

Severstal's corporate strategy is to become a global leader in profitable, value-added niches within the steel industry. To successfully implement this strategy, Severstal intends to continue to develop its existing assets through its capital improvement programme, increase its focus on high-value added and niche products, leverage global synergies, identify future profitable core businesses in both domestic and global markets, and continue its pursuit of an active, yet disciplined, M&A strategy to acquire such assets.

History and Development of Severstal

Severstal's predecessor, Cherepovets Metallurgical Works, produced its first cast iron in 1955. Cherepovets Metallurgical Works was 100 percent state-owned until it was privatised in 1993 in accordance with the State Programme for the Privatisation of State and Municipal Enterprises in the Russian Federation. The newly privatised entity, Severstal, was registered as an open joint stock company in the city of Cherepovets on 24 September 1993.

Since 1993, Severstal has expanded to include steel operations in North America and Europe and a number of different businesses, including companies engaged in the mining of iron ore, coal and other minerals, pipe manufacturing, metalware production, the manufacturing of steel furniture and kitchenware, financial services, construction and repair.

A brief history of the development of Severstal's current business divisions, Russian Steel and Metalware, Severstal North America, Lucchini and Russian Mining, is set forth below.

Russian Steel and Metalware

Russian Steel and Metalware is the result of continual investment in niche and high-value added products businesses in Russia.

Russian Steel. In 2000, Severstal purchased Hot Rolling Mill 5000, or Mill 5000, from OAO United Heavy Machinery. Mill 5000 is the only mill of its kind in Russia that can produce strips for large-diameter pipes.

In 2001, Severstal and Arcelor formed the Severgal joint venture, which has a focus on high-quality galvanised auto body sheet products. Russian Steel and Metalware recently completed construction on a new facility for the production of polymer-coated steel products, which began operations on the Cherepovets site in December 2005. In July 2006, Russian Steel and Metalware completed construction on the Izhorsky Pipe Mill, a project designed to produce large diameter, 18-meter-length pipes with three-layered anti-corrosion coating that meet the requirements of domestic and international gas and oil customers. Pipes of this length are not currently produced in Russia.

Russian Metalware. Now the principal operating company of Severstal's metalware segment, Severstal-Metiz was created through a series of acquisitions throughout the last decade. In 1996, Severstal purchased a 32.99 percent stake in Cherepovets Steel Rolling Plant, ChSPZ, a large Russian metalware producer. Severstal increased its stake in ChSPZ to 88.8 percent in December 2005. In 2003, the controlling shareholder purchased a controlling stake in OAO Orlovsky Steel Rolling Mill, or OSPAZ, and subsequently transferred a portion of its interest to Severstal, resulting in Severstal holding a 19 percent stake in OSPAZ. In 2004, the controlling shareholder purchased a controlling interest in OAO Volgograd Steel Rolling Mill, or VSPKZ-PROM. In January 2005, Severstal acquired a 100 percent stake in Severstal-Metiz from the controlling shareholder. In 2005, Severstal transferred its interests in OSPAZ and ChSPZ to Severstal-Metiz. Also in 2005, the principal assets and liabilities previously-owned by VSKPZ-PROM were transferred to Severstal-Metiz.

In February 2006, Severstal acquired a 60 percent ownership interest in the Ukrainian wire and metalware producer OAO Dneprometiz, or Dneprometiz. Severstal also obtained an option to purchase, after one year, an additional 27 percent stake in Dneprometiz.

In April 2006, Severstal acquired a 100 percent stake in British wire producer Carrington Wire Ltd, or CWL.

Repair and maintenance. In 2006, Severstal repurchased a controlling stake in certain engineering, machine-building and repair and maintenance companies, including OOO SSM-Tyazhmash, OAO Domnaremont and OAO Metallurgremont for US$60.8 million. This is not significantly different from the amounts received by Severstal for the disposal of these entities in 31 December 2004.

Severstal North America

Severstal North America was created when Severstal acquired substantially all of the assets of Rouge Steel in January 2004. Rouge Steel had been in the steel manufacturing business since the early 1920's, first as a division of Ford and later as a subsidiary of Ford. In 1989, Rouge Steel was sold by Ford. Difficult market conditions in the United States steel market beginning in 1998 were exacerbated by production outages related to a powerhouse explosion and a fire at one of Rouge Steel's joint ventures. This caused significant operating losses and put considerable pressure on Rouge Steel's liquidity. In October 2003, Rouge Steel filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code, following which substantially all of its steelmaking assets were acquired by Severstal for US$303.7 million in cash and loan financing and the assumption of post-retirement benefits and other long-term liabilities. This amount did not include current assets and current liabilities.

Lucchini

In April 2005, Severstal acquired a 19.99 percent stake in European steel producer Lucchini S.p.A, or Lucchini, and the controlling shareholder acquired a 41.92 percent stake. Accordingly, the controlling shareholder of Severstal obtained an aggregate 61.9 percent voting control of Lucchini. In May, June and November of 2005, the controlling shareholder acquired an additional 8.9 percent of Lucchini, giving it a total share holding of 70.8 percent. On 2 October 2006, Severstal acquired a controlling stake in Lucchini.

Severstal Mining

Severstal Mining is the result of a series of acquisitions over the last 12 years.

Through a series of share purchases from 1994 to 1999, Severstal and the controlling shareholder acquired a combined stake of 52 percent of the share capital of OAO Karelsky Okatysh, or Karelsky Okatysh, an iron ore pellet producer. In 1995, Severstal acquired OAO Olkon, or Olkon, an iron ore producer in the Murmansk region. In 2001, the controlling shareholder, together with MMK, purchased a 51.7 percent stake in OAO Kuzbassugol, or Kuzbassugol, a Russian coal-mining company that includes the Pervomayskaya Mine and the Berezovskaya Mine, in which the controlling shareholder and MMK held equal shares. During 2001 and 2002, Severstal and the controlling shareholder acquired approximately 16 percent of the shares of OAO Vorkutaugol, or Vorkutaugol, another Russian coal producer that includes the Vorgashorskaya Mine, through various private and market purchases.

In 2002, MMK sold its 25.85 percent stake in Kuzbassugol to the controlling shareholder and, in 2003, the two main shareholders of Kuzbassugol, the controlling shareholder and the MDM Group, agreed to divide the business. The MDM Group received those coal mines previously held by Kuzbassugol that produce coal suitable for energy generation and the controlling shareholder received the MDM Group's shares in Kuzbassugol, which was left with those coal mines producing coal suitable for coke production.

Also in 2003, Severstal purchased shares in certain coal-mining assets in the Komi Republic and purchased a 39.8 percent stake in Vorkutaugol in a public auction held by the Russian government. This stake was subsequently resold to the controlling shareholder at cost.

In June 2006, Severstal acquired controlling interests in Karelsky Okatysh, Olkon, Vorkutaugol and Kuzbassugol mines.

Recent Developments

The controlling shareholder recently entered into the SeverCorr joint venture with SteelCorr. Construction on the SeverCorr plant began in October 2005 and is expected to have fully-integrated production capabilities by August 2007. The plant is a technologically advanced flat rolled steel mill and the only plant in the southern US with the capability to cast finished sheet widths of 72 inches. Based on publicly available information, Severstal believes it is the only EAF plant in the world designed to make exposed automotive steels and has a combined production capacity of 1.5 million tonnes of hot-rolled, cold-rolled, galvanising and galvannealed sheet per year. The controlling shareholder intends for SeverCorr to be consolidated into Severstal and is working with Severstal to consider how best to maximise potential synergies.

Russian Steel and Metalware

According to the Chermet Corporation, Russian Steel and Metalware is the second largest producer of finished steel products in Russia. With a market share of 16.7 percent in domestic crude steel production in 2005, Russian Steel and Metalware is one of the five largest steelmakers on a crude steel production basis according to the Chermet Corporation. Russian Steel and Metalware consists of four sub-segments: its steel production facilities at the Cherepovets Steel Plant, its high grade automotive galvanising facilities at its Severgal joint venture, its large diameter pipe mill at the Izhorsky Pipe Mill, and its wire drawing and metalware manufacturing business in Severstal-Metiz. Russian Steel and Metalware's steelmaking capacity was 11.6 million tonnes of crude steel per year, as at 31 December 2005. In 2005, Russian Steel and Metalware's total steel production was approximately 10.8 million tonnes of crude steel and 9.8 million tonnes of finished steel. Severstal-Metiz has a metalware capacity of 1.2 million tonnes, and in 2005, had a market share of more than one-third of domestic Russian metalware production and 53 percent of Russian metalware exports according to Eurostat.

Russian Steel and Metalware's primary steel production facilities at the Cherepovets Steel Plant are located in Cherepovets, in northwest Russia, approximately 600 kilometres from Moscow and approximately 450 kilometres from St. Petersburg. The plant also includes a heavy plate mill in Kolpino, which is approximately 26 kilometres from St. Petersburg. The Izhorsky Pipe Mill is adjacent to Kolpino. Severstal-Metiz operates out of multiple sites across Russia, Ukraine and the UK. These locations give Russian Steel and Metalware strategic proximity to river ports and railways, providing logistically favourable access to raw material sources and customers.

Russian Steel and Metalware's strategy is focused on high-margin, high-value-added products, such as cold-rolled and galvanised sheet, including automotive grades and heavy plate, tubular and drawn products in the domestic Russian market. Severstal believes that Russia is a high-growth market for steel based on the March 2006 CORR report by WSD. Severstal plans to focus on the highest growth key markets within Russia, including automotive and large diameter pipes, and to leverage existing leading market shares and increase profitability through cost structure advantages. As such, Severstal expects to benefit from future production at Severgal, which Severstal believes is the the only producer of automotive grade galvanised steel in Russia.

Facilities

Russian Steel and Metalware's steel production facilities at the Cherepovets Steel Plant are fully integrated, occupying approximately 30 square kilometres, with coking, sintering, blast furnaces, steel making, casting and hot and cold rolling facilities. Russian Steel and Metalware's downstream operations at Severgal and the Izhorsky Pipe Mill include facilities for galvanising pipe production and colour-coating. Its wire drawing and metalware facilities are located on three sites in Russia, one site in Ukraine and one site in the UK.

The hot phase at the Cherepovets Steel Plant consists of a coke plant; a sintering plant; five blast furnaces, one of which is the largest in Europe according to MetallPress.ru; three oxygen converters; two vacuum degassers; two electric arc furnaces, or EAFs; three open-hearth furnaces; seven continuous casting lines; a cogging mill; a continuous billet mill; two hot-strip mills and a heavy plate mill. The cold phase at the Cherepovets Steel Plant consists of three continuous picking lines, two cold rolling mills and annealing facilities, two tempering mills, two lines for dynamo steel, two galvanising lines, two cold profile tending lines, one colour coating line and six pipe rolling mills. There are also automotive grade galvanising facilities at Severgal and a large diameter pipe rolling mill at the Izhorsky Pipe Mill. Russian Steel and Metalware also has wire drawing and metalware facilities in Russia in Cherepovets, Orel and Volgograd, as well as the recently acquired Dneprometiz plant in Ukraine and the Carrington plant in the UK.

The following table sets forth for Russian Steel and Metalware actual output for each of the three years ended 31 December 2003, 2004 and 2005 and equipment, capacity and utilisation rate by sub-segment as at 31 December 2005.

Steel Production Facilities, Russian Steel and Metalware — Output, Capacity and Utilisation Rate by Unit

	Actual output			Equipment	Capacity	Utilisation rate
	2003	2004	2005			
	(million tonnes per year)				*(million tonnes per year)*	*(percent)*
				(as at 31 December 2005)		
Cherepovets Steel Plant						
Coking plant	4.15	4.20	4.20	7 batteries	4.25	98.9
Sintering plant	7.82	8.19	8.34	8 machines	8.4	99.9
Blast furnace facilities	7.64	7.92	7.98	5 furnaces	8.1(1)	98.1
Basic oxygen converters	7.96	8.17	8.48	3 furnaces	8.5	99.8
EAFs	1.00	1.09	1.43	2 furnaces	2.1	68.0
Open-hearth furnaces	0.93	1.18	0.90	3 furnaces	1.6	55.9
Continuous casters	8.77	9.23	9.93	7 casters	9.9	100.0
Hot-rolling mills	7.10	7.27	7.64	4 mills	7.64	100.0
Of which finished products	4.42	4.30	4.90			
Cold-rolling mills	2.33	2.62	2.42	2 mills	2.8	86.4
Of which finished products	1.77	1.88	1.68			
Continuous pickling lines	2.73	3.01	2.79	3 lines	3.1	90.0
Hot-dip galvanising lines	0.48	0.59	0.60	2 lines	0.6	100.0
Section rolling mills	1.69	1.58	1.59	3 mills	2.4	67.8
Cold roll-forming lines	0.15	0.17	0.15	1 line	0.2	77.0
Pipe rolling mills	0.17	0.16	0.19	7 mills	0.2	94.5
Severgal						
Galvanising line	—	—	—	1 line	0.4(2)	—
Inspection line	—	—	—	1 line	0.1(2)	—
Izhorsky Pipe Mill						
Pipe mill	—	—	—	1 line	0.60(3)	—
External coating line	—	—	—	1 line	0.50(3)	—
Internal coating line	—	—	—	1 line	0.45(3)	—
Severstal-Metiz						
Cherepovets plant	0.58	0.57	0.56	N/A	1.19(4)	47
Orel plant	0.05	0.20	0.19	N/A	0.78(4)	24
Volgograd plant	—	0.04	0.07	N/A	0.14(4)	51

(1) Figure does not include Blast Furnace 4, which recommenced operations in December 2006.

(2) Expected capacity; began commercial operation in December 2005.

(3) Expected capacity; completed in July 2006.

(4) Expected capacity; UK and Ukraine plants were acquired in spring 2006.

Cherepovets Steel Plant. The Cherepovets Steel Plant produces all of Russian Steel and Metalware's crude steel. The facilities' total production capacity is 11.6 million tonnes of crude steel per year.

Blast furnace facilities. There are five blast furnaces at the Cherepovets Steel Plant, with an estimated current combined capacity of 10.8 million tonnes per year. Blast Furnace 5 was fully refurbished in October 2006 and has a capacity of 4.2 million tonnes per year. Blast Furnace 4, which recommenced operation in December 2005 after refurbishment and recommissioning, has an installed capacity of 2.3 million tonnes per year. Blast Furnaces 1 and 2, the oldest furnaces, have an installed capacity of 1.2 million tonnes each per year. Blast Furnace 3 has a capacity of 1.9 million tonnes per year.

Basic oxygen converters, EAFs and open-hearth furnaces. Crude steel is produced at the Cherepovets Steel Plant in three oxygen converters, with a combined capacity of 8.5 million tonnes per year; two EAFs, one of which was installed in 2005, with a combined capacity of 2.1 million tonnes per year; and three open-hearth furnaces, with a combined capacity of 1.6 million tonnes per year, which it intends to decommission.

Hot-rolling mills. The Cherepovets Plant's hot-rolling mills consist of three hot-rolling shops, with a combined capacity of 7.64 million tonnes per year as at 31 December 2005.

Hot-rolling Shop 1 is equipped with two combined semi-continuous mills. Mill 2800, which has a capacity of 600,000 tonnes per year, produces thick plates with a thickness of 6.35 to 50 millimetres, which serve as feedstock for Mill 1700, which has a capacity of 1.4 million tonnes per year. Mill 1700 produces sheet with a thickness of 0.8 to 8 millimetres and is equipped with four coilers, with a capacity of 2 million tonnes per year.

Hot-rolling Shop 2 is equipped with Mill 2000, a continuous wide-sheet mill with a capacity of 6 million tonnes per year and includes four reheating furnaces and length and width-cutting machines. Mill 2000 is operated on a fully-automated basis and produces sheet with a thickness of 1.2 to 16 millimetres.

Hot-rolling Shop 3 is equipped with Mill 5000, a heavy plate mill located in Kolpino. Mill 5000 produces wide quarto plate for shipbuilding, and strips for pipe manufacturing. Mill 5000 has a capacity of 540,000 tonnes per year, expected to be increased to 850,000 tonnes of finished products per year by the end of 2006. Of this increased volume, Russian Steel and Metalware plans to send 630,000 tonnes per year to the Izhorsky Pipe Mill, the construction of which was completed in July 2006. (See " — Izhorsky Pipe Mill" below.)

Cold-rolling mills. The Cherepovets Plant has two cold-rolling mills, with a combined capacity of 2.8 million tonnes per year including a four-stand continuous rolling Mill 1700 and a five-stand continuous rolling Mill 1700. The cold-rolling mills produce cold-rolled sheet with a thickness of 0.25 to 3.2 millimetres. The cold-rolling mills operate together with two tempering mills, a set of belltype annealing furnaces and slitting and cutting lines.

Continuous pickling lines and hot-dip galvanising lines. The Cherepovets Plant has three pickling lines, with a combined capacity of 3.1 million tonnes per year, and two hot-dip galvanising lines with zinc and alumozinc coating, with a combined capacity of 600,000 tonnes per year.

Section rolling mills. The Cherepovets Plant has three section rolling mills: a medium-section Mill 350, with a capacity of 1 million tonnes per year; a small-section Mill 250, with a capacity of 504,000 tonnes per year; thermo-strengthening equipment and a wire rod Mill 150, with a capacity of 850,000 tonnes per year.

Cold roll-forming line. The Cherepovets Steel Plant's cold roll-forming line produces a range of different shaped profiles: closed profile, S-shape profile, E-shape profile, trough-shape profile, angle profile and others and has a combined capacity of 200,000 tonnes per year.

Pipe rolling mills. The Cherepovets Steel Plant also has seven pipe rolling mills that can produce pipes with circular, oblong and semi-oblong, square and rectangular cross sections in a wide range of sizes. The seven pipe rolling mills have a combined capacity of 200,000 tonnes per year.

Severgal. Severgal is Severstal's 75 percent (minus one share) joint venture with Arcelor since 2001 and has a focus on high-quality galvanised auto body sheet products.

In commercial operation since December 2005, Severgal is a galvanising plant with an expected galvanising capacity of 400,000 tonnes per year. Russian Steel and Metalware's total investment related to this plant was approximately US$210 million. Severgal can produce galvanised-steel sheet with a thickness of 0.4 to 2.0 millimetres and a width of 900 to 1,850 millimetres. Russian Steel and Metalware currently uses this plant to produce Extragal™ steel sheet product coated with zinc-iron alloy. Severgal's production for the first half of 2006 was approximately 87,600 tonnes.

Severgal is strategically located close to several major domestic automotive greenfields, including Nissan and Toyota in St. Petersburg, and Volkswagen in Kaluga.

Izhorsky Pipe Mill. The Izhorsky Pipe Mill is Russian Steel and Metalware's large diameter pipe project for the oil and gas industry. The project is designed to produce pipes meeting the requirements of domestic and international customers, including Gazprom and OAO Transneft as well as a number of Russian oil companies, including OAO Rosneft, OAO LUKOil, TNK-BP Limited (BVI) and others.

The construction of the Izhorsky Pipe Mill in Kolpino, next to Mill 5000, included three-layered anti-corrosion coating technology and was completed in July 2006. Mill 5000 was modified to produce strips manufactured by its steel segment to feed the project. When fully utilised, the Izhorsky Pipe Mill is expected to reach a production of 600,000 tonnes per year of large diameter pipes with three-layered anti-corrosion coating, diameters ranging from 610 millimetres to 1420 millimetres and 18 meters in length. According to industry publications, pipes of this length are not currently produced in Russia.

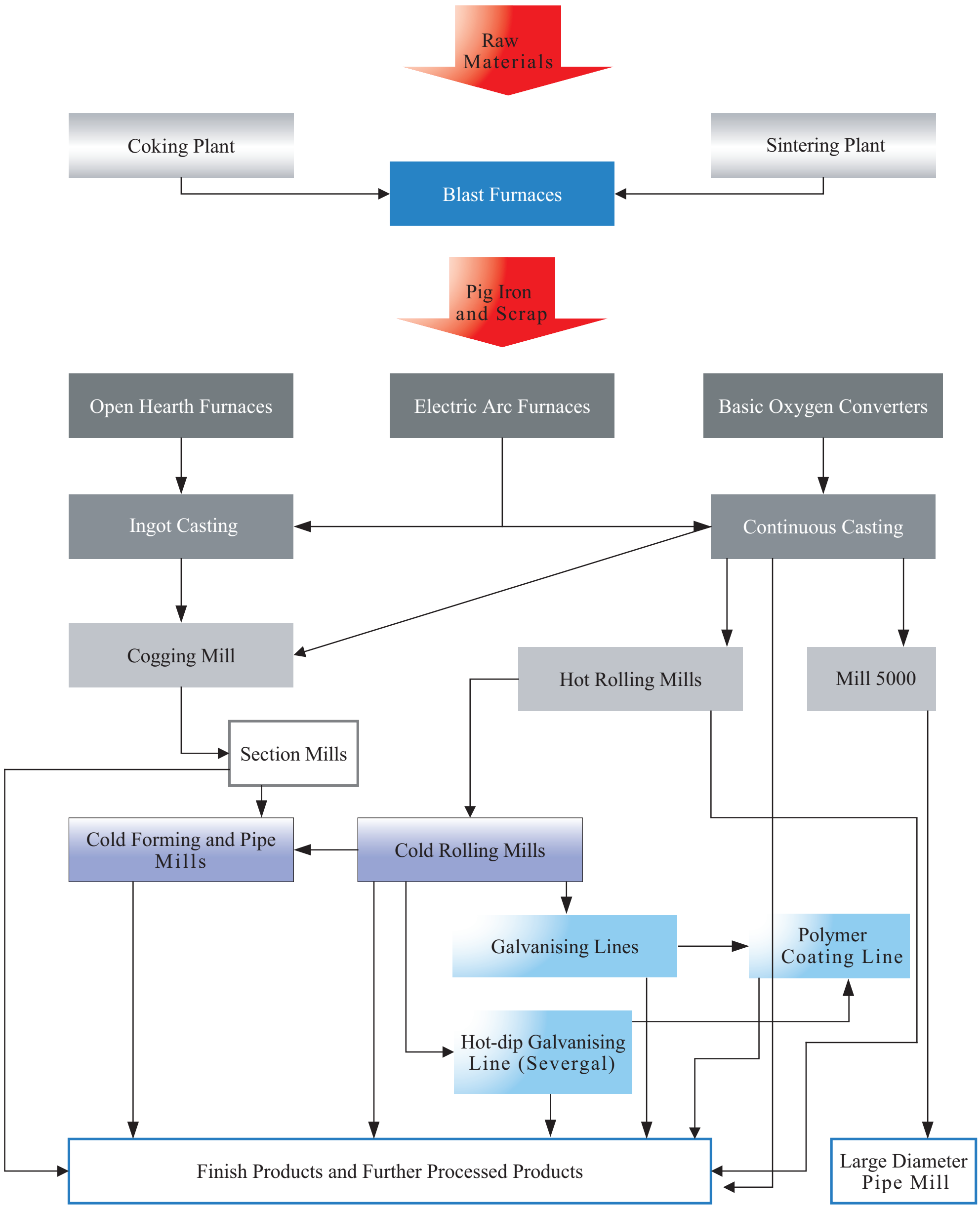
The project was financed through a mixture of internal and external financing, including EBRD financing, at a total estimated construction cost of approximately US$300 million.

Severstal-Metiz. Severstal-Metiz is a subsidiary of Severstal and forms part of Russian Steel and Metalware. Severstal-Metiz is the leading downstream wire drawing and metal processing business in Russia. According to Eurostat, Severstal-Metiz had a market share of more than one-third of total domestic metalware production, approximately 53 percent of Russia's metalware exports and 6 percent of metalware manufacturing in Europe in 2005.

Severstal-Metiz operates large wire drawing and metal processing operations in Cherepovets, Orel and Volgograd. In Spring 2006, Severstal acquired Carrington plant in the UK and the Dneprometiz plant in Ukraine. Severstal-Metiz currently produces more than 26,000 products, including rod, nails, cold-drawn steel, steel rope, netting and fastenings and currently has a total maximum annual production capacity of more than 2.0 million tonnes.

Steel Production Process

The following diagram illustrates the principal steps in the Russian Steel and Metalware's current steel production processes.



Russian Steel and Metalware intends to simplify the production process with the implementation of the current asset modernisation programme and decommissioning of the remaining open-hearth furnaces, the ingot casting lines and cogging facilities.

Currently, the steelmaking process at Russian Steel and Metalware begins with coal being fed into the coking plant and iron ore, both in concentrate and pellet form, and other materials being fed into the sintering plant to produce coke and sinter, respectively.

The mix of sinter, pellets and coke is then fed into the blast furnaces, which operate continuously. During the blast furnace process, the charge is converted into pig iron. Liquid slag, which remains after smelting, is also removed from the blast furnaces. When cooled, the slag is crushed at the slag-processing facilities and is then sold domestically by Russian Steel and Metalware as road-construction material. Gas produced by the blast furnaces is captured and recycled to produce heat.

The molten pig iron is transported to the basic oxygen converter shop and to the remaining open-hearth furnaces and EAFs in railway ladle cars. The basic oxygen steel-making process is autogenous, or self-sufficient in terms of energy.

The two EAFs at the Cherepovets Steel Plant, each with a capacity of 150 tonnes per heat, do not need to be charged with molten pig iron, and can be charged with "cold" material, normally steel scrap, recycled goods made from steel which have reached the end of their useful life and solid pig iron. The current proportion of scrap metal used in the EAFs is approximately 80 percent. Other forms of raw materials may be used, including pig iron from the blast furnaces that has been cast and allowed to go cold. Molten steel produced by the EAFs can either undergo secondary steel-making or be transported to the continuous caster.

Approximately 89 percent of the liquid steel is fed from the furnaces into the continuous casting machines to produce slabs and billets. Continuous casting is the most effective casting process with the lowest metal consumption per tonne of rolled products and saves approximately 70 kilograms of steel per tonne compared to ingot casting. The slabs are further rolled at the hot-rolling mills into sheet and coils.

The remaining 11 percent of the liquid steel is poured into bloom ingots. The ingots are then treated in the cogging mill to produce rolled billets for hot-rolled section steel of various types. Some of this steel is then fed into the profile-bending machines and pipe rolling mills.

Additional processing methods related to cold-rolling further improve the surface characteristics of the steel. These additional processing methods include pickling, hydrogen annealing and tempering. Some cold-rolled sheet is galvanised, which involves applying a coat of zinc and aluminium, and some is polymer coated.

Quality control. Russian Steel and Metalware has established comprehensive quality-control systems at each stage of its production cycle. Russian Steel and Metalware currently operates a total quality management, or TQM, system at each of its steel production facilities, which involves organising employees in quality teams. Established in the converter shop at the Cherepovets Steel Plant in 2000, these teams are now in place at all of Russian Steel and Metalware's shops. Russian Steel and Metalware uses the European Foundation for Quality Management model for TQM and also employs techniques of benchmarking performance to best practice and statistical process control, which Russian Steel and Metalware began in 2001. The main objective of these techniques is to improve the quality of steel by improving technological process parameters. The current quality-control systems are carried out by an internal quality control division with further support provided by SGS Vostok Limited, a French-based quality surveyor, during transportation and loading.

Lloyd's Register has completed several audits of a number of its steel products within Russian Steel and Metalware and has extended its quality-management certificate of compliance with standard ISO 9001:2000 to 31 December 2008. In May 2005, some of Russian Steel and Metalware's steel products were certified according to the ISO TS 16949-2002 automobile standard until 31 December 2008.

The quality-control measures employed by Russian Steel and Metalware have enabled it to maintain a range of products that meet the high standards required in the United States, Germany, the United Kingdom, Japan and other markets in addition to the modernised Russian oil and pipeline industries. A range of products produced by Russian Steel and Metalware have been certified by the Marine Register of the Russian Federation, Lloyd's Register, the American Bureau of Shipping, Norske Veritas, Germanischer Lloyd, Bureau Veritas and the Russian River Register. In 2001, Russian Steel and Metalware received several certificates attesting to the quality of the production output at Mill 5000. Russian Steel and Metalware's steel products are supplied to various offshore oil and gas development projects.

Severstal-Metiz's three plants in Russia have Management Quality Systems corresponding to the requirements of International Standard ISO 9001. Severstal-Metiz also has a series of certificates attesting to the quality of its products, including welded wire, powder wire, electrodes, ropes and railway fasteners. Severstal-Metiz is currently preparing its remaining plants for ISO 9001 certification, which is expected by the end of 2006. In addition, Severstal-Metiz is preparing for ecological management certification under International Standard ISO 14000 and quality standard certification under International Standard ISO TU 16949, which is expected in December 2006.

Products

Crude steel products. Russian Steel and Metalware produced 10.8 million tonnes of crude steel in 2005. Its crude steel capacity was 11.6 million tonnes as at 31 December 2005, corresponding to a utilisation rate of approximately 93 percent during 2005.

Year	Russian Steel and Metalware	Aggregate production of crude steel in Russia	Russian Steel and Metalware's share of market production
	(million tonnes)		*(percent)*
2001	9.32	57.45	16.2
2002	9.63	58.50	16.5
2003	9.89	61.47	16.1
2004	10.44	65.58	16.2
2005	10.80	66.19	16.7

Source: Chermet Corporation.

Semi-finished products. Semi-finished products are intermediary products from the production process and represent generic steel products that have not yet been rolled for a specific application. Severstal classifies the following products as "semi-finished", which are normally not classified as "saleable goods": (i) steel ingots or steel slabs from continuous casting; and (ii) billets from the continuous billet mill prior to treatment in the rolling mills.

Finished steel products. Most of Russian Steel and Metalware's crude steel production is further processed into finished steel products, which include flat and long products. Flat products include hot-and cold-rolled sheet, plates and coils. Long products include hot-rolled sections, cold-formed shapes and pipes.

	Year ended 31 December		
	2003	2004	2005
	(thousand tonnes)		
Steel Products			
Semi-finished products	375	796	925
Hot-rolled sheet	4,417	4,302	4,898
Cold-rolled sheet	2,329	2,619	2,418
Hot-rolled sections	1,690	1,576	1,594
Total	8,811	9,293	9,835
Some of the above products are then processed into:			
Cold-formed shapes and pipes	314	330	343
Coated/galvanised products	482	585	600
Metalware Products			
Severstal-Metiz products (total products)[(1)]	578	804	826

Note:

(1) Figures for 2003 are for ChSPZ only.

Hot-rolled sheet. Hot-rolled flat products include heavy-gauge plate and light-gauge hot-rolled sheet produced from ordinary and high-quality carbon steel, low-alloy strengthened steel and clad steel. Clad steel includes two and three-ply steel combined with a corrosion-resistant or wear-resistant ply.

Russian Steel and Metalware produces hot-rolled plate with a maximum thickness of 450 millimetres, up to 4,800 millimetres in width and 20,000 millimetres in length, as well as coils for rerolling of up to 36 tonnes. Heavy-gauge plate is used to manufacture pipes, oil and gas tanks, ships, bridge structures and railway cars. Light-gauge hot-rolled sheet has a minimum thickness of 0.8 millimetres and is used for welded pipe and tubing, automotive parts, small-size shapes, channels and profiles.

Russian Steel and Metalware is able to produce sophisticated steel grades for pipe manufacturing as well as high-quality steel with a very low level of impurities (sulphur content of less than 0.025 percent and a phosphorus content of less than 0.05 percent). Russian Steel and Metalware is also the only producer in Russia of "K-54" grade steel, which has enhanced corrosion-resistant and cold-resistant properties and can be exploited in temperatures as low as minus 60 degrees Celsius. Russian Steel and Metalware believes that the large diameter pipes that the Izhorsky Pipe Mill is expected to manufacture are not currently produced in Russia. Other goods manufactured by Russian Steel and Metalware include civil construction goods and associated products.

Cold-rolled sheet. Cold-rolled flat products consist of cold-rolled sheet and coils with a thickness of 0.25 to 3.2 millimetres and are up to 1,620 millimetres in width. Cold-rolled sheet, which has a greater plasticity and a better surface quality than hot-rolled sheet, has various uses, including the manufacture of automotive body-panels and home appliances. In addition, cold-rolled products serve as feedstock for Russian Steel and Metalware's galvanised and roll-formed products.

Cold-formed shapes and pipes. Russian Steel and Metalware produces over 250 types of carbon and low-carbon steel roll-formed shapes, including perforated, close-welded square and rectangular sections. Profiles with rectangular and square cross sections are widely used in the agricultural machine-building, civil construction and automotive industries. Cold-formed sections also include a wide range of pipes and construction and furniture materials.

Coated/galvanised products. Russian Steel and Metalware produces aluminium-coated and galvanised products, including those produced for the automotive industries. Severgal, Severstal's joint venture with Arcelor, produces galvanised sheet steel with a high-quality surface for the automotive industry. Russian Steel and Metalware believes that demand from international automotive manufacturers will increase demand for galvanised products. In December 2005, a new facility for the production of polymer-coated steel products began operations at the Cherepovets Steel Plant. Due to the strict requirements of automotive plants outside Russia, Russian Steel and Metalware has focused on improving the quality of its products significantly and has developed new grades of products (for example, products with an alumino-silicon coating and high-strength steels) to meet the demands of automotive customers.

Hot-rolled sections. Hot-rolled steel sections are produced from ordinary carbon steel, high carbon steel, low-alloy steel, structural alloy steel and include equal and unequal angles, hexagonal shapes, round bars, steel strips, wire rods and reinforcement bars.

Other steel products.

Civil construction goods include a wide range of products such as door hinges, window butts, steel tiles and others. Associated products include a wide range of by-products, e.g. chemical products including benzol and green vitriol, blast furnace and converter slag and other by-products of the metallurgical process. Consumers of these products are the agricultural, chemical and construction industries. Russian Steel and Metalware also provides various ancillary services to customers, primarily rolling services.

Severstal-Metiz. Severstal-Metiz's factories in Russia focus on the manufacture of long products, such as low carbon and high carbon wire rods, nails, cold-drawn steel, steel rope, netting and fastenings. Severstal-Metiz comprises three sites in Russia: the Cherepovets site, the Orel site and the Volgograd site, located in northwest Russia, central Russia and the Povolzhie region of Russia, respectively. It has two additional sites in Ukraine and the UK. Each of the locations in Russia and Ukraine are dynamically developing regions with a high concentration of industrial and consumer-type customers. In addition to enjoying significant geographic coverage, Severstal-Metiz operates in all of the basic segments of the Russian metalware product market as the products manufactured at the respective plants complement each other. Dneprometiz produces wire and certain other processed products at its production facilities located in Ukraine. In 2005 Dneprometiz had a total production of 123,000 tonnes. Severstal-Metiz expects the Dneprometiz acquisition to further strengthen its position in the fast growing Ukrainian metalware market. CWL supplied more than 50 countries worldwide in 2005 and has a production capacity of more than 200,000 tonnes of wire a year at its CWL plant.

Supply Chain

The principal raw materials used by Russian Steel and Metalware to produce steel include iron ore concentrate and pellets, coking coal, limestone and dolomite, non-ferrous metal and ferro-alloys and metal scrap. Russian Steel and Metalware maintains a minimum two-week reserve of all the main raw materials used in their production process. This reserve is normally increased to approximately three weeks during the winter to compensate for any potential break in supply due to bad weather and for increased consumption rates experienced during the colder weather. In addition, during the winter, the stocks of ferro-alloys and scrap are increased to one and three months, respectively.

Russian Steel and Metalware's steel production energy requirements include water, gas, electricity and steam.

Raw materials. Severstal Mining has the capacity to provide 100 percent of the iron ore requirements and coal requirements of Russian Steel and Metalware's steel operations. In 2005, Russian Steel and Metalware's steel operations procured approximately 66 percent of its iron ore, concentrate and pellets, and 85 percent of its coal requirements from Severstal Mining, purchasing its remaining requirements from third-party sources. Severstal believes that the use of third-party sources for iron ore requirements ensures the security and reliability of Russian Steel and Metalware's iron ore supplies. Russian Steel and Metalware sources a portion of its coal requirements from third-party suppliers due to its requirements for coal with different mineral contents and chemical features.

The Cherepovets Steel Plant's raw materials requirements account for approximately 100 percent of Russian Steel and Metalware's total raw material requirements. The following table sets forth a breakdown of the raw materials purchased by the Cherepovets Steel Plant for the year ended 31 December 2005.

Principal Raw Materials and Energy Purchased by Russian Steel and Metalware — Cherepovets Steel Plant

	Year ended 31 December 2005	
	(thousands of tonnes, except as otherwise noted)	*Estimated percent of cost of goods sold*
Raw materials		
Iron ore (concentrate and pellets)	11,605.0	22.8
Coal	6,340.0	17.0
Metal scrap	3,297	13.8
Ferro-alloys and non-ferrous metals	165.5	8.3
Other materials	N/A	7.9
Energy		
Electricity, million kilowatt hours	6,303.5(1)	3.4
Natural gas, million cubic metres	2,479.3	3.1
Diesel and fuel oil, thousands of tonnes	40.0	0.7

Note:

(1) Of this amount, 3,577 million kilowatt hours were purchased from third parties while the remaining amount was internally generated.

Iron ore and pellets. The smelting process at Russian Steel and Metalware's blast-furnace facilities requires 30 percent of the feedstock to be in the form of iron ore pellets, the majority of which are sourced from Severstal Mining.

Iron ore concentrate and pellets are supplied to Russian Steel and Metalware's steel operations on the basis of contracts that are reviewed and renegotiated on an annual basis.

All of Russian Steel and Metalware's steel operations' contracts with its iron ore suppliers, including those with Severstal Mining, are concluded on an arm's-length basis. Russian Steel and Metalware's quality control of the iron ore supplies involves verifying suppliers' quality certificates and monitoring the moisture content, iron content and weight of the ore concentrate at laboratories located at each of the production facilities located within its Russian steel operations. On a case by case basis, contract arrangements provide for price adjustments depending on the quality of the concentrate.

The Cherepovets Steel Plant's iron ore requirements account for approximately 100 percent of Russian Steel and Metalware's total iron ore requirements. The following table sets forth a breakdown of the iron ore supplied to the Cherepovets Steel Plant by supplier for the year ended 31 December 2005.

Principal Suppliers of Iron Ore and Pellets to Russian Steel and Metalware — Cherepovets Steel Plant

Supplier	2005 total Russian Steel and Metalware supplies	Percent of 2005 total Russian Steel and Metalware supplies[(1)]
	(million tonnes)	*(percent)*
Iron ore concentrate		
Olkon	3.86	50.6
Kovdorsky GOK	2.99	39.2
Stoylensky GOK	0.02	0.0
Mikhailovsky GOK	0.41	5.4
KMA Ruda	0.35	4.6
Iron pellets		
Karelsky Okatysh	4.02	100

Note:

(1) As at 31 December 2005 (estimated).

Coal. Russian Steel and Metalware meets nearly all of its annual coke supply requirements from its own coke batteries, using coal purchased from Severstal Mining.

Russian Steel and Metalware has long-standing relationships with its key coal suppliers, which consist primarily of companies in Severstal Mining, in particular Vorkutaugol and Kuzbassugol. Vorkutaugol has been supplying coal to Russian Steel and Metalware and its predecessors for over 40 years. Geographically, the Cherepovets Steel Plant is closer to Vorkutaugol than Vorkutaugol's other customers.

All contracts with Russian Steel and Metalware's coal suppliers, including those with Severstal Mining, are concluded on an arm's-length basis and may be suspended if suitable coal can be purchased from alternative suppliers at lower prices. Contracts are generally concluded for a term of one year, with the intention of ensuring continuity, security and reliability of supplies. Payment under these contracts is made on delivery.

The Cherepovets Steel Plant's coal requirements account for approximately 100 percent of Russian Steel and Metalware's total coal requirements. The following table sets forth a breakdown of the coal supplied to the Cherepovets Steel Plant by supplier for the year ended 31 December 2005.

Principal Suppliers of Coal to Russian Steel and Metalware — Cherepovets Steel Plant

Coal mine	2005 total Russian Steel and Metalware supplies	Percent of 2005 total Russian Steel and Metalware supplies
	(million tonnes)	*(percent)*
Vorkutaugol	4.02	65.0
Kuzbassugol	1.36	20.3
Sibuglemet	0.38	5.8
Prokopyevskugol	0.06	5.2
Yuzhkuzbassugol	0.13	2.1
Other	0.24	1.6

Scrap. Russian Steel and Metalware is a significant consumer of scrap in Russia and sources its scrap on a spot basis from smaller suppliers and on a contract basis for larger volumes.

Russian Steel and Metalware has its own scrap-processing facilities that allow it to utilise a wide range of sizes of steel scrap. These facilities include special cutting and packaging lines for processing the scrap so that it is ready for use in the smelting process. Scrap is sourced both externally, from companies that collect scrap metal, and internally, by using amortisation scrap, which is fixed assets that were cut up and melted down at the end of their useful lives, and production waste. Scrap is used in all steel-melting processes; the average proportion of scrap metal in the metal charge used in the smelting process ranges from approximately

30 percent in the oxygen converter and open-hearth furnace shops to close to 80 percent in the electric arc shop.

In 2005, Russian Steel and Metalware processed approximately 4.2 million tonnes of scrap, of which 3.3 million tonnes were purchased and 0.88 million tonnes were internally sourced.

Other raw materials. Russian Steel and Metalware sources limestone from its open-pit limestone mines located in the northern part of the Vologda Region, approximately 250 kilometres from Cherepovets.

A wide range of ferro-alloys is also used in the steel-making process. Non-ferrous metals, such as zinc, manganese and aluminium, are employed primarily in the production of higher value-added steel products, such as galvanised sheet. Russian Steel and Metalware sources most of its ferro-alloy requirements from third-party suppliers under annual contracts.

Russian Steel and Metalware also imports certain raw materials, such as ferro-alloys and refractory materials, from France, Austria, China and Ukraine. Prices for non-ferrous metals are generally linked to the London Metal Exchange prices for such metals.

Energy. Russian Steel and Metalware's electricity requirements total approximately 6.3 million kilowatt-hours per year. In 2005, 47.8 percent of these electricity requirements were satisfied by two on-site power stations owned by Russian Steel and Metalware. The two power stations have a total installed capacity of approximately 446 megawatts. The power stations generate electricity by burning natural gas and waste by-products from the steel mill's production process, such as coke breeze, blast-furnace gas and coke-oven gas. Recycling waste by-products creates significant cost savings. As a result, Russian Steel and Metalware uses a relatively low amount of energy coal to generate electricity at its facilities. Russian Steel and Metalware covers its remaining electricity requirements through direct contracts to buy electricity in the Russian wholesale electricity market.

The Cherepovets Steel Plant's energy requirements account for a substantial portion of Russian Steel and Metalware's total energy requirements. The following table sets forth a breakdown of the energy use of the Cherepovets Steel Plant for the year ended 31 December 2005.

Energy Use of Russian Steel and Metalware — Cherepovets Steel Plant

Energy consumption	2005
Electricity (millions of kilowatt hours)	6.30
Including own	3.30
Natural gas, billion cubic metres	2.48
Diesel and fuel oil, thousands of tonnes	40.0
Total energy spending by the Cherepovets Steel Plant (thousands of US$)	229,092
Percent of total operating costs	7.3 percent

Overall, the cost of electricity produced by Russian Steel and Metalware's power stations is approximately half that of electricity purchased from third-party suppliers. Prices for electricity in the Russian market have continued to increase and further increases are expected in line with the significant capital expenditure requirements of the Russian electricity industry. If prices from third-party suppliers remained high and it were economically feasible to do so, Russian Steel and Metalware would consider constructing additional generating units.

To generate heat, the steel-making facilities within Russian Steel and Metalware use blast-furnace gas. The gas used is sufficient to meet all of the heat requirements of Russian Steel and Metalware. Any surplus is sold to local household utilities.

Natural gas and fuel oil also form part of Russian Steel and Metalware's energy requirements. Natural gas is used as a heat source in the open-hearth furnaces, blast furnaces, reheating lines and power plants.

The power plants within Russian Steel and Metalware operate a combined cycle. These plants burn gases, including natural gas, to generate steam for electricity and burn by-product coal breeze from the coking plants to supplement hot water and industrial steam output. Russian Steel and Metalware's power plants use fuel oil only in emergencies.

Russian Steel and Metalware purchases its natural gas from Gazprom, the national gas supplier, at prices established by the Russian Federal Tariff Agency.

Capital Improvement Programme

Russian Steel and Metalware invested approximately US$1.66 billion in modernising its steel operations from 2003 to 2005. This capital improvement programme was designed to replace and refurbish major equipment, increase productivity and efficiency, effect environmental upgrades and develop its product mix further to produce higher-quality, value-added products, including galvanised steel and cold-rolled products. New products under development include tube-making strips, such as X-70 and X-100 API-class strength for large diameter pipelines; heavy plates for a shipbuilding project to be rolled by the 2800 and 5000 rolling mills; hot-dip galvanised sheets for automotive exposed parts and IF-steels; new-class carbon and low-alloyed steels with increased corrosion-resistant and low-temperature-resistant properties; long products of A 500C class for construction applications.

As a result of this capital improvement programme, modern processing technology and equipment from leading suppliers to the steel industry, including Fuchs, LOI and Siemens, have been installed at Russian Steel and Metalware's facilities. It is also planned that three blast furnaces and three coke batteries will be refurbished in the next two years. The basic oxygen furnace complex, or BOF-complex, is expected to be modernised and expanded to increase production to 9.5 million tonnes per year. In 2005, a second 1 million tonne capacity EAF entered commercial operations. It is expected that the continuous casters will be modernised and one machine fully revamped to eliminate the last remaining ingot casting and cogging complex, which currently accounts for 11 percent of production, costing an additional US$40 per tonne versus the continuous casting route. The upstream expansions are expected to increase steel production to 12 million tonnes over the next two to three years.

Russian Steel and Metalware's total capital expenditure from 2006 to 2010 is expected to be approximately US$3.2 billion.

Estimated Capital Expenditure Requirements from 2006 to 2010, Russian Steel

Facilities	Time period	Estimated cost
		(US$ millions)
Coking plant	2006-2010	347
Sintering plant	2006-2010	19
Blast furnace shop	2006-2010	516
Coverter shop	2006-2010	343
Hot-rolling shop	2006-2010	305
Cold-rolling shop	2006-2010	148
Transportation facilities	2006-2010	22
Other, including infrastructure projects	2006-2010	1,234
Cherepovets Steel Plant Total	2006-2010	2,933
Severgal, Izhorsky Pipe Mill and Severstal-Metiz	2006-2010	286
Total		3,219

Cherepovets Steel Plant. Capital improvements undertaken at Cherepovets are expected to benefit several facilities, as set forth below.

Blast furnace facilities. Blast Furnaces 1 and 2 are to be temporarily closed and refurbished in 2009 and 2008. Blast Furnace 3 is to be decommissioned by the end of 2006 following re-commissioning of Blast Furnace 5. Coke batteries 4 and 7 are to be refurbished from 2010 to 2011 and from 2008 to 2010, respectively. Battery 3 is currently not operational as it is undergoing refurbishment and recommissioning, expected to be completed by the end of 2006. During the period when Battery 3 is refurbished and commissioned, existing production levels at Russian Steel and Metalware are expected to be maintained.

Basic oxygen converters, EAFs and open-hearth furnaces. The production from the new EAF at the Cherepovets Steel Plant, which was commissioned in the second half of 2005 and is to be ramped up to 2.1 million tonnes of steel per year by mid-2007, and the gradual increase in converter shop production, are expected to compensate for the decrease of crude steel production related to the closure of the open-hearth furnace shop. This is expected to improve the overall productivity ratio.

Continuous casters. Continuous Casting Machine 2 is to be fully reconstructed and the other continuous casting machines are to be modernised. A pig iron desulphurisation unit and dust-treatment equipment is also to be installed. This is expected to increase the combined capacity of the continuous casters and the quality of the product.

Flat rolling facilities. Automated systems and sheet-straightening machines are to be installed and heating facilities refurbished. Mill 5000 is also to be modernised and expanded to produce high-quality strips for large-diameter pipes and other applications which, when completed, are expected to increase the capacity of Mill 5000 to 850,000 tonnes per year.

Pickling Lines 1 and 3 are to be renovated to provide facilities for 100 percent of hydrochloric pickling and to increase the capacity of the pickling lines to 3.9 million tonnes per year in aggregate. The Cold-rolling equipment is to be refurbished to increase the rolling mill's annual capacity from 2.8 million tonnes to 3.1 million tonnes by 2008 and to 3.2 million tonnes by 2009.

Air separation facility. On 31 August 2005, Severstal and Air Liquide established a company, Air Liquide Severstal, for the construction of an air liquefaction plant at the Cherepovets Steel Plant. Severstal contributed €5.2 million for a 25 percent plus one share equity stake in Air Liquide Severstal and Air Liquide contributed €15.8 million for a 75 percent minus one share equity stake in Air Liquide Severstal. The remaining project financing requirements of €72 million are being financed through a loan from the EBRD.

The unit has been designed and is expected to be constructed at the Cherepovets Steel Plant. Russian Steel and Metalware expects it to be the largest air separation unit in Russia and the most powerful installation for air separation in the iron and steel industry globally. The annual output of the new facility is expected to be 3,000 tonnes of liquid oxygen. The unit is expected to supply the steelworks with high-pressure oxygen as well as with high purity nitrogen and argon. The equipment for the new unit is expected to be supplied by Air Liquide-Engineering, an affiliate of Air Liquide.

Energy-generating facilities. The investment programme aims to increase the reliability of gas and energy supplies to the major production shops. This is expected to include the commissioning of two air-separating units in the oxygen shop to increase the production of converter steel and introduction of an automatic control and management system for energy resources, lower level of energy management. To supply steam and treated water to Severgal, the water-treatment station at the Cherepovets Steel Plant is expected to be refurbished and a steam boiler constructed. In addition, it is planned that the power-generating equipment will be modernised. Variable frequency drive installation and cooling-tower refurbishment are also planned.

Transportation facilities. Investments in the transportation facilities within Russian Steel and Metalware are also planned, including the development of its internal railway infrastructure and the purchase of coil delivery ramps and locomotives.

Severgal and Izhorsky Pipe Mill. Severgal and Izhorsky Pipe Mill are new assets and are not expected to require significant additional capital expenditure in the near future.

Severstal-Metiz. Severstal-Metiz has implemented programmes to enhance the efficiency of its assets and formed a long-term development strategy. Its annual capital expenditure has been approximately US$20 million.

Research and Development

Russian Steel and Metalware has pursued research and development initiatives with Russian universities and research institutes. Such initiatives include a research and development centre for cokemaking and ironmaking and studies for oil and gas pipe and shipbuilding steel applications.

Russian Steel and Metalware is also conducting cold-rolled products research initiatives, including the development of new kinds of strips and pipes not currently produced in Russia, development of more durable autosheet, research to increase the efficiency of the manufacturing process for sheet for the motor industry, optimisation of chemical compound and technological parameters for improvement of surface quality and reduction of expenses in the production of cold-rolled sheet and development of technological bases and optimum parameters for the production of hot-dip galvanised steel for the automotive industry.

Sales and Marketing

Russian Steel and Metalware sells its products in both the international and Russian domestic markets. Russian Steel and Metalware views the Russian domestic market as strategically important and has implemented a long-term programme designed to broaden its customer base and develop its relationship with various key customers. In the export markets, Russian Steel and Metalware aims to sell products for which there is low demand in Russia, and sales are made predominantly on a spot-market basis.

External Sales by Market, Russian Steel and Metalware

Market	2003		2004		2005	
	(US$ millions)	*percent*	*(US$ millions)*	*percent*	*(US$ millions)*	*percent*
Domestic Russian sales	1,854	58.0	2,683	50.7	3,381	54.4
Export sales	1,343	42.0	2,607	49.3	2,834	45.6
Total	3,197	100.0	5,290	100.0	6,215	100.0

Note: Excludes intercompany sales to other segments

Russian domestic sales. Russian Steel and Metalware continues to regard Russia as its most important market, which is characterised by lower transportation costs for delivery to customers. This market offers various competitive advantages, including the ability to realise higher profit margins, high demand from domestic industries that rely on a stable supply of steel products and the ability to develop long-term strategic alliances with customers. As domestic sales have higher profit margins than export sales, Russian Steel and Metalware aims to increase its share of domestic sales in the future. In the first half of 2006, Severstal's share of domestic sales increased to 62 percent of its total sales.

Customers. Russian Steel and Metalware's most important customers are the pipe-manufacturing and automotive industries. Russian Steel and Metalware also attaches increasing importance to the growing construction and construction materials sectors, which include a number of important customers located in the European part of Russia, as well as to the large customers emerging in the developing economies of several CIS countries.

The pipe manufacturing sector accounted for approximately 18.1 percent of Russian Steel and Metalware's total domestic sales in 2004 and approximately 24.0 percent in 2005. Russian Steel and Metalware's principal customers in the pipe manufacturing sector are the Vyksa and Cheliybinsk pipe plants. Russian Steel and Metalware sold approximately 1.3 million tonnes of different products to domestic customers in this sector in 2005. High-quality low alloy sheet accounted for approximately 60 percent of those sales. Russian Steel and Metalware is able to produce sophisticated steel grades for pipe manufacturing as well as high-quality steel with a very low level of impurities, namely, a sulphur content of less than 0.025 percent and a phosphorus content of less than 0.05 percent.

Russian Steel and Metalware is the only producer in Russia of "K-54" grade steel which has enhanced corrosion-resistant and cold-resistant properties and can be exploited in temperatures as low as minus 60 degrees Celsius. Russian Steel and Metalware's principal customers in this sector are the Vyksa and Cheliybinsk pipe plants. To increase its sales in the shipbuilding sector, Russian Steel and Metalware has developed new grades of steel with improved weldability. Russian Steel and Metalware estimates that sales to this sector constituted 2.8 percent and 2.5 percent of domestic sales for 2004 and 2005, respectively. See "— Izhorsky Pipe Mill".

The Russian automotive sector accounted for approximately 14 percent of Russian Steel and Metalware's total domestic sales in 2004 and approximately 12 percent in 2005. This sector is characterised by an increasing demand for a wide range of high-quality products, including IF-steel and zinc-coated products. Russian Steel and Metalware's key customers in the domestic automotive sector are GAZ, AutoVAZ and UAZ. Russian Steel and Metalware's sales to AutoVAZ and UAZ together accounted for more than 50 percent of Russian Steel and Metalware's total sales to the Russian automotive industry in 2005. The main products supplied to the automotive sector in 2005 were cold-rolled sheet (63 percent of Russian Steel and Metalware's total supplies to the industry) and pickled and oiled hot-rolled sheet (17 percent of Russian Steel and Metalware's total supplies to the industry). Russian Steel and Metalware sold approximately 650,000 tonnes of steel products to the automotive sector in Russia, Belarus and Ukraine during 2004 and 16,000 tonnes to automakers in other CIS countries. In 2005, supplies to the domestic automotive industry increased to 670,000 tonnes, while sales to automakers in other CIS countries were 34,000 tonnes. Due to the strict requirements of automotive plants, especially those outside Russia, Russian Steel and Metalware has focused on improving the quality of its products significantly and has developed new grades of products (for example, products with an alumino-silicon coating and high-strength steels) to meet the demands of customers. See "— Severgal".

Based on Eurostat data, Severstal-Metiz believes that it was the largest company in the metalware industry in Russia as at 31 December 2005. Approximately 95 percent of Severstal-Metiz's steel feedstock is supplied by the Cherepovets Steel Plant. In 2005, Severstal-Metiz had a total production output of 826,356 tonnes of metalware, as compared to 803,689 tonnes in 2004. Severstal-Metiz was also able to strengthen its position in the high-profit segments of the Russian metalware market, for example ropes, and to maintain strong relationships with key clients, such as Russian Railways. ChSPZ is the core plant within Severstal-Metiz, with 2005 annual production of 560,863 tonnes of metalware, as compared to 571,794 tonnes in 2004. Domestic sales in Russia accounted for approximately 76 percent of Severstal-Metiz's total sales in 2005, as compared to 77 percent in 2004, with wire being its best-selling product.

Key customer management. Russian Steel and Metalware has identified 11 key domestic customers as part of a project to work in close co-ordination with customers in strategically important industries, including such large accounts as OMK, OAO Volzhsky Pipe Plant, ChTPZ, AutoVAZ, UAZ, GAZ and Caterpillar. Russian Steel and Metalware works with these customers as part of its "Key customer management" process, which includes the development of new products and leads to further innovations both for the customer and Russian Steel and Metalware. Services for such customers include the construction of consignment warehouses in different regions and quarterly product-quality co-ordination (overseen by co-ordinating boards). As a result of these efforts, in 2004, direct sales to these key clients accounted for more than 42 percent of total domestic sales in volume, with further increases during 2005 as Russian Steel and Metalware continued to develop its co-operation with these key customers.

Sales by the Cherepovets Steel Plant account for a substantial portion of Russian Steel and Metalware's total sales. The following table sets forth the total sales by the Cherepovets Steel Plant, by sector, for the year ended 31 December 2005.

The following table sets forth a breakdown of domestic sales by sector of the Cherepovets Steel Plant for the last three years ended 31 December 2005.

Domestic Sales by Sector, Cherepovets Steel Plant

Industry sector	Year ended 31 December 2003	2004	2005
	(estimated percentage of domestic sales by revenue)		
Pipe manufacturing	21.1	18.1	24.0
Automotive industry	15.6	14.0	12.3
Metalware	10.3	13.5	11.0
Heavy engineering	8.3	11.6	12.6
Shipbuilding	5.1	2.8	2.5
White goods	3.7	1.3	1.3
Regional distribution[1]	35.9	38.7	36.3

Note:

(1) Regional distribution includes sales to large-scale warehouses, regional supply agencies, traders and industries other than those mentioned above.

Distribution. Russian Steel and Metalware estimates that it sold approximately 84 percent of its total domestic sales by volume directly to Russian domestic customers during 2004 (including regional distribution centres) and estimates that this figure increased to more than 85 percent during 2005. The remainder was sold through intermediaries. Russian Steel and Metalware has also sold a considerable amount of its production volume (700,000 tonnes) to domestic customers through ZAO Trading House Severstal Invest (TD Severstal Invest).

The regional distribution of Russian Steel and Metalware's products involves the delivery of steel products to large warehouses, regional supply agencies, traders and industries from which they are distributed to a wide range of consumers (including small businesses and the public). In 2004, Russian Steel and Metalware sold approximately 1.8 million tonnes of steel products to this group of consumers. Russian Steel and Metalware estimates that this amount increased in 2005 to more than 2 million tonnes.

Export sales are conducted entirely through Russian Steel and Metalware's export trading subsidiaries.

Products. Russian Steel and Metalware's domestic sales are dominated by hot-rolled sheet and sections, which accounted for 51 percent of total domestic sales in 2005. Higher value-added products such as cold-rolled and galvanised sheet are also very significant, making up approximately 24 percent of total domestic sales in 2005. Russian Steel and Metalware also sells some non-steel "associated products", which include a wide range of chemical products, benzol, green vitriol, blast furnace and converter slag and other by-products of the metallurgical process. These products are used in the agricultural, chemical and construction industries. Based on publicly available steel production data, Severgal has a 43 percent production share of special niche products and a 57 percent production share of value-added products.

Domestic Sales by Product, Russian Steel and Metalware[1]

	2003			2004			2005		
Product	*(tonnes thousands)*[2]	*(US$ thousands)*	*(percent of domestic sales)*	*(tonnes thousands)*[2]	*(US$ thousands)*	*(percent of domestic sales)*	*(tonnes thousands)*[2]	*(US$ thousands)*	*(percent of domestic sales)*
Hot-rolled sheet	2,213	669,746	36.1	1,760	812,224	30.3	2,270	1,281,011	37.9
Cold-rolled sheet	830	284,377	15.3	706	364,546	13.6	692	419,387	12.4
Galvanised sheet	346	166,504	9.0	439	296,704	11.1	480	377,129	11.2
Hot-rolled sections	1,023	266,971	14.4	926	429,410	16.0	949	428,524	12.7
Semi-finished products	—	1,860	0.1	34	14,656	0.5	37	14,992	0.4
Further processed product	440	156,938	8.5	299	168,399	6.3	308	193,468	5.7
Wire	222	83,301	4.5	271	167,641	6.2	267	170,369	5.0
Chemical by-products	—	34,506	1.9	—	54,124	2.0	—	48,196	1.4
Other	123	122,283	6.6	153	300,413	11.2	161	347,570	10.3
Shipping and handling costs	—	67,625	3.6	—	75,072	2.8	—	100,516	3.0
Total	5,196	1,854,112	100	4,590	2,683,189	100	5,164	3,381,162	100

Notes:

(1) Excludes intercompany sales to other segments.

(2) Tonnes are shown only for steel products. Some insignificant volumes of steel products are not measured in tonnes but in units or metres.

Contracts. Russian Steel and Metalware has developed an approach to contractual relations with its Russian domestic customers that is relatively new in Russia. Contracts are concluded on a quarterly, semi-annual, annual or 15-month basis depending on the customer (for example, relationship history, industry and significance). Contracts also include a flexible system of discounts and rebates that provides for adjustments to the contract price on the basis of product tonnage, timing of payment and other contractual terms.

Sales to key customers are made at long-term prices and on customised terms, allowing Russian Steel and Metalware to fully reflect the higher degree of sales complexity in each case. Long-term contracts usually have a duration of approximately six months or more and ensure more stable operating conditions for Russian Steel and Metalware.

Russian Steel and Metalware seeks prepayments from certain customers, including new customers and those companies who are considered to be at risk financially. In 2005, prepayments accounted for approximately 18 percent of Russian Steel and Metalware's sales, compared to 21 percent in 2004. The remainder of contracts require settlement within a range of five to thirty days from delivery and combined settlements. Russian Steel and Metalware offers credit to a number of key customers of up to thirty days under bank guarantees. This flexibility of contract and credit terms has generated a significant competitive advantage for Russian Steel and Metalware, allowing it to forge closer ties with customers and to react more effectively to changes in market conditions.

International sales. In line with its strategy of focusing on the Russian domestic market, Russian Steel and Metalware's international sales strategy is, on the whole, oriented towards identifying spot markets of steel products.

Customers. Russian Steel and Metalware also focuses on a number of international customers irrespective of the fact that sales to such customers do not represent a substantial proportion of total international sales. These customers are often targeted for other strategic reasons, for example, to establish relationships with the customer, particularly where the customer is likely to establish or has recently established operations in Russia or where Russian Steel and Metalware aims to gain further exposure to sophisticated customers with complex specification requirements.

Russian Steel and Metalware's primary international customers are companies in the automotive industry, such as Fiat, Ford Motor Company, General Motors Corporation, Renault, Greif (formerly Van Leer), Philips, Merloni and Electrolux, for which it produces galvanised sheet steel with a high-quality surface and other high-quality products.

Distribution. Russian Steel and Metalware conducts its export sales primarily through two export-trading subsidiaries, Severstal Export GmbH and AS Severstallat. This system has enabled Russian Steel and Metalware to increase the efficiency of its export operations by minimising its reliance on intermediaries in the sales process and, therefore, reducing its distribution costs. The two export-trading subsidiaries referred to above are owned by Severstal's wholly-owned Austrian subsidiary, Severstal Trade, which holds 99.8 percent of Severstal Export GmbH and 50.5 percent of AS Severstallat.

Severstal Export GmbH is the marketing centre for Russian Steel and Metalware's sales operations in the export markets, excluding the Baltic States, which are covered by AS Severstallat. Handling export operations through one centre has allowed Russian Steel and Metalware to achieve cost savings through lower administrative expenses, to benefit from large volumes and to eliminate intermediaries from the distribution chain.

AS Severstallat has been Russian Steel and Metalware's export agent in the Baltic region since its formation in 1992. Although Russian Steel and Metalware has direct contracts with certain customers in the Baltic market, the majority of sales contracts, primarily with shipbuilding companies, are entered into through AS Severstallat. AS Severstallat is currently a joint venture between Severstal Trade and local partners, not affiliated with Russian Steel and Metalware, and was originally established in 1992. Severstallat was founded to manage the transportation of Russian Steel and Metalware's products for export sale through the Baltic countries and at Baltic ports. Changes in railway tariffs led to AS Severstallat's reorganisation in 2001. AS Severstallat now operates as an export agent, a customer-oriented regional service centre and a producer of metal products for Baltic countries and elsewhere in Northern and Eastern Europe. It conducts a variety of businesses, including direct metal sales, a cutting service for coils and the production of long products and pipes.

Both of Russian Steel and Metalware's export trading companies are responsible for the day-to-day management of export operations, with monitoring provided by Russian Steel and Metalware's sales department in collaboration with the trading companies described above. This system provides a higher degree of control over export operations and ensures that these operations are aligned with Russian Steel and Metalware's long-term strategy.

Products. Russian Steel and Metalware's export sales are dominated by hot-and cold-rolled sheet, which accounted for 64 percent of sales in 2005. Semi-finished products are also a significant part of total sales, due to strong cost advantages in the merchandise slab market.

Export Sales by Product, Russian Steel and Metalware[(1)]

Product	2003 (tonnes thousands)[(2)]	2003 (US$ thousands)	2003 (percent of export sales)	2004 (tonnes thousands)[(2)]	2004 (US$ thousands)	2004 (percent of export sales)	2005 (tonnes thousands)[(2)]	2005 (US$ thousands)	2005 (percent of export sales)
Hot-rolled sheet	1,851	521,574	38.8	2,122	1,065,958	40.9	2,413	1,202,374	42.4
Cold-rolled sheet	1,029	365,975	27.2	1,111	623,962	23.9	1,044	621,540	21.9
Galvanised sheet	107	45,623	3.4	124	79,774	3.1	124	80,983	2.9
Hot-rolled sections	75	19,801	1.5	113	50,605	1.9	135	64,554	2.3
Semi-finished products	367	76,648	5.7	680	308,846	11.8	893	333,338	11.8
Further processed products	169	54,634	4.1	154	93,703	3.6	133	84,437	3.0
Wire	91	34,618	2.6	133	81,165	3.1	145	83,525	2.9
Chemical by-products	—	13,251	1.0	—	15,851	0.6	—	19,374	0.7
Other	18	19,738	1.5	23	27,455	1.1	27	38,364	1.4
Shipping and handling costs	—	191,357	14.2	—	259,729	10.0	—	305,313	10.8
Total	3,709	1,343,173	100	4,461	2,607,048	100	4,916	2,833,800	100

Year ended 31 December

Notes:

(1) Excludes intercompany sales to other segments.

(2) Tonnes are shown only for steel products. Some insignificant volumes of steel products are not measured in tonnes but in units or metres.

Severstal North America

Severstal North America is the fourth largest integrated steel producer in the United States, based on the 2005 AIST Directory of Iron and Steel Plants. Strategically located close to major North American automotive steel customers, Severstal North America has a crude steel capacity of 3.0 million tonnes per year, a flat hot rolling capacity of 3.6 million tonnes per year, a cold rolling capacity of 1.8 million tonnes per year and a galvanising capacity of 800,000 tonnes per year. In 2005, Severstal North America's total steel production was approximately 2.7 million tonnes of crude steel and 2.9 million tonnes of finished steel.

Severstal North America's main plant is located in Dearborn, Michigan. This location gives Severstal North America strategic proximity to major automotive customers and to three of the largest railroads in North America, providing logistically favourable access to raw materials and to customers.

Severstal North America's product line includes hot-rolled, cold-rolled and galvanised steel. Severstal North America's products — and in particular its value-added products such as high strength, high-carbon and low-alloy steel — are sold primarily to customers in the automotive industry. Severstal North America's joint venture with US Steel, Double Eagle, is currently the world's largest electro-galvanised line according to US Steel, with a capacity of 800,000 tonnes per year.

Severstal North America's strategy is to create value based on sustainable EBITDA as a result of being a low cost producer and supplying premium markets. Severstal North America expects to achieve a best-quartile North American integrated mill cost position as a result of its modernisation program, raw material and energy position and dedication to continually optimising its processes. Severstal North America expects that its modernisation program will result in Severstal North America having one of the best finishing facilities in North America and allow it to increase its marketing of premium products to value added segments and customers. In addition, Severstal North America currently operates a very flexible melting facility, which allows it to produce high carbon and alloy flat rolled steels for the specialty markets.

Severstal North America plans to leverage the strengths and expertise of both Severstal and its affiliate companies from all aspects including technology, purchasing, sales and operating expertise. Severstal North America also plans to invest in upstream and downstream opportunities that are consistent with reducing cost and marketing value added products.

Facilities

Severstal North America is focused primarily on high-quality flat products, with a production capacity of 3.0 million tonnes of crude steel per year. Severstal North America's main facility in Dearborn, Michigan is fully integrated and is located on an industrial site adjacent to Ford's stamping, engine, frame, paint and assembly plants. The Dearborn Facility comprises blast furnaces and steel making, casting and hot and cold rolling facilities. Severstal North America also has two galvanising facilities at its two downstream joint ventures, Spartan and Double Eagle; a steel-slitting facility at its Delaco Processing joint venture; and a coke facility at its Mountain State Carbon joint venture. These facilities enable Severstal North America to produce high-quality, flat-rolled carbon steel products consisting of hot-rolled, cold-rolled and galvanised steel.

Severstal North America's primary operations consist of two operating blast furnaces, two BOF vessels, two ladle refining facilities, one vacuum degassing facility and two continuous casters. Its finishing operations include a hot-strip mill, three pickle lines, a tandem mill, one temper mill, a hot dip galvanising line at Spartan and an electrogalvanising line at Double Eagle.

The following table sets forth Severstal North America's actual output for the three years ended 31 December 2003, 2004 and 2005 and equipment, capacity and utilisation rate by sub-segment as at the year ended 31 December 2005.

Steel Production Facilities, Severstal North America — Output, Capacity and Utilisation Rate by Unit

Production facility	Actual output			Equipment	Capacity	Utilisation rate
	2003	2004	2005			
	(million tonnes per year)			*(million tonnes per year) (as at 31 December 2005)*		*(percent)*
Dearborn Facility	2.101	2.041	2.272	3 furnaces(2)	2.352	96.6
Blast furnaces	2.101	2.041	2.272	3 furnaces(2)	2.352	96.6
Basic oxygen furnace	2.512	2.481	2.753	2 vessels	2.849	96.6
Continuous caster	2.441	2.402	2.670	2 cc-3 strands	2.774	96.3
Vacuum degassing facility	2.512	2.480	2.752	1 facility	2.849	96.6
Ladle refining facilities	0.588	0.636	0.520	2 facilities	2.849	18.3
Hot strip mill	2.361	2.446	2.870	1 mill	3.130	91.7
Pickle lines	1.350	1.340	1.427	3 lines	1.451	98.3
Tandem mill	1.225	1.261	1.372	1 mill	1.372	100
Temper mill	0.749	0.759	0.811	1 mill	0.816	99.4
Spartan						
Hot dip galvanising line(3)	0.324	0.336	0.348	48 percent of 1 line	0.348	100
Double Eagle						
Electrogalvanising line(4)	0.317	0.297	0.304	50 percent of 1 line	0.402	75.6
Delaco Processing						
Steel slitting facility(5)	0.099	0.086	0.09	49 percent of facility	0.113	79.6
Mountain State Carbon						
Coke production facility(6)	—	—	0.154	50 percent of coke batteries	0.500	N/A

Notes:

(1) Russian Steel and Metalware acquired Severstal North America on 30 January 2004. Information presented includes output of Severstal North America's predecessor.

(2) Blast furnace "A" has been idle since 1988.

(3) Owned through Spartan. Under the Spartan joint venture agreements, Severstal North America supplies 100 percent of the substrate material and markets a minimum of 80 percent of the output.

(4) Owned through Double Eagle. Under the Double Eagle joint venture agreements, Severstal North America receives 50 percent of the coating line time.

(5) Owned through Delaco Processing. Under the Delaco Processing joint venture agreements, Severstal North America owns 49 percent of the steel slitting facility and processes approximately 75 percent of the tonnage slit at the joint venture.

(6) Owned through Mountain State. Under the Mountain State Carbon joint venture agreements, Severstal North America owns 50 percent of the facility and offtakes 50 percent of the output. 2005 production represents fourth quarter 2005 only as the joint venture did not close until 30 September 2005. Capacity represents Severstal North America's 50 percent of the full output once the complete rebuild of the coke batteries is completed.

Dearborn Facility. Severstal North America's Dearborn Facility includes blast furnaces and steel making, casting and hot and cold rolling facilities.

Blast furnace facilities. Blast furnace "C" has a working volume of 1,500 cubic metres. The furnace was relined in 1991 and is scheduled to be modernised and expanded in 2007. It is expected that the furnace will be shut down for 105 days, during which time Severstal North America will have decreased hot metal and slab production and will rely more heavily on purchased slabs. Severstal North America currently plans to source its increased slab needs during the shutdown of blast furnace "C" through increased purchase of slabs from Lucchini, Russian Steel and Metalware and/or other external sources.

Blast furnace "B" has a working volume of 794 cubic metres. It was relined in 1997 and its campaign is capable of extending into 2010.

Steel making facilities. There are two 235 tonne converter BOF vessels. There are two slab continuous casting machines. One is a twin strand, curved mould machine with a metallurgical length of 26.5 metres, and the other is a single strand, curved mould machine with a metallurgical length of 23.5 metres.

Rolling facilities. The hot strip mill has three walking beam furnaces, four roughing stands and seven finishing stands. It has a capacity of 3.3 million tonnes per year.

Severstal North America has three pickle lines, two of which have maximum line speeds of 305 metres per minute and a maximum coil weight of 22.7 tonnes. The third line has a maximum line speed of 762 metres per minute and a maximum coil weight of 25.0 tonnes. The total capacity of the pickle lines is 1.5 million tonnes per year.

The tandem cold mill is a four stand by four high mill. The maximum line speed is 975 metres per minute and the maximum coil weight is 27.2 tonnes. It has a capacity of 1.6 million tonnes per year.

Severstal North America's temper mill is one stand four high design. The maximum rolling speed is 858 metres per minute and the maximum coil weight is 27.2 tonnes. The temper mill has a capacity of 0.8 million tonnes per year.

Severstal North America has two annealing processes: hydrogen batch annealing and hydrogen-nitrogen, or HN, batch annealing. The hydrogen batch annealing facility consists of 26 bases with 17 furnaces and a stacking height of 5.28 metres. The HN batch annealing facility has 86 bases with 34 furnaces and a stacking height of 3.95 metres. The primary fuel used for both annealing processes is natural gas.

Spartan hot dip galvanising line. Severstal owns 48 percent of a hot dip galvanising line, or Spartan, through a joint venture with Worthington Steel of Michigan. Spartan produces hot dip galvanised sheet steel sold to unexposed automotive and service centre customers and has a capacity of 410,000 tonnes per year, approximately 330,000 tonnes of which are dedicated to Severstal North America. It can coat at a thickness of 30 to 150 grams per square metre. Severstal North America supplies 100 percent of the substrate to Spartan.

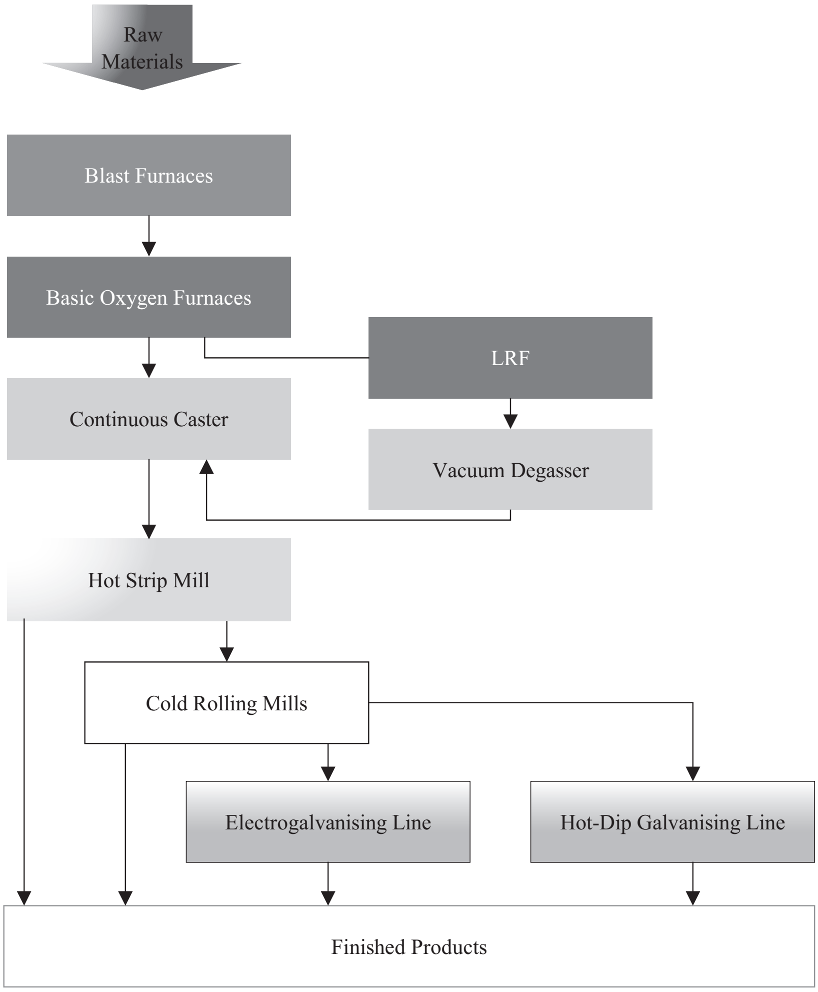
Double Eagle electrogalvanising line. Severstal North America owns 50 percent of a electrogalvanising line, or Double Eagle, through a joint venture with US Steel. The Double Eagle electrogalvanising line has a capacity of 800,000 tonnes per year, approximately one-half of which is dedicated to Severstal North America. This facility has 42 plating cells and can coat on one or two sides at a thickness of 0 to 100 grams per square metre. The facility can coat the substrate with either pure zinc or a zinc-iron alloy.

Delaco Processing steel slitting facilities. Delaco Processing, a joint venture owned 49 percent by Severstal North America and 51 percent by Delaco Supreme Tool and Gear Co., operates a steel slitting facility capable of processing coils up to 1,829 millimetres wide and 27 tonnes and creating slit widths as low as 35 millimetres.

Mountain State Carbon. Severstal North America owns 50 percent of a coke facility in West Virginia, or Mountain State Carbon, through a joint venture with Wheeling-Pittsburgh. Mountain State Carbon produces approximately 1 million tonnes of coke per year.

Production Process

The following diagram illustrates the principal steps in Severstal North America's production process as at 31 December 2005:



The steelmaking process at Severstal North America begins with iron ore pellets and coke being fed into the blast furnaces, which operate continuously. During the blast furnace process, the charge is converted into pig iron. The pig iron sinks to the bottom of the blast furnace and is tapped off for further processing. Liquid slag, which remains after smelting, is also removed from the blast furnaces.

Once cooled, slag is sold to a slag processing facility to be used for a variety of products, including railroad track ballast, roadway base and bulk concrete additive. Gas produced by the blast furnaces is captured and sold to DIG, a cogeneration power plant and affiliate of CMS Energy Corporation. Molten pig iron, which is a component of the metal charge used in the production of steel in Severstal North America's BOF, is transported to the BOF in 145 tonne railway torpedo cars. The pig iron is poured into charging ladles and then into the BOF vessel. In addition to pig iron, the metal charge consists of scrap metal in various forms (loose and packaged purchased scrap and internally generated scrap).

The molten steel is then fed from the BOF into the continuous casting machines to produce slabs that are then rolled at the hot strip mill into coils. The continuous caster facility is equipped with two radial-curved continuous casting machines. Severstal North America's hot strip mill is able to produce coiled sheet of a thickness ranging from 1.9 to 9.6 millimetres with a coil weight of up to 27 tonnes. Part of the hot strip mill production is sent to Severstal North America's cold rolling mills. These mills produce coiled sheet of a thickness ranging from 0.5 to 2.3 millimetres. Additional processing methods related to cold-rolling may be used to further improve the surface characteristics of the steel, including pickling, annealing and sheet-tempering.

Some of the cold-rolled sheets are galvanised at Spartan or Double Eagle facilities.

Quality Control. Severstal North America has implemented the TS16949 quality management system and received certification to this internationally recognised technical specification in July 2004. Certification to this specification is required to directly supply the automotive industry. The goal of the TS16949 specification is to achieve customer satisfaction through continual improvement. Severstal North America has demonstrated proactive customer relationships as a requirement of the certification. Further, the TS16949 certification identifies Severstal North America's on-site laboratory as being qualified to perform product testing and certifications as it pursues A2LA Laboratory Accreditation. Severstal North America has successfully completed four surveillance audits since 2004 to maintain certification and the benefits of the TS16949 technical specification.

Products

Crude steel products. Severstal North America produced 2.7 million tonnes of crude steel in 2005, or approximately 90 percent utilisation.

Year ended 31 December	**Severstal North America**
	(thousands of metric tonnes)
2003[(1)]	2,512
2004[(1)]	2,481
2005	2,753

Note:

(1) Russian Steel and Metalware acquired Severstal North America on 30 January 2004. Information presented includes output of Severstal North America's predecessor.

Finished steel products. Most of Severstal North America's crude steel production is further processed into finished steel products, which include flat and galvanised products. Flat products include hot-rolled and cold-rolled sheet, plates and coils. Galvanised products include automotive and non-automotive parts.

	Year ended 31 December		
Product	**2003[(1)]**	**2004[(1)]**	**2005**
	(thousands of metric tonnes)		
Hot-rolled sheet	1,012	1,039	1,333
Cold-rolled sheet	565	570	627
Electrogalvanised	292	297	315
Hot dip galvanised	342	358	410
Total	2,211	2,264	2,685

Note:

(1) Russian Steel and Metalware acquired Severstal North America on 30 January 2004. Information presented includes output of Severstal North America's predecessor.

Hot-rolled sheet. Hot-rolled flat products include heavy-gauge and light-gauge hot-rolled sheet produced from ordinary and high-quality carbon-steel and low-alloy strengthened steel. Severstal North America produces hot-rolled sheet with a maximum thickness of 9.6 millimetres and width of 1,560 millimetres. Heavy-gauge sheet steel is used to manufacture wheels, suspension arms, roof decking and guard rails. Light-gauge hot-rolled sheet has a minimum thickness of 1.9 millimetres and is used for welded pipe and tubing, white goods and automotive parts.

Cold-rolled sheet. Severstal North America produces cold-rolled coils with a thickness of 0.5 to 2.3 millimetres and a width up to 1,524 millimetres. Cold-rolled sheet, which has a greater elasticity and a better surface quality than hot-rolled sheet, has various uses, including the manufacture of automotive parts, lighting fixtures, room dividers and doors. In addition, cold-rolled products serve as a substrate for Severstal North America's galvanised products.

Coated/galvanised products. Through its Double Eagle and Spartan joint ventures, Severstal North America produces galvanised products, which are used for exposed and unexposed automotive parts, as well as non-automotive products such as residential and commercial doors, roofing, ductwork and grain bins, and steel utility poles.

Supply Chain

The principal raw materials used by Severstal North America to produce steel include iron ore pellets, coke, limestone and dolomite, non-ferrous metal and ferro-alloys and metal scrap. Severstal North America does not maintain a minimum reserve of raw materials with the exception of iron ore pellets, which are delivered by ship. The Great Lakes shipping channels are typically closed during the January through March period, and accordingly Severstal North America accumulates a three months' supply of iron ore pellets by the end of each year to sustain production during the winter months.

Energy requirements for Severstal North America include electricity, steam and natural gas.

Principal Raw Materials and Energy Purchased by Severstal North America

Raw materials. Raw materials accounted for 54.3 percent of Severstal North America's total operating cost base as at 31 December 2005 compared to 50.4 percent as at 31 December 2004.

Raw materials	2004(1) amount	2005 amount
	(thousand tonnes)	*(thousand tonnes)*
Iron-ore pellets	3,245	3,614
Coke	969	1,109
Metal scrap	851	960
Ferro-alloys and non-ferrous metals	16	21
Fluxes	164	174
Purchased slabs	217	269
Other materials, including purchased slabs	24	30
Total raw materials spending by Severstal North America (thousands of US$)	682,544	939,564
Percentage of total operating costs	50.4 percent	54.3 percent

Energy consumption	2004(1)	2005
Electricity (millions of kilowatt hours)	569,121	611,965
Steam (thousands of MLbs)	2,559	2,642
Natural gas (1000m3)	457,000	525,000
Total energy spending by Severstal North America (thousands of US$)	143,706	208,633
Percentage of total operating costs	10.2 percent	11.9 percent

Note:

(1) Russian Steel and Metalware acquired Severstal North America on 30 January 2004. Information presented includes consumption for Severstal North America's predecessor.

Iron ore and pellets. Iron ore is purchased exclusively from Cleveland-Cliffs pursuant to a long-term contract expiring at the end of 2012. Severstal North America has committed to purchase all of its iron ore requirements from Cleveland-Cliffs through this period, including a minimum volume of 4.5 million tonnes between 2006 and 2008. Severstal North America consumes approximately 3.7 million tonnes per year.

Severstal North America purchases two types of pellets: a fluxed pellet produced at the Tilden Mine in Northern Michigan and a high-manganese acid pellet produced at the Wabush mines in Quebec, Canada. Severstal North America consumes approximately 90 percent to 95 percent Tilden and 5 percent to 10 percent Wabush pellets, depending on cost and availability of Wabush ore.

Coke. In 2006, Severstal North America expects to receive approximately 350,000 tonnes of coke from its Mountain State Carbon joint venture. After modernisation of Mountain State Carbon's largest battery, which is currently planned for the first quarter of 2007, Severstal North America believes that two thirds of its metallurgical coke needs will be met by its Mountain State Carbon joint venture. Severstal North America is currently considering several domestic and foreign options for sourcing the balance of its coke requirements.

Severstal North America purchases most of its remaining coke requirements pursuant to short-term (one year or less) fixed price contracts. In 2005, Severstal North America imported most of its coke requirements from selected Chinese producers at close to spot-market prices. Additional coke was purchased from Japan, Russia, Poland, Canada and US suppliers. In 2004, Severstal North America received approximately 720,000 tonnes of coke under a contract with US Steel. This was supplemented with coke purchased in the spot market from China, Russia, Poland, Ukraine and Canada.

Scrap. Scrap is purchased from companies that collect scrap metal and is generated internally from Severstal North America production processes. Approximately 30 percent of the BOF vessel charge is scrap and the remaining 70 percent is liquid iron. Severstal North America also uses scrap-processing services, which allows Severstal North America to process a wide range of sizes and quality of steel scrap. Such services include special cutting and packaging lines for processing the scrap so that it is ready for use in the smelting process. Although there have been sharp increases in market prices of steel scrap in both the US and international markets in recent years, Severstal North America believes that its strategic location in a region with significant sources of prime automotive scrap brings it an advantage in transport costs.

Purchased slabs. Severstal North America purchases semi-finished products (slabs) in order to produce incremental hot band sales. In 2005, Severstal North America purchased 269,000 tonnes of slabs. Severstal North America plans to purchase 477,000 tonnes of slabs in 2006 and 907,000 tonnes in 2007, in anticipation of the planned rebuild of its blast furnace "C".

In 2004, the main suppliers of slabs to the Severstal North America plant were Novolipetsk Iron Steel Corporation, ISPAT Mexicana, S.A. de C.V. (a Mittal group company), Corus UK Limited and Companhia Siderurgica de Tubarao (an Arcelor group company). In 2005, Severstal North America purchased slabs from Companhia Siderurgica de Tuberao, Lucchini S.p.A, Companhia Siderurgica Paulista (part of USIMINAS), Siderurgica Del Orinco, C.A., Siderurgica Argentina and ISPAT Mexicana, S.A. de C.V. Severstal North America intends to continue to purchase slabs from these and other producers in the future.

Other raw materials. Severstal North America purchases metallic and non-metallic alloys and fluxes from domestic producers. Pricing for ferro-alloys is generally set by contracts that are one to three months in duration. These prices have fallen from 2004 levels, but began to increase again in the fourth quarter of 2005 and into the first quarter of 2006. There has been a slight increase for the second and third quarters of 2006, but pricing remains well below 2004 levels.

Energy. Severstal North America's electricity requirements total approximately 0.6 million megawatt-hours per year.

Severstal North America purchases electricity and steam from CMS ERM LLC, an affiliate of DIG, under a 15-year contract. Prices are fixed for each year during the contract term in accordance with a negotiated schedule and are lower than market prices. Under this contract, DIG is required to purchase 100 percent of Severstal North America's available blast furnace gas. The contract extends through 2015 with an option to renew for an additional 15 years.

Severstal North America purchases natural gas at prevailing market prices from a variety of natural gas suppliers. In 2004 and 2005, Severstal North America purchased natural gas primarily in the spot market. To minimise the cost impact of natural gas price volatility, Severstal North America has begun purchasing ahead and is developing programmes that involve physical and financial hedges. Through a combination of forward pricing and financial hedges, Severstal North America initiates a hedge position up to 12 months forward for a small percentage of the total expected requirements, building over time until 75 percent to 80 percent of the natural gas volume is hedged in any particular month. Severstal North America believes that its natural gas needs will decrease significantly once blast furnace "C" and the hot strip mill reheat furnaces modernisation projects have been completed.

Capital Improvement Programme

Severstal North America made capital investments, including investments in joint ventures, of approximately US$74 million in 2005 and US$9 million in 2004. Severstal North America plans to invest a further US$931 million on capital improvements at its Dearborn Facility and Double Eagle and Spartan joint ventures between 2006 and 2010. Severstal North America has financed the programme out of internal cash flow and equity injections and intends to finance the future capital improvement programme through a mixture of internally generated cash flow, external borrowings and an increase of paid-in capital.

The capital improvement programme is designed to replace or refurbish major equipment, increase productivity and efficiency, make environmental improvements, improve product quality and develop its product mix. It is expected that a significantly improved production system will be in place by 2010. The capital improvement programme includes:

- modernisation and expansion of Severstal North America's largest blast furnace, including pulverised coal injection, which is expected to significantly reduce the use of natural gas, minimise the use of coke and allow Severstal North America to idle its smaller, less efficient blast furnace in 2008;

- a secondary emission control system at the BOF which is expected to allow that facility to use lower-priced scrap and meet increasingly stringent environmental standards;
- a straight mould conversion at the continuous caster, which is expected to ensure the highest quality of slabs for the automotive market;
- hot strip mill reheat furnace upgrades which are expected to increase the mill's capacity from 3.3 million tonnes to 3.6 million tonnes and reduce the natural gas consumption;
- pickle line and cold mill modernisation that is expected to reduce the conversion cost, increase width, improve yield and quality of tandem cold-rolled products and allow Severstal North America to produce the steel products that will be required by its automotive customers in the future;
- construction of a new exposed hot dip galvanising line; and
- modernisation of Spartan to upgrade that facility's ability to produce advanced high-strength steel.

Estimated Capital Expenditure Requirements from 2006 to 2010, Severstal North America

Operating facility	2006-2010
	(US$ millions)
Blast furnaces	379.6
BOF	56.1
Continuous caster/LRF	47.8
Hot strip mill	51.3
Coupled pickle line and tandem mill/Cold mill	322.3
Joint ventures	14.4
Other	59.7
Total	**931**

Research and Development

Severstal North American has partnered with Ford, GM, Daimler-Chrysler and other major automotive companies to pursue various research and development projects. Such projects include efforts to provide value-added customer support in addressing cost, vehicle weight and materials performance and research in vehicle manufacturing efficiency, weight reduction and material durability.

Sales and Marketing

Severstal North America sells its products primarily in the domestic US market. While export sales have increased over the last three years, domestic sales have accounted for an average of approximately 92 percent of Severstal North America's total sales for the last three financial years.

Sales by Market, Severstal North America

Market	Year ended 31 December					
	2003(1)		2004(1)		2005	
	(US$ millions)	*(percent)*	*(US$ millions)*	*(percent)*	*(US$ millions)*	*(percent)*
Domestic US sales	1,043.0	95.9	1,341.8	93.5	1,597.1	87.6
Export sales	45.0	4.1	93.4	6.5	225.5	12.4
Total	1,088.0	100.0	1,435.2	100.0	1,822.6	100.0

Note:

(1) Severstal acquired Severstal North America on 30 January 2004. Information presented includes sales for Severstal North America's predecessor.

Customers. Severstal North America continues to regard the US as its most important market. Most of Severstal North America's approximately 200 steel customers are located within 350 miles of Severstal North America's facility. Severstal North America believes this proximity to its customers enables it to provide focused customer service and resources.

Severstal North America's largest domestic customers are Ford, General Motors and DaimlerChrysler. Ford, General Motors and DaimlerChrysler accounted for approximately 24 percent, 13 percent and 6 percent, respectively, of total sales in 2005. They accounted for 24 percent, 8 percent and 7 percent, respectively, of total sales in 2004 and 36 percent, 11 percent and 6 percent, respectively, of total sales in 2003. Severstal North America believes that its long-standing relationship with each of these companies provides a stable sales base and the ability to expand its product capability and concentrate on increasing margins through more efficient production. No single customer, other than Ford or General Motors, has accounted for more than 10 percent of Severstal North America's total sales over the past three years. Severstal North America's ten largest customers in the aggregate accounted for approximately 73 percent of total sales in 2005, approximately 65 percent of total sales in 2004 and approximately 73 percent of total sales in 2003.

Total Sales by Sector, Severstal North America

Industry sector	Year ended 31 December 2003[1]	2004[1]	2005
	(estimated percentage of sales)		
Automotive industry	58.8	42.8	46.5
Non-auto end user	1.2	1.6	1.1
Converter	13.8	19.0	27.9
Service centre	26.2	36.6	24.5

Note:

(1) Severstal acquired Severstal North America on 30 January 2004. Information presented includes sales of Severstal North America's predecessor

Distribution. Severstal North America distributes its steel products principally through its own sales organisation. Severstal North America has a sales department on site and also has a small number of off-site representatives.

Products. Severstal North America produces only flat rolled products that include hot-rolled, cold-rolled and galvanised sheet. Severstal North America believes its focus on value-added products and services differentiates it from its competitors and provides maximum margins. Through its joint ventures, Double Eagle and Spartan, Severstal North America produces galvanised steel. It also produces high-carbon, alloy and other speciality steels that are used primarily by automotive customers for engine, transmission and drive train parts, seat components and clutch plates. Some nonautomotive customers use these value-added steels for specialised agricultural equipment, plough discs, lawnmower blades and bearings. Presently, approximately 65 percent of Severstal North America's sales are high value-added products. Severstal North America has a 47 percent market share of special niche product sales and a 20 percent market share of value-added product sales.

Total Sales by Product, Severstal North America[2]

Product	Year ended 31 December 2003[1]		2004[2]		2005	
	(US$ thousands)	*(percent)*	*(US$ thousands)*	*(percent)*	*(US$ thousands)*	*(percent)*
Hot-rolled sheet	391,505	36.2	599,428	42.0	796,500	43.7
Cold-rolled sheet	272,127	25.1	369,222	25.8	428,000	23.5
Galvanised sheet	419,444	38.7	460,016	32.2	583,600	32.0
Other[2]	4,919	0.5	6,549	0.5	14,473	0.8
Total	1,087,994	100.0	1,435,215	100.0	1,822,573	100.0

Note:

(1) Severstal acquired Severstal North America on 30 January 2004. Information presented includes sales of Severstal North America's predecessor.

(2) Includes by-products such as scrap and gases.

Contracts. Severstal North America estimates that long-term contracts accounted for approximately 40 percent of total sales during 2005, compared to 44 percent for 2004. Most of Severstal North America's automotive customers have one- to two-year contracts. Severstal North America recently successfully renegotiated its contract with General Motors. It also has contracts with Ford and Daimler-Chrysler and expects to renegotiate the continuation of these contracts prior to their expiration at the end of 2006. Mitsubishi, Toyota and other automotive suppliers generally have one-year contracts. Most non-automotive customers do not have contracts.

Lucchini

Lucchini is the second largest steel group in Italy and one of the largest European producers of special quality steel long products by production according to KWR International. It has 20 plants and service centres throughout Europe. With more than 1,000 customers in niche markets such as automotive, rails, bearings, springs and wire rod, Lucchini has a steelmaking capacity of 4 million tonnes of crude steel per year. In 2005, Lucchini's total production was 3.4 million tonnes of crude steel and 3.3 million tonnes of finished products.

Lucchini's main production facilities are located in Italy (Piombino, Servola and Caleotto) and in France (Hagondange, Les Dunes, Fos sur Mer and Le Cheylas). This broad geographic spread of facilities gives Lucchini strategic access to a combination of sea, rail and road as means for receiving raw material supplies and transporting its goods.

Lucchini comprises the Piombino business unit, the Ascometal business unit and the Sidermeccanica business unit. Piombino produces rails and high-quality wire rods; Ascometal produces high-quality, tailored products, such as ingots, billets, blooms, bars, wire rod and drawn wire; and Sidermeccanica produces rolling stock materials for railways.

Lucchini's strategy is to continue its emphasis on diversifying its customer base, focusing on customised high-quality products (automotive, machinery, appliances and rail) while leveraging synergies with Severstal.

Facilities

Piombino. Piombino comprises three plants. It has an overall production capacity of 3.2 million tonnes of crude steel and 2.2 million tonnes of long products per year.

Piombino's main plant is located in Piombino, near Livorno. This plant's production facilities include one coke oven battery with 45 ovens and an annual capacity of 530,000 tonnes, one blast furnace with an annual capacity of 2.9 million tonnes of pig iron and three basic oxygen converters and four continuous casting machines: one for slab casting with an annual capacity of 800,000 tonnes and three for billet and bloom casting of various sizes and shapes.

The rolling facilities include one rolling mill for rails, one for wire rod (Caleotto) and two for bars. The Piombino plant is located near a seaport and has its own dock with loading equipment for all types of raw materials and finished products.

Piombino also has a wire-rod plant in Caleotto, which consists of a single rolling mill and has an annual production capacity of 330,000 tonnes. Billets produced at the Piombino plant are rolled at Caleotto.

Piombino has a second plant in Servola. This plant focuses solely on the production of high-quality pig iron and has an installed capacity of 800,000 tonnes of high-quality pig iron per year. The Servola plant consists of one coke oven battery, one sintering plant, two blast furnaces, each with an annual capacity of 400,000 tonnes. One of the blast furnaces that produces pig iron was idled in 2002 in connection with the dismantling of the steel work plant. Severstal believes there is no current demand for pig iron in the market but that this furnace could be made operational again in future should market demand for pig iron increase.

Ascometal. Ascometal is a well-known European long speciality steel manufacturer and operates four integrated EAF-based plants, two cold finishing centres and a distribution centre in France. Ascometal's facilities are strategically located near scrap collection and processing centres. Ascometal has a production capacity of 1.2 million tonnes of special bar quality steel. The facilities are sophisticated and have been reconfigured and recalibrated to various manufacturing processes to produce specialised products to meet specific needs of customers, giving Ascometal what Lucchini believes is an unparalleled range of products.

Sidermeccanica. Sidermeccanica is a well-known European rolling stock materials manufacturer, with a fully integrated manufacturing process from scrap to final assembled wheel sets.

Steel Production Facilities, Lucchini — Output by Unit

Plant	2003 (thousand tonnes)	2004 (thousand tonnes)	2005 (thousand tonnes)
Piombino			
Piombino			
Coking plant	903	921	932
Blast furnace	2,165	2,212	2,198
Continuous casting (steel prod.)	1,876	1,924	1,883
Rollings mills (finished goods)	1,276	1,376	1,134
Servola			
Coking plant	415	417	417
Blast furnace	391	409	423
Ascometal			
Continuous casting + ingots (steel prod.)	1,109	1,161	1,154
Rollings mills (finished goods)	948	971	970
Sidermeccanica			
Crude steel	179	184	202
Forgings	41	43	49
Rolling mill	42	44	53

Products

Lucchini believes it is a European leader of long specialty steel products, including round bars, rolled blooms and billet and flat products and is a leading Italian producer of high quality wire rod, including drawing wire rod, cold heading steel and welding steel. Lucchini estimates that it has approximately a 13 percent European market share and an 80 percent domestic market share for rails and rail stocks based on Eurofer data.

Hot-rolled products. Lucchini produces more than 1,200 sizes and cross-sections of over 1,200 different brands and qualities, including wire rod, rolled billets, round bars, square bars and slabs. These products are used for a variety of applications, including automotive, mechanical and manufacturing industries, construction and infrastructures, electrical household appliances and the railway sector.

Cold transformed products. Lucchini manufactures drawn, peeled, ground or shaved products and re-rolled strips. These products are used within the automotive and mechanical industries and are characterised by a high degree of customisation, reliability and product finish.

Semi-finished products. Lucchini manufactures goods intended for rolling long products made of quality and specialty steels (billets, blooms and ingots), for direct stamping (billets and blooms) and for the production of forged items (ingots) and rolling flats (slabs).

The main users of these products are foundries and the iron and steel industry. Ingots are used by the utilities, aerospace, offshore, shipbuilding, petrochemical and infrastructure industries.

Wheels and wheel sets. Sidermeccanica manufactures rolling stock materials such as axels, tyres, wheels and wheel sets.

Supply Chain

The principal raw materials used at Piombino are coal, iron ore, coke, scrap and ferro-alloys. The main raw materials required by Ascometal and Sidermeccanica are scrap and ferro-alloys.

The energy requirements used by Piombino and Ascometal include natural gas and electricity.

The raw materials and energy requirements of the Piombino Plant and the Servola Plant account for a substantial portion of Lucchini's total raw materials and energy requirements, respectively. The following tables sets forth a breakdown of the raw materials and energy use of the Piombino Plant and the Servola plant for the years ended 31 December 2004 and 2005.

Principal Raw Materials and Energy Purchased by Lucchini for the Piombino Plant

Raw materials	2004 amount	2005 amount	2005 estimated percent of cost of goods sold(1)
	(thousand tonnes except as otherwise noted)	*(thousand tonnes except as otherwise noted)*	
Coal	892	914	11
Iron-ore pellets	2,718	2,738	25
Coke	228	199	4
Metal scrap	197	203	6
Ferro-alloys	38	37	8
Energy consumption	**2004**	**2005**	
Electricity (millions of kilowatt hours)	759	712	6
Natural gas (1000m3)	94,148	82,462	3
Total energy spending by Lucchini (thousands of Euro)	83,549	88,720	
Percentage of total operating costs	13	12	

Note:

Cost of goods sold and industrial cost do not include depreciation charges.

Principal Raw Materials and Energy Purchased by Lucchini for the Servola Plant

Raw materials	2004 amount	2005 amount	2005 estimated percent of cost of goods sold(1)
	(thousand tonnes except as otherwise noted)	*(thousand tonnes except as otherwise noted)*	
Coal	539	534	34
Iron-ore pellets	644	642	25
Coke	0	0	0
Metal scrap	0	0	0
Ferro-alloys	0.4	0.5	0.4
Energy consumption	**2004**	**2005**	
Electricity (millions of kilowatt hours)	98	95	4
Natural gas (1000m3)	57,285	60,033	9
Total energy spending by Lucchini (thousands of euro)	24,369	28,840	18
Percentage of total operating costs	17	18	

Note:

Cost of goods sold and industrial cost do not include depreciation charges.

Raw materials. The raw materials used by Lucchini vary across its operations and include iron ore, coal, scrap and ferro-alloys.

Piombino. Iron ore and coal are imported from third parties under short and long term contracts, subject to annual price negotiations. Coking coal is sourced mainly from Canada, the United States and Venezuela. In 2006, Severstal Mining started to supply hard coking coal and PCI coal to Piombino. The volume of these supplies is expected to increase significantly in the future. Furthermore, approximately 90 percent of metallurgical coke requirements are currently produced internally, with the remainder imported from China and Ukraine.

Prior to 2006, iron ore pellets were imported solely from Brazil, Venezuela and Canada. From 2006, Severstal Mining is scheduled to supply approximately 2.0 million tonnes of pellets annually. It is expected that in 2006, the supplies from Severstal Mining will provide approximately 70 percent of Lucchini's iron ore requirements.

The majority of Piombino's coke is produced internally. The scrap required by Piombino is supplied mainly by Bicomet in Italy and also by other international traders. Ferroalloys are purchased on both national and international markets, leveraging volume bundles with Ascometal.

Ascometal. For scrap, Ascometal relies on a network of approximately 100 suppliers, the largest of which represents 20 percent of the total supply and the next two largest represent more than 10 percent of total supply. To benefit from volume discounts, ferro-alloys are purchased by bundling orders (where possible) with Piombino.

Sidermeccanica. Sidermeccanica's raw material requirements include scrap and ferroalloys. Scrap is mainly purchased from Bicomet under a frame agreement managed by Lucchini. Some other scrap is procured from Sidermeccanica customers (mainly Trenitalia). Sidermeccanica's total annual consumption is in excess of 150,000 tonnes. Ferroalloys are completely managed and procured by Lucchini's SpA procurement department, which receives monthly quantity requests from Sidermeccanica.

Energy. The Piombino operations purchase natural gas from ENI. Enel supplies 50 percent of Piombino's electricity requirements, the remaining 50 percent being provided by power plants fuelled by gas recycled from Piombino's own plant operations. The Piombino plant sells gas to three different power plants: CET2 and CET3 belonging to Edison and SESCA, owned by Elettra Holding. The Trieste plant sells coke oven and blast furnace gas to a power plant, also owned by Elettra Holding.

Ascometal purchases its electricity and natural gas from Electricite de France and Gaz de France, respectively. The Le Cheylas (Allevard) plant produces part of its own electricity through hydraulic production facilities (140 GWh per year) and sells its excess production to third parties.

Logistics. Lucchini benefits from the strategic geographic locations of its major plants and uses a combination of sea, rail and road as means for transporting its goods. Lucchini relies more heavily on sea for supplies and on trucks for distribution.

Piombino. The logistics for the Piombino facility are primarily organised through a seaport with a deep harbour, allowing mooring of ships up to 72,000 tonnes and draught of 11.9 meters. The Piombino plant also has 3 berths for ships of up to 30,000 tonnes with maximum draught of 9.2 meters. The total carrying capacity of these berths is 100,000 tonnes of goods per month. The rail capacity allows the plant to deliver around 60,000 tonnes per month and road capacities allow the delivery of 70,000 tonnes per month. The Trieste plant has its own berth for discharging raw materials and loading coke, pig iron and iron ore. The plant also has a seaport with a maximum draught of 12.62 meters, which is used by Panamax vessels. The railway and road transportation capacities of the plant are approximately 15,000 and 10,000 tonnes per month, respectively.

Ascometal. Ascometal uses a combination of road shipments, railway shipments and sea shipments to transport its products to its customers and receive its raw material shipments.

Sidermeccanica. Sidermeccanica transports its products exclusively by truck as no railway connection is available.

Capital Improvement Programme

Lucchini's capital expenditures for 2004 and 2005 amounted to approximately US$131 million. Lucchini has developed a further capital improvement programme with planned expenditures of US$960 million from 2006 to 2010, to be funded by operating cash flows. This programme includes investment and optimisation programmes intended to target cost savings to expand productions of rails and high-quality long products.

Estimated Capital Expenditure Requirements from 2006 to 2010, Lucchini

Sub-Unit	2006-2010
	US$ millions
Piombino	468
Ascometal	420
Sidermeccanica	72
Total	960

Piombino. Lucchini invested approximately US$810 million in capital improvements at the Piombino plant between 1998 and 2002. The blast furnace was completely relined and is not scheduled for relining again until 2013. In addition, a new 45-coke oven battery was installed and has an expected lifetime of at least 20 years. Several additional investments have been made at the steel plant and the rolling mill.

Additional capital expenditures of US$468 million are planned at Piombino from 2006 to 2010 and are aimed at reducing costs, improving the product mix and optimising coke and gas usage which is expected to increase steel production to 2.9 million tonnes of crude steel per year. Specific uses for this expenditure are expected to include:

- Adoption of "Best Available Technology" environmental standards;
- Installation of the fourth cowper at the blast furnace to increase the heating capacity in order to boost pig iron production;
- Redesign of scrap yard and moving equipment to increase the speed and quality of scrap preparation; and
- Replacement of rolling mills' cooling systems with new pipes and water treatment to maintain full operating functionality.

Ascometal. In the past few years, capital expenditures have allowed Ascometal to dedicate each production unit to one specific product line and to improve overall finishing capacities. Additional capital expenditures of US$420 million are planned at Ascometal from 2006 to 2010 and are concentrated mainly on product mix improvements and reductions of production costs and reductions of environmental impacts. Specific uses for this expenditure are expected to include:

- Modernisation of the Hagondange rolling mill;
- Introduction of oxy-gas burners on rolling mill soaking pits at Fos sur Mer and Les Dunes, resulting in a significant reduction of natural gas consumption and of CO_2 emissions;
- Revamping of EAF at Hagondange and Dunes;
- Upgrade of automatic quality inspection systems on finishing machinery at Fos sur Mer, Les Dunes and Hagondange; and
- ISO 14001 certification of the Fos sur Mer facility by 2007 (IS0 14001 certificates have already been obtained by the other plants).

Sidermeccanica. Lucchini invested approximately €38.7 million in capital improvements at the Sidermeccanica plant between 2000 to 2002. This capital was used to fully revamp the steel plant at Sidermeccanica. Additional capital expenditures of US$72 million are planned at Sidermeccanica from 2006 to 2010. Specific investments planned for the period from 2006 to 2010 include:

- Increase in wheels machining capacity;
- Improvement of heat treatment furnaces;
- Maintenance of capital assets; and
- Environmental and safety investments.

Research and Development

Lucchini has 63 registered patents, 80 percent of which are product related. CREAS, which was established in Hagondange, is the Centre of Excellence for Research and Development Activities, with 49 employees, 19 of which are engineers, and an annual budget of approximately €5.0 million (US$6.2 million). All research and development projects at CREAS are led specifically by trained individuals and include sales and production professionals in the core teams. Lucchini has a co-operation agreement and research and development exchanges with Kobe Steel in long special steels for automotive applications and co-operation agreements with numerous universities in Italy and France, such as Politecnico di Milano and University of Pisa. In addition, Lucchini also has several research and development programmes with support from the European Union.

Sales and Marketing

Lucchini has more than 1,000 customers in its core markets in Italy, France and Germany. Lucchini sells its Piombino products primarily in the Italian domestic market, nearly half of its Ascometal products in the French domestic market and 66 percent of its Sidermeccanica products in the Italian domestic market. Lucchini's main objectives include maintaining and strengthening its cost leadership position in Italy and Western Europe and pursuing development in new, high-growth markets such as Eastern Europe and the Far East. Lucchini has commercial offices in Zurich, Barcelona, New York, Singapore, Düsseldorf and Manchester (UK) and exports its products to more than 60 countries.

Lucchini has centralised sales and marketing departments.

Sales by Market, Lucchini

	Year ended 31 December			
	2004		2005	
Market	*(US$ millions)*	*percent*	*(US$ millions)*	*percent*
Italy	1,227	46.1	1,371	45.9
European Union (excluding Italy)	1,068	40.1	1,213	40.7
Rest of Europe	96	3.6	81	2.7
Americas	186	7.0	239	8.0
Asia	29	1.1	26	0.8
Rest of world	57	2.1	56	1.9
Total	2,663	100.0	2,986	100.0

Source:

2004 from audited IFRS consolidated financial statements converted at an average exchange rate of US$1.2439 per €1

2005 from audited IFRS consolidated financials statements converted at an average exchange rate of US$1.2441 per €1

Piombino.

Customers. Piombino has a diversified customer base, with approximately 400 customers in 2005. Its four largest customers, including Italian railway network operator RFI and Italian steel maker Riva, generate approximately €200 million (US$245.6 million) in annual sales, or 20 percent of Piombino's total sales, and the 25 largest generate approximately €450 million (US$552.7 million) in annual sales.

Piombino targets its sales of rails predominantly at the local Italian market, with the largest customers being the public entities currently building the high-speed Italian rail network and maintaining standard infrastructure facilities. Fifteen percent of rails are replaced each year as the average life of a rail is five to 15 years. Contractual arrangements are usually annual. In 2004, however, a three-year agreement with RFI, the Italian railway network operator, was signed. This agreement includes the possibility of re-negotiating prices every six months.

Piombino's main customers for slabs are Riva, which is Italy's largest steel maker, and Severstal North America. While slabs are usually sold on a monthly basis, a special agreement with Riva was reached in 2002 for a four-year supply of 250,000 tonnes per year. Price reviews are held every three months. A key factor in the development of slab sales is the agreement recently signed with Severstal North America. This agreement allows economies of scale to be fully exploited.

Sales by Sector, Piombino

By industry sector	Year ended 31 December 2004	2005
	(percent)	(percent)
Mechanical and distribution	40.0	28.0
Railway applications	18.0	20.0
Bolts and nuts	13.0	11.0
Precompressed for concrete	7.0	16.0
Non-automotive forging	6.0	4.0
Welding	5.0	8.0
Automotive, agriculture and public works and springs	11.0	13.0
Total	100.0	100.0

Products. Piombino's sales are dominated by wire rod, slabs, rails and bars. Piombino estimates that it has an 8 percent market share of special niche product sales and a 38 percent market share of value-added product sales.

Sales by Product, Piombino

By product	Year ended 31 December 2004	2005
	(percent)	(percent)
Wire rod	42.0	28.0
Bars	19.0	13.0
Slabs	15.0	22.0
Pig iron	12.0	11.0
Rail	11.0	18.0
Billets and others	1.0	8.0
Total	100.0	100.0

Ascometal.

Ascometal has a well-established, stable customer base and generates the majority of its sales under long-term contracts.

Customers. In 2005, Ascometal had approximately 600 customers, the largest 20 of which accounted for 55 percent of Ascometal's total sales. Ascometal's main customers are leaders in their respective industries. They include Peugeot SA, Setforge and GKN in the automotive industry; Fag/Ina, Euroball and VM Tubes in the bearings industry; Sogefi, Thyssen Krupp and Styria in the springs industry; and Mechanical V&M Tubes, Valdunes and IMS in the mechanical engineering industry.

Ascometal's contracts include provisions to adjust the relevant price based on variations of scrap price and fluctuations in prices of alloying elements used during the relevant period of time. Since the beginning of 2004, when the price of scrap increased substantially, the surcharge mechanism has been adopted by all major European EAF steel producers, resulting in improved margin protection.

Sales by Sector, Ascometal

By industry sector	Year ended 31 December 2004	2005
	(percent)	*(percent)*
Automotive forging	29.0	30.0
Mechanical industry	29.0	29.0
Bearings	20.0	18.0
Springs	16.0	15.0
Energy	6.0	8.0
Total	100.0	100.0

Products. Ascometal's sales are dominated by bars, which account for approximately 70 percent of its total sales. Other high-quality, tailored products, such as drawn wire, ingots, flat bars and billets, account for Ascometal's remaining sales. Ascometal estimates that it has a 53 percent market share of special niche product sales and a 21 percent market share of value-added product sales.

Sales by Product, Ascometal

By product	Year ended 31 December 2004	2005
	(percent)	*(percent)*
Bars (less than 80 millimetres)	41.0	41.0
Bars (greater than 80 millimetres)	32.0	31.0
Wire and drawn	10.0	8.0
Ingots	7.0	9.0
Flatbars	6.0	6.0
Billets	4.0	5.0
Total	100.0	100.0

Sidermeccanica.

Customers. In 2005, Sidermeccanica's main customers were the railway transport, forging and hot pressing industries.

Sales by Sector, Sidermeccanica

By industry sector	Year ended 31 December 2004	2005
	(percent)	*(percent)*
Railway transports	47.0	46.0
Forging	19.0	18.0
Hot pressing	15.0	16.0
Plant engineering	7.0	6.0
Energy	5.0	5.0
Railway plant engineering	4.0	5.0
Mechanical industry	3.0	4.0
Total	100.0	100.0

Products. Sidermeccanica's sales are dominated by rolling stock and ingots, which accounted for approximately 37 percent and 26 percent, respectively, of its total sales in 2005. Sidermeccanica estimates that it has a 27 percent market share of special niche product sales and a 24 percent market share of value-added product sales.

Sales by Product, Sidermeccanica

	Year ended 31 December	
	2004	2005
	(percent)	*(percent)*
Rolling stock	39.0	37.0
Ingots	24.0	26.0
Tool steel	20.0	21.0
Castings	8.0	6.0
Forgings	7.0	7.0
Commercial bars	2.0	3.0
Total	100.0	100.0

Severstal Mining

Severstal Mining consists of four high-quality mining complexes located primarily in northwest Russia producing iron ore and coking coal and, according to RudProm, is the second largest producer of pellets and coking coal in Russia. With the capacity to supply all of the iron ore and coal needs of Russian Steel and Metalware, Severstal Mining forms the basis of Severstal's balanced and vertically integrated business model. With a focus on high value-added products, such as export quality pellets and coking coal concentrate, Severstal Mining had a total output of 12.8 million tonnes of iron ore and 8.7 million tonnes of coking coal in 2005.

All data relating to Severstal Mining's reserves and resources summarised in "Business — Severstal Mining" are based on the report issued by IMC Consulting Ltd dated 14 August 2006, which was prepared in accordance with JORC reporting standards, except Severstal Mining's expected reserves extension based on adjacent reserves acquisition. Severstal Mining had estimated iron ore reserves and resources of 792 million tonnes and 962 million tonnes, respectively, as at 1 January 2006, and estimated coal reserves and resources of 419 million tonnes and 249 million tonnes, respectively, as at 1 April 2006.

Based primarily in northwest Russia, Severstal Mining comprises four mining complexes in Russia:

- Karelsky Okatysh, located in the Karelia Republic, produces iron ore pellets and has an annual output of 8.8 million tonnes and estimated JORC iron ore reserves and resources of 615 million tonnes and 723 million tonnes, respectively;
- Olkon, located in the Murmansk region of Russia, produces iron ore concentrate and has an annual output of 4.0 million tonnes and estimated JORC iron ore reserves and resources of 177 million tonnes and 239 million tonnes, respectively;
- Vorkutaugol, located in the Komi Republic, produces coke and thermal coal and has an annual output of 6.9 million tonnes and estimated JORC coal reserves and resources of 298 million tonnes and 27 million tonnes, respectively;
- Kuzbassugol, located in the Kemerovo region of Russia, produces coking coal and has an annual output of 1.8 million tonnes and estimated JORC coal reserves and resources of 121 million tonnes and 222 million tonnes, respectively.

The following table sets forth Severstal Mining's estimates of its production of coal and iron ore for 2007 through 2010, assuming all planned capital improvements are completed and operational efficiencies realised:

Product (million tonnes)	2007	2008	2009	2010
Iron ore	14.1	15.3	15.8	16.0
Coal	11.6	11.6	11.1	12.5

In aggregate, higher value-added products, such as pellets and coking coal concentrate, represented more than 60 percent of Severstal Mining's total output by volume in 2005.

Current iron ore and coking coal prices are at levels significantly in excess of Severstal Mining's cost of production.

At expected rates of operation, audited JORC reserves of iron ore and coking coal are estimated to be sufficient for 14 years of operation. Severstal Mining believes it will be able to achieve significant reserve extension potential (increasing life of mine to at least 28 years) through conversion of resources into reserves and acquisition of adjacent reserves.

Severstal Mining's strategy is to increase production through modernisation, best practices and debottlenecking; increase production of higher value products; improve labour and equipment productivity in order to maintain the favourable operating cost position of the assets; actively participate in consolidation of Russian/CIS iron ore and coking coal industries; gain access to sea-borne coal markets through participation in large-scale greenfield projects in Russia and neighbouring countries; and form alliances with mining majors

Facilities

Karelsky Okatysh. Karelsky Okatysh is located in Kostomuksha in the Karelia Republic in the northwest of Russia. It mines low-grade magnetite-quartzite ores and produces high-quality iron ore pellets with an iron content of 64 to 66 percent. Karelsky Okatysh operates four major deposits that have an estimated life of 44 years based on JORC reserves plus expected reserves extension. The average iron content of the reserves at Karelsky Okatysh is approximately 29 percent. The increase in medium term forecast for pellet prices, together with the efficiency improvements that have been made at the Kostomuksha operation, have boosted the production capacity of Karelsky Okatysh to 30 million tonnes of run of mine, or ROM, ore per year.

The most valuable production asset of Karelsky Okatysh is its large pelletiser. It enables valorisation of fines into pellets (pellets trade at a premium to fines). The pelletiser has three production lines, each with a capacity of up to 4 million tonnes per year. The total capacity of the three lines is approximately 11 million tonnes. However, Severstal believes that this capacity could be increased to 12 million tonnes per year with relatively minor investments and operational debottlenecking.

Kostomuksha. The arch shaped Kostomuksha deposit consists of three sections, with a total strike extent of 13,000 metres. The depth of the open pit at its largest section reaches 400 meters below sea level with a stripping ratio of 1.13 in 2005. The iron content in the ore is medium (29 percent total iron, 24 percent iron magnetite). However, it is well suited for relatively simple magnetic beneficiation and the deposit produces high-quality fines (68 percent iron) and pellets (65 percent iron). The Kostomuksha deposit has a capacity of 24 million tonnes of ROM ore at 29 percent iron per year.

Korpanga. A new mine is under construction at the Korpanga deposit, which consists of east and west sections. It is an isoclinal synform that has been refolded into a plunging anticline along a northeast-southwest axis. The west and east sections form the two flanks of the plunging anticline, and have respective strike lengths of 3,800 metres and 3,000 metres. The ore qualities at Korpanga are similar to the Kostomuksha deposit.

The Korpanga deposit is expected to add 7.5 million tonnes of ROM ore at 29 percent iron per year.

Extracted ore is delivered to the beneficiation plant by railway. The beneficiation plant is located 7 kilometres from Central Section and 25 kilometres from Korpanga. The current design capacity of the beneficiation plant is 9.6 million tonnes of concentrate (representing 28 million tonnes of input ore). Severstal believes that this capacity could be increased to 11.7 million tonnes per year by 2010 with a relatively minor amount of investment. The planned investment would include installation of dry magnetic separation equipment at the open pits to reduce the waste feed into the crushers. The plant beneficiation consists of two crushing lines and 12 beneficiation circuits with primary magnetic and secondary gravitational separation equipment.

Olkon. Olkon is located in the Murmansk region in northwest Russia. It mines low-grade magnetite-quartzite ores and produces high-quality (67.5 percent iron content) iron-ore concentrate. Currently, ore mining is carried out in five open pits: Olenegorsky, Kirovogorsky, Baumansky, XVth Anniversary of October and Komsomolsky in conjunction with the new site at the Olenegorsky underground mine, which was built in 2005. The deposit has an estimated life of 28 years based on JORC reserves plus expected reserves extension.

There are 137 million tonnes of ore within the existing boundary of the open pit and the remainder will be mined from new underground mines that will extend the current open pits. The average iron content in the Olkon reserves is 28 percent total iron, 23 percent iron magnetite. Olkon produces iron ore concentrate with an average iron content of 65.7 percent. The average stripping ratio was 1.2 in 2005 but will decline due to the increase in underground mining. The original design capacity at Olkon was 12 million tonnes of ore per year. This is expected to increase to 16.5 million tonnes per year in 2008 once the underground mines are fully operational. The ore from the Kirovogorsky, Baumansky, XVth Anniversary of October and Komsomolsky pits is delivered to the beneficiation plant by railway, between 11 and 15 kilometres. The beneficiation plant has a production of 4.0 million tonnes of concentrate. It consists of two crushing lines and 12 beneficiation circuits with primary magnetic and secondary gravitational separation equipment. Severstal believes that, with minor amounts of capital expenditure, the plant capacity could be increased to 5.0 million tonnes of concentrate by 2010.

Vorkutaugol. The Vorkutaugol and Vorgashorskaya mines are located near the town of Vorkuta, in the Komi Republic in northeast Russia. The Vorkutaugol and Vorashorskaya mines are separate legal entities but are integrated operations from a production perspective. The mining area of Vorkutaugol consists of five underground mines, with an estimated life of 33 years based on JORC reserves plus expected reserves extension, and one open pit located within the Vorkutinskoye deposit. The Vorkutinskoye deposit covers an area of 280 square kilometres and is in the form of a basin with outcrops around the perimeter, dipping towards the centre of the deposit. The Vorgashorskaya mine is located on the adjacent Vorgashorskaya coal deposit approximately 25 kilometres northeast of Vorkuta. Premium grades of hard coking coal account for a high proportion of the Vorkutaugol reserves.

There are three principal seams currently under operation at the Vorkutinskoye deposit. Two of the seams, Triple and Fourth seam, are between 1.5 and 2.5 metres and are suitable to be extracted by conventional longwall shears. Fifth seam is 0.8 metres thick and is currently extracted by a longwall shear, primarily for degasification of the two thicker seams. However, with the near-term introduction of plough technology, Severstal expects the operating economies of the mining operation at Fifth seam to improve significantly.

The average ash content in Vorkutaugol is relatively high (32-33 percent), partly due to the extraction of a thin seam with unsuitable mining equipment. The management of Severstal Mining believes that the 2007 installation of new mining equipment to operate these seams will resolve this issue.

Despite the problem with high ash content, the concentrate produced by Vorkutaugol is of high-quality, with a majority of output being a premium grade category, medium volatility, high fluidity hard coking coal.

There is only one seam of workable thickness at the Vorgashorskaya mine, which combines the three sub-seams of the Triple, and Fourth seam. The total seam thickness is between 2.7 metres and 3.0 metres. The mine has two high-productivity faces, with an annual production capacity exceeding 2 million tonnes (on a ROM basis). Because Vorgashorskaya does not have its own washing facility, the ROM coals are processed at the central Pechorskaya plant.

There are currently three washing facilities in Vorkuta (Severnaya — located at the Severnaya mine, Vorkutinskaya — located at the Vorkutinskaya mine and central Pechorskaya) with a total capacity of approximately 10 million tonnes per year. In addition, the washing facilities at the Cherepovets have an additional production capacity of 1.8 million tonnes per year. The washing process reduces ash content to 8-9 percent, enabling the production of concentrate with a high market value. Coking coal concentrate from Vorkutaugol can be used directly in coke batteries. The most valuable coal is washed on the site at Vorkuta. Middlings are currently shipped and washed in Cherepovets.

Kuzbassugol. Kuzbassugol operates two large underground mines that specialise in the production of medium volatile coking coal and have an estimated life of 34 years based on JORC reserves plus expected reserves extension. The Berezovskaya mine is located in the northern part of the Kuzbass coal field, adjacent to the town of Berezovsky, 30 kilometres north of Kemerovo. The Pervomayskaya mine is located 20 kilometres north of Berezovskaya.

Berezovskaya. The licensed deposit at Berezovskaya extends 12.5 kilometres in a north-south direction and 7.5 kilometres in an east-west direction. A mining license has recently been acquired for the Konyukhtinsky Zapadny deposit, which is located at the southwestern boundary of the Berezovo-Birulinskoe deposit. A mining license has also recently been acquired for the Zhernovsky-3 deposit, located in the central region of the Kuzbass coal field, in the Yerunakovo district, 250 kilometres south of Berezovsky. The deposit extends 8.5 kilometres in an east-west direction and 2 kilometres in a north to south direction. Mining capacity is 4 million tonnes of ROM coal per year. The reserves are situated at depths ranging from ground surface level to between 300-400 metres below ground and are predominately made up of semi-hard coking coals (K/KO), except premium hard coking coal reserves for Zhernovsky-3 (Zh). The average ash content in Kuzbassugol is moderate (18-23 percent).

The mine currently operates at two faces. The total design capacity of the mine is around 1.8 million tonnes per year. Severstal believes that the capacity of the mine can be further increased by up to 2.5 million tonnes through the replacement of the vertical shaft with an incline shaft and through selective debottlenecking. The work to replace the current shaft with an incline shaft is near completion and will be operational by 2007.

Currently, the Berezovskaya mine outsources the washing of coal to third parties. Pervomayskaya has a licensed area extending some 10 kilometres in a north-south direction and 3 kilometres in an east-west direction.

Pervomayskaya. There are three operational seams within the boundaries of the Pervomayskaya mine, with seam XXI now almost exhausted. Current workings at seam XXVII are at a depth of around 400 metres beneath the surface, and at around 300 metres at seam XXIV. Implementation of new degasification and ventilation technology will in future years enable the reserves at deeper levels to be extracted efficiently. The total design capacity is similar to Berezovskaya at approximately 1.8 million tonnes per year.

A new coal washing plant, which is to be owned by Severstal Mining, was recently constructed at Berezovskaya. The new washing plant is expected to have a production capacity of 4.0 million tonnes and has been operational since September 2006. It is intended that the new plant will wash all coal from the Berezovskaya and Pervomayskaya mines.

Reserves and Resources

At expected rates of operation, the audited reserves and resources of Severstal Mining are sufficient for at least 28 years of iron ore and coking coal production. The table below shows the life of mine estimation based on the report issued by IMC Consulting Ltd dated 14 August 2006, which was prepared in accordance with internationally accepted standards set out in the JORC code (including expected reserves extension through conversion of resources into reserves and acquisition of adjacent reserves). (See "Presentation of Financial and Other Information — Mining Reserves and Operating Data" and "Industry — Mining Industry — International Methodologies for Reserve and Resource Reporting".)

			Expected reserves extension		Total reserves	Life of mine, years[4]	
Mine	**JORC reserves[1]**	**JORC resources**	**(based on resources confirmation[2])**	**(based on adjacent reserves acquisition[3])**	**(JORC reserves plus reserves extension)**	**(based on JORC reserves)**	**(based on total reserves estimation)**
				(thousand tonnes)			
Karelsky Okatysh	614,920	723,278	295,991	332,500	1,243,411	21	44
Olkon	176,678	239,004	59,751	130,000	366,429	14	28
Vorkutaugol[5]	298,463	26,850	13,425	124,430	436,318	22	33
Kuzbassugol[6]	120,556	222,834	42,009	113,375	275,940	17	34

Source: IMC Consulting Limited audit of iron ore and coal reserves according to JORC Code

Notes:

(1) Proved plus probable.

(2) Estimation based on JORC resources volume (calculated as 25 percent to 50 percent of JORC resources).

(3) Estimation based on adjacent reserves volume under Russian classification (calculated as 30 percent to 50 percent of the A+B+C1 categories).

(4) Life of mine calculation formula: Life of mine = business plan forecast period + ((reserves – business plan forecast mining volume) / mining volume of the forecast's last year of mining).

(5) Includes licences owned by Vorkutaugol and Vorgashorskaya legal entities.

(6) Includes licences owned by Berezovskaya and Pervomayskaya legal entities.

Products

Severstal Mining produces a high proportion of premium products, such as iron pellets from iron ore and coking coal from concentrate from coal, for domestic and international customers. In 2005, iron pellets constituted 70 percent of Severstal Mining's production of iron ore, and coking coal concentrate constituted 55 percent of its coal production. In 2010, Severstal Mining expects that iron pellets will still constitute 70 percent of Severstal Mining's production of iron ore and that coking coal concentrate will increase to 67 percent of total coal production.

Karelsky Okatysh Production

Product	**2003**	**2004**	**2005**
		(million tonnes)	
Pellet production	7.0	7.5	8.8

Karelsky Okatysh produces iron ore pellets. These have an iron content of 65.6 percent for non-fluxed and 63.6 percent for fluxed pellets. Pellets are a higher value-added iron ore product, as they can be used directly in the blast furnace without intermediate sintering. They also ensure optimal coke consumption in the furnace and significantly reduce the carbon dioxide emissions in the furnace operation.

Olkon Production

Product	2003	2004	2005
	(million tonnes)		
Fines production	3.5	3.6	4.0

Olkon produces iron ore fines with an iron content of 67.5 percent. Currently these fines are shipped only to Russian Steel and Metalware where they are used as sinter feed, before being blended with coke and loaded into the blast furnace.

Vorkutaugol Production

Product	2003	2004	2005
	(million tonnes)		
Coking coal concentrate	4.0	5.0	3.9
Raw coking coal	3.0	2.1	1.8
Energy coal	1.2	1.9	1.2
Total production	8.2	9.0	6.9

Vorkutaugol's two main products are premium hard coking coal concentrate and medium grade hard coking coal concentrate, with an ash content of 8-9 percent. Vorkutaugol produces more than 90 percent of the total premium hard coking coal mined in Russia. Vorkutaugol also produces relatively large amounts of energy coals that are predominantly sold to local heating and power plants in the Komi region.

Additionally, a major initiative is underway to increase the productivity at each face level, with record levels of production already being achieved at the pilot face during the early part of 2006.

Kuzbassugol Production

Product	2003	2004	2005
	(million tonnes)		
Coking coal concentrate	1.5	1.2	0.2
Raw coking coal	0.9	1.6	1.6
Total production	2.6	2.8	1.8

Kuzbassugol's two main products are semi-hard concentrate, with ash content of 8 percent, and raw coking coal, with ash content at 22 percent.

Supply Chain

Raw materials. Raw materials used by Severstal Mining include petroleum products, liquid explosives and metallic raw materials and supplies.

Petroleum products are the largest raw material type consumed by Severstal Mining. In order to take advantage of economies of scale, Severstal Mining has centralised the purchasing of items that are used in all of its operations. Purchases of petroleum products are centralised and made pursuant to annual contracts with several large Russian suppliers. Suppliers are selected on the basis of the competitiveness of their commercial terms. Actual prices are determined on a monthly basis with a subset of the suppliers chosen from the wider group, based on their offer for that month. In respect of the year 2006, a total of 11 contracts were entered into with petroleum suppliers; however, no more than three to five suppliers actually supply petroleum products in any given month. The purchasing of metal-based raw materials, cables, conveyor belts and explosives is also centralised.

Following a competitive tender process, Karelsky Okatysh signed a six-year contract for liquid explosives with one of the market leaders, UEE. Under the contract, a new manufacturing plant for liquid explosives is to be constructed in Kostomuksha. A similar contract is planned for Olkon and bids are currently under review. A final agreement is expected to be signed during 2006. Contracts for the supply of metallic raw materials and supplies are signed annually, while prices are fixed on a quarterly basis.

Severstal Mining expects that during the next 10 years it will have a raw materials surplus. Severstal Mining believes that such a surplus would provide it with enhanced stability in terms of raw material supplies and enable it to meet potential future production growth.

Energy. Severstal Mining's energy requirements constitute approximately 25 percent of its total supply chain requirements and include fuel and electricity purchased from local energy producers.

Capital Improvement Programme

In 2004 and 2005, Severstal Mining replaced all major equipment for both the underground operations and the open-cast mines, with approximately US$416 million being spent in total.

Capital Expenditure, Severstal Mining

Asset	2004	2005	First half of 2006
	(US$ millions)		
Karelsky Okatysh	52	73	43
Olkon	16	45	15
Vorkutaugol	48	110	99
Kuzbassugol	4	68	97
Total	120	296	254

Further capital improvement projects are currently underway at each of Severstal Mining's mining assets, with a planned total capital expenditure of approximately US$1.75 billion from 2006 to 2010. These projects are designed to further modernise equipment, increase the production of premium products, stabilise the mix of products, optimise degasification systems, utilise coal-mine methane, develop new iron ore and coal reserves, improve cost efficiency and expand extraction and beneficiation capacities.

Estimated Capital Expenditure Requirements from 2006 to 2010, Severstal Mining

Asset	2006-2010
	US$ millions
Karelsky Okatysh	232
Olkon	207
Vorkutaugol	902
Kuzbassugol	274
Other[1]	138
Total	1,753

Note:

(1) This amount represents estimated expansion expenditure for the purchase of licences for mineral deposits not currently owned or operated by Severstal Mining.

Karelsky Okatysh. The estimated capital expenditure requirements at Karelsky Okatysh between 2006 and 2010 are approximately US$232 million. Planned improvements include:

- expansion of ore extraction, beneficiation, and pelletising capacities;
- desulphurisation;
- upgrade of concentration facilities;
- selective debottlenecking projects; and
- addition of dry magnetic separation at the open pits to reduce the overburden fed to the main crushers.

Overall, the planned improvements are expected to result in full utilisation of the pelletiser and to increase long-term production of pellets by approximately 58 percent against 2004 production levels, from 7.0 million tonnes in 2004 to 11.1 million tonnes by 2010.

Olkon. The estimated capital expenditure requirements at Olkon between 2006 and 2010 are approximately US$207 million. Planned improvements include:

- construction of two additional underground mines;
- upgrade of concentration facilities at the open pit at Olegnegorsky;
- improvements at the existing open pits at Kirovogorsky and Komsomolsky; and
- reconstruction of the beneficiation plant.

Overall, the planned improvements are expected to increase the production output to 5.0 million tonnes of concentrate per year by 2010.

Vorkutaugol. The estimated capital expenditure requirements at Vorkutaugol between 2006 and 2010 are approximately US$902 million. Planned improvements include Project Vorkuta, which is expected to include:

- consolidation of the existing mines into one mine to eliminate infrastructure bottlenecks resulting from the need to maintain 12 separate smaller faces; and
- installation of an incline shaft towards the centre of the deposit that uses a conveyor belt system instead of skips to increase hauling capacity and eliminate the transportation costs by transporting raw coal directly to the Pechorskaya washing plant.

Overall, Project Vorkuta is expected to expand stable production to 11 million tonnes of final product per year, with over 75 percent being hard coking coal concentrate, and to reduce Vorkutaugol's real cash costs by 31 percent, estimated based on 2005 economic prices, in 2010.

Kuzbassugol. The estimated capital expenditure requirements at the Berezovskaya and Pervomayskaya mine between 2006 and 2010 are approximately US$274 million. Planned improvements include:

- installation of a new main ventilator; and
- development of new seams to increase the accessibility of ROM at Berezovskaya and increase reserves extraction.

Overall, the planned improvements are expected to increase total production volume to approximately 3.5 million tonnes of concentrate per year and enable 100 percent of Kuzbassugol's output to consist of higher value semi-hard coking coal concentrates by 2010.

Sales and Marketing

Severstal Mining sells its products internally within Severstal as well as to the international and Russian domestic markets. Severstal Mining aims to maintain its domestic market share and expand its international market share with high-quality pellets and hard coking coal concentrate.

Customers. Within Severstal, Severstal Mining sells both iron ore and coking coal to Russian Steel and Metalware and, increasingly, to Lucchini. In 2005, Severstal Mining's total iron ore and coal production was 20.9 million tonnes, of which 13.3 million tonnes were sold to Russian Steel and Metalware and Lucchini, 5.0 million tonnes were sold domestically and 2.4 million tonnes were exported.

Severstal Mining's total production was 8.8 million tonnes of pellets and 6.9 million tonnes of coal concentrate in 2005. In 2005, Severstal Mining was able to meet the full demand for pellets by Russian Steel and Metalware and Lucchini. Severstal Mining estimates that its total production of pellets and coal concentrate in 2010 will be substantially in excess of demand by Russian Steel and Metalware and Lucchini for such products, with total production of pellets and coal concentrate increasing to 11.0 million tonnes and 10.9 million tonnes, respectively, with estimated 2010 demand by Russian Steel and Metalware amounting to 5.0 million tonnes of pellets and 6.1 tonnes of coal concentrate and demand by Lucchini amounting to 3.1 million tonnes of pellets and 0.7 million tonnes of coal concentrate.

Severstal Mining plans to continue selling iron ore and coking coal to the Cherepovets Steel Plant and currently covers 100 percent of the Cherepovets Steel Plant's production needs in pellets and coking coal and approximately half of its needs in fines. During 2006, Severstal Mining has increased its sales to Lucchini. Sales of iron ore to Lucchini are expected to cover about 70 percent of Lucchini's expected demand and are expected to be conducted at a market price, while sales of coal to Lucchini are expected to grow and eventually cover about 40 percent of Lucchini's needs in hard coking coal.

Severstal Mining's main customers are domestic Russian and European steel producers. Severstal Mining's largest domestic customers, other than Russian Steel and Metalware, are EVRAZ, Mechel, MMK and NLMK. Major European customers include Corus and Rautaruukki. Additionally, smaller amounts of coal are also being sold to stand-alone coking companies and power plants.

Of Severstal Mining's exports in 2005, 39 percent were sold to Finland, 33 percent to the Netherlands, 17 percent to Ukraine, 6 percent to China, 2 percent to Turkey, 2 percent to Norway and 1 percent to other countries in Europe, excluding sales to Lucchini and other related parties.

Products. Severstal Mining's sales are dominated by pellets, which accounted for more than 55 percent total sales in 2005. Premium hard coking coal and hard coking coal together accounted for 27 percent of sales, while all other products represented 10 percent or less of the total sales of Severstal Mining. Coal sales have increased during the first quarter of 2006.

Sales by Products, Severstal Mining

	Year ended 31 December	
	2004	**2005**
	(million tonnes)	*(million tonnes)*
Pellets	7.6	8.8
Fines	3.5	3.9
HCC concentrate	6.2	5.0
Raw coking coal	3.1	1.8
Raw steam coal	2.5	1.8
Total	22.8	22.8

Contracts. Severstal Mining operates through direct contracts with customers. Usually contracts with domestic customers have a three-month duration, after which both the volume and price may be reviewed.

The majority of export sales are made through spot contracts. Severstal Mining contracts on an annual basis, with Rautaruukki as its largest export buyer, and intends to increase the amount of sales organised under annual fixed price contracts in the future. It also intends to offer combined pellet and hard coking coal contracts for its main international customers.

At present, Severstal Mining enters into most contracts on a FOB or FCA delivery basis; however in the future, it intends to gradually move to CPT/CIF contracts. Because Severstal Mining ships large volumes, it is often able to negotiate discounts on freight and rail fees, thereby increasing the margin on its sales.

Competition

Principal Competitors of Severstal (by production)

Companies producing steel	Year ended 31 December 2005
	(estimated percentage of worldwide production, 1,128 million tonnes)
Arcelor Mittal	10.2 percent
Nippon Steel	2.8 percent
POSCO	2.7 percent
JFE Steel	2.7 percent

Source: AME Mineral Economics Pty Ltd.

Russian Steel and Metalware

Both the Russian and the international steel markets are highly competitive due to increased consolidation. Primary competitive factors include product sophistication, quality, price, payment terms and customer service. In addition, the development of new technologies has reduced the capital costs associated with steel production and led to increased competition from new entrants to the industry with lower capital requirements. The steel industry also competes with producers of materials that offer an alternative to traditional steel products, such as aluminium or plastic. To withstand this competition, Severstal has consistently invested both in new facilities, allowing it to produce lower cost, higher quality and more sophisticated products, as well as in management systems and personnel. As a result, and according to CRU, Metal Bulletin and WSD, Russian

Steel and Metalware believes that it currently enjoys one of the most favourable cost positions in the major export markets, especially in Europe.

Severstal has also steadily moved Russian Steel and Metalware further down the value-chain, producing higher-value added, differentiated products and establishing closer relations with end-users in the export markets.

Severstal believes that Russian Steel and Metalware's market share of domestic steel sales has increased from approximately 16 percent in 2004 to 17 percent in 2005 and that it will achieve a further increase in market share for 2006.

Russian Steel and Metalware's key competitors in the Russian domestic markets for flat-rolled steel products are MMK and NLMK. The major competitors in the market for steel sections and specialised products, such as heavy sections, include Evraz Group, Mechel, Oskol and Nosta.

Principal Competitors of Russian Steel and Metalware in the Russian Market (by production)

	Year ended 31 December								
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Company	Pig iron			Crude steel			Rolled products		
	(thousands of tonnes)								
Evraz Group[(1)]	11,870	11,558	11,452	13,869	13,690	13,800	11,010	11,131	11,641
MMK	9,766	9,651	9,657	11,471	11,254	11,394	10,162	10,243	9,886
NLMK	8,623	8,994	7,886	8,854	9,123	8,469	8,234	8,580	7,979
Mechel	3,150	3,685	3,348	4,129	5,027	4,598	2,651	3,412	3,256
Ural Steel/Nosta	2,290	2,604	2,589	3,345	3,616	3,618	2,469	2,732	2,899
Oskol	—	—	—	2,353	2,464	2,549	2,119	2,193	2,344

Source: Chermet Corporation

Note:

(1) *The Evraz Group combines data in respect of NTMK and ZapSib. Assets of KMK were acquired by the Evraz Group in 2003 during KMK's liquidation.*

The Russian market is characterised by intensifying competition for customers, raw materials, capital and experienced personnel. Russian Steel and Metalware's relative cost advantage is of lesser importance as the major domestic competitors, to a varying extent, enjoy similar low cost factors and have access to captive raw materials. Nevertheless, based on CRU, Metal Bulletin and WSD, Russian Steel and Metalware believes that it stands out as a market leader in low production costs and product sophistication. In terms of volume, Russian Steel and Metalware believes that the Cherepovets Steel Plant is one of the two largest steel complexes in the CIS based on production data published by the Chermet Corporation and is one of the most modern and technically sophisticated. The plant has a captive supply of high-quality raw materials, allowing it to ensure a favourable cost baseline vis-à-vis the largest domestic competitors.

Russian Steel and Metalware's ongoing goal of achieving quality and technical sophistication has also allowed it to gain strong positions in the strategically important pipe manufacturing sector. Russian Steel and Metalware, with a production capacity of 600,000 tonnes, believes it is the only domestic manufacturer of 18-meter-length large diameter pipe. Its domestic and international customers include Gazprom, Rosneft, LUKoil and TNK-BP.

Finally, Russian Steel and Metalware's relative market strength is underpinned by its proactive marketing strategy, which has allowed it to forge long-term relationships with key domestic customers in the pipe production and automotive sector. Even when its competitors were concentrating on the export of semi-finished products, Russian Steel and Metalware continued to pursue this marketing strategy.

Severstal North America

Based on the numerous automotive service excellence awards it has received, Severstal North America believes it has gained a reputation for competitive quality and delivery and excellent service. This reputation has been driven by Severstal North America's highly motivated and professional commercial and technical staff. In the automotive industry, Severstal North America competes against other North American integrated producers producing high quality coated steel that can be used for exposed automotive parts. With Severstal North America's high quality production facilities located close to a significant portion of the major steel customers in North America, Severstal North America is ideally positioned to compete in the automotive industry, and is continuing to improve its commercial mix by increasing value-added higher revenue, higher margin business. Severstal North America has been successful in developing close working relationships with the major automotive customers headquartered in Detroit and has a growing presence with the new domestic auto makers, such as Toyota and Mitsubishi, in both the US and Canada. Additionally, for other product lines, Severstal North America also competes with smaller integrated mills and the electric furnace based producers. Despites its competitors' comparative cost advantage in this sector, Severstal North America has used its unique steel melting capabilities to increase its production of higher value-added products in niche markets.

Companies producing steel	Year ended 31 December 2005
	(estimated percentage of NAFTA production, 126 million tonnes)
AK Steel	4.4
Algoma	1.8
Dofasco	3.5
Arcelor Mittal	21.0
Nucor	14.6
Steel Dynamics	1.8
Stelco	3.9
US Steel	12.1
Wheeling-Pittsburg	1.9

Source: Severstal North America estimates based on annual reports, ISII data and CRU data.

Lucchini

Lucchini's wide range of locations gives Lucchini strategic access to a combination of sea, rail and road as means for receiving raw material supplies and transporting its goods. Based on Eurofer data for 2004, Lucchini estimates that it has a favourable market position in rails, with approximately a 13 percent share of the European market and approximately 80 percent share of the domestic Italian market, and a leading domestic market share for wire rod; that Ascometal has a strong and well-established presence in the long specialty steels market, which is a well-consolidated niche market with high barriers to entry; and that Sidermeccanica has an 18 percent share of the European market in respect of rolling stock products.

Companies producing steel	Year ended 31 December 2005
Rails	*(estimated percentage of European production, 2.5 million tonnes)*
Voest Alpine	24
Corus	20
Mittal/Arcelor	23
Wire Rod	*(estimated percentage of European production, 19.5 million tonnes)*
Riva	14
Arcelor Mittal	13
Saarstahl	6
Corus	6
GSW	5
Bars	*(estimated percentage of European production, 13.5 million tonnes)*
Ovako	7
Corus	6
Venete	5
GMH	4
ABS	4

Severstal Mining

Severstal Mining is favourably positioned on the global cost curve for both iron ore and coking coal, according to CRU, with strong competitive positions in the domestic markets and in its core export markets of northern and Eastern Europe. This is evident in respect of the pellets produced at Karelsky Okatysh and hard coking coal produced at Vorkutaugol — the two assets with stronger orientation towards the export market and higher-value added products.

Severstal Mining has a strong market share position in the Russian iron ore and coking coal supply markets.

Principal Competitors of Severstal Mining in the Russian Market (by production)

Companies producing coking coal	**Year ended 31 December 2005**
	(estimated percentage of production, 69.9 million tonnes)
Yuzhkuzbassugol *(affiliated with Evraz)*	19
Severstal Mining	14
Yuzhny Kuzbass *(owned by Mechel)*	13
Raspadskaya *(affiliated with Evraz)*	12
Sibuglemet (*independent producer*)	12
Yakutugol *(75 percent state owned)*	7
KRU *(independent producer)*	5
Other	18

Source: CDUTEK

Companies producing iron ore	**Year ended 31 December 2005**
	(estimated percentage of production, 32.0 million tonnes)
Metalloinvest	57
Severstal Mining	27
Kachkanarsky *(owned by Evraz)*	16

Source: RudProm

The Russian coking coal market is less consolidated than the Russian iron ore market, with high competition in low quality coking coals. Severstal Mining's key competitors in this market include Evraz Holding, Yuzhkuzbassugol, Raspadskaya, Mechel and Sibuglemet. Severstal Mining believes that its location provides a critical advantage over its competitors in the Kuzbass region, which is located over 2000 kilometres away from the major purchasers of coking coal in the Russian Market.

Based on RudProm and CDU TEK industry data, Severstal Mining believes it faces less competition in the iron ore pellets market. Severstal Mining's main competitor in the Russian iron ore pellets market is Metalloinvest, which delivered approximately 8.5 million tonnes of pellets and 10.7 million tonnes of fines into the market in 2005. Other large producers are Evraz Holdings, NLMK and Mechel who predominately supply iron ore to their own steel operations. The only significant company importing into the Russian iron ore market is the Kazakh Producer SSGPO. SSGPO exports 4.0 million tonnes of pellets and 3.5 million tonnes of fines into the Russian iron ore market each year.

Employees

The following table sets forth the number of Severstal's employees by business division as at 31 December 2003, 2004 and 2005:

	As at 31 December		
Business section	**2003**	**2004**	**2005**
Russian Steel and Metalware	61,377	52,519	50,822
Severstal North America	2,392	2,078	2,097
Lucchini	9,188	7,227	7,657
Severstal Mining	29,439	30,746	28,444
Total	102,396	92,570	89,020

Russian Steel and Metalware

The reduction in employee numbers shown above for Russian Steel and Metalware is the result of increased labour efficiency and changes in staff numbers occurring in the ordinary course of business. Russian Steel and Metalware has not conducted and does not currently propose to undertake any large-scale redundancy programme. A three-year collective bargaining agreement was concluded between Russian Steel and Metalware and the Mining and Metallurgical Trade Union in 2002. The agreement incorporated features introduced by the new Labour Code enacted in Russia on 1 February 2002. This agreement was subsequently extended to 31 December 2006, and Russian Steel and Metalware is currently in negotiations with the union concerning the terms of a new agreement. To date, Russian Steel and Metalware has experienced no material labour disputes, strikes or employee legal actions. Russian Steel and Metalware considers its employee relations to be good.

The majority of employees of Russian Steel and Metalware are entitled to a lump-sum payment on retirement, which is based on their average salary and number of years of service, and monthly fixed payments.

Severstal North America

A significant reduction in the number of hourly employees has been achieved, which has increased productivity and reduced overall labour cost.

In January 2004, Severstal acquired the assets of Rouge Steel and successfully implemented a new collective bargaining agreement with the United Auto Workers, which officially supported Severstal's bid for Rouge Steel. The collective bargaining agreement will expire on 31 March 2007 and is competitive in total compensation and benefits cost with other fully integrated steel makers in the United States.

Additionally, the collective bargaining agreement provides for the sharing of business information, timely response and collaborative resolution of issues affecting workplace performance. Severstal North America also launched TOP, a structure of employee participation teams intended to reduce cost and improve operational processes. TOP improvements have significantly contributed to manufacturing cost improvements since the acquisition. This initiative resulted in higher employee commitment and involvement in achieving improvements in facility performance, productivity and the elimination of waste.

Severstal North America maintains defined contribution pension plans for its salaried and hourly employees and post-retirement health care plans, which cover substantially all of its employees and are operated on a pay-as-you-go basis. Total expense for these plans amounted to US$5.6 million for the year ended 31 December 2005. No assets have been segregated and restricted to provide for retiree medical benefits under the plans. Under the terms of the collective bargaining agreement, Severstal North America's obligation under the post-retirement health care plan is capped at the 2005 rate. Any further increase in health care costs as a result of future health care trend rate increases is to be borne by the plans' beneficiaries.

Lucchini

Lucchini employed 7,657 people as at 31 December 2005: 2,703 at Piombino, 2,905 at Ascometal and 1,019 at Sidermeccanica. Lucchini launched several initiatives at Piombino during 2005 to improve the quality of human resources; for example, exchange programmes with Severstal Mining to promote expertise sharing.

Severstal Mining

Severstal Mining expects its restructuring and headcount reduction programme to yield annual savings of approximately US$68 million through a reduction of employees to 26,300 in 2006 and 18,635 in 2010 and to achieve higher productivity through increased use of capital equipment, employee training, optimisation of organisational structures and outsourcing.

Under Russian legislation, Severstal Mining is obliged to make monthly pension contributions to the state pension fund on behalf of all of its employees. Contributions are calculated according to a regressive scale related to employees' actual compensation. Currently, Severstal Mining does not have any material accrued liabilities in respect of their contributions to the state pension fund. In addition to the contributions made to the state pension fund, Severstal Mining has three types of quasi-pension liability under collective or territorial agreements: severance payments, calculated as 15 percent of monthly salary for each year of service for current employees, a scheme for which is in place at Vorkutaugol and Kuzbassugol for all current employees.

Health and Safety

Each of Severstal's business divisions operate health and safety management systems which apply a systematic approach to establishing work processes that preserve and enhance their employees' ability to work effectively and safely and are in compliance with applicable legal requirements.

Russian Steel and Metalware

In 2004, there were 618 industrial accidents at Russian Steel and Metalware, in 2005 this number declined by 50 percent to 309. Russian Steel and Metalware estimates that its total expenditure on industrial safety measures at Russian Steel and Metalware; in 2005 amounted to approximately US$7.0 million at the Cherepovets Steel Plant, compared to approximately US$6.0 million at the Cherepovets Steel Plant in 2004. This expenditure was made on items such as safety clothing, boots and other personal safety equipment and improving working conditions.

Severstal North America

An independent audit of Severstal North America's health and safety management in March 2005 resulted in Severstal North America's certification to the international occupational health and safety standard, OHSAS 18001. Severstal North America was the first integrated steel mill in the US to receive this certification. Recordable injury, lost workday case and lost time accident rates in 2005 improved over 2003 levels by 76 percent, 63 percent and 52 percent, respectively. In 2006, Severstal North America commenced an intensive safety further education course for all employees that focuses on awareness, personal responsibility and accountability.

Lucchini

In the case of particular problems or special requirements, Lucchini's plants can make use of external, specialist support. For example, each plant has an external specialist in charge of industrial medicine who, with the support of a paramedic, provides for the medical service of all the personnel. In addition, first aid services are available at each plant and comprise a first aid room properly equipped for medical treatments and overseen by a medical doctor and an ambulance equipped with basic medical aids. In addition, each plant has an indoor fire-prevention service. Severstal believes Lucchini's health and safety systems allow Lucchini to define work processes, to preserve and improve workers' ability to work effectively and safely and to take prompt decisions to correct unsafe working conditions.

Severstal Mining

The number of industrial accidents at Severstal Mining was 280 for the first half of 2006, 810 for 2005, 970 for 2004 and 1,259 for 2003. Severstal Mining made health and safety investments of US$8.9 million in the first half of 2006, US$13.6 million in 2005, US$10.4 million in 2004 and US$8.9 million in 2003. By 2008, Severstal Mining aims to be accredited under the international occupational health and safety standard, OHSAS 18001.

Insurance

Severstal's business divisions maintain a level of insurance commensurate with the standards of other leading steel companies.

Russian Steel and Metalware

Russian Steel and Metalware maintains a level of insurance covering the property, plant and equipment at Russian Steel and Metalware (for replacement value as assessed by the Moscow subsidiary of American Appraisal Inc.) commensurate with the standards of other international and domestic steel companies and has business interruption insurance cover ranging from fixed costs to full gross profits, depending on the plant, for interruption periods of up to 12 months' indemnity.

Russian Steel and Metalware does not purchase full insurance for third-party liability in respect of property or environmental damage.

Third-party insurance services are provided to Russian Steel and Metalware both by Russian insurers, which include Sheksna Insurance Company, which was previously owned by Severstal and divested in 2004, and by internationally recognised insurance brokers Willis Limited. All risks covered by policies issued by Sheksna are reinsured, with approximately 70 percent to 95 percent reinsured in the international market and the remainder with domestic insurers.

Severstal North America

Severstal North America maintains a level of insurance covering its property, plant and equipment commensurate with the standards of other leading steel companies in the United States. Severstal North America's insurance covers direct damage and business interruption, including loss of profits up to specified limits. Severstal North America also maintains a level of insurance for injury, property damage and other related third-party risks. Insurance services are provided to Severstal North America through Willis Limited.

Lucchini

Lucchini has adopted an insurance programme that includes all Lucchini Group companies (with the exception of the French companies reporting to Sideris Steel and Ascometal, which are insured under a separate policy). The insurance policies have been reinsured in the international re-insurance market.

Lucchini also has a risk management policy whose main target is to monitor and focus on critical risk areas and propose alternative solutions through insurance or other means. Both risk management and risk transfer strategies are carried out through services of Willis Italia, the risk management consultant and insurance broker member of Willis Group.

Severstal Mining

Severstal Mining maintains a level of insurance commensurate with the standards of other large mining companies in Russia. In particular, it fully insures the property, plant and equipment of Karelsky Okatysh at replacement value (CRN) and Olkon at actual value (ACV). These assets also have limited business interruption insurance covering the direct costs of an interruption, including lost profit and incurred fixed costs of operation. Employees are insured against accidents.

Insurance coverage in respect of property, plant and equipment at the coalmines is on a partial basis. Procedures are being put in place to ensure insurance coverage for all newly built major facilities. All employees are insured against accidents that occur within the workplace. Severstal Mining does not have comprehensive insurance for third party liability in respect of property or environmental damage. Insurance services are provided to Severstal Mining through Russian insurer Sheksna and through Willis Limited. All risks covered by policies purchased from Sheksna are reinsured on international markets, with Munich Re serving as lead re-insurer.

Legal

Each of Severstal's business divisions has been and continues to be the subject of legal proceedings and adjudications from time to time, which are incidental to Severstal's business.

Lucchini

Although Ascometal maintains safety and monitoring procedures at each production site with respect to potential asbestos exposure, certain employees have alleged that they were exposed to asbestos in the course of employment and have developed certain diseases as a result of such exposure. As at 19 October 2006, 116 actions in respect of these allegations were pending before the French social security tribunals. While Ascometal vigorously defends itself against such actions, if it is held liable by such tribunals, it could be liable for damages to the claimants. In addition, Ascometal could be responsible for part of the cost of any additional sickness benefits awarded in connection with such claims by the French social security authorities, could experience an increase in its mandatory contribution to the occupational accident fund maintained by the French authorities and could incur costs associated with the funding of a government-sponsored retirement early retirement scheme for workers exposed to asbestos.

At 31 December 2005, Ascometal had created a €10 million reserve in respect of potential asbestos-related liabilities pertaining to claims of which it was aware at such date. Ascometal has not, however, provided in its financial statements for asbestos-related claims that have been filed since 31 December 2005, or for potential increased social-security-related costs associated with claims arising after that date. Given the latency period of asbestos-related illnesses, it is possible that a large number of similar claims would be filed in future periods.

DESCRIPTION OF THE COMPANY

Severstal's charter states in clause 4.1 that the main aim of the company is earning profits and using profits in the interest of the company.

OAO Severstal is an open joint stock company incorporated under the laws of the Russian Federation and domiciled in Cherepovets, Russia. OAO Severstal's registration number is 1023501236901 and its registered address is 30 Mira Street, Cherepovets, Vologodskaya oblast, 162600, Russian Federation. The telephone number of Severstal's Moscow office is +7 495 540 7766.

MANAGEMENT

Annual General Shareholders' Meeting

The annual general shareholders' meeting is Severstal's highest governing body and has exclusive powers to take certain decisions by a vote of the ordinary shares represented at the meeting. The powers of Severstal's shareholders, acting through the general shareholders' meeting, are derived from, and their scope is limited to, the powers set out in the Federal Law dated 26 December 1995 No. 208-FZ "On Joint Stock Companies", as amended, or the Federal Law on Joint Stock Companies, and Severstal's charter. Voting at a general shareholders' meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the board of directors, which must be done through cumulative voting. Ordinarily, a majority vote of the voting shares present at a general shareholders' meeting is required for a decision of the general shareholders' meeting to be valid. However, a three-quarters majority vote of the voting shares present at a general shareholders' meeting is required to approve certain decisions.

Issues for which a majority vote is required include:

- the number of members of the board of directors, and the election and dismissal of its members;
- the election and dismissal of the Audit Commission;
- the approval of Severstal's independent auditor;
- the increase of Severstal's share capital by way of an increase in the nominal value of Severstal's shares;
- the reduction of Severstal's share capital by way of a reduction of the nominal value of Severstal's shares or the repurchase of part of the shares for the purpose of decreasing the total number of outstanding shares and the cancellation of the acquired or repurchased shares;
- the approval of Severstal's annual reports and financial statements;
- the declaration and payment of dividends;
- the procedures for holding general shareholders' meetings;
- the splitting and consolidation of Severstal's shares;
- the approval of interested party transactions in cases provided for by the Federal Law on Joint Stock Companies;
- the approval of Severstal's participation in holding companies, financial and industrial groups, associations and other unions of commercial organisations;
- the approval of certain internal regulations of Severstal; and
- other issues as provided by the Federal Law on Joint Stock Companies and Severstal's charter.

Issues for which a three-quarters majority vote is required include:

- amendments to Severstal's charter;
- the reorganisation of Severstal;
- the liquidation of Severstal, appointment of the liquidation commission and approval of the interim and final liquidation balances;
- the number, nominal value and type of authorised shares, and the rights attached to those shares;
- the approval of major transactions in cases provided for by the Federal Law on Joint Stock Companies;
- the acquisition by Severstal of issued shares in cases provided for by the Federal Law on Joint Stock Companies;
- any issue of shares, or securities convertible into shares, by a closed subscription;
- the increase of Severstal's share capital by placement of additional shares by means of a closed subscription;
- the increase of Severstal's share capital by issuing additional ordinary shares by means of an open subscription if the ordinary shares to be additionally issued would constitute over 25 percent of the total number of ordinary shares issued prior to such additional issue; and

- the issue of securities convertible into ordinary shares by means of an open subscription if the shares into which the securities would be converted would constitute over 25 percent of the total number of ordinary shares issued prior to such issue.

A quorum for a general shareholders' meeting of Severstal is achieved if more than 50 percent of the holders of the issued outstanding voting shares are attending in person or by proxy. If a 50 percent quorum is not achieved, the quorum shall be at least 30 percent of the holders of issued outstanding voting shares are attending (in person or by proxy) at a meeting duly reconvened to consider the same agenda.

The annual general shareholders' meeting must be convened by the board of directors between 1 March and 30 June of each year, and the agenda must include the following items:

- election of the members of the board of directors;
- approval of the annual report, balance sheet and profit and loss statement;
- approval of the distribution of profits and losses;
- approval of the appointment of an independent auditor; and
- election of the Audit Commission.

A shareholder owning, individually or collectively with other shareholders, at least 2 percent of the issued voting shares may propose items for the agenda of the annual general shareholders' meeting and may nominate candidates to the board of directors and the Audit Commission. Any agenda items or nominations must be submitted to Severstal no later than 60 calendar days after the end of the financial year.

Extraordinary general shareholders' meetings may be convened by the board of directors on its own motion or at the request of the Audit Commission, the independent auditor or any shareholder owning, individually or collectively with other shareholders, at least 10 percent of the issued voting shares at the date of the request.

A general shareholders' meeting may be held in person or by absentee ballot. A general shareholders' meeting held in person involves the adoption of resolutions by the general shareholders' meeting through the personal attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general shareholders' meeting held by absentee ballot involves the determination of shareholders' opinions on the issues on the agenda by means of a written poll.

The following issues cannot be decided by absentee ballot:

- the election of the members of the board of directors;
- the election of the Audit Commission;
- the approval of the appointment of an independent auditor; and
- the approval of the annual report, balance sheet and profit and loss statement, and the distribution of profits and losses.

Notice and Participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in person or by absentee ballot, no fewer than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if election of the members of the board of directors is on the agenda of an extraordinary general shareholders' meeting, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that are set forth in the statutory notice to shareholders may be considered at a general shareholders' meeting. According to Severstal's charter, the notice to the shareholders can be sent to the shareholders by registered post or delivered by hand. Severstal must also publish the notice in the Russian newspapers "Cherepovetsky Metallurg" and "Rossiyskaya Gazeta" («Череповецкий металлург» and «Российская газета» in Cyrillic letters).

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of the data in Severstal's register of shareholders on the date specified by the board of directors. The list of persons entitled to participate in a general shareholders' meeting may not be compiled earlier than the date of adoption of the resolution to hold such meeting and may not be more than 50 days before the date of the meeting or, in the case of an extraordinary general shareholders' meeting to elect the board of directors, 65 days before the date of the meeting.

Generally, the right to participate in a general shareholders' meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by proxy;
- by absentee ballot; or
- by delegating the right to vote using the absentee ballot to a duly authorised representative.

Board of Directors

Pursuant to the Federal Law on Joint Stock Companies and Severstal's charter, the board of directors is responsible for the general management of Severstal and its operations, except with respect to matters reserved to the exclusive competence of the general shareholders' meeting.

An extraordinary general shareholders' meeting held on 27 October 2006 voted to increase the number of members of Severstal's board of directors to ten, and another extraordinary general shareholders' meeting is scheduled for l5 December 2006, at which time the controlling shareholder intends to vote to terminate the authority of all current members and elect ten new members of the board of directors, including five independent directors.

The members of the board of directors are elected at the annual general shareholders' meeting through a system of cumulative voting for the period until the next annual general shareholders' meeting (except if re-election of the board of directors is required by an extraordinary general shareholders' meeting). Only natural persons (as opposed to legal entities) are entitled to sit on the board of directors. Members of the board of directors are not required to be shareholders of the company. As provided by law, Severstal's charter requires that the entire board of directors retire and stand for re-election at each annual general shareholders' meeting, and that a new board of directors be elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares it holds multiplied by the number of persons to be elected to the board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates.

All directors may be removed as a group without cause at any time before their term expires by a majority vote of shareholders participating in a general shareholders' meeting. Persons elected to the board of directors may be re-elected an unlimited number of times.

The Federal Law on Joint Stock Companies generally prohibits the board of directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting of Severstal. According to the Federal Law on Joint Stock Companies and Severstal's charter, the board of directors has the power to perform the general management and, among other things, it has the power to:

- determine Severstal's business priorities;
- convene annual and extraordinary general shareholders' meeting of Severstal, other than in certain cases provided by law;
- approve the agendas of general shareholders' meetings of Severstal;
- determine the record date for compilation of the list of persons having the right to participate in the general shareholders' meetings and pass resolutions on certain other issues in connection with the preparation for, and holding of, general shareholders' meetings;
- resolve to increase Severstal's share capital by issuing additional shares within the amount of authorised shares, except in those cases falling within the exclusive competence of the general shareholders' meeting;
- resolve to issue bonds and other securities in accordance with applicable law;
- determine the value of property and of the placement and repurchase price of Severstal's securities in accordance with applicable law;
- acquire shares, bonds and other securities issued by Severstal other than in situations reserved to the exclusive competence of the general shareholders' meeting;

- decide on the formation of Severstal's executive body and the early termination of its powers;
- make recommendations on the amount of remuneration and compensation to be paid to the Audit Commission and on the independent auditor's fee;
- make recommendations on the amount of dividends to be paid and the procedure for the payment thereof;
- decide on the utilisation of Severstal's reserve and other funds;
- approve internal documents of Severstal, with the exception of internal regulations, approval of which is reserved to the exclusive competence of the general shareholders' meeting, and other internal regulations of Severstal, approval of which is placed by the charter within the authority of the CEO;
- establish and close down Severstal's branches and representative offices;
- approve decisions relating to Severstal's participation in other entities, including on the establishment of subsidiaries and the reorganisation and liquidation thereof;
- approve major and interested party transactions in accordance with applicable law;
- approve the appointment of Severstal's registrar and the terms of, as well as the termination of, the registrar's appointment;
- issue promissory notes;
- approve transactions with a value exceeding 10 percent of the book value of Severstal's assets; and
- approve candidates for the positions of deputy general director and chief accountant.

A meeting of the board of directors has a quorum if at least half of its members are present. Some decisions (such as increases in the share capital and approvals of major transactions) require the unanimous agreement of all members of the board of directors. In the case of a tied vote, the chairman of the board of directors shall have a casting vote.

It is expected that on 15 December 2006 the controlling shareholder will amend the scope of the authority of, create super-majority requirements for certain decisions by, and discontinue the tie-breaking vote of the chairman of the board of directors in line with the new corporate governance arrangements of Severstal.

As at 30 June 2006, the active membership of the board of directors (the business address of each of which is Ulitsa Mira 30, Cherepovets, Vologda Region, 162600 Russia, and the telephone of which is +7 8202 530 909) is as follows:

Name	Year of birth	Current position/biography and outside memberships	Since
Alexey A. Mordashov	1965	Chairman of the Board of Directors Mr. Mordashov is a graduate of the Leningrad Institute of Engineering and Economics. He has worked at Severstal since 1988. He has also served as the Chief Economist and later as the Deputy Head of the Planning Department. Between 1992 and 1996, Mr. Mordashov was Severstal's Finance Director. He was Severstal's General Director from 1996 to 2002. Mr. Mordashov is also general director of ZAO Severstal Group.	1997

Name	Year of birth	Current position/biography and outside memberships	Since
		Mr. Mordashov's outside activities include the following: • OAO AB Russia (Member of the Board of Directors); • ZAO Alliance — 1420 (Chairman of the Board of Directors); • OOO Capital (General Director); • OOO Algoritm (General Director); • ZAO Laguna-Delta (General Director); • OAO Severstal-Auto (Chairman of the Board of Directors); • ZAO Severstaltrans (Member of the Board of Directors); • OOO Severstal-Holding (Chairman of the Board of Directors); and • OOO Terraprof (General Director).	
Anatoly N. Kruchinin	1960	Member of the Board of Directors Mr. Kruchinin is a graduate of the Ivanovo Energy Institute. He began his career at Severstal in 1982. He was Head of Severstal's Energy Division between 1993 and 1999. He was appointed Severstal's Commercial Director in 1999. In 2002, he was appointed Executive Director, assuming the functions of the general director of Severstal. From 2003, Mr. Kruchinin has been employed by ZAO Severstal Group in the position of "General Director of Severstal". Mr. Kruchinin's outside activities include the following: • OOO Severstal Aviation Enterprise (Member of the Board of Directors); • ZAO Severstaltrans (Member of the Board of Directors); • ZAO Severstal-Metiz (Member of the Board of Directors); • OOO Severstal-Mebel (Member of the Board of Directors); and • OOO Severstal-Emal (Member of the Board of Directors); • ZAO Torgovy Dom Severstal-Invest (Member of the Board of Directors) • AO Severstallat (Chairman of the Board of Directors) • ZAO Severgal (Member of the Board of Directors).	1999
Igor P. Zhuravlev	1941	Member of the Board of Directors Mr. Zhuravlev holds an associated degree from a Technical School. He has been at Severstal since 1964. His career has taken him from being a repairs specialist to being the Head of Severstal's Trade Union Committee. Mr. Zhuravlev has been the Chairman of the Trade Union Committee of Severstal since 1994. He is also Deputy of the Cherepovets City Duma.	1997

Name	Year of birth	Current position/biography and outside memberships	Since
		Mr. Zhuralev does not serve as a director of any other entity. Mr. Zhuravlev owns less than 0.01 percent of Severstal's outstanding share capital prior to the offering.	
Mikhail V. Noskov	1963	Member of the Board of Directors	1998
		Mr. Noskov is a graduate of the Moscow Institute of Finance. He worked for the International Moscow Bank between 1989 and 1993. He has also worked at Credit Suisse First Boston Moscow as Head of Trade Finance. Between 1997 and 1998, he served as Head of Corporate Finance at Severstal. He was appointed Finance Director in 1998. Since 2002, Mr. Noskov has been Deputy General Director of ZAO Severstal Group for Finance and Economics. Mr. Noskov's outside activities include the following: • OOO Media-Holding REN-TV (Member of the Board of Directors); • OAO Mezhregionalny Vekselny Tsentr Severstal (Chairman of the Board of Directors); • OAO Metallurgichesky Commerchasky Bank (Chairman of the Board of Directors); • OAO Promishlenno-Stroitelny Bank (Member of the Supervision Board); • OAO Sveza (Member of the Board of Directors); • ZAO Severstaltrans (Chairman of the Board of Directors); • Severstal Trade GmbH (Executive Director); • OAO Sheksna insurance company (Chairman of the Board of Directors); and • OAO Teleradiocompania Petersburg (Member of the Board of Directors).	
Pavel A. Chelnokov	1966	Member of the Board of Directors	2002
		Mr. Chelnokov graduated from Yaroslavl State University and has a degree in jurisprudence. From 1992 to 1995, he worked as a lawyer in Cherepovets. In 1995, he joined ZAO Severstal Invest. During the Reorganisation, he became the Head of the Legal Department at ZAO Severstal Group. In March 2003, he was appointed Director of Legal Affairs of OAO Severstal. Mr. Chelnokov's outside activities include the following: • OOO Kalita MP (General Director); • OOO Kuzbass-Nedra (General Director); and • OAO Metallurgichesky Commerchesky Bank (Member of the Board of Directors).	

Name	Year of birth	Current position/biography and outside memberships	Since
Vadim A. Makhov	1972	Member of the Board of Directors Mr. Makhov is a graduate of the State Management Academy. He has been with Severstal since 1994. He has worked as Head of the Economic Research Laboratory in Severstal, Head of the Strategic Planning Department and Deputy General Director for Strategic Planning. Mr. Makhov has been Strategic Planning Director since 1998. In 2002, he was appointed Deputy General Director of ZAO Severstal Group for Strategic Planning and Development of Business. Mr. Makhov's outside activities include the following: • Vice President of Lucchini S.p.A. • ZAO Alliance-1420 (Member of the Board of Directors); • ZAO Severgal (Member of the Board of Directors); • OAO Severstal-Auto (Member of the Board of Directors); • ZAO Severstaltrans (Member of the Board of Directors); • Severstal North America (President; Chairman of the Board of Directors); • Severstal Investments LLC (President; Chairman of the Board of Directors); and • Severstal US Holdings LLC (Chairman of the Management Board).	1998
Vadim A. Shvetsov	1967	Member of the Board of Directors Mr. Shvetsov is a graduate of the Cherepovets School of Forestry and Mechanics and the Moscow Institute of Steel and Alloys. He has been with Severstal since 1986. He served as the Commercial Director of ZAO Severstal Group between 1993 and 1996. In 1997, he was appointed as Severstal's Sales Director and held that position until 2001, when he became the First Deputy General Director of Severstal. Since June 2002, he has been First Deputy General Director of ZAO Severstal Group and General Director of OAO Severstal-Auto. He is also chairman of the board of directors of UAZ, ZMZ and ChSPZ. In 2003, he was elected chairman of the Council of Russian Car Manufacturers.	1997

Name	Year of birth	Current position/biography and outside memberships	Since
		Mr. Shvetsov's outside activities include the following: • ZAO Alliance-1420 (Member of the Board of Directors); • OOO Gruppa Companii Severstalmash (Member of the Board of Directors); • OAO ZMA (Member of the Board of Directors); • OAO ZMZ (Chairman of the Board of Directors); • OAO Mezhregionalny Vekselny Tsentr Severstal (Member of the Board of Directors); • OAO Sveza (Member of the Board of Directors); • OAO Severstal-Auto (General Director; Member of the Board of Directors); • ZAO Severstal-Invest-Service (General Director; Member of the Board of Directors); • Severstal Trade GmbH (executive director); • ZAO Severstal-Metiz (Member of the Board of Directors); • ZAO Severstaltrans (Member of the Board of Directors); • ZAO Torgovy Dom Severstal-Invest (Member of the Board of Directors); and • OAO UAZ (Member of the Board of Directors). • OOO Severstal-Auto (General Director)	
Igor Y. Kostin	1972	Member of the Board of Directors	2003
		Mr. Kostin is a graduate of the Cherepovets Military Academy of Radio Electronics and Cherepovets State University. He has worked at Severstal since 1993. Between 1999 and 2002, he worked as an economist and Head of Business Projects in the Strategy Department. Since 2002, Mr. Kostin has been the Strategic Planning Director of Severstal. In December 2004 he was appointed as a Deputy General Director of ZAO Severstal Group for Business Planning. Mr. Kostin's outside activities include the following: • ZAO Alliance-1420 (Member of the Board of Directors); • ZAO Izhorsky Trubny Zavod (Chairman of the Board of Directors); and • ZAO Severstal-Metiz (Member of the Board of Directors). Mr. Kostin owns less than 0.01 percent of Severstal's outstanding share capital prior to the offering.	

Name	Year of birth	Current position/biography and outside memberships	Since
Valery A. Solopov	1962	Member of the Board of Directors Mr. Solopov is a graduate of the Moscow High School of the Ministry of Internal Affairs and the Academy of Russian Governmental Service. From 1981 to 1984, he served in the Russian Military Forces. Between 1986 and 2002, he worked in the Ministry of Internal Affairs. He is a Senior Specialist of the Law Firm Centurion M in Moscow, Russia, where he has been employed since 2002. Mr. Solopov's outside activities include the following: • OAO Karelsky Okatysh (Member of the Board of Directors); and • OAO UAZ (Member of the Board of Directors).	2005

There are no current or potential conflicts between the private interests and duties of the members of the board of directors, the members of the management board or the general director and the duties of those officers to Severstal.

In the previous five years, no member of the board of directors has been convicted of any fraudulent offence; served as a director, partner, founder or senior manager of any organisation that any bankruptcies, receiverships or liquidations; was subject to any official public incrimination or sanctions by statutory or regulatory authorities, including designated professional bodies, or has been disqualified by a court from acting as a director of an issuer or from acting in the management or conduct of the affairs of any issuer.

Managing Company/General Director

On 23 May 2003, the general shareholders' meeting of Severstal decided that ZAO Severstal Group shall be vested with the powers of the sole executive body of Severstal, which powers were confirmed by the agreement between Severstal and ZAO Severstal Group dated 23 May 2003, or the Management Agreement. Mr. Mordashov, as the general director of ZAO Severstal Group, is authorised to represent Severstal without a power of attorney. Also, ZAO Severstal Group authorised Mr. Kruchinin to represent Severstal by power of attorney and titled his position within ZAO Severstal Group "general director of Severstal". ZAO Severstal Group may at any time withdraw the power of attorney granted to Mr. Kruchinin and appoint another representative or appoint no one, leaving only Mr. Mordashov authorised.

The sole executive body of Severstal is competent to take decisions regarding all aspects of Severstal's day-to-day activities, except for those matters that fall within the exclusive power of the general shareholders' meeting and the board of directors or require their prior approval. The powers which can only be exercised by the sole executive body include a power of discretion over Severstal's assets, including cash, of up to 10 percent of the total book value of those assets at the time of the transaction; the ability to take decisions involved in the day-to-day management of Severstal; being the primary signatory for financial documents; deciding labour management and policies; and other functions set out in the current legislation of the Russian Federation and in Severstal's charter. It is expected that on 15 December 2006 the controlling shareholder will amend the scope of authority of the sole executive body in line with the new corporate governance arrangements.

An extraordinary general shareholders' meeting held on 27 October 2006 resolved to discontinue the arrangements under the Management Agreement as of 16 December 2006. At a meeting held on 1 November 2006, the board of directors appointed the controlling shareholder as general director of Severstal effective as of 16 December 2006.

At the extraordinary general shareholders' meeting planned for 15 December 2006, the controlling shareholder intends to vote to terminate the authority of all current members of the board and elect ten new members to the board of directors.

Statutory Audit Commission

KPMG Limited have been appointed the auditors of Severstal's consolidated IFRS financial statements since 2001. Prior to 2001, KPMG Limited audited OAO Severstal's stand-alone financial statements. Severstal's financial and economic activities are monitored by Severstal's Audit Commission (a statutory requirement of Russian law) and Severstal's Chief Accountant, Severstal's statutory auditor, ZAO KPMG, conducts its audit in accordance with the laws of the Russian Federation from 2005. The appointment of ZAO KPMG as the statutory auditors of Severstal is approved by the annual general shareholders' meeting. In addition, Severstal's board of directors has approved the establishment of an Audit Committee.

Audits of Severstal's financial and economic performance are conducted by the Audit Commission on the basis of Severstal's annual results, but may also be carried out at any time on the initiative of the Audit Commission or at the request of the general shareholders' meeting, the board of directors or any shareholder owning a total of at least 10 percent of Severstal's voting shares.

The Audit Commission prepares a report on the basis of the results of the audit. The report should contain confirmation of the authenticity of data included in financial reports, accounts and other financial documents of Severstal, and set out breaches of procedures for conducting accounting operations and financial reporting established by applicable Russian laws.

The Audit Commission's report must be submitted to the board of directors no later than 30 days prior to the annual general shareholders' meeting. In accordance with Severstal's charter, the Audit Commission consists of three members. They are elected at the annual general shareholders' meeting and their incumbency lasts until the date of the next annual general shareholders' meeting.

The present members of the Audit Commission are:

Name	Position
Dmitry A. Dyakov	Senior Manager and Chief Social Economist
Vasily P. Tarash	Head of Finance Department
Irina L. Utyugova	Head of Internal Audit

Audit Committee

Severstal's Audit Committee is responsible for evaluating candidates for the position of Severstal's auditor, evaluating auditors' reports, evaluating Severstal's internal control and risk management procedure, analysing the system for the approval of unusual transactions and making suggestions for improvement to the board of directors.

The Audit Committee consists of three members of the board of directors: Mr. Noskov, Mr. Kostin and Mr. Solopov. The Audit Committee is chaired by Mr. Solopov.

Compensation of Senior Managers and Executive Officers and Directors

The aggregate amount of compensation paid by Severstal to its senior managers (who are employees of Severstal) as a group (currently 13 persons) in 2005 was approximately RUR92.3 million, or approximately US$3.3 million (including salary and other cash compensation paid during 2005 and bonuses with respect to 2004 paid during 2005). Senior managers of Severstal also received benefits in kind, including life insurance and real estate insurance from Severstal. Certain senior managers of Severstal also received compensation for services from related parties in 2005. See "Related Party Transactions."

In addition, Severstal paid an aggregate of RUR1,191 million, or approximately US$44.1 million, to ZAO Severstal Group as a management fee for 2005, a significant portion of which was paid to executive officers (who are employed by ZAO Severstal Group, but not Severstal itself) of Severstal as compensation.

In addition, the aggregate amount of compensation paid by subsidiaries of Severstal and by ZAO Severstal Group to members of Severstal's board of directors for services rendered to these subsidiaries and ZAO Severstal Group, respectively, in capacities other than as members of Severstal's board of directors was approximately RUR459 million, or approximately US$17 million, in 2005.

Members of the board of directors of Severstal do not receive compensation for service as directors nor is any director a party to any service contract with Severstal or any of its subsidiaries where such contract provides for benefits upon termination of employment.

PRINCIPAL SHAREHOLDERS

The following table sets forth principal direct shareholders of OAO Severstal immediately prior to this offering, including the selling shareholder, the controlling shareholder and shareholders who own 5 percent or more of the outstanding share capital of OAO Severstal, and the expected ownership of shares by the existing shareholders immediately following this offering, assuming the full exercise of the over-allotment option, and the expected ownership of ordinary shares after the capital increase in connection with this offering, assuming the sale of all 85,000,000 of the newly issued ordinary shares. The following table is also based on the assumption that all of the ordinary shares offered by the selling shareholder will be sold. Each percentage of direct shareholdings is based on an aggregate of 930,784,663 ordinary shares outstanding as at 4 October 2006, each such ordinary share with a par value of RUR0.01.

	Direct Participations					
	As at 4 October 2006		**As adjusted for this offering**		**As adjusted for the Capital Increase**	
			Upon full exercise of the Over-Allotment Option			
	Number of ordinary shares	*in percent (approx.)*	*Number of ordinary shares*	*in percent (approx.)*	*Number of ordinary shares*	*in percent (approx.)*
Frontdeal Limited[1,2]	379,423,622	40.7638	281,673,622	30.2620	316,322,890	31.1407
OOO Kapital[2]	232,696,167	25.0000	232,696,167	25.0000	253,946,167	25.0000
OOO Algoritm[2]	132,184,258	14.2014	132,184,258	14.2014	144,255,430	14.2014
Unifirm Limited[2]	91,796,425	9.8623	91,796,425	9.8623	100,179,348	9.8623
OOO Monolit[2]	2,400,000	0.2578	2,400,000	0.2578	2,619,169	0.2578
Treasury shares	0	0	0	0	0	0
Subtotal	838,500,472	90.0853	740,750,472	79.5834	817,323,004	80.4622
Alexey Mordashov	0	0	0	0	0	0
Anatoly Kruchinin	0	0	0	0	0	0
Igor Zhuravlev	2,375	0.0003	2,375	0.0003	2,375	0.0002
Mikhail Noskov	0	0	0	0	0	0
Pavel Chelnokov	0	0	0	0	0	0
Vadim Makhov	0	0	0	0	0	0
Vadim Shvetsov	0	0	0	0	0	0
Igor Kostin	150	0.00002	150	0.00002	150	0.00001
Valery Solopov	0	0	0	0	0	0
Subtotal	2,525	0.0003[3]	2,525	0.0003	2,525	0.0002
Free float	92,281,666	9.9144	190,031,666	20.4163	198,459,134	19.5375
Total	930,784,663	100.00	930,784,663	100.00	1,015,784,663	100.00

(1) Frontdeal Limited is the selling shareholder.

(2) The ultimate shareholder of Frontdeal Limited, OOO Kapital, OOO Algoritm, Unifirm Limited and OOO Monolit is Alexey Mordashov, the chairman of Severstal's board of directors.

(3) Numbers do not add up due to rounding.

As at 4 October 2006, approximately 90.09 percent of Severstal's share capital was indirectly controlled by Alexey Mordashov, the chairman of Severstal's board of directors (see "Management — board of directors"). Approximately 0.00027 percent of Severstal's shares were held by Severstal's members of the board of directors.

Through the relevant property committees, the Russian federal government owns 1,800 ordinary shares and the Regional Vologda Administration owns 50 shares in Severstal.

THE SELLING SHAREHOLDER

The selling shareholder, Frontdeal Limited, owned approximately 40.76 percent of the ordinary shares of Severstal and Alexey Mordashov, Severstal's chairman of the board of directors owned, directly or indirectly, approximately 90.09 percent of the ordinary shares of Severstal as at 4 October 2006. Alexey Mordashov owns, directly or indirectly, all of the ordinary shares of the selling shareholder.

Immediately upon completion of the offering and the related share capital increase, Frontdeal Limited is expected to own approximately 31.14 percent and Alexey Mordashov is expected to own, directly and indirectly, approximately 80.46 percent of the ordinary shares of Severstal.

RELATED PARTY TRANSACTIONS

Severstal is required to comply with applicable Russian law with respect to related party transactions. In addition, Severstal is required to report all related party transactions, as defined in IAS 24 "Related Party Disclosures", in accordance with IFRS.

Related Party Transactions Under Russian Law

Russian law requires a company that enters into transactions with certain types of its affiliates that are referred to as "interested party transactions" to comply with special approval procedures. Under Russian law, an "interested party" can include:

(i) members of the board of directors (supervisory board) or another managerial body thereof, or a member of the collective executive body of the company,

(ii) a person performing the functions of the sole executive body of the company (in particular, a managing organisation or manager),

(iii) any person that owns, together with that person's affiliates, at least 20 percent of the company's voting shares, or

(iv) a person who on legal grounds has the right to give mandatory instructions to the company,

if any of the above listed persons, or a close relative (including spouses, parents, children, siblings and half brothers and sisters, step-parents and step-children) or affiliate of such person, is:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner of at least 20 percent of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction; or
- a member of the managerial bodies of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction or an officer of the managing organisation of such company.

Under applicable Russian law, interested party transactions must be approved by the majority vote of independent directors not interested in the relevant transaction who are members of the board of directors (supervisory board) of the company, or by the general meeting of shareholders. If all the members of the board of directors (supervisory board) of the company are deemed interested persons and/or are not independent directors, the transaction may be approved by the general meeting of shareholders. The decision to approve an interested party transaction must be adopted by the general meeting of shareholders by a majority of votes of all the shareholders not interested in the deal who are owners of voting shares, in the following cases:

- if the subject matter of the transaction or several interconnected transactions is assets of which the value according to accounting data (the offer price of the asset) amounts to two per cent or more of the balance sheet value of the company's assets according to its financial statements as of the last accounting date, except for the transactions specified in the two following paragraphs;
- if the transactions are a floatation by subscription or a sale of shares amounting to over two per cent of the ordinary shares floated previously by the company and any ordinary shares into which any securities issued previously can be converted; or
- if the transaction or several interconnected transactions are a floatation by subscription of securities convertible into shares which can be converted into ordinary shares amounting to over two per cent of the ordinary shares floated previously by the company and ordinary shares that can be obtained from conversion of securities floated previously into shares.

A transaction that violates the Russian Federal Law may be deemed to be invalid if a complaint is filed by the company or a shareholder. The interested person shall bear responsibility to the company in the amount of losses caused by him to the company. If several persons bear responsibility, their responsibility to the company shall be joint and several.

Severstal has put in place procedures to identify and monitor interested party transactions. In particular, Severstal maintains a register of such transactions in accordance with its internal regulations.

Related Party Transactions Under IFRS

IFRS requires that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Under IFRS, a party is related to an entity if:

(a) directly, or indirectly through one or more intermediaries, the party:

- (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
- (ii) has an interest in the entity that gives it significant influence over the entity; or
- (iii) has joint control over the entity;

(b) the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;

(c) the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);

(d) the party is a member of the key management personnel of the entity or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Recent Acquisitions of Controlling Stakes from Severstal's Controlling Shareholder

During May and June 2006, Severstal acquired controlling stakes in entities related to the Mining segment and in maintenance companies in the Steel segment — Russia from Severstal's controlling shareholder. As described in Note 2 to the Consolidated Interim Financial Statements, acquisitions of controlling interests in companies that were previously under the control of the controlling shareholder have been accounted for as if the acquisition had occurred at the beginning of the earlier comparative period presented, or if later, at the date on which control was obtained by the controlling shareholder. Before consolidation of the above mentioned companies, transactions with these entities have been reported in the same manner as transactions with other related parties of Severstal. After completion of consolidation, transactions between Severstal and these acquired companies are eliminated on consolidation in the Special Purpose Financial Statements and the Interim Consolidated Financial Statements.

On October 2, 2006, Severstal acquired a controlling stake in Lucchini from its controlling shareholder. Severstal commissioned a leading international investment bank to appraise the value of this controlling stake. Lucchini is not included in any of Severstal's consolidated financial statements and transactions between Severstal and Lucchini are disclosed as transactions with related parties in such consolidated financial statements.

Related Party Transactions of Severstal

Severstal has transactions with related parties in respect of sales, purchases, financing and other types of transactions. Because of the varying ownership percentages of its controlling shareholder in such related parties, as well as other factors, there may be incentives for transactions between Severstal and its related parties to be effected on other than arm's-length terms, which could result in subsidies or other transfers of value and could have a material adverse effect on Severstal's business, results of operations and financial condition.

The following related parties and their transactions are considered to be significant to Severstal. Severstal's Russian subsidiaries are subject to the same (or similar) legal requirements regarding the approval of interested party transactions as the parent company itself. The scope of related party transactions entered into by Severstal in the years ended 31 December 2005 and 2004 as reflected in the Special Purpose Financial

Statements were similar to those entered into by Severstal in the six months ended 30 June 2006. Related party transactions disclosed for the years ended 31 December 2005, 2004 and 2003 in Severstal's General Purpose Financial Statements also include transactions between Severstal and Severstal Mining, which are primarily purchases by Severstal of raw materials produced by Severstal Mining.

Sales

As disclosed in the Consolidated Interim Financial Statements, Severstal's sales to related parties totalled US$383 million for the six months ended 30 June 2006. As disclosed in the Special Purpose Consolidated Financial Statements, Severstal's sales to related parties totalled US$660 million and US$603 million for the years ended 31 December 2005 and 2004, respectively.

Severstal has strict credit criteria that not all its customers can meet. In these cases, TD Severstal Invest, an intermediary which is controlled by the controlling shareholder, provides financial assistance to the customer by purchasing from Severstal in accordance with the stipulated credit terms and selling to the end user on terms that it can afford. For this service the intermediary normally adds a financial charge to the market prices charged by Severstal. The EBITDA margin of such intermediary typically varies from 2 to 7 percent, depending on market conditions. Sales of steel products to TD Severstal Invest totalled approximately US$207 million for the six months ended 30 June 2006.

During the six months ended 30 June 2006, Severstal Mining sold US$43 million of pellets to Lucchini, which was a related party prior to its consolidation on 2 October 2006.

The remaining related party sales include, *inter alia*, sales of steel products to a Russian automotive manufacturing group that is owned by Severstal's controlling shareholder, and sales to other related party trading companies.

Purchases

As disclosed in the Consolidated Interim Financial Statements, Severstal's purchases from related parties totalled US$665 million for the six months ended 30 June 2006. As disclosed in the Special Purpose Financial Statements, Severstal's purchases from related parties totalled US$721 million and US$476 million for the years ended 31 December 2005 and 2004, respectively.

Severstal has the following major categories of purchases from related parties: transport services, slabs, materials and equipment.

Transport Services

Transport services are provided through ZAO Severstaltrans, or Severstaltrans which is a related party due to a 50 percent ownership by Severstal's controlling shareholder. Severstaltrans organises all aspects of transportation of a significant part of Severstal's raw materials and finished goods. These services include direct contracting with transport providers, stevedoring and rail car servicing. While OAO Russian Railways is responsible for the actual transportation within Russia, all ancillary services connected with transportation are performed by Severstaltrans. In addition, Severstaltrans is able to obtain certain bulk discounts, scale efficiencies and optimize the routes of rail cars. As a result, Severstal has achieved significant transport cost efficiencies as compared to the likely costs had such ancillary services had been provided by OAO Russian Railways. Total purchases from Severstaltrans for the six months ending 30 June 2006 were US$223 million. Such transactions are expected to continue in the foreseeable future.

Purchases of Slabs

During the first half of 2006, Severstal North America purchased slabs from Lucchini for a total consideration of US$112 million. Such transactions may continue in the foreseeable future. After Severstal's purchase of a controlling stake in Lucchini on 2 October 2006, such transactions will not be disclosed as purchases from related parties but presented as intersegment purchases in Severstal's consolidated financial statements.

Purchases from Equity Associates

Purchases from equity associates totalled US$68 million in the first six months of 2006, and comprised purchases by Severstal North America from its equity associates Double Eagle Steel Coating company, Spartan Steel Coating LLC, Delaco Processing LLC and Mountain State Carbon LLC. Such transactions were undertaken as part of Severstal North America's normal business operations and are expected to continue in the foreseeable future.

Purchases of Raw Materials and Equipment

Certain purchases of raw materials and construction equipment by Severstal Mining were centralised within certain related parties to increase control over the mining operations. The total amount of such purchases was approximately US$140 million for the six months ended 30 June 2006. Severstal has taken measures to transfer the centralised purchasing function from related parties to its subsidiaries. Accordingly, such transactions have significantly decreased during the first half of of 2006 and are expected to decline in the foreseeable future.

Financing

Severstal's cash flows have been used, from time to time, to finance the acquisition and development of various companies. In particular, the acquisition of shares in Lucchini by Severstal's controlling shareholder was financed through loans issued by Severstal. The acquisition of the mining companies by Severstal's controlling shareholder was also financed by Severstal.

Additional Information

For additional information and certain financial statement amounts with respect to various related party transactions for the six months ended 30 June 2006 and the balances as of such date, refer to the following parts of the Consolidated Interim Financial Statements:

Consolidated interim balance sheet

Consolidated interim income statement

Note 5 — Staff costs

Note 6 — Net income from bank lending operations

Note 9 — Net financing expense

Note 13 — Short-term financial investment

Note 15 — Amounts receivable from related parties

Note 18 — Long-term financial investments

Note 19 — Investments in associates

Note 22 — Amounts payable to related parties

Note 27 — Subsidiary and associated companies

Note 29 — Segment information

For relevant disclosures for the years ended 31 December 2005 and 2004 and the balances as of those dates, refer to the corresponding parts of the Special Purpose Financial Statements. For relevant disclosures for the years ended 31 December 2005, 2004 and 2003 and the balances as of those dates, refer also to the corresponding parts of the General Purpose Financial Statements.

DESCRIPTION OF SHARE CAPITAL AND APPLICABLE RUSSIAN LAW

Immediately prior to this offering Severstal's total share capital of RUR9,307,846.63 consists of 930,784,663 ordinary shares, each with a par value of RUR0.01. Severstal also has 5,139,618,137 authorised but unissued ordinary shares.

Severstal's shares are currently traded on the RTS and MICEX.

In December 2003, Severstal established a Level I Global Depositary Receipt programme for up to 19.99 percent of its shares. The GDR programme covered only existing shares and allowed the existing shareholders of Severstal to convert their shares into global depositary receipts. The global depositary receipts outstanding under this programme will be converted into GDRs upon the closing of this offering, as fully described in "Dilution".

Planned Capital Increase

On 14 September 2006, the board of directors of Severstal resolved to increase its share capital by RUR850,000 through the placement of up to 85,000,000 additional shares in an open subscription. This share issuance was registered with the FSFM under registration number 1-02-00143-A-002D on 17 October 2006. Each shareholder of Severstal may exercise his pre-emption right to purchase additional shares pro rata to the number of shares held by that shareholder as at 14 September 2006, and it is expected that the selling shareholder will exercise pre-emption rights to subscribe for newly issued shares, directly and through other entities under the control of the controlling shareholder, for the total value of the Russian rouble equivalent of not less than US$877.5 million. The statutory Russian share prospectus was registered by the FSFM on 17 October 2006. The price for additional shares to be purchased by the existing shareholders exercising their pre-emption right will be equal to the offer price of the shares and GDRs in this offering less an amount reflecting certain commissions, fees and expenses incurred in connection with this offering. The shares may be paid up in cash in Russian roubles.

Once the capital increase is completed Severstal's share capital may increase to up to RUR10,157,846.63 consisting of 1,015,784,663 shares and resulting in dilution as more fully described in "Dilution".

Mining Companies Capital Increase

On 11 April 2006, the additional share issue of Severstal was registered with the FSFM. During the issue, Severstal placed 378,929,863 shares at a price of RUR320.74 each by way of closed subscription, including 13,516,489 shares to existing shareholders exercising their statutory pre-emption rights (for cash) and 365,413,374 shares to the selling shareholder in exchange for the shares in of the companies that constitute Severstal Mining. As a result of the issue, Severstal's share capital increased from RUR5,518,548 to its current amount of RUR9,307,846.63.

History

Severstal's initial share capital of RUR5,518,548, representing the value of Severstal's assets at 1 July 1992, was divided into 5,518,548 shares of RUR1.00 each. Severstal sub-divided its shares on 5 May 1994 into 22,074,192 ordinary shares with a par value of RUR0.25 each. In January 2005, Severstal completed a 25:1 share split of its existing share capital, which was intended to increase liquidity.

Fifty-one percent of the shares in Severstal were offered to its workforce and management. As at 29 April 1994, the closing date for subscription for the first issue of Severstal's shares, 48 percent of those shares had been acquired by Severstal's workforce and management and the remaining 3 percent were sold at public auctions. Twenty percent of the shares in Severstal were assigned to governmental bodies for a period of three years.

The 20 percent shareholding retained in state ownership was later either distributed to Severstal's employees or sold to the public:

- 5 percent of the shares were placed in the Employee Shareholding Fund, of which 4.8 percent were distributed among Severstal's existing employees (2.7 percent on 23 October 1997 at no cost, and 2.1 percent on 26 October 1998 at par value). The remaining 0.2 percent were sold to the public at a cash auction in the first quarter of 1999;

- 5 percent of the shares were sold to the public at special auctions held on 25 August 1997 (4.86 percent) and on 5 February 1998 (0.14 percent); and
- 10 percent of the shares were transferred to Rossiiskaya Metallurgiya, a Russian government-owned company. Following the liquidation of Rossiiskaya Metallurgiya, this 10 percent was sold to the public at a special cash auction held on 24 June 1999.

Through participating in these public auctions and subsequently through market purchases and private transactions acting through investment vehicles, Alexey Mordashov has purchased shares in Severstal such that, as at 4 October 2006, he controlled, directly or indirectly, 90.09 percent of Severstal's share capital. The majority of Mr. Mordashov's purchases were concluded in the period from 1993 to 2001. Since 2001, Mr. Mordashov has purchased small numbers of shares from employees.

The remaining 29 percent of the shares in Severstal were retained by the Vologda Region's Property Management Committee in the form of preferred shares convertible on sale into ordinary shares. 27.3 percent of the preferred shares were converted into ordinary shares when sold to the public at a special voucher auction held on 5 May 1994. The remaining 1.7 percent of the preferred shares were converted into ordinary shares when they were sold to the public at a cash auction on 25 August 1994.

Rights of Holders of Ordinary Shares

As required by the Federal Law on Joint Stock Companies and Severstal's charter, all ordinary shares of Severstal have the same nominal value and grant identical rights to their holders. Each fully paid ordinary share, except for treasury shares, gives its holder the right to:

- transfer that share freely without the consent of other shareholders;
- participate in general shareholders' meetings of Severstal with the right to vote on all issues within the competence of the general shareholders' meeting;
- receive dividends on that share;
- upon Severstal's liquidation, receive a pro rata portion of Severstal's assets after Severstal's obligations have been fulfilled;
- enter into transactions with regard to that share;
- receive information relating to Severstal and have access to Severstal's records in accordance with the procedure established by the relevant Russian laws and by Severstal's charter;
- challenge in court any resolution passed by a general shareholders' meeting in violation of applicable law or Severstal's charter if he did not participate in the relevant general shareholders' meeting or voted against the relevant resolution, and if that resolution violated his rights or legitimate interests;
- demand that Severstal repurchase all or some of the shares owned by him if he voted against, or did not participate in the voting on, any resolution passed by a general shareholders' meeting approving the reorganisation of Severstal, the conclusion of a major transaction subject to provisions of the Federal Law on Joint Stock Companies, and any amendment of Severstal's charter or approval of a new edition of Severstal's charter that restricts his rights;
- assign all or some of the rights conferred upon him, including the right to vote his share, to his representative on the basis of a power of attorney;
- receive information relating to Severstal and have access, among other things, to Severstal's foundation documents; documents confirming title to Severstal's assets; Severstal's internal regulations; minutes of Severstal's general shareholders' and board of directors' meetings; independent appraisers' reports; lists of Severstal's affiliates; lists of shareholders entitled to receive dividends; reports of the internal auditor, external auditor, and state and municipal financial control bodies; and quarterly reports, and receive copies of such documents for a reasonable fee;
- if holding 25 percent or more of Severstal's voting stock, have free access to accounting documents in accordance with Russian law and Severstal's charter;
- if holding, alone or with other shareholders, 2 percent or more of Severstal's voting stock, submit proposals for the annual shareholders' meeting and nominate candidates to the Audit Commission and to the board of directors and the counting commission within 60 days after the end of the fiscal year;

- challenge major and interested party transactions if entered into in violation of the applicable procedures;
- if holding, alone or with other shareholders, 10 percent or more of Severstal's voting stock, demand that the board of directors call an extraordinary shareholders' meeting or call a board of directors' meeting, or an unscheduled audit by the internal auditor;
- exercise pre-emption rights to acquire Severstal's shares in cases provided for by law; and
- exercise other rights of a shareholder provided in Severstal's charter, under Russian law or by decisions of a general shareholders' meeting.

Pre-Emption Rights

The Federal Law on Joint Stock Companies grants existing shareholders a pre-emption right to purchase, in proportion to their existing holdings of Severstal's shares, any shares of the same class, or securities convertible into that shares, that Severstal proposes to place in an open subscription. Shareholders who voted against or did not participate in voting on the placement of Severstal's shares, or securities convertible into shares, in a closed subscription are entitled to acquire an amount of those shares or convertible securities in proportion to their existing holdings of the shares. These rules do not apply when the shares are placed solely among the existing shareholders and all those existing shareholders are entitled to acquire new shares in an amount that is proportionate to their existing holdings.

Generally, Severstal must provide its shareholders with 45 days' notice of their pre-emption rights prior to an offering of shares, or securities convertible into shares, during which time the shareholders may exercise their pre-emption rights and pay for the shares at a price that has already been fixed. According to Severstal's charter, notice to the shareholders can be sent to the shareholders by registered post or delivered by hand. Severstal must publish the notice in the Russian newspaper "Cherepovetsky Metallurg" and "Rossiyskaya Gazeta" («Череповецкий металлург» and «Российская газета» in Cyrillic letters). However, if the offer price of the shares, or the securities convertible into shares, is to be fixed only after the end of the period during which the shareholders may exercise their pre-emption rights, Severstal need only provide its shareholders with 20 days' notice of the proposed offering, in the same manner as described above, during which time the shareholders may exercise their pre-emption rights by sending a notice to Severstal to this effect. Once the offer price has been fixed and disclosed, shareholders must pay for their new shares within a period set by Severstal. That period must not be less than five business days.

Anti-Takeover Protection and Minority Shareholder Redemption

Anti-Takeover Protection

Since the entry into force of new legislation on 1 July 2006, new rules apply to the acquisition of shares in open joint stock companies. A summary of the relevant provisions of the Federal Law on Joint Stock Companies is set forth below, although investors should note that it is currently not entirely clear how such provisions will be applied in practice.

Voluntary Public Offer

A person intending to purchase more than 30 percent of the total number of the ordinary shares and preference shares (provided that those shares carry voting rights), or voting shares, in an open joint stock company (taking into account shares already held by it and its affiliates) has the right to make a public offer to all the shareholders of the company, or a voluntary public offer.

Compulsory Public Offer

Within 35 days after acquisition by any means of more than 30 percent of a company's voting shares, the acquirer will have to make a public offer to purchase the remaining voting shares, and securities convertible into such voting shares, or the securities, from the holders of such securities, or a compulsory public offer. The obligation to make a compulsory public offer also arises for a shareholder who has acquired voting shares and, as a result of such acquisition, the number of the voting shares held by it and its affiliates has passed the threshold of 50 percent or 75 percent of the company's voting shares. The price of the securities to be specified in the compulsory public offer may not be lower than (i) the average trading price of the securities over the six months immediately preceding the date on which the FSFM is notified of the compulsory public offer (if the securities are admitted to trading on a stock exchange) or their market value determined by an independent appraiser (if the securities are not traded), or (ii) the maximum price for which the shareholder who has made the compulsory public offer (or its affiliates) has acquired or agreed to acquire such securities over the six months immediately preceding the date on which the compulsory public offer is made.

Competing Public Offer

At any time after the company receives a voluntary or a compulsory public offer, and up to 25 days prior to the expiry of the relevant acceptance period, any person has the right to make a competing public offer (that satisfies the requirements for voluntary or compulsory public offers) to purchase a number of securities, and at a price, that is greater than or equal to that of the original offer. Any securityholder may revoke its previous acceptance of the original offer and accept the competing offer. A copy of the competing offer must be sent to the person who made the original offer so that such person may amend its offer by increasing the purchase price and/or shortening the settlement period.

Public Offer Requirements

Voluntary and compulsory public offers, or offers, to the holders of the securities to be acquired must contain information provided by the Federal Law on Joint Stock Companies and be sent through the company, and an offer is deemed to have been made to all holders of the securities to be acquired as at the time at which the offer is received by the company. According to the Federal Law on Joint Stock Companies, an offer sent to a company must have a bank guarantee enclosed with it that sets out the guarantor's obligations to meet the acquirer's payment obligations. The guarantor's details and the bank guarantee conditions must be specified in the offer sent to the company. The bank guarantee must be effective for at least six months after the expiry of the relevant acceptance period.

According to the Federal Law on Joint Stock Companies, a person intending to make an offer must send that offer to the FSFM, which has the power to issue an order to bring the offer into compliance with the requirements set forth in the Federal Law on Joint Stock Companies. In the event that the offeror proposes to acquire securities that are traded on a stock exchange, the offer must be sent to the FSFM 15 days prior to its delivery to the company. If the securities to be acquired are not traded on a stock exchange, the offer must be sent to the FSFM on or before the date of its delivery to the company.

The board of directors of a company that receives an offer must make a recommendation with respect to such offer within 15 days after receipt of the offer. The company must send that recommendation, together with the offer in respect of which it is made, to all holders of the securities to be acquired.

The Federal Law on Joint Stock Companies provides that, during the acceptance period, the offeror may not acquire securities with respect to which it has made the offer on terms other than the terms specified in the offer. The acceptance period is determined by the offeror, subject to certain limitations set forth in the Federal Law on Joint Stock Companies: the acceptance period may be no less than 70 days and no more than 90 days (in the case of voluntary public offers) or 80 days (in the case of compulsory public offers) from the date on which the offer was received by the company. The holders of the securities to be acquired may accept the offer by sending the offeror an application to sell their securities by mail, or by any other means provided for in the offer.

When a company receives an offer, decisions on certain important corporate issues (for example, the placement of additional securities; the approval of a transaction or a series of related transactions whose value exceeds 10 percent of the company's balance sheet assets as at the date of the company's last accounts; the approval of interested party transactions; and other issues specified in the Federal Law on Joint Stock Companies) shall be adopted only by a general meeting of the shareholders of such company. The competence of the general meeting of the company's shareholders is therefore extended as a result of the company receiving an offer.

Minority Securityholder Redemption/Squeeze-Out

If as a result of either a voluntary or a compulsory public offer the acquirer, alone or with its affiliates, purchases more than 95 percent of the voting shares, it will be obliged to (i) notify all the other holders of the securities (within 35 days after the acquisition of voting shares above such threshold) of their right to sell their securities, and (ii) purchase the securities of each minority securityholder upon request. In turn, the acquirer will have the right to make a binding buy-out demand requiring the minority securityholders to sell their securities.

Dividends and Dividend Rights

The Federal Law on Joint Stock Companies sets out procedures for the payment of dividends by Severstal. According to Severstal's charter, Severstal may declare dividends based on first quarter, six-month, nine-month and/or annual results. The amount of dividends is recommended to a general shareholders' meeting by a majority vote of the board of directors and is approved at a general shareholders' meeting by a majority vote. A decision on three-month, six-month and nine-month dividends must be taken within three months of the end of the relevant period; a decision on annual dividends must be taken at the annual general shareholders' meeting. The amount of dividends approved at a general shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends are distributed to holders of Severstal's shares as at the record date for the shareholders' meeting approving the dividends. For the purpose of compiling the list of shareholders entitled to receive dividends, a nominee shareholder should furnish information about the persons in whose interest such nominee shareholder holds the shares. Dividends may be paid in cash, by wire transfer or in kind. Dividends are not paid on treasury shares.

Under the Federal Law on Joint Stock Companies, dividends on Severstal's shares may be declared and paid on ordinary shares only out of net profits calculated under Russian accounting principles, provided that:

- Severstal's share capital has been paid up in full;
- the value of Severstal's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of Severstal's share capital, Severstal's reserve fund and the difference between the liquidation value and the par value of Severstal's issued and outstanding preference shares, if any;
- Severstal has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- Severstal is not, and will not become, insolvent as a result of the payment of the dividends; and
- other requirements of Russian legislation have been met, and Russian legislation imposes no further restrictions on the declaration and payment of dividends.

Distributions to Shareholders on Liquidation

Under Russian law, the liquidation of a company results in the company ceasing to exist without its rights and obligations being transferred to other persons as legal successors. The Federal Law on Joint Stock Companies allows Severstal to be liquidated:

- by a three-quarters majority vote at a general shareholders' meeting; or
- by a court order.

Following a decision to liquidate Severstal, the right to manage Severstal's affairs passes to a liquidation commission that, in a voluntary liquidation, is appointed by a shareholders' meeting and, in an involuntary liquidation, is appointed by the court. Severstal's creditors may file claims within a period to be determined by the liquidation commission but which must extend for at least 2 months from the date of publication of the notice of liquidation by the liquidation commission.

Under the procedure established by the Russian Civil Code, after all the creditors' claims have been satisfied the remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase under Russian law;
- payments of declared but unpaid dividends on preference shares and the liquidation value of the preference shares, if any; and
- payments and distributions to holders of ordinary and preference shares in proportion to their shareholdings.

Registration and Transfer of Shares

All shares of Severstal are ordinary shares in registered form. Russian legislation requires that a joint stock company provide for a register of its shareholders to be maintained. A register of shareholders may be maintained by a company itself or by a specialised registrar. The Federal Law on Joint Stock Companies requires that a register of shareholders of a joint stock company with more than 50 shareholders be maintained by a specialised registrar. Ownership of registered shares is evidenced by entries made in such register. Shareholders of Severstal may obtain extracts from that share register certifying the number of shares that they hold. ZAO "Partner" (ЗАО«Партнёр» in Cyrillic letters), an independent registrar, operates and maintains the register of Severstal's shareholders.

Purchases, sales or other transfers of shares are accomplished through registration in the share register or the registration of the transfer with a depositary if shares are held through a depositary. In the latter case, the depositary is considered the nominal holder of Severstal's shares. The registrars and depositaries are not allowed to require any documents other than those expressly provided for by law in order to register a transfer of shares in the register or with a depositary. Any refusal by a registrar or a depositary to register the shares being transferred in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is unlawful and may be disputed through the courts.

Exchange Controls

Russian currency control legislation regulates certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities and domestic securities (including Severstal's shares), as well as certain types of settlements in roubles between residents and non-residents of Russia. Currently, certain types of currency operations may be performed only in roubles, for example transactions between residents and non-residents of Russia with respect to internal securities such as Severstal's shares. These requirements increase balances in Severstal's rouble-denominated accounts and, consequently, its exposure to currency devaluation risk, and will remain in force until 1 January 2007. In addition, Russian companies, subject to certain exceptions, must repatriate 100 percent of offshore receipts to Russia.

The CBR may impose such restrictions as the requirement to use special bank and securities accounts with an authorised Russian bank in relation to a number of operations between residents and non-residents expressly set forth in the Federal Law dated 10 December 2003 No. 173-FZ "On Currency Regulation and Currency Control", as amended, in particular:

- the acquisition of Russian securities by foreign investors and foreign securities by Russian investors; and
- grants or receipts of loans and credits between residents and non-residents of Russia.

Currently, no such restrictions have been introduced by the CBR.

Remittance of Dividends, Interest or Other Payments to Non-Residents

The Federal Law dated 9 July 1999 No. 160-FZ "On Foreign Investments in the Russian Federation", as amended, specifically guarantees foreign investors the right to repatriate their earnings from investments in Russia.

The ability of investors to convert roubles into US dollars (in cases where dividends are paid in roubles) is subject to the availability of US dollars on Russian currency markets. Although foreign exchange markets exist in Russia, including the inter-bank currency exchange and the over-the-counter and currency futures markets, the further development of these markets is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside Russia, and no viable market in which to hedge roubles and rouble-denominated investments.

Notification of Foreign Ownership

A foreign person or company acquiring shares in a Russian joint stock company must, in certain circumstances, notify the FSFM of such acquisition no later than five days after such acquisition and in the form and substance required by Russian securities legislation. As at the date of this prospectus, no such notification requirement exists with respect to the shares of Severstal.

Organisations that are taxpayers, and individuals registered as individual entrepreneurs, in Russia who acquire shares in a Russian joint stock company must notify the Russian tax authorities within one month after such acquisition. Accordingly, foreign persons registered as individual entrepreneurs in Russia and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month after such acquisition if they are already registered with the Russian tax authorities at the time of the acquisition.

Notification to the FSFM and Disclosure of Equity Interests

A joint stock company that, as a result of one or several transactions, obtains more than 20 percent of voting shares in another joint stock company must disclose such information in the form and substance required by Russian legislation.

Pursuant to the Federal Law dated 22 April 1996 No. 39-FZ "On the Securities Market", or the Federal Law on the Securities Market, a shareholder who acquires ordinary shares in a Russian company must notify this company and the FSFM no later than five days after the acquisition by it of 5 percent or more of the company's ordinary shares, as well as after a subsequent acquisition or disposal of these shares such that the level of its holding of the company's ordinary shares passes the threshold of 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 50 percent or 75 percent of the company's ordinary shares. Holders of Severstal's shares should file the relevant notification with the FSFM and the company no later than five days after any of the above events has occurred. Upon receipt of the notification from the shareholder, Severstal must publicly disclose the relevant information as a material event.

Liability of Shareholders

The Russian Civil Code and the Federal Law on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear the risk of loss of their investments only.

This general rule may not apply to shareholders who are capable of giving binding instructions or otherwise directing the business of a Russian joint stock company. Specifically, an investor may be held secondarily liable for Severstal's debts in the event of its insolvency or bankruptcy if: (i) the investor is capable of giving binding instructions or otherwise directing the business of Severstal, (ii) such insolvency or bankruptcy was caused by the investor's actions or omissions, and (iii) the investor knew in advance that such actions or omissions would result in the insolvency or bankruptcy of Severstal.

In addition, the general rule on limited liability described in the first paragraph above may not apply when one company (the effective parent) is capable of determining the decisions of another company (the effective subsidiary).

If the effective subsidiary is a joint stock company, the effective parent bears joint and several liability for a transaction entered into by the effective subsidiary if (i) the effective parent caused the effective subsidiary to conclude the transaction, and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for by the charter of the effective subsidiary or in a contract between the companies. If the effective subsidiary is a limited liability company, the effective parent bears joint and several liability if the effective parent caused the effective subsidiary to enter into the transaction (without regard to how the effective parent's ability to determine the decisions of the effective subsidiary arises).

An effective parent, a shareholder, a participant or any other person that is capable of determining the decisions made by an effective subsidiary may be held secondarily liable for such company's debts in the event of its insolvency or bankruptcy. If the effective subsidiary is a joint stock company, the effective parent, shareholder, participant or other person capable of determining its decisions will have secondary liability if (i) the effective subsidiary becomes insolvent or bankrupt as a result of the actions of such effective parent, shareholder, participant or other person; and (ii) such effective parent, shareholder, participant or other person knew in advance that such actions would result in the insolvency or bankruptcy of the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent, shareholder, participant or other person capable of determining its decisions will be held secondarily liable if the effective subsidiary's insolvency or bankruptcy is caused by the wilful misconduct or negligence of such effective parent, shareholder, participant or other person.

Shareholders (other than the effective parent) of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary's losses from the effective parent if (i) the effective parent caused the effective subsidiary to do or omit to do any act that resulted in loss, and (ii) the effective parent knew in advance that such act or omission would result in loss. Participants (other than the effective parent) of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent through its fault caused the effective subsidiary to do any act that resulted in loss. In both cases, it does not matter how the effective parent's ability to make decisions for the effective subsidiary arises.

Alteration of Share Capital

Share Capital Increase

Severstal's share capital may be increased by:

- issuing new shares, or
- increasing the nominal value of the outstanding shares.

According to the Federal Law on Joint Stock Companies and Severstal's charter, a decision to increase the share capital by issuing additional shares must be taken by unanimous vote of the board of directors, except where the decision is one that must be taken by Severstal's general shareholders' meeting. A decision on the issuance of shares, or securities convertible into shares, by closed subscription, or an issuance by open subscription of ordinary shares, or securities convertible into ordinary shares, constituting more than 25 percent of the number of issued ordinary shares, requires a three-quarters majority vote by a general shareholders' meeting. Increasing the nominal value of outstanding issued shares requires a majority vote at a shareholders' meeting.

New shares may only be issued if there are sufficient authorised but unissued shares provided for by Severstal's charter. The authorisation and issue of shares above the number of authorised shares provided for by Severstal's charter necessitates an amendment to the charter, which requires a three-quarters majority vote at a general shareholders' meeting.

The Federal Law on Joint Stock Companies requires that when determining the placement price of a company's shares, the board of directors must set the price on the basis of the market price (such price not being less than the nominal value of the shares). The board of directors may, but is not required to, involve an independent appraiser to set the placement price of the shares. In cases when the price for the company's shares is regularly published, the board of directors is required to take into account such price. The placement price for existing shareholders exercising a pre-emption right to purchase shares may be less (but in any event no more than by 10 percent) than the price paid by third parties.

The Federal Law on the Securities Market and securities regulations set out detailed procedures for the registration and issue of shares of a joint stock company, including:

- the adoption of a decision on an increase of share capital by the placement of additional shares;
- the adoption of a decision on a share issue;
- the registration of a share issue with the FSFM;
- the placement of the shares;
- the registration of the report or filing of the notification of the results of the share issue; and
- public disclosures at the necessary stages of the issue.

Share Capital Reduction and Share Buy-Backs

The Federal Law on Joint Stock Companies does not allow a company to reduce its share capital below the statutory minimum level. As at 31 August 2006, the minimum share capital for an open joint stock company was RUR100,000. Severstal's charter requires that any decision to reduce its share capital, whether through repurchase and cancellation of shares or a reduction in the nominal value of the shares, may be made by a simple majority vote at a general shareholders' meeting. Additionally, within 30 days of a decision to reduce Severstal's share capital, Severstal must publish a notice of the decision and must issue written notice to its creditors. Severstal's creditors will then have the right to demand, within 30 days of publication or receipt of Severstal's notice, the repayment of all amounts due to them, as well as compensation for damage.

The Federal Law on Joint Stock Companies allows the shareholders or the board of directors, depending on the particular case, to authorise the repurchase of up to 10 percent of Severstal's shares in exchange for cash. The repurchased shares must either be resold within 1 year of their repurchase or the shareholders must cancel those shares and then either decrease the share capital or increase the nominal value of the remaining shares to preserve the total amount of share capital.

The Federal Law on Joint Stock Companies allows Severstal to repurchase its shares only if, at the time of repurchase:

- Severstal's share capital has been paid up in full;
- the value of Severstal's net assets is not less (and would not become less as a result of the proposed repurchase) than the sum of Severstal's share capital, the reserve fund and the difference between the liquidation value and the nominal value of Severstal's issued and outstanding preference shares, if any;
- Severstal has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- Severstal is not, and will not become, insolvent as a result of the repurchase; and
- other requirements of Russian legislation have been met.

Russian legislation and Severstal's charter provide that Severstal's shareholders may demand repurchase of their shares if they voted against, or did not participate in, the voting on any of the following events:

- the reorganisation of Severstal;
- any amendment to Severstal's charter or approval of a new edition of Severstal's charter which limits the rights of these shareholders; or
- the approval of a major transaction subject to the provisions of the Federal Law on Joint Stock Companies.

Severstal may use up to 10 percent of its net asset value for share repurchases requested by shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10 percent of Severstal's net asset value, Severstal must repurchase from each shareholder exercising the right to request repurchase a number of shares proportionate to the number of shares specified in the request of that shareholder.

Interested Party Transactions

Under the Federal Law on Joint Stock Companies, certain transactions defined as "interested party transactions" require approval by disinterested directors, disinterested independent directors or disinterested shareholders of Severstal. "Interested party transactions" include transactions involving a member of the board of directors or a member of any executive body of Severstal (including Severstal's chief executive officer and/or Severstal's managing organisation); any person that owns, together with any affiliates, at least 20 percent of Severstal's issued voting stock; or any person who is able to direct the actions of Severstal, if that person and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates, is/are:

- a party to, or beneficiary of, a transaction with Severstal, whether directly or as a representative or intermediary;
- the owner of at least 20 percent of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with Severstal, whether directly or as a representative or intermediary; or
- a member of any management body of a company that is a party to, or beneficiary of, a transaction with Severstal, whether directly or as a representative or intermediary, or a member of any management body of a management organisation of such a company,

or in other cases provided by Russian legislation.

The Federal Law on Joint Stock Companies requires that an interested party transaction by a company with more than 1,000 shareholders holding voting shares be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For the purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision to approve the transaction was not, (i) the general director, (ii) a member of any executive body, (iii) an affiliate of the company except for being its director, (iv) a member of any management body of the company's management organisation or (v) a person whose close relatives held positions on management bodies of the company or the managing company or were sole manager of the company. For companies with 1,000 or fewer shareholders holding voting shares, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2 percent or more of the balance sheet value of the company's assets determined under RAS;
- the transaction or a number of interrelated transactions involves the placement by subscription or secondary market sale of shares exceeding 2 percent of the company's issued ordinary shares and ordinary shares, into which issued convertible securities may be converted;
- the transaction or a number of interrelated transactions involves the placement by subscription of issued securities that may be converted into ordinary shares constituting more than 2 percent of the company's issued ordinary shares and ordinary shares, into which issued convertible securities may be converted;
- for companies with 1,000 or fewer shareholders holding voting shares, the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- for companies with more than 1,000 shareholders holding voting shares, all the members of the board of directors of the company are interested parties, or none of them is an independent director.

The approval of interested party transactions is not required in certain instances provided by the Federal Law on Joint Stock Companies, such as if the transactions are connected with the execution of pre-emption rights of existing shareholders to purchase newly issued shares or securities converted into shares, or if the transactions are connected with the repurchase, whether mandatory or not, by the company of its issued shares.

Any interested party transaction must be approved prior to its execution. Any interested party transaction entered into in breach of the above requirements may be invalidated by a court pursuant to a claim brought by the company or any of the company's shareholders.

Major Transactions

The Federal Law on Joint Stock Companies defines a "major transaction" as a transaction, or a series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal, of property worth 25 percent or more of the balance sheet value of the assets of a company as determined under RAS, with the exception of transactions conducted in the ordinary course of business or transactions in connection with the placement through a subscription of ordinary shares, or securities convertible into ordinary shares. Major transactions involving assets worth from 25 percent to 50 percent of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing such approval, a simple majority vote of a general shareholders' meeting. Major transactions involving assets worth in excess of 50 percent of the balance sheet value of the assets of a company require a three-quarters majority vote of shareholders present at a general shareholders' meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court pursuant to a claim brought by Severstal or any of Severstal's shareholders.

Disclosure of Information

Russian securities regulations require Severstal periodically to make the following public disclosures and filings:

- disclosing on Severstal's Internet site and filing with the FSFM quarterly reports containing information about Severstal, its shareholders and registrar, the structure of Severstal's corporate bodies, the members of the board of directors, the branches and representative offices of Severstal, Severstal's shares, important developments during the reporting quarter and other information about Severstal's financial and business activities;
- disclosing on Severstal's Internet site, filing with the FSFM, publishing in the press and in the FSFM's periodical print publication, and disclosing through other public news media certain information about material changes in Severstal's financial and business activities, changes in the composition of the board of directors, a change of Severstal's general director, and other material changes concerning Severstal, or material events;

- disclosing on Severstal's Internet site, publishing in the press and in the FSFM's periodical print publication, and disclosing through other public media information on each stage of a new issue of Severstal's securities;
- disclosing changes in shareholding and ownership as required by applicable legislation;
- disclosing Severstal's annual reports, charter, internal regulations and financial statements prepared in accordance with RAS on Severstal's Internet site;
- disclosing on Severstal's Internet site and filing with the FSFM on a quarterly basis a list of persons who are affiliates of Severstal;
- disclosing on Severstal's Internet site, filing with the FSFM and disclosing through other public news media information which may have a significant impact on the price of Severstal's securities; and
- filing and/or disclosing other information as required by applicable Russian securities legislation.

As at the date of this prospectus, Severstal uses the newspaper "Prilozhenie k Vestniku FSFR" («Приложение к Вестнику ФСФР» in Cyrillic letters) for disclosures requiring publication in the press such as the publication of information about material events and new issues of Severstal's securities.

Severstal is also obliged to disclose material events and some other information through certain Russian newswire services (currently Interfax and AK&M) prior to disclosing such information by any other means.

The board of directors has adopted internal regulations on information policy and on insider information. These regulations set forth, among other things, procedures for managing information within Severstal.

REGULATORY MATTERS

Regulation of the Steel and Mining Industries in Russia

Russia has not enacted any specific legislation governing the operation of the steel industry and the business of steel-manufacturing companies. The production, sale and distribution of steel in the Russian Federation is regulated by general civil legislation and special legislation relating to quality standards, industrial safety, environmental and other rules.

On 5 September 2002, the Russian government approved the "Plan of Measures for Development of the Russian Steel Industry until 2010", or the Plan. The Plan proposes measures supporting voluntary certification of steel products and promotion of innovation in the industry, reduction of import duties on high-tech machinery, financing of research and development in the steel industry, investment in new technologies and professional development and social protection of the industry's workforce.

The Federal Law "On Technical Regulation" No. 184-FZ dated 27 December 2002, as amended, or the Technical Regulation Law, introduced new rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

The Technical Regulation Law supersedes the Laws of the Russian Federation "On Certification of Goods and Services" No. 5151-1 dated 10 June 1993 and "On Standardisation" No. 5154-1 dated 10 June 1993 and will be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. In particular, the Federal Service for Environmental, Technological and Nuclear Supervision is responsible for developing and enacting new technical rules relating to the industrial safety of steel- and iron-making facilities as well as coking and chemical facilities and safety rules relating to iron ore extraction.

Federal, Regional and Local Regulatory Authorities Governing the Steel Industry

At the federal level, regulatory authority over the steel industry is divided primarily between the Ministry of Industry and Energy and the Ministry of Natural Resources. The Ministry of Industry and Energy is responsible for the development of governmental policy in the industry (for example, on attracting investment, foreign trade, taxation, support of scientific research and employment). The Ministry of Natural Resources is responsible for the licensing of subsoil resources and also regulates exploration and geological prospecting.

The Ministry for Economic Development and Trade of the Russian Federation regulates Russian exports and imports of steel products and co-ordinates inter-governmental negotiations relating to export and import regulations.

The federal ministries in Russia are not responsible for compliance control or management of state property and provision of services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that are relevant to Severstal's activities include:

- The Federal Service for Environmental, Technological and Nuclear Supervision, which sets procedures for, and oversees compliance with, industrial safety and environmental rules and issues licences for certain industrial activities and activities relating to safety and environmental protection.

- The Federal Agency for Subsoil Use, which organises auctions and issues licences for subsoil use and approves design documentation for subsoil production activities.

- The Federal Agency for Technical Regulation and Metrology, which determines and oversees levels of compliance with obligatory general and industrial standards.

Aside from the above federal executive bodies, which are directly involved in regulating and supervising the steel sector in Russia, there are a number of other federal regulators that, together with their structural sub divisions, have authority over general issues relevant to the Russian steel industry, such as defence, internal affairs, security, border services, justice, tax enforcement, rail transport and other matters.

Generally, regional authorities with jurisdiction over the specific area in which a steel-producing enterprise is located have substantial authority. Regional and local authorities usually control regional and local land-use allocations.

Licensing of Operations

Severstal is required to obtain numerous licences, authorisations and permits from Russian governmental authorities for its operations. The Federal Law "On Licensing of Certain Types of Activities" of 8 August 2001 as amended, or the Licensing Law, as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for issuing licences. In particular, some of Severstal's Russian companies need to obtain licences and permits to carry out certain activities, including, *inter alia*:

- the use of subsoil, which is described in more detail in "— Subsoil Licensing";
- water consumption (the use of water resources);
- geodesic works;
- the collection, utilisation, deactivation, transportation and disposition of hazardous waste;
- the storage, utilisation and distribution of explosives for industrial use (three different licences);
- the operation of hazardous industrial facilities (explosives);
- the operation of hazardous industrial facilities (chemicals);
- the operation of hazardous industrial facilities (fire);
- the operation of complexes containing radioactive substances;
- surveying operations;
- construction;
- medical operations;
- educational services; and
- transportation activities.

These licences are usually issued for a period of five years and may be extended upon application by the licensee. Licences for the use of natural resources may be issued for shorter or longer periods. In particular, licences for the use of surface water resources may be issued for periods of up to 25 years, although Severstal's licences extend from three to five years. Certain types of licences may also have unlimited terms.

The requirements imposed by regulatory authorities may be costly and time-consuming, which may result in delays in the commencement or continuation of exploration or production operations. Accordingly, the licences Severstal needs may not be issued in a timely fashion, or may impose requirements that restrict its ability to conduct its operations or to do so profitably.

As part of Severstal's obligations under licensing regulations and the terms of its licences and permits, Severstal must comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

Subsoil Licensing

In Russia, mining minerals requires a subsoil licence with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The licensing regime for use of subsoil for geological research, exploration and production of mineral resources is established primarily by the Federal Law of the Russian Federation "On Subsoil" No. 2395-1 dated 21 February 1992, as amended, or Subsoil Law. The Procedure for Subsoil Use Licensing adopted by Resolution of the Supreme Soviet of the Russian Federation on 15 July 1992, as amended, or Licensing Regulation, also regulates the exploration and production of mineral resources.

There are two major types of licences: (1) an exploration licence, which is a non-exclusive licence granting the right of geological exploration and assessment within the licence area, and (2) a production licence, which grants the licensee an exclusive right to produce minerals from the licence area. In practice, many of the licences are issued as combined licences, which grant the right to explore, assess and produce minerals from the licence area.

There are two major types of payments with respect to the use of subsoil: (1) periodic payments for geological exploration under the Subsoil Law and (2) the minerals extraction tax under the Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil licence.

Issuance of subsoil licences. Subsoil licences are generally issued by the Federal Agency for Subsoil Use. Most of the currently existing production licences owned by companies derive from (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations; or (2) tender or auction procedures held in the post-Soviet period. The Subsoil Law and the Licensing Regulation set out the major requirements relating to tenders and auctions.

Amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding exploration and production licences, in particular abolishing the joint grant of licences by federal and regional authorities. Under the 2004 amendments, production licences and combined exploration and production licences are awarded by tender or auction conducted by the Federal Agency for Subsoil Use. While the auction or tender commission may include a representative of the relevant region, the separate approval of regional authorities is no longer required in order to issue subsoil licences. The winning bidder in the tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At the auction, the success of the bid is determined by the attractiveness of the financial proposal.

The Subsoil Law allows for production licences to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration licence at its own expense during the exploration phase. In those circumstances, as a matter of practice, the production licence will be issued to the holder of the exploration licence, but, legally, the right of the holder of the exploration licence to receive the production licence in the event of discovery is not guaranteed.

Regional authorities may issue production licences for "common" mineral resources, such as clay, sand or limestone. A recipient of a licence from a regional authority is also usually granted rights to use the land surrounding the licence area.

Extension of subsoil licences. The term of any subsoil licence is set forth in the licence and runs from the date the licence is registered. Prior to January 2000, exploration licences could have a maximum term of five years, production licences a maximum term of 20 years, and combined exploration, assessment and production licences a maximum term of 25 years. After amendment of the Subsoil Law in January 2000, exploration licences may still have a maximum term of five years; production licences may have a one-year term in a limited number of special cases, but are generally granted for a term of the expected operational life of the field based on a feasibility study; and combined exploration, assessment and production licences can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments did not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law.

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the licence or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations.

In order to extend a subsoil licence, a company must file an application with the federal authorities to amend the licence. The Order of the Ministry of Natural Resources No. 439-R, dated 31 October 2002, requires that the following issues be considered by the relevant governmental authorities when determining whether to approve an amendment: (1) the grounds for the amendments, with specific information as to how the amendments may impact payments by the licensee to the federal and local budgets; (2) compliance of the licensee with the conditions of the licence; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended licence.

In practice, the factors that may affect a company's ability to obtain the approval of licence amendments include (1) its compliance with the licence terms and conditions; (2) its management's experience and expertise relating to subsoil issues, including experience in amending licences; and (3) the relationship of its management with federal and/or local governmental authorities, as well as the local governments.

Maintenance and termination of subsoil licences. A licence granted under the Subsoil Law is generally accompanied by a licensing agreement. The licensing agreement sets out the terms and conditions for the use of the subsoil licence. Prior to the August 2004 amendments, the relevant regional authority, the Ministry of Natural Resources and the licensee were each party to a licence agreement. Under the August 2004 amendments, only the Federal Agency for Subsoil Use and the licensee are parties to licence agreements.

Under a licensing agreement, the licensee makes certain environmental, safety and production commitments, including extracting annually an agreed target amount of reserves; conducting agreed mining and other exploratory and development activities; protecting the environment in the licence areas from damage; providing geological information and data to the local authorities; submitting on a regular basis formal progress reports to regional authorities; making all obligatory payments when due and commitments with respect to social and economic development of the region. When the licence expires, the licensee must return the land to a condition, which is adequate for future use. Most of the conditions set out in a licence are based on mandatory rules contained in Russian law, and licence agreements are generally not negotiable. Severstal expects that it will be able to meet the commitments set forth in its licensing agreements.

The fulfilment of a licence's conditions is a major factor in the good standing of the licence. If the subsoil licensee fails to fulfil the licence's conditions, upon notice, the licence may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence, it may apply to amend the relevant licence conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for licence termination. A licensee can be fined or the licence can be limited, suspended or terminated for the reasons noted above, for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area, or upon the occurrence of certain emergency situations. A licence may also be limited, suspended or terminated for violations of "material" licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for suspension or termination of licences. Consistent underproduction and failure to meet obligations to finance a project would also likely constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limiting, suspending or terminating the licence.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a licence limitation, suspension or termination or the refusal to reissue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases of termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three-month period, no termination or other action may be taken.

Licences may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation or merger of the licence holder or in the event that an initial licence holder transfers its licence to a legal entity in which it has at least a 50 percent ownership interest, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence.

Land Use Rights

Land use rights are needed and granted only for the portions of the licence area actually being used, including the plot being mined, access areas and areas where other mining-related activity is occurring.

Under the Land Code of the Russian Federation of 25 October 2001, as amended, or the Land Code, companies generally have the rights of ownership or leasing with regard to land in the Russian Federation.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities, which can sell or lease land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Federal Law on Introduction of the Land Code of 25 October 2001, with certain exceptions, requires companies using land pursuant to rights of perpetual use either to have purchased the land from, or to have entered into a lease agreement relating to the land with, the relevant federal, regional or municipal authority owner of the land by 1 January 2006.

Severstal's mining subsidiaries (including Severstal Mining) generally have a right of perpetual use of their plots or have entered into long-term lease agreements. A land use lessee has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Environmental Considerations

Severstal is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law "On Environmental Protection" No. 7-FZ of 10 January 2002, as amended, or the Environmental Protection Law, as well as by a number of other federal and local legal acts.

Pay-to-pollute. The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The Ministry of Natural Resources has established standards relating to the permissible impact on the environment and, in particular, limits for emissions and disposal of substances, waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company of its responsibility to take environmental protection measures and undertake restoration and clean-up activities. In 2004 and 2005, respectively, Severstal incurred such fees in the amount of RUR45.1 million and RUR52.0 million.

Ecological approval. Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law "On Ecological Expert Examination" No. 174-FZ of November 23, 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described in "— Environmental liability".

Enforcement authorities. The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and Ministry of Natural Resources are responsible for co-ordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability. If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with the requirements of applicable environmental laws and regulations may be subject to administrative and/or criminal liability. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. Severstal has, in the past, been subject to enforcement actions, fines and, in some cases, court actions in relation to breaches of environmental regulations by Russian Steel and Metalware and Severstal Mining. Although none of these court actions and fines has had, individually or in aggregate, a material adverse effect on Severstal, its business and results of operations, there can be no assurance that any such court actions or fines will not have a material effect on Severstal in the future.

Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low.

Health and Safety

Due to the nature of Severstal's business, much of its activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law "On Industrial Safety of Dangerous Industrial Facilities" No. 116-FZ of July 21, 1997, as amended, or the "Safety Law". The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used, where alloys of ferrous and non-ferrous metals are produced and where certain types of mining are done. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used.

There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast-furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises, and the foundry industry.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia effective 1 February 2002, as amended, or the Labour Code. In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Federal Service for Environmental, Technological and Nuclear Supervision has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Antimonopoly Approvals of Acquisitions

As of 26 October 2006 the new Federal Law on the Protection of Competition, or the Competition Law, became effective. A summary of the relevant provisions of the Competition Law is set out below, although investors should note that it is currently not entirely clear how such provisions will be applied in practice.

Under the Competition Law, an investor or several entities constituting "a group of entities and/or individuals" should obtain FAS clearance in the following cases in particular:

- for the initial acquisition of more than 25 percent of the voting shares in a joint stock company, or 33.3 percent of the participation interest in a limited liability company, provided that the acquirer did not have any shares (participation interest) in such company or had less than the above threshold before the acquisition;
- for the subsequent acquisition of the voting shares in a joint stock company or participation interests in a limited liability company such that the level of their holding of the company's shares (participation

interest) passes the threshold of 50 percent or 75 percent of the voting shares in a joint stock company or 50 percent or 66.6 percent of the participation interests in a limited liability company;

- for the acquisition of production or intangible assets if the book value of such assets exceeds 20 percent of the production or intangible assets of the seller (transferor); or
- for the acquisition of rights to determine the conditions of the business of another entity.

Prior FAS clearance is required if (i) either the aggregate balance value of assets of the acquirer and the target and the companies of their respective groups exceeds RUR3 billion or the aggregate value of revenues of the same entities in the last calendar year exceeds RUR6 billion and, simultaneously, (ii) the aggregate value of assets of the target and the companies of its group exceeds RUR150 million or, alternatively, one of the entities mentioned above is entered in the Russian register of businesses with a market share exceeding 35 percent.

Post-completion notification is required if (i) either the aggregate balance value of assets of the acquirer and the target and the companies of their respective groups exceeds RUR200 million or the aggregate value of revenues of the same entities in the last calendar year exceeds the same amount and, simultaneously, (ii) the aggregate value of assets of the target and the companies of its group exceeds RUR30 million or, alternatively, one of the entities mentioned above is entered in the Russian register of businesses with a market share exceeding 35 percent.

Intra-group transfers are no longer subject to prior approval by the FAS. However, intra-group transfers may be subject to post-completion notifications. For the purposes of a notification, one of the parties should file a "list of its group members" with the FAS not later than 1 month prior to completion. The list should specify the reasons for including each of the group members in the group.

The Competition Law expressly provides for its extraterritorial application to transactions which are made outside of Russia but lead, or may lead, to the restriction of competition in Russia and relate to assets located on the territory of Russia or to the shares (participation interests) in Russian companies or rights in relation to such companies.

Regulation of Competition

As part of its competition-monitoring activities, the FAS keeps a register of companies that have more than a 35 percent share in a particular goods market. As a major Russian steel producer, Severstal appears on the register in relation to certain types of steel products.

The FAS may rule that certain companies that appear on the register have a dominant position in the market. Such companies are subject to more rigorous governmental regulation including the imposition of price controls. The FAS ruled that Severstal must maintain the price of the steel it sells to UAZ at a competitive level for a period of three years beginning from July 2001.

Severstal, together with MMK, was subject to a case brought by the FAS in connection with allegations of price fixing in the pipe industry. On 14 January 2004, the FAS (i) found Severstal and MMK guilty of violating anti-monopoly legislation by acting in concert in respect of the pricing of steel strips sold to pipe mills for the production of oil and gas pipes; and (ii) obliged both companies: (a) to stop such practices and to prevent any such violations in the future; and (b) for the next three years, to provide the FAS on a quarterly basis with detailed information on the pricing of such strips together with the economic rationale for any increase in prices of more than 5 percent. In March 2004, Severstal filed an appeal against the decision of the FAS in the Moscow Arbitration Court, which ruled in favour of Severstal and MMK on 27 May 2004. This decision was confirmed further on 14 December 2004 by the Federal Arbitration Court of Moscow District, acting as a cassation court.

Trade Barriers and Anti-Dumping Regulations

Steel-producing countries generally view their steel industries as strategically important and therefore requiring protection from foreign competition. In addition, the governments of some emerging economies employ non-market methods to try to protect and develop their steel industries, and, while those governments seek to achieve the desired balance in their economies between production levels and product mix and consumption, they may resort to protectionist measures against imports from third countries.

Exports of steel from Russia are primarily regulated by the Federal Law "On Fundamentals of State Regulation of Foreign Trade Activities" No. 164-FZ dated 8 December 2003 and bilateral agreements between Russia and its trading partners, including the United States, the EU and China, which establish minimum prices and/or quotas for the export from Russia to those markets of certain types of steel products. Russian exporters of steel products to the United States and the EU are required, in accordance with the bilateral agreements between Russia and the United States and the EU, respectively, to obtain a licence for those exports from the Russian Ministry for Economic Development and Trade.

General. In general, the recent trend worldwide has been for the relaxation of import restrictions. The largest importers of Severstal's products are countries in the EU and North America. Restrictive measures on imported steel introduced by certain Latin American countries have not affected Severstal's business adversely, as Severstal's exports have, for geographical reasons, been principally directed at markets in the EU and North America.

Severstal believes that, due to Russia being granted "market economy" status by the EU and various countries, including the United States, South Africa and Brazil, it has become relatively easier for Russian steel producers to defend their interests in the course of anti-dumping and other trade proceedings, and Severstal expects this trend to continue if Russia accedes to the WTO in 2007.

United States. On 6 March 2002, the United States introduced safeguard measures in respect of steel imports, which resulted in the imposition of additional import duties (ranging from 8 percent to 30 percent) on steel products imported into the United States and restricted the import into the United States of most high value-added products, including those imported from Russia. These US measures resulted in a "domino" effect of similar safeguard measures in other regions, including the EU, Czech Republic, Brazil, Canada, Mexico, Venezuela, Chile, Colombia, Argentina, Thailand, India, Iran and China, each of which introduced measures to protect their own markets from "excessive" steel unable to enter the US market and led to a substantial decrease in sales to the United States by Russian steel producers during 2002 and 2003. On 5 December 2003, the United States revoked its 2002 safeguard measures.

As a result, Russian steel producers, including Russian Steel and Metalware are currently able to operate in this market in accordance with the following two agreements, which limit Russian exports of metal products:

- A suspension agreement on hot-rolled cut-to-length steel plate, which establishes minimum prices without quotas based on information about the costs and expenses of Russian exporters. Russian exporters concluded this market economy cost-based agreement with the US Department of Commerce on 20 December 2002, replacing the non-market economy agreement that had been in force since 1997. Russian Steel and Metalware is the only exporter from Russia who is able to satisfy US Department of Commerce requirements and who sells hot-rolled cut-to-length steel plate into the US market;

- A suspension agreement on hot-rolled flat carbon-steel products, which established minimum prices and quotas. The quota for 2006 was 814,610 tonnes (of which Severstal was allocated 330,997 tonnes). The quota for 2005 was 792,055 tonnes (of which Severstal was allocated 330,171 tonnes). While these quotas have generally been enough to satisfy Russian producers' needs, Severstal is restricted on sales of hot-rolled coils and thin sheets in the US market;

- In relation to steel products such as cold-rolled, galvanised and semi-finished steel and long products, Russian exporters have been operating in the US market without any restrictions on the import of these products since the expiry of the Comprehensive Steel Agreement on 11 July 2004; and

- Russia was granted "market economy" status by the United States with effect from 1 April 2002.

EU. On 27 June 2005, the Russian Federation and the EU entered into an agreement regulating trade in certain steel products, which is valid until 31 December 2006. This agreement established a quota for the export of Russian metals into the EU and superseded the previous quota system for the export of Russian metals, which had been in place since 1996 in the form of a bilateral agreement.

Quotas for Export of Russian Steel into the EU, 2005 and 2006

Products	Year ended 2005	Year ended 2006
	(tonnes)	
SA. Flat products		
SA1. Coils	908,268	930,975
SA2. Heavy plate	190,593	195,358
SA3. Other flat products	389,741	399,485
SA4. Alloyed products	97,080	99,507
SA 5. Alloyed quarto plates	21,509	22,047
SA 6. Alloyed cold-rolled and coated sheets	100,095	102,597
SB. Long products		
SB1. Beams	44,948	46,072
SB2. Wire rod	172,676	176,993
SB3. Other long products	292,376	299,685
Total	2,217,286	2,272,719

On 31 October 2003, the EU terminated its anti-dumping investigation against imports of hollow sections originating from Russia and Turkey, without the imposition of any trade restrictions.

Russia was "granted market economy" status by the EU in November 2002.

Ukraine. There are two restrictions in force against Ukrainian imports into the customs territory of the Russian Federation:

- As a result of an anti-dumping investigation initiated on 22 October 2003, anti-dumping duties ranging from 12.3 percent to 17.4 percent were imposed on 25 May 2005 for the period from 7 June 2005 to 6 June 2008 against imports of certain long products;
- As a result of the review of countervailing duties previously in force from 14 August 2002 until 14 August 2005, on 21 December 2005 the validity of the existing 21 percent countervailing duty was extended to the period from 23 January 2006 to 13 August 2007 against imports of steel reinforcing bars; and
- On 30 November 2005, trade restrictions against imports of Ukrainian galvanised products expired.

Anti-Dumping Proceedings

The most significant anti-dumping proceedings against Russian steel exporters were initiated between 1996 and 2001 by the United States in respect of a wide range of hot-rolled and cold-rolled steel products. Severstal actively participated, along with other Russian steel producers, in all those proceedings. In general, the granting of "market economy" status to Russia by the United States in April 2002 has led to a reduction in the anti-dumping measures imposed in the US market, benefiting, in particular, the ferrous metal industries. For example, the United States terminated the anti-dumping proceedings against imports of cold-rolled steel products, which it initiated on 21 June 1999 and 18 October 2001, and, since April 2002, Severstal has incurred lower rates of duty in anti-dumping proceedings compared to rates from previous periods, for example, the 184 percent anti-dumping duty for Russian hot-rolled steel that the United States imposed in 1999. During 2004 and 2005, Severstal participated in the sunset review of anti-dumping duty measures against Russian hot-rolled steel in the United States. Following this review, the United States decided on 14 April 2005 to retain these measures.

In 2004 and 2005, the following key decisions were made regarding Russian steel exporters by foreign government authorities:

- Expiration of the US-Russia Comprehensive Steel Agreement, which established quotas on various types of steel products such as cold-rolled, galvanised and semi-finished steel and long products, on 14 July 2004. Since that time, Russian Steel and Metalware and other Russian exporters have operated in the US market without any restrictions on these products.
- Termination of anti-dumping measures against hot-rolled and cold-rolled products in Canada.
- Termination of anti-dumping measures against electrical steel products in China.

- Suspension of anti-dumping measures against cold-rolled steel products in China.
- Termination of anti-dumping measures against cold-rolled steel products in South Africa, hot-rolled products in Indonesia and cold-rolled and long steel products in Colombia.
- Opening of US cut-to-length market through the establishment of minimum prices by the US Department of Commerce, as the result of co-operation between the Department and Severstal.
- Possibility of the export of new grades of hot-rolled products within the framework of the US-Russia Suspension Agreement on hot-rolled flat carbon-steel products.

Currently, there are relatively few trade restrictions in force against exports from the Russian Federation in countries such as Venezuela, Colombia, Mexico, Argentina, Peru, Thailand and South Africa. These restrictions did not have and are not expected to have a material effect on Severstal's business.

Meanwhile, a number of anti-dumping duty measures against Russian steel products expired after being in force for five years, including measures relating to grain-oriented electrical steel in China and cold-rolled steel in Colombia.

Severstal, along with other Russian steel producers, continues to participate in those proceedings and reviews that it regards as important to its business. Severstal intends to continue to participate actively in all inter-governmental consultations relating to Russian steel exports to the United States, the EU and other international markets.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code.

Employment contracts. As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence;
- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of fourteen or disabled child under the age of eighteen or other persons caring for a child under the age of 14 or disabled child under the age of eighteen without a mother.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time. The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from six to 36 working days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least seven years and six months, is 50 years and 45 years, respectively. Persons who have worked as miners in open-pit mines and/or underground mines for at least 25 years may also retire, regardless of age.

Salary. The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is RUR1,100 from 1 May 2006. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes. The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

Trade Unions. Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, Severstal's management routinely interacts with trade unions in particular the Mining and Metallurgical Trade Union, in order to ensure the appropriate treatment of employees and the stability of its business. See "Business — Employees — Russian Steel and Metalware."

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity of 12 January 1996, as amended, or the Trade Union Law. Other applicable legal acts include the Labour Code of Russia, which provide for more detailed regulations relating to activities of trade unions.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies co-operate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;

- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Code of the Russian Federation on Administrative Misdemeanours of 30 December 2001, nor the Criminal Code of the Russian Federation of 13 June 1996, currently has provisions specifically relating to these violations, general provisions and sanctions may be applicable.

Regulation of the Steel and Mining Industries in the United States and Europe

Overview

Steel and mining operations and activities in the United States and Europe are extensively regulated at both the federal and state level in the United States and at the national and local level in Europe. Federal, national, regional, state and local authorities in the United States and the EU regulate a variety of matters, including employee health and safety; royalties; permitting and licensing requirements; environmental impact assessment, planning and development; and environmental compliance (including, for example, compliance with the regulatory regimes governing waste and waste water treatment and disposal; waste transportation; emissions and discharges; protection of species and habitats; decommissioning, reclamation and restoration of properties used for mining or other activities; surface subsidence from underground mining and the effects that mining and other activities have on surface and/or groundwater quality and availability).

Activities and operations involved in the mining and steel production industries generate hazardous and non-hazardous wastes, effluent and emissions, require waste transportation and treatment, and have other environmental impacts which require various environment-related permits and approvals to be held or received. Licences may also be required for the abstraction of the relevant natural resources. Such permits and licences are subject, in certain situations or on the occurrence of certain events, to modification or addition of conditions (including monitoring, upgrading, improvement, decommissioning and aftercare requirements), or revocation by issuing authorities. The carrying out of such activities and operations is also subject to various restrictions and other requirements under environmental, health and safety laws. Violations of health and safety laws relating to a mine or a steel factory, or a failure to comply with the instructions of relevant health and safety authorities, man result in the temporary or permanent shutdown of steel or mining operations in the United States or Europe, as well as the imposition of fines, or penalties corrective procedures.

Steel and mining businesses in the United States and Europe are also required in many cases to prepare and present to national, federal, regional, state and/or local authorities information pertaining to the anticipated effect or impact that proposed exploration, mining or production activities may have upon the environment. The preparation and presentation of this information in many cases requires a substantial commitment of personnel and financial resources. In response to such presentations, the national, federal, regional, state and/or local authorities are empowered to determine that mining operations must suspended or decommissioned.

Climate Change

In December 1997, in Kyoto, Japan, the signatories to the United Nations Convention on Climate Change established individual, legally binding targets to limit or reduce greenhouse gas emissions by developed nations. This international agreement, known as the Kyoto Protocol, came into force on 16 February 2005. As of 1 October 2006, 165 states and regional economic integration organisations (such as the EU) have ratified the Protocol.

In a separate development, in July 2005 Australia, China, India, Japan, South Korea and the United States formed the Asia-Pacific Partnership on Clean Development and Climate. Members of the partnership intend to cooperate on the development and transfer of technology with a view to reducing greenhouse gas emissions.

Steel and mining operations in Europe and the United States are subject to laws, regulations and policies aimed at limiting or reducing greenhouse gas emissions. For example, in the EU, an increasingly stringent regulatory framework is being developed aimed at reducing emissions from, among other activities, coke ovens and steel plants. In the United States, California's recent legislative initiatives may indicate a trend towards a similarly stringent regulatory system. In addition, government entities and other organisations in Europe and the United States are actively investing in research projects aimed at reducing greenhouse gas emissions. In the past, such legislative and research initiatives have involved additional market regulatory measures such as emissions trading, switching to cleaner forms of energy and/or introducing emissions-curbing technologies.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

Deutsche Bank Trust Company Americas has agreed to act as the depositary for the GDRs. The depositary's principal New York offices are located at 60 Wall Street, New York, New York 10005, United States and its principal London offices are located at Winchester House, 1 Great Winchester Street, London EC2N 2EQ, United Kingdom. In this summary, the term "GDRs" refers to the Rule 144A GDRs and to the Regulation S GDRs. GDRs are represented by certificates that are commonly known as "Global Depositary Receipt Certificates" or "GDR Certificates". The GDRs offered and sold in the United States are referred to and will be issued as the Rule 144A GDRs and the GDRs offered and sold outside the United States are referred to and will be issued as the Regulation S GDRs. GDRs represent ownership interests in securities, cash or other property on deposit with the depositary.

The depositary has appointed Deutsche Bank Ltd. to act as the custodian for the safekeeping of the securities, cash or other property on deposit. The custodian's principal office is located at 4 Shepkina Street, Moscow 129090, Russia.

Severstal has appointed the depositary pursuant to two separate deposit agreements, one for the Rule 144A GDRs and one for the Regulation S GDRs. Copies of the deposit agreements are available for inspection by any holder of the GDRs at the principal offices of the depositary during business hours. This is a summary description of the material terms of the GDRs and of each holder's material rights as an owner of the GDRs. Prospective investors should note that this summary is provided for informational purposes only, is not exhaustive, and is qualified in its entirety by reference to the terms of the deposit agreements, which determine rights and obligations of holders and beneficial owners of the GDRs.

Each GDR represents the right to receive one ordinary share of Severstal on deposit with the custodian. Each GDR will also represent the right to receive cash or any other property received by the depositary or the custodian on behalf of the owner of the GDR but that has not been distributed to the owners of GDRs due to legal restrictions or practical considerations.

Each owner of a GDR is a party to the applicable deposit agreement and is therefore bound by terms of that deposit agreement and by the terms of the GDR certificate that represents the relevant GDR. The applicable deposit agreement and the GDR certificate specify the rights and obligations of Severstal, the owner of the GDR represented by the GDR certificate and the depositary. Each GDR holder and beneficial owner appoints the depositary to act as its attorney-in-fact, with full power to delegate, to act on its behalf and to take any and all actions contemplated in the applicable deposit agreement, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the applicable deposit agreement.

Initially, GDRs may only be held through a brokerage or safekeeping account. As such, each GDR owner must rely on the procedures of its broker or bank to assert its rights. Each GDR holder should consult with its broker or bank to determine what those procedures are.

No temporary master GDRs or other temporary documents of title have been or will be issued in connection with this offering.

Distinctions between Rule 144A GDRs and Regulation S GDRs

The Rule 144A GDRs and the Regulation S GDRs are generally similar except for provisions designed to meet the requirements of the US securities laws. The Rule 144A GDRs are "restricted securities" under the US securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDRs are not technically "restricted securities" under the US securities laws, but are subject to certain contractual restrictions in order to prevent the transfer of Regulation S GDRs in violation of the US securities laws.

Differences between the Regulation S GDRs and the Rule 144A GDRs and the restrictions imposed on the Rule 144A GDRs and the Regulation S GDRs include the following:

- Eligibility for book-entry transfer. See "— Settlement and Safekeeping".
- Restrictions on the transfers, deposits and withdrawals of the ordinary shares underlying the GDRs. See "— Transfer Restrictions".
- Special restrictions on deposits and withdrawals that apply to affiliates of Severstal. See "— Ownership of GDRs by affiliates".

These differences and the restrictions imposed in accordance with US securities laws may require Severstal and the depositary to treat the Regulation S GDRs and the Rule 144A GDRs differently from time to time. There can be no guarantee that holders of Rule 144A GDRs will receive the same entitlements as holders of Regulation S GDRs and vice versa.

Settlement and Safekeeping

Rule 144A GDRs

The depositary has made arrangements with DTC to act as securities depository for the Rule 144A GDRs. All Rule 144A GDRs issued in the offering will be registered in the name of Cede & Co., as DTC's nominee. One master Rule 144A GDR certificate will represent all Rule 144A GDRs issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDRs are accomplished by entries made on the books of DTC and participants in DTC acting on behalf of Rule 144A GDR owners.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDRs at any time by giving reasonable notice to the depositary. Under such circumstances and in the event a successor securities depositary cannot be appointed, individual Rule 144A GDR certificates representing the applicable number of Rule 144A GDRs held by each owner of Rule 144A GDRs will be printed and delivered to the relevant Rule 144A GDR owners. Owners of Rule 144A GDRs will not otherwise receive physical certificates representing their ownership interests in the Rule 144A GDRs.

Regulation S GDRs

The depositary has made arrangements with Euroclear and Clearstream to act as securities depositories for the Regulation S GDRs. All Regulation S GDRs issued in the offering will be registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. One master Regulation S GDR certificate will represent all Regulation S GDRs issued to and registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch. Euroclear and Clearstream will hold the Regulation S GDRs on behalf of their participants, and, transfers will be permitted only within Euroclear and Clearstream in accordance with usual rules and operating procedures of the relevant system. Transfers of ownership interests in Regulation S GDRs are to be accomplished by entries made on the books of Euroclear and Clearstream and of participants in Euroclear and Clearstream, acting in each case on behalf of Regulation S GDR owners.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDRs, Severstal and the depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the depositary will make Regulation S GDRs available in physical certificated form. Owners of Regulation S GDRs will not otherwise receive physical certificates representing their ownership interests in the Regulation S GDRs.

Transfer Restrictions

The GDRs may be reoffered, resold, pledged or otherwise transferred only in compliance with the US securities laws and are subject to the following restrictions:

Restrictions upon the Transfer of GDRs

Rule 144A GDRs

The Rule 144A GDRs may be reoffered, resold, pledged or otherwise transferred only:

(i) outside the United States in accordance with Regulation S;

or

(ii) to a qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act;

or

(iii) pursuant to Rule 144 under the Securities Act, if applicable;

or

(iv) pursuant to an effective registration statement under the Securities Act.

See also "— Ownership of GDRs by affiliates" below.

Regulation S GDRs

None

Restrictions upon Deposit of Ordinary Shares

Rule 144A GDRs

Ordinary shares will be accepted for deposit under the Rule 144A Deposit Agreement only if delivered by, or on behalf of, a person that is:

(i) not Severstal or an affiliate of Severstal or a person acting on behalf of Severstal or an affiliate of Severstal;

and

(ii) (a) a qualified institutional buyer or (b) a person outside the United States that is not a US Person, as defined in Regulation S under the Securities Act, and acquired, or agreed to acquire and will have acquired, the ordinary shares to be deposited outside the United States.

Regulation S GDRs

Ordinary shares will be accepted for deposit under the Regulation S Deposit Agreement only if delivered by, or on behalf of, a person that is:

(i) not Severstal or an affiliate of Severstal or a person acting on behalf of Severstal or an affiliate of Severstal;

and

(ii) not in the business of buying or selling securities, or if such person is in the business of buying or selling securities, such person did not acquire the ordinary shares to be deposited from Severstal or an affiliate of Severstal in the initial distribution of ordinary shares and GDRs;

and

(iii) a person outside the United States that is not a US person, as defined in Regulation S under the Securities Act, and acquired, or agreed to acquire and will have acquired, the ordinary shares to be deposited outside the United States.

Ordinary shares withdrawn from deposit under the Rule 144A deposit agreement will not be accepted for deposit pursuant to the Regulation S deposit agreement unless such ordinary shares are not and may not be deemed to be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act

Please also see "— Ownership of GDRs by affiliates" below.

Restrictions upon the Withdrawal of Ordinary Shares

Rule 144A GDRs

Ordinary shares may be withdrawn under the Rule 144A deposit agreement only by:

(i) a person other than a US person, as defined in Regulation S under the Securities Act, outside the United States who will be the beneficial owner of the ordinary shares upon withdrawal and acquired, or agreed to acquire and at or prior to the time of the withdrawal will have acquired, the Rule 144A GDRs Rule 144A GDR Certificates or the ordinary shares outside the United States;

or

(ii) a qualified institutional buyer, as defined in Rule 144A under the Securities Act, who

(a) has sold the Rule 144A GDRs to another qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act, or to a person other than a US person, as defined in Regulation S under the Securities Act, outside the United States in accordance with Regulation S,

or

(b) will be the beneficial owner of the ordinary shares and agrees (1) to observe the transfer restrictions applicable to Rule 144A GDRs in respect of the ordinary shares so withdrawn (2) not to deposit the ordinary shares in an unrestricted depositary receipts facility for so long as the ordinary shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

Regulation S GDRs

Ordinary shares may be withdrawn from deposit under the Regulation S deposit agreement by the holders of Regulation S GDRs.

Please also see "— Ownership of GDRs by affiliates" below.

General Restrictions

Restrictions on Transfer

Severstal may restrict transfers of the ordinary shares where such transfer might result in ownership of ordinary shares exceeding the limits applicable to the ordinary shares under applicable law or Severstal's charter. Severstal may also restrict transfers of the GDRs where such transfer may result in the total number of ordinary shares represented by the GDRs owned by a single holder or beneficial owner to exceed any such limits. Severstal may, in its sole discretion, but subject to applicable law, instruct the depositary to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits set forth in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a holder or beneficial owner of the ordinary shares represented by the GDRs held by such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and Severstal's charter. The depositary shall have no liability for actions taken in accordance with such instructions.

The registration of any transfer of GDR certificates in particular instances may be refused, or the registration of transfers generally may be suspended, during any period when the transfer books of the depositary, Severstal, the registrar or the Russian share registrar are closed, or if any such action is deemed necessary or advisable by Severstal or the depositary, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or ordinary shares are listed, or under any provision of the deposit agreements or provisions of, or governing, the ordinary shares, or any meeting of Severstal's shareholders or for any other reason.

The depositary may close the transfer books with respect to GDR certificates, at any time or from time to time, when deemed necessary or advisable by it in good faith in connection with the performance of its duties hereunder, or at Severstal's reasonable request.

Restrictions on Deposits

The depositary will refuse to accept ordinary shares for deposit whenever it is notified in writing by Severstal that such deposit would result in any violation of applicable laws, including ownership restrictions under Russian laws. The depositary will also refuse to accept certain ordinary shares for deposit under the Rule 144A deposit agreement if notified in writing that the ordinary shares are listed on a US securities exchange or quoted on a US automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the depositary that any ordinary shares presented for deposit are eligible for resale pursuant to Rule 144A under the Securities Act. The depositary may also, upon receipt of notice from Severstal, limit at any time the number of ordinary shares accepted for deposit under the terms of the deposit agreements so as to eliminate or minimise any requirements that may be imposed on us, the depositary or the GDR facilities existing under the terms of the deposit agreements under Russian law.

In addition, whenever the depositary believes that the ordinary shares deposited with it against issuance of GDRs (together with any other securities of Severstal deposited with it against the issuance of depositary receipts and any other securities of Severstal held by itself and its affiliates for its or their proprietary accounts or as to which it or they exercise voting and investment power) represent (or, upon accepting any additional ordinary shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, it may, after prior consultation with Severstal, (i) close its books to deposits of additional ordinary shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (ii) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of underlying ordinary shares from the depositary receipt program to the extent necessary or desirable to so comply.

The depositary will have the right to close its books to the issuance of GDRs without prior consultation with Severstal, if at any time the depositary believes that (i) the shares deposited with it against issuance of GDRs together with any other securities of Severstal which shall have been deposited with the depositary against issuance of depositary receipts, represent (or, upon accepting any additional shares for deposit, would represent) such percentage as shall at the relevant time require a shareholder of a Russian open joint stock company to make a mandatory tender offer; or (ii) the shares deposited with it against issuance of GDRs together with any other securities of Severstal which shall have been deposited with the depositary against issuance of depositary receipts, represent (or, upon accepting any additional shares for deposit, would represent) such percentage as shall at the relevant time require an approval from FAS, and no necessary approval from FAS (or an exemption, exemptive interpretation or waiver from FAS of a requirement to obtain such an approval) has been obtained. See "Regulatory Matters — Russian Steel Industry — Antimonopoly approvals of acquisitions."

The depositary may also close its books to the deposit of shares if at any time the aggregate number of GDRs in issue would, if additional GDRs were to be issued against the deposit of additional shares, exceed the number of GDRs for which a listing and admission to trading has been obtained, and may keep its books closed to the deposit of shares unless and until Severstal shall have produced a prospectus in accordance with the Prospectus Rules under the UK Financial Services & Markets Act 2000, as amended, and obtained a block listing on the Official List of the UK Financial Services Authority and admission to trading on the Regulated Market of the London Stock Exchange of such number of additional GDRs as the depositary may, in its reasonable discretion, request after consultation with us.

In considering whether any threshold has been reached or exceeded, the depositary may, in addition to shares deposited with it against the issuance of GDRs and other Severstal's securities deposited with it against issuance of other depositary receipts, take into consideration shares or Severstal's other securities held by it and its affiliates for its or their proprietary accounts or as to which it or they exercise voting or investment power.

Dividends and Distributions

Generally, each GDR holder has the right to receive distributions made by Severstal on the securities deposited with the custodian. Receipt of these distributions may be limited, however, by practical considerations and legal limitations. GDR holders will receive such distributions under the terms of the deposit agreements in proportion to the number of GDRs held as at a specified GDR record date, which the depositary will use reasonable efforts to establish as close as possible to the record date set by Severstal for the ordinary shares underlying the GDRs.

Distributions of Cash

Whenever Severstal makes a cash distribution in respect of securities on deposit with the custodian, Severstal will deposit the funds with the custodian. Upon receipt of confirmation from the custodian of the deposit of the requisite funds, the depositary will arrange for the funds to be converted into US dollars and for the distribution of the US dollars to the GDR holders, if in the reasonable judgment of the depositary it is practicable and lawful. See "— Foreign Currency Conversion" below for actions the depositary is entitled to take if conversion, transfer and distribution cannot be so made by the depositary.

The amounts distributed to holders will be net of the fees, charges, expenses taxes and governmental charges payable by holders under the terms of the deposit agreements. The depositary will apply the same method for distributing the proceeds of the sale of any property, such as undistributed rights, held by the custodian in respect of the securities on deposit.

Distributions of Shares

Whenever a free distribution of ordinary shares in respect of the ordinary shares on deposit with the custodian, Severstal will deposit the applicable number of ordinary shares with the Custodian. Upon receipt of confirmation of such deposit from the custodian, the depositary will either distribute to holders additional GDRs representing the ordinary shares deposited or modify, to the extent permissible by law, the GDR-to-ordinary shares ratio, in which case each GDR will represent rights and interests in the additional ordinary shares so deposited. Fractional GDRs will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDRs or the modification of the GDR-to-ordinary shares ratio upon a distribution of ordinary shares will be made net of the fees, charges, expenses, taxes and governmental charges payable by GDR holders under the terms of the deposit agreements. In order to pay such taxes or governmental charges, the depositary may sell all or a portion of the additional ordinary shares so distributed.

No such distribution of new GDRs will be made in violation of applicable laws (including the US securities laws) or if it is not operationally practicable. If the depositary does not distribute new GDRs as described above, it may sell the ordinary shares received and distribute the proceeds of the sale as in the case of a distribution of cash. The depositary will hold and/or distribute any unsold balance in accordance with the provisions of the applicable deposit agreement.

Distributions of Rights

Whenever Severstal intends to distribute rights to purchase additional ordinary shares, it will give timely prior notice to the depositary and state whether or not it wishes such rights to be made available to the GDR holders. If the rights will be made available to GDR holders, Severstal will assist the depositary in determining whether it is lawful and reasonably practicable to distribute the rights to GDR holders.

The depositary will establish procedures to distribute rights to purchase additional GDRs to GDR holders and to enable GDR holders to exercise such rights only if the depositary has received Severstal's request to make such distribution in a timely manner, and the depositary shall have determined that it is lawful and reasonably practicable to make the rights available to GDR holders, and Severstal has provided all of the documentation contemplated in the applicable deposit agreement, such as opinions to address the lawfulness of the transaction. Each GDR holder will be responsible for the related fees, charges, expenses and taxes and other governmental charges to subscribe for the ordinary shares upon the exercise of the rights. The depositary is not obligated to establish procedures to facilitate the distribution and exercise by GDR holders of rights to purchase additional ordinary shares other than in the form of GDRs.

The depositary will not distribute the rights to you if:

- Severstal does not request that the rights be distributed to the GDR holders in a timely manner, or Severstal requests that the rights not be distributed to GDR holders; or
- Severstal fails to deliver satisfactory documents, such as opinions of counsel as to compliance with applicable law, to the depositary; or
- it is not reasonably practicable to distribute the rights.

The depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable in a riskless principal capacity, at such place and upon terms, including public and private sale, as it may deem practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the depositary is unable to sell the rights, it will allow the rights to lapse.

The depositary shall not be responsible for (i) any failure to determine whether it may be lawful or practicable to make such rights applicable to GDR holders in general or to any GDR holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with any sale or exercise, or (iii) the content of any materials forwarded to the holders on behalf of Severstal in connection with the rights distribution. There can be no assurance that GDR holders in general or any GDR holder in particular will be given the opportunity to exercise rights on the same terms and conditions as the holders of ordinary shares or to exercise such rights at all.

Elective Distributions

Whenever Severstal intends to distribute a dividend payable at the election of shareholders either in cash or in additional ordinary shares, it will give timely prior notice thereof to the depositary and will indicate whether it wishes the elective distribution to be made available to GDR holders. In such case, Severstal will assist the depositary in determining whether such distribution is lawful and reasonably practicable.

The depositary will make the election available to GDR holders only if it has received timely prior notice from Severstal, if it is reasonably practicable and if Severstal have provided all of the documentation contemplated in the applicable deposit agreement (such as opinions of counsel as to compliance with applicable law). In such case, the depositary will establish procedures to enable each GDR holder to elect to receive either cash or additional ordinary shares in the form of GDRs, in each case as described in the deposit agreement.

If the election is not made available to the GDR holders, GDR holders will, to the extent permitted by law, receive either cash or GDRs, depending on whether a shareholder in Russia would receive cash or shares on failing to make an election. The depositary is not obliged to make available to holders a method to receive the elective dividend in the form of shares rather than in the form of GDRs.

There can be no assurance that GDR holders or owners of beneficial interests in GDRs generally, or any GDR holder in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the ordinary shares.

Other Distributions

Whenever Severstal intends to distribute property other than cash, additional ordinary shares or rights to purchase additional ordinary shares, Severstal will timely notify the depositary in advance and will indicate whether it wishes such distribution to be made to GDR holders. If so, Severstal will assist the depositary in determining whether such distribution to GDR holders is lawful and reasonably practicable.

If the depositary has received timely prior notice from Severstal, it is reasonably practicable to distribute such property to GDR holders and if Severstal has provided all of the documentation contemplated in the deposit agreements, the depositary will distribute the property to the GDR holders in a manner it deems practicable.

The distribution will be made net of fees, charges, expenses, taxes and governmental charges payable by GDR holders under the terms of the deposit agreements. In order to pay such taxes and governmental charges, the depositary may sell all or a portion of the property received.

Under no circumstances will the depositary distribute the property to GDR holders if:

- Severstal does not request that the property be distributed to GDR holders or Severstal does not make such request in a timely manner or Severstal asks that the property not be distributed to GDR holders;

- Severstal fails to deliver satisfactory documents (such as opinions of counsel as to compliance with applicable law) to the depositary; or
- the depositary determines that all or a portion of the distribution to GDR holders is not lawful or reasonably practicable.

Under the circumstances set forth above, the depositary will sell the property, the proceeds of which will be distributed to GDR holders as in the case of a cash distribution. If the depositary is unable to sell such property, the depositary may dispose of such property in any way it deems reasonably practicable under the circumstances.

Redemption

Whenever Severstal decides to redeem any of the securities on deposit with the custodian, Severstal will timely notify the depositary in advance. If the depositary has received timely notice from Severstal, determined that such redemption is practicable and received from Severstal all of the documentation (such as opinions of counsel as to compliance with applicable law) contemplated in the deposit agreements, the depositary will mail notice of the redemption to the GDR holders.

The custodian will be instructed to surrender the ordinary shares being redeemed against payment of the applicable redemption price. The depositary will convert the redemption funds received into US dollars in accordance with the terms of the deposit agreements and will establish procedures to enable GDR holders to receive the net proceeds from the redemption upon surrender of the GDRs to the depositary. See "— Foreign Currency Conversion" for actions the depositary is entitled to take if conversion, transfer and distribution of funds by the depositary is not practicable or lawful. The GDR holders will have to pay fees and charges of, and the expenses incurred by, the depositary, and any taxes upon the redemption of the GDRs. If less than all GDRs are being redeemed, the GDRs to be redeemed will be selected by lot or on a *pro rata* basis, as the depositary may determine.

Changes Affecting Ordinary Shares

The ordinary shares held on deposit for the GDRs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such ordinary shares or a recapitalisation, reorganisation, merger, consolidation or sale of assets affecting Severstal.

If any such change were to occur, any securities which shall be received by the depositary or the custodian in exchange for, or in conversion, replacement or otherwise in respect of, such ordinary shares shall, to the extent permitted by law, be treated as new securities under the deposit agreements, and the GDR certificates shall, subject to the terms of the deposit agreements and applicable law, evidence the GDRs representing the right to receive such replacement securities. The depositary in such circumstances may with Severstal's approval, and shall if Severstal so requests and provides the depositary at Severstal's own expense a satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations, execute and deliver additional GDR certificates or make appropriate adjustments in its records, or call for the exchange of existing GDRs for new GDRs. If the depositary may not lawfully distribute such securities to GDR holders, the depositary may with Severstal's approval sell such securities and distribute the net proceeds to GDR holders as in the case of a cash distribution, and shall do so upon Severstal's request and provides the depositary at Severstal's own expense a satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations. GDR owners will have to pay fees and charges of, and the expenses incurred by, the depositary, and any taxes and other governmental charges upon the sale of such securities.

The depositary shall not be responsible for (i) any failure to determine that it is lawful or practicable to make such securities available to GDR holders in general or to any GDR holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with such sale, or (iii) any liability to the purchaser of such securities.

Issuance of GDRs upon Deposit of Ordinary Shares

Subject to limitations set forth in the deposit agreements and the GDRs, the depositary may create GDRs on your behalf if the GDR holder or its broker deposits the ordinary shares with the custodian. The depositary will deliver these GDRs to the person indicated by the GDR holder only after any applicable issuance fees and any charges and taxes payable for the transfer of the ordinary shares to the custodian are paid by the GDR holder and the applicable deposit certification is provided. Each GDR holder's ability to deposit ordinary shares and receive GDRs may be limited by US and Russian legal considerations applicable at the time of deposit.

The issuance of GDRs may be delayed until the depositary or the custodian receives confirmation that all required approvals have been given and that the ordinary shares have been duly transferred to the custodian. The depositary will only issue GDRs in whole numbers.

Each prospective GDR holder will be responsible for transferring good and valid title for deposited ordinary shares to the depositary, as evidenced by documents satisfactory to the depositary or the custodian. As such, each GDR holder will be deemed to have represented and warranted that:

- the ordinary shares are duly authorised, validly issued, fully paid, non-assessable and legally obtained;
- all pre-emption, or similar, rights, if any, with respect so such ordinary shares have been validly waived or exercised;
- due authorisation to deposit the ordinary shares;
- the ordinary shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim;
- in the case of a deposit of ordinary shares under the Regulation S deposit agreement, the ordinary shares are not, and the Regulation S GDRs issuable upon such deposit will not be, "restricted securities", as defined in Rule 144(a)(3) under the Securities Act, except in the case of deposits of a kind described in "— Ownership of GDRs by affiliates";
- the ordinary shares presented for deposit have not been stripped of any rights or entitlements;
- the ordinary shares are not subject to any unfulfilled requirements of Russian law; and
- except as provided in the deposit agreements and summarised under "— Ownership of GDRs by affiliates" below, it is not, and shall not become while holding GDRs, an affiliate of Severstal.

If any of the representations or warranties above are incorrect in any way, Severstal and the depositary may, at the breaching GDR holder's cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When ordinary shares are deposited under the Rule 144A deposit agreement, the prospective GDR holder will be required to provide the depositary with a deposit certification stating, among other things, that:

- it acknowledges that the ordinary shares and the Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- it is not an affiliate of Severstal and it is not acting on behalf of Severstal or one of its affiliates;
- at the time of issuance of the Rule 144A GDRs it will be the beneficial owner thereof;
- it is (i) a qualified institutional buyer or (ii) a person, other than a US person, as defined in Regulation S under the Securities Act, outside the United States and acquired or has agreed to acquire and will acquire the ordinary shares to be deposited outside the United States; and
- it agrees, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Rule 144A GDRs or the ordinary shares represented by the Rule 144A GDRs in accordance with the applicable US state securities laws and only:
  - to a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; or
  - outside the United States to a person, other than a US person, as defined in Regulation S under the Securities Act, outside the United States in accordance with Regulation S; or
  - in accordance with Rule 144 under the Securities Act, if available; or
  - pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDRs is attached to the Rule 144A deposit agreement and may be obtained from the depositary upon request.

When ordinary shares are deposited to receive Regulation S GDRs, the prospective GDR holder will be required to provide the depositary with a deposit certification stating, among other things, that:

- it acknowledges that the ordinary shares and the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- it is not an affiliate of Severstal and it is not acting on behalf of Severstal or one of its affiliates;
- it is, or at the time the ordinary shares are deposited and at the time the Regulation S GDRs are issued, will be, the beneficial owner of the ordinary shares and the Regulation S GDRs to be issued upon deposit of such ordinary shares;
- it is a person, other than a US person, as defined in Regulation S under the Securities Act, outside the United States and acquired or has agreed to acquire and will acquire the ordinary shares to be deposited outside the United States; and
- it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the ordinary shares presented for deposit from Severstal or any of Severstal's affiliates.

A copy of the form of deposit certification for Regulation S GDRs is attached to the Regulation S deposit agreement and may be obtained from the depositary on request.

Withdrawal of Shares Upon Cancellation of GDRs

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable deposit agreement, a GDR holder will be entitled to present its GDRs to the depositary for cancellation and then receive the corresponding number of underlying ordinary shares at the custodian's offices. The ability to withdraw the ordinary shares may be limited to US and Russian law considerations applicable at the time of withdrawal.

In order to withdraw the ordinary shares represented by the GDRs, each GDR holder will be required to pay to the depositary the fees for cancellation of the GDRs and any changes and taxes payable upon the transfer of the ordinary shares being withdrawn and will be required to provide to the depositary the applicable withdrawal certification. Each GDR holder assumes the risk for delivery of all funds and securities upon withdrawal. Once cancelled, the GDRs will not have any rights under the corresponding deposit agreement.

Each GDR holder must, upon the request of the depositary, provide proof of identity and genuineness of any signature and such other documents as the depositary may deem appropriate before it will cancel the GDRs. The withdrawal of the ordinary shares represented by GDRs may be delayed until the depositary receives satisfactory evidence of compliance with all applicable laws and regulations. The depositary shall be entitled at all times to sell any fractional GDRs presented for cancellation and remit the proceeds of such sale to the GDR holder net of fees, expenses, charges and taxes.

When a GDR holder requests withdrawal of the ordinary shares represented by its Rule 144A GDRs, it will be required to represent and warrant that the withdrawal of the shares complies with the restrictions on transfer set forth in the legend on GDRs and to provide the depositary with a withdrawal certification stating, *among other things,* that:

(A) it acknowledges that the ordinary shares represented by its Rule 144A GDRs have not been and will not be registered under the Securities Act or with any other securities regulatory authority in any state or other jurisdiction in the United States; and

(B) it certifies that either:

  (1) it is a qualified institutional buyer, as defined under Rule 144A of the Securities Act, acting for its own account or for the account of one or more other qualified institutional buyers, who is the beneficial owner of the Rule 144A GDRs presented for cancellation; and either

  - it has sold or agreed to sell the ordinary shares to a person, other than a US person, as defined in Regulation S under the Securities Act, outside the United States in accordance with Regulation S; or
  - it has sold or agreed to sell the ordinary shares to a qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act; or

- it will be the beneficial owner of the ordinary shares upon withdrawal; and
- it, or the person on whose behalf it is acting, will sell the ordinary shares only to another qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act; to a person, other than a US person, as defined in Regulation S under the Securities Act, outside the United States in accordance with Regulation S; in accordance with Rule 144, if available; or pursuant to an effective registration statement under the Securities Act; and
- it will not deposit the ordinary shares in any depositary receipts facility that is not a "restricted" depositary receipts facility;

or

(2) it is a person, other than a US person, as defined in Regulation S under the Securities Act, located outside the United States and acquired or agreed to acquire the ordinary shares outside the United States and will be the beneficial owner of the ordinary shares upon withdrawal.

Holders of Regulation S GDRs are not required to provide the depositary with a withdrawal certification under the Regulation S deposit agreement, except in the case of an exchange of Rule 144A GDRs for Regulation S GDRs by one of Severstal's affiliates. See "— Ownership of GDRs by affiliates" below.

Proofs, Certificates and Other Information; Obligations of Owners

Each GDR holder may be required (i) to provide to the depositary and the custodian proof of citizenship or residence, taxpayer status, payment of all applicable taxes or other governmental charges, exchange control approvals, legal or beneficial ownership of GDRs, compliance with all applicable laws and the terms of the deposit agreements, and (ii) to execute certifications and to make representations and warranties and to provide such other information and documentation as the depositary or the custodian may deem necessary or proper or as Severstal may reasonably require by written request to the depositary consistent with its obligations under the deposit agreements. The depositary and the registrar, as defined in the applicable deposit agreement, may withhold the execution or delivery or registration of transfer or cancellation of any GDR certificate, or the distribution or sale of any dividend or distribution of rights, until such proof or other information is filed or such certifications are executed, or such representations are made, or such other documentation or information is provided, in each case, to the depositary's, the registrar's, and Severstal's reasonable satisfaction.

Holders and beneficial owners of GDRs shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from state authorities in the Russian Federation, and shall take all such other actions, as may be required to remain at all times in compliance with applicable rules and regulations of the Russian Federation.

Ownership of GDRs by Affiliates

Severstal permits its affiliates to deposit ordinary shares against the issuance of Rule 144A GDRs, so long as they satisfy the requirements, including delivery of the requisite certifications to the depositary, of the Rule 144A deposit agreement. Severstal also permits its affiliates to exchange their Rule 144A GDRs for Regulation S GDRs solely to allow them to sell their GDRs in transactions meeting their requirements of Regulation S, so long as each exchanging affiliate delivers the requisite certifications to the depositary and otherwise satisfies the requirements of the deposit agreements. Severstal does not otherwise permit its affiliates to deposit ordinary shares against the issuance of Regulation S GDRs unless they certify to the depositary that they have sold or irrevocably agreed to sell the Regulation S GDRs to be issued in respect of the ordinary shares so deposited in a transaction meeting the requirements of Regulation S, and deliver the other requisite certifications to the depositary.

The requirements for such deposits and exchanges GDRs by Severstal's affiliates are more fully described in the deposit agreements.

Voting Rights

Each GDR holder generally has the right under the deposit agreements to instruct the depositary to exercise the voting rights for the ordinary shares represented by its GDRs. The voting rights of holders of the ordinary shares are described in "Description of Share Capital and Shareholder Structure".

Upon Severstal's timely written request, and provided no US or English legal prohibitions, including the rules of the London Stock Exchange, exist, the depositary will distribute to each GDR holder any notice of shareholders' meetings or solicitation of consents or proxies from holders of ordinary shares received from Severstal together with information explaining how to instruct the depositary to exercise the voting rights of the ordinary shares represented by the GDRs.

If the depositary timely receives voting instructions from a GDR holder in the manner specified by the depositary, it will endeavour — insofar as practicable and permitted under applicable law, the provisions of the applicable deposit agreement, Severstal's charter and terms of the ordinary shares — to vote or cause the custodian to vote the ordinary shares represented by the GDR holder in accordance with such voting instructions. Russian securities regulations expressly permit a depositary to split the vote of ordinary shares registered in its name in accordance with instructions from GDR holders. However, because the depositary does not have express statutory authority to split the vote with respect to the ordinary shares in accordance with instructions from GDR holders, and given the untested nature of such securities regulations, the depositary may refrain from voting at all unless all GDR holders have instructed it to vote the ordinary shares in the same manner. Consequently, each GDR holder may have significant difficulty in exercising its voting rights with respect to the underlying ordinary shares.

Neither the depositary nor the custodian will, under any circumstances, exercise any discretion as to voting, vote any number of ordinary shares other than an integral number thereof or vote ordinary shares in a manner that would be inconsistent with any applicable law, and neither the depositary nor the custodian will vote, attempt to exercise the right to vote, or in any way make use of for purposes of establishing a quorum or otherwise, the ordinary shares except pursuant to and in accordance with instructions from GDR holders. If the depositary timely receives voting instructions from a GDR holder which fail to specify the manner in which the depositary is to vote the GDR holder's underlying ordinary shares, the depositary will deem the GDR holder to have instructed the depositary not to vote the ordinary shares with respect to the items for which no instruction was given.

Notwithstanding anything else contained in the deposit agreements, the depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of the ordinary shares if the taking of such action would violate US, Russian or English laws, including the rules of the London Stock Exchange and the rules of any Russian exchange on which the ordinary shares are listed. Severstal has agreed in the deposit agreements that it shall not establish internal procedures that would prevent the depositary from complying with, or that are inconsistent with, the terms and conditions of the section of the deposit agreements that deals with voting.

The ability of the depositary to carry out voting instructions may be limited by practical, legal and regulatory limitations and the terms of the securities on deposit. GDR holders cannot be assured that they will receive voting materials in time to enable them to return voting instructions to the depositary in a timely manner. Securities for which no voting instructions have been received from GDR holders will not be voted. See generally "Risk Factors — Risks Relating to the Ordinary Shares and the GDR's — Voting rights with respect to the ordinary shares underlying the GDRs may only be exercised in accordance with the terms of the deposit agreements governing the GDRs and applicable requirements of Russian law".

Fees and Charges

Service	Fees
Issuance (save upon a change in ratio) or cancellation of GDRs*	Up to $0.05 per GDR issued or cancelled, in accordance with a sliding scale corresponding to GDR price, as set out in the deposit agreements
Issuance upon a change in the ratio of shares to GDRs	Up to $0.05 per GDR issued
Distribution of cash dividends or other cash distributions	Up to $0.02 per GDR held, in accordance with a sliding scale corresponding to the net amount after tax, as set out in the deposit agreements
Distribution of GDRs pursuant to stock dividends, free stock distributions or exercise of rights	$0.05 per GDR issued
Distribution of securities other than GDRs or rights to purchase additional GDRs	$0.05 per ordinary shares (or ordinary share equivalent) distributed
Annual Depositary Services Fee	Annually $0.02 per GDR held at the end of each calendar year except to the extent of any cash dividend fee charged during such calendar year
Transfer of interests from and between the Regulation S GDRs and the Rule 144A GDRs	Up to $0.05 per GDR
Inspection of share register	Annual fee of $0.01 per GDR held as at the applicable record date to cover expenses incurred by the depositary, the custodian or their respective agents in connection with the inspection of the share register maintained by the share registrar, *provided that* such fee will be charged to any GDR holder not more frequently than once in any calendar year

Each GDR holder will also be responsible for paying the following charges incurred by the depositary:

- taxes, including applicable interest and penalties, and governmental charges;
- fees for the transfer and registration of ordinary shares charged by the share registrar (i.e., upon deposit and withdrawal of ordinary shares);
- fees and expenses incurred for converting foreign currency into US dollars and compliance with exchange control regulations;
- expenses for cable, telex and fax transmissions and for delivery of securities; and
- fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.

Severstal has agreed to pay certain other charges and expenses of the depositary. The fees and charges that a GDR holder may be required to pay may vary over time and may be changed by Severstal and by the depositary. Each GDR holder will receive prior notice of such changes.

Amendments and Termination

Severstal may agree with the depositary to modify the deposit agreements at any time without the consent of the GDR holders. Severstal undertakes to give the GDR holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreements or that shall impose or increase fees or charges, other than charges in connections with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses. Severstal will not consider any modifications or supplements that are reasonably necessary for the GDRs to be settled solely in book-entry form, in each case without imposing or increasing the fees and charges the GDR holders are required to pay, to be materially prejudicial to the rights of the GDR holders. In addition, Severstal may not be able to provide the GDR holders with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provision of law.

Each GDR holder will be bound by the modifications to the deposit agreements if it continues to hold its GDRs after the modifications to the applicable deposit agreements become effective.

The deposit agreements cannot be amended to prevent the GDR holders from withdrawing the ordinary shares represented by the GDRs. Notwithstanding any such restriction on amendments or supplements to the deposit agreements, Severstal and the depositary may at any time amend or supplement the deposit agreements or the GDR certificates in order to comply with mandatory provisions of applicable laws, rules or regulations, and such amendments or supplements may become effective before notice thereof is given to GDR holders or within any other period required to comply with such laws, rules or regulations.

Severstal has the right to direct the depositary to terminate the deposit agreements. Similarly, the depositary may in certain circumstances on its own initiative terminate the deposit agreements. In addition, the depositary may resign, with such resignation to take effect upon the earlier of 90 days notice or the acceptance of appointment by a successor depositary, or Severstal may remove the depositary, with such removal to take effect upon the later 90 days notice or the acceptance of appointment by a successor depositary, and if in either such case no successor depositary shall have accepted appointment by us, then the depositary may terminate the deposit agreements. In either case, the depositary must give notice to the holders of the GDRs at least 30 days before termination.

Upon termination, the following will occur under the deposit agreements:

- for a period of six months after termination, each GDR holder will be able to request the cancellation of its GDRs and the withdrawal of the underlying ordinary shares and the delivery of all other property held by the depositary in respect of those ordinary shares on the same terms as prior to the termination including the payment of any applicable taxes or governmental charges. During such six months' period the depositary will continue to collect all distributions received on the ordinary shares on deposit, such as dividends, but will not distribute any such property to a GDR holder until it requests the cancellation of its GDRs.
- after the expiration of such six-month period, the depositary may sell the securities held on deposit. The depositary will hold the net proceeds from such sale and any other funds then held for the GDR holder in an unsegregated, non-interest bearing account, without liability for interest. At that point, the depositary will have no further obligations to a GDR holder other than to account for the funds then held for the holders of GDRs still outstanding, net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreements.

Books of Depositary

The depositary will maintain GDR holder records at its principal office in New York and, if no book-entry settlement system is available for the relevant GDRs, at its principal office in London as well. Each GDR holder may inspect such records at such office during the regular business hours but solely for the purpose of communication with other holders in the interest of business matters relating to the GDRs and the deposit agreements.

The depositary will maintain facilities in New York and London to record and process the issuance, cancellation, combination, split-up and transfer of GDRs, provided that the transfer of the GDRs shall only be effected by the registrar (as defined in the applicable deposit agreement), including the depositary in its capacity as the registrar. These facilities may be closed from time to time, to the extent not prohibited by law.

Transmission of Notices to Shareholders

Severstal will promptly transmit to the depositary those communications that Severstal generally makes available to its shareholders. If any communications are not in English, Severstal will translate the communications prior to transmitting them to the depositary. Upon Severstal's request and at its expense, the depositary will arrange for the mailing of copies of such communications to all GDR holders and will make a copy of such communications available for inspection at its principal offices in New York and London.

Limitations on Obligations and Liabilities

The deposit agreements limit Severstal's obligations and the depositary's obligations to the GDR holders, in particular:

- Severstal and the depositary are obligated only to take the actions specifically stated in the deposit agreements without negligence or bad faith.
- Neither Severstal nor the depositary, nor any of their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect to any

ordinary shares or in respect of the GDR certificates, which in their respective opinions may involve Severstal or the depositary, or any of their respective controlling persons or agents, or to any of their controlling persons or agents, as the case may be, against all expense or liability, unless an indemnity satisfactory to Severstal or the depositary, as the case may be, against all expense, including fees and disbursements of counsel, and liability be furnished as often as may be required, and no custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the custodian being solely to the depositary.

- The depositary and its agents disclaim any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts without negligence and in good faith and in accordance with the terms of the deposit agreements.
- Severstal and the depositary are obligated only to take the actions specifically stated in the deposit agreements without negligence or bad faith.
- Neither Severstal nor the depositary, nor any of their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect to any ordinary shares or in respect of the GDR certificates, which in their respective opinions may involve Severstal or the depositary, or any of their respective controlling persons or agents, as the case may be, against all expense or liability, unless an indemnity satisfactory to Severstal or the depositary, or to any of their respective controlling persons or agents, as the case may be, against all expense, including fees and disbursements of counsel, and liability be furnished as often as may be required, and no custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the custodian being solely to the depositary.
- The depositary and its agents disclaim any liability for any failure to carry out any voting instructions to vote any shares, or for any manner in which a vote is cast or for the effect of any vote, provided it acts without negligence and in good faith and in accordance with the terms of the deposit agreements.
- The depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document or information forwarded to the GDR holders on Severstal's behalf of for the accuracy of any translation of such document or information, for any investment risks associated with acquiring an interest in the ordinary shares, for the validity or worth of the ordinary shares, for any tax consequences that result from the ownership of the shares or the GDRs, for the credit worthiness of any third party, for allowing any rights to lapse under the terms of the deposit agreements or for the failure or timeliness of any of Severstal's notices.
- The depositary and the custodian disclaim any liability with respect to Russia's system of share registration and custody, including any liability in respect of the unavailability of the ordinary shares or other deposited securities, or any distribution in respect thereof.
- The depositary disclaims any liability for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the depositary or in connection with any matter arising wholly after the removal or resignation of the depositary, provided that in connection with the issue out of which such potential liability arises the depositary performed its obligations while it acted as depositary without negligence or bad faith.
- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing will not be obliged to do or perform any act that is inconsistent with the provisions of the deposit agreements.
- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability if Severstal are prevented or forbidden from or delayed in doing or performing any act or thing required by the terms of the Deposit Agreements by reason of any provision of any law or regulation, any provision of its charter, any provision of or governing any securities on deposit or by reason of any act of God or war of other circumstances beyond its control, including, without limitation, nationalisation, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure.
- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreements or in its charter or in any provisions of or governing the deposited securities.

- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any GDR holders or authorised representatives thereof, or any other person believed by either of the foregoing in good faith to be competent to give such advice or information.
- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing also disclaim liability for the inability by a GDR holder or any beneficial owner to benefit from any distribution, offering, right or other benefit which is made available to holders of ordinary shares but is not, under the terms of the deposit agreements, made available to holders of the GDRs.
- Severstal, the depositary, and Severstal's respective controlling persons and agents and the custodian may rely and shall be protected in acting upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing also disclaim any liability for indirect, special, consequential or punitive damages for any breach of the terms of the applicable deposit agreement.
- The depositary disclaims liability for any actions taken in accordance with Severstal's instructions to take actions with respect to the ownership interest of any holder or beneficial owner in excess of the limits applicable to the shares under applicable law or Severstal's charter.

Indemnification

The depositary has agreed to indemnify Severstal and its directors, officers, employees, agents and affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever, including the reasonable fees and expense of counsel, which may arise out of acts performed or omitted by the depositary or the custodian or, provided that the custodian is a branch or subsidiary of Deutsche Bank AG, London Branch at the time of such act or omission, by the custodian under the deposit agreements due to the negligence or bad faith of the depositary or the custodian.

Severstal has agreed to indemnify the depositary, the custodian and any of their respective directors, officers, employees, agents and affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever, including the reasonable fees and expenses of counsel, that may arise, among other things, (i) out of any offer or sale of the GDRs or the ordinary shares, (ii) out of any offering document in respect thereof, except to the extent relation to any information provided by the depositary, (iii) out of acts performed or omitted in accordance with the provisions of the deposit agreements, in any such case by the depositary, the custodian or any of their respective directors, officers, employees, agents and affiliates, expect to the extent such loss, liability, tax, charge or expense is due to the negligence or bad faith of any of them, or by Severstal or any of its directors, officers, employees, agents and affiliates or (iv) out of the unavailability of deposited securities or the failure to make any distribution with respect thereto in the case of certain situations.

Pre-Release Transactions

The depositary may, in certain circumstances, issue GDRs before receiving a deposit of ordinary shares or release ordinary shares before receiving GDRs for cancellation. These transactions are commonly referred to as "pre-release transactions". The deposit agreements limit the aggregate size of pre-release transactions and imposes a number of conditions on such transactions, the need to receive collateral, the type of collateral required, the representations required from brokers, etc. The depositary may retain the compensation received from the pre-release transactions.

Taxes

Severstal will be responsible for the taxes and other governmental charges payable on the GDRs and the securities represented by the GDRs. Severstal, the depositary and the custodian may withhold or deduct from any distribution the taxes and governmental charges payable by GDR holders and may sell any and all ordinary shares on deposit to pay the taxes and governmental charges payable by GDR holders. The GDR holders will be liable for any deficiency if the sale proceeds do not cover the taxes that are due. The depositary may refuse to issue GDRs, to deliver, transfer, split or combine GDRs or to release securities on deposit until all taxes and charges are paid by the GDR holder.

The depositary and the custodian may, but are not obligated to, take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on a GDR holder's behalf. However, each GDR holder may be required to provide to the depositary and to the custodian proof of taxpayer status and residence and such other information as the depositary and the custodian may require to fulfil legal obligations. Each GDR holder and beneficial owner is required to indemnify Severstal, the depositary and the custodian and any of their respective agents, officers, employees and affiliates for, and to hold each of them and Severstal harmless, and to hold each of them harmless from, any claims with respect to taxes, including applicable interest and penalties thereon, based on any tax benefit obtained for such holder and beneficial owner.

The depositary is under no obligation to provide the GDR holders with any information about Severstal's tax status. The depositary shall not incur any liability for any tax consequences that may be incurred by the GDR holders on account of their ownership of the GDRs, including without limitation by virtue of Severstal's tax status.

Disclosure of Interests

By purchasing GDRs, each GDR holder agrees to comply with requests from Severstal or the depositary pursuant to Russian law the rules and requirements of any stock exchange on which the ordinary shares are, or may be, registered, trade or listed, or Severstal's charter, which are made to provide information, *among other things*, as to the capacity in which a holder holds or owns a beneficial interest in the GDRs, and the ordinary shares, as the case may be, and regarding the identity of any other person interested in such GDRs, the nature of such interest and various related matters, whether or not a particular person or entity is a holder or owner of a beneficial interest in the GDRs at the time of such request.

Foreign Currency Conversion

The depositary will arrange for the conversion into US dollars of all foreign currency received if such conversion is in the reasonable judgment of the depositary practicable, and it will distribute the US dollars in accordance with the terms of the deposit agreements. Each GDR holder will have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

The depositary may, but is not obliged to, make any filing with any governmental authority required to obtain an approval or license necessary for any conversion of any foreign currency into or distribution of US dollar funds. If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary may take the following actions in its discretion:

- Convert the following currency to the extent practicable and lawful and distribute the US dollars to the GDR holders for whom the conversion and distribution is lawful and practicable.
- Distribute the foreign currency to GDR holders for whom the distribution is lawful and practicable.
- Hold the foreign currency, without liability for interest, for the relevant GDR holders.

The depositary will not invest the currency it cannot convert and it will not be liable for any interest thereon. If exchange rates fluctuate during a time when the depositary cannot convert the roubles, GDR holders may lose some or all of the value of the distribution.

Governing Laws and Arbitration of Disputes

Although New York law has been chosen to govern the construction and interpretation of the deposit agreements and the GDRs, the rights of holders of the ordinary shares and other deposited securities and Severstal's obligations and duties in respect of such GDR holders shall be governed by the laws of Russia, or such other jurisdiction's laws as may govern the deposited securities.

Under the terms of the deposit agreements GDR holders agree that any dispute, controversy or cause of action against Severstal and/or the depositary arising out of the GDRs, the deposit agreements or any transaction contemplated therein, the ordinary shares or other deposited securities will be referred to and resolved by arbitration in accordance with the rules of the London Court of International Arbitration in proceedings in London, England, as more fully described in the deposit agreements.

EACH PARTY TO THE DEPOSIT AGREEMENTS, INCLUDING HOLDERS AND BENEFICIAL OWNERS OF GDRs, IRREVOCABLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE DEPOSIT AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED UNDER THE DEPOSIT AGREEMENTS, WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY.

Russian Share Register

Severstal has appointed CJSC "Partner" as the registrar of the ordinary shares in Russia and Severstal has agreed to continue such appointment so long as the GDRs remain outstanding or any of the deposit agreements remain in force.

Severstal has agreed in the deposit agreements to:

- take any and all actions reasonably necessary to ensure the accuracy and completeness of all of the information contained in the register of shareholders maintained by the share registrar;

- provide or use reasonable efforts to cause the share registrar to provide unrestricted access by the depositary and the custodian to the register of shareholders regularly, and not less than monthly, so as to permit verification of the registration of the ordinary shares represented by the GDRs in the name of the depositary or the custodian or their respective nominees;

- use reasonable efforts to cause the share registrar to promptly notify the depositary (i) of any material and uncured breaches by the share registrar of the terms of the deposit agreements, and (ii) any time the share registrar will no longer be able materially to comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of the deposit agreements relating to it;

- use reasonable efforts to cause the share registrar to promptly re-register the ordinary shares being deposited into or withdrawn from the GDR facilities, and

- use reasonable efforts to cause the share registrar to promptly notify the depositary (i) of any alleged unlawful elimination of shareholders from the shareholder register, or any alleged unlawful alteration of shareholder records, (ii) of any alleged unlawful refusal to register the ordinary shares, and (iii) any time the share registrar holds the ordinary shares for its own account.

In the deposit agreements, Severstal has agreed to assume sole liability for:

- any act or failure to act of the share registrar, other than as a result of any act or failure to act by the depositary or the custodian (or their respective directors, employees, agents or affiliates);

- unavailability of the ordinary shares on deposit under the terms of the deposit agreements; and

- failure of the depositary to make any distributions contemplated by the deposit agreements as a result of Severstal's actions or the actions of Severstal's agents, the actions of the share registrar, other than as a result of any act or failure to act by the depositary or the custodian, and actions of Severstal's agents, Severstal's present or future charter, or other documents relating to the ordinary shares, and any provisions of any securities Severstal issues or distributes and any related distribution or offering.

The depositary has agreed, for the benefit of the holders and beneficial owners of GDRs, to confirm not less frequently than monthly, the number of ordinary shares identified on the share register as being on deposit pursuant to the terms of the deposit agreements. Severstal has agreed with the depositary that the custodian shall maintain in custody duplicate share extracts provided by the share registrar and that any known discrepancies between the records of the depositary and the custodian, on the one hand, and the records of the share registrar, on the other hand, will be brought to Severstal's attention promptly. Severstal will use reasonable efforts to cause the share registrar to reconcile any discrepancies and to effectuate the requisite corrections to the share register. In the event Severstal is unable to obtain such reconciliation of records and the discrepancy exceeds 0.5 percent of the number of ordinary shares identified on the records of the depositary or the custodian as being on deposit under the terms of any one of the deposit agreement. Severstal will give notice thereof to the holders and beneficial owners of GDRs, through the depositary, and the depositary shall cease issuance of new GDRs until the records have been appropriately reconciled.

Securities Act Legends and Other Legends

Legends for the Regulation S GDR certificates

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANISED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY (THE "DEPOSITARY"), HEREBY CERTIFIES THAT BT GLOBENET NOMINEES LIMITED, AS NOMINEE OF DEUTSCHE BANK AG, LONDON BRANCH, AS COMMON DEPOSITARY FOR EUROCLEAR AND CLEARSTREAM, IS THE RECORD OWNER OF THE NUMBER OF REGULATION S GDRS INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES ("SHARES"), OF JOINT STOCK COMPANY OAO SEVERSTAL, AN OPEN JOINT STOCK COMPANY ORGANISED UNDER THE LAWS OF THE RUSSIAN FEDERATION (THE "COMPANY"). AT THE DATE HEREOF, EACH REGULATION S GDR SHALL REPRESENT ONE ORDINARY SHARE DEPOSITED UNDER THE REGULATION S DEPOSIT AGREEMENT (AS HEREINAFTER DEFINED) WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE REGULATION S DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD. (THE "CUSTODIAN").

Legends for the Rule 144A GDR certificates

DTC LEGEND

Unless this certificate is presented by an authorised representative of The Depository Trust Company, a New York corporation ("DTC"), to the Depository or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorised representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorised representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

NEITHER THE HOLDER NOR THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT

NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANISED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY (THE "DEPOSITARY"), HEREBY CERTIFIES THAT CEDE & CO., AS NOMINEE OF THE DEPOSITORY TRUST COMPANY ("DTC"), IS THE RECORD OWNER OF THE NUMBER OF RULE 144A GDRS INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES ("SHARES"), OF JOINT STOCK COMPANY OAO SEVERSTAL, AN OPEN JOINT STOCK COMPANY ORGANISED UNDER THE LAWS OF THE RUSSIAN FEDERATION (THE "COMPANY"). AT THE DATE HEREOF, EACH RULE 144A GDR SHALL REPRESENT ONE ORDINARY SHARE DEPOSITED UNDER THE RULE 144A DEPOSIT AGREEMENT (AS HEREINAFTER DEFINED) WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE RULE 144A DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD. (THE "CUSTODIAN").

TAXATION

The following summary of material Russian, US federal income and United Kingdom tax consequences of ownership of ordinary shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the ordinary shares and holders of GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of ordinary shares or GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of ordinary shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this prospectus, and of any actual changes in applicable tax laws after such date.

Russian Tax Considerations

The following discussion is a summary of certain Russian tax considerations relevant to Russian Resident Holders of the ordinary shares and GDRs and to Non-Resident Holders of the ordinary shares and of GDRs in connection with the purchase, holding and disposition of the ordinary shares and GDRs. This summary is based on the Russian tax laws in effect as of the date of this prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief (it should be noted that there may be practical difficulties involved in claiming relief under an applicable double tax treaty). Prospective investors should consult their own advisors regarding the tax consequences of investing in the ordinary shares and GDRs. No representations are made hereby with respect to the Russian tax consequences arising for any particular holder.

Russian tax law and procedures are not well developed: local tax inspectors have considerable autonomy in tax law interpretation and often interpret tax rules inconsistently. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets. For example, from 1 January 2006, a number of amendments were introduced to the Profits Tax Chapter of the Tax Code of the Russian Federation with respect to securities and other financial instruments. There is little practical experience with respect to the application of these changes and there are only a few official clarifications. The interpretation and application of tax law provisions will, in practice, rest substantially with local tax inspectors.

For the purposes of this summary, a "Non-Resident Holder" means:

(1) an individual, actually present in the Russian Federation for less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) who holds the ordinary shares or GDRs, or Non-Resident Holder-Individual. Prospectively, the definition of the Non-Resident Holder-Individual will change from 1 January 2007. From this date, the term Non-Resident Holder-Individual will refer to an individual who holds the ordinary shares or GDRs and is present in Russia for an aggregate period of less than 183 days (excluding days of arrival into Russia but including days of departure from Russia) in any period comprised of 12 consecutive months. From 1 January 2007, presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or

(2) a legal person or organisation, in either case not organised under Russian law, that holds and disposes of the ordinary shares or the GDRs otherwise than through a permanent establishment in Russia, or Non-Resident Holder-Legal Entity.

For the purposes of this summary, a "Russian Resident Holder" means:

(1) an individual, actually present in the Russian Federation for 183 days or more in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) who holds the ordinary shares or GDRs, or Russian Resident Holder-Individual. Prospectively, the definition of the Russian Resident Holder-Individual will change from 1 January 2007. From this date, the term Russian Resident Holder-Individual will refer to an individual who holds the ordinary shares or GDRs and is present in Russia for an aggregate period of 183 days or more (excluding days of arrival into Russia but including days of departure from Russia) in any period comprised of 12 consecutive months. From

1 January 2007, presence in Russia is not considered interrupted if an individual departs for the short periods (less than six months) for medical treatment or education;

(2) a legal person organised under Russian law who holds the ordinary shares or GDRs; or

(3) a legal person or organisation, in either case organised under a foreign law, which holds and disposes of ordinary shares or GDRs through its permanent establishment in Russia.

The tax residency rules may be affected by any applicable double tax treaty.

Taxation of Non-Resident Holders

Taxation of Dividends

Dividends paid to a Non-Resident Holder will generally be subject to Russian withholding income tax, which will be withheld by Severstal acting as a tax agent. The applicable tax rate on dividends will depend on whether the dividend recipient is a legal entity, organisation or an individual. Dividends paid to a Non-Resident Holder-Legal Entity will generally be subject to Russian withholding income tax at a rate of 15 percent. Dividends paid to a Non-Resident Holder-Individual will generally be subject to Russian withholding income tax at a rate of 30 percent.

Withholding income tax on dividends may be reduced under the terms of any applicable double tax treaty between the Russian Federation and the country of tax residence of the Non-Resident Holder.

The Convention Between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income and Capital, or the United States-Russia Tax Treaty, provides for reduced withholding rates on dividends paid to a Non-Resident Holder who qualifies as a US tax resident entitled to benefits under this treaty, or a US Treaty Holder, who is the beneficial owner of the dividends. Under this treaty, a 5 percent rate applies to dividends paid to US Treaty Holders that are companies owning 10 percent or more of Severstal's voting shares, and a 10 percent rate applies to dividends paid to other US Treaty Holders. The Convention Between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains, or the United Kingdom-Russia Tax Treaty, provides for a 10 percent withholding rate on dividends paid to a Non-Resident Holder who qualifies as a UK tax resident entitled to benefits under this treaty, or UK Treaty Holder, who is the beneficial owner of the dividends and is subject to taxation in respect of these dividends in the United Kingdom.

Notwithstanding the foregoing, treaty relief may be unavailable to Non-Resident Holders on dividends received on GDRs. In the absence of any specific provisions in the tax legislation with respect to the concept of beneficial ownership, the taxation of income of beneficial owners or the treatment of GDRs, it is unclear how the tax authorities and courts will ultimately treat the GDR holders in this regard. In 2005 and 2006, the Ministry of Finance expressed the opinion that GDR holders (rather than the depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to the taxation of dividend income from the underlying shares, provided that the tax residence of the GDR holder for treaty purposes is duly confirmed. However, this position was expressed in private responses to specific taxpayers' queries with respect to particular situations and, as such, does not represent a statement of tax law. It is not obligatory for taxpayers or the tax authorities to follow this position, although it represents the most recent position of the authorities. Moreover, from a practical perspective, it may not be possible for the depositary to collect tax residence confirmations for treaty purposes from all GDR holders and submit them to Severstal (the depositary is not required to do so in any event) and, in addition, Severstal may be unaware of the exact amount of income payable to each GDR holder.

Therefore, with respect to US Treaty Holders or UK Treaty Holders (legal entities or organisations) of GDRs, Severstal may be obligated to withhold income tax at the statutory rate of 15 percent from dividend payments made to the depositary, unless in advance of making such dividend payments to the depositary, Severstal has been provided with properly documented confirmation that such US Treaty Holders or UK Treaty Holders are in fact beneficial owners of dividends within the meaning of the United States-Russia Tax Treaty or the United Kingdom-Russia Tax Treaty, respectively, and all administrative requirements for claiming treaty benefits have been met. The same risk exists with respect to any Non-Resident Holders eligible for the benefits of any other applicable double tax treaty — see "— Tax Treaty Procedures". Preliminary approval from the Russian tax authorities is neither required nor possible to confirm treaty relief from Russian withholding income tax for Non-Resident Holders-Legal Entities.

It is also the case with respect to Non-Resident Holders-Individuals that as the depositary is viewed as the legal owner of the dividends if the information on the beneficial owners of such dividends is not available or incomplete, Severstal may be obligated to withhold income tax at a rate of 15 percent from dividend payments on Ordinary Shares represented by GDRs. In addition, Non-Resident Holders-Individuals may be required to file a tax return and pay 30 percent tax on the income received from the depositary. The tax authorities are unlikely to allow a deduction for the tax already withheld by Severstal. Non-Resident Holders-Individuals should consult their tax advisors in relation to their filing position in Russia at the time when they receive such income.

With respect to Non-Resident Holders - Individuals of the ordinary shares, including those that are US Treaty Holders or UK Treaty Holders, Severstal will act as a tax agent and withhold personal income tax at an applicable statutory rate of 30 percent. Owing to practical difficulties arising from the interpretation of the Russian tax legislation by the Russian tax authorities, it is not possible for Non-Resident Holders-Individuals to obtain an advance reduction of the tax rate in accordance with any applicable double tax treaty and a refund of the excess tax withheld can only be obtained by submitting a tax return and supporting documentation in accordance with the procedures described in "Tax Treaty Procedures".

In cases where an applicable double tax treaty exists, Non-Resident Holders of GDRs (whether legal entities or individuals) may apply for a refund of a portion of the withholding income tax, however there is no assurance that such refund will be obtained. See "Tax Treaty Procedures" for details.

Taxation of Capital Gains

Legal Entities and Organisations

Under current Russian tax legislation, capital gains arising from the sale, exchange or other disposition of the ordinary shares or GDRs by Non-Resident Holders-Legal Entities should not be subject to tax in Russia if Severstal's immovable property located in Russia constitutes 50 percent or less of its assets. Severstal believes that its immovable property located in Russia does not currently, and will not, constitute more than 50 percent of its assets. However, because the determination of whether 50 percent or less of Severstal's assets consist of immovable property located in Russia is inherently factual and is made on an ongoing basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that the immovable property located in Russia does not currently, or will not in the future constitute more than 50 percent of Severstal's assets. If more than 50 percent of Severstal's assets were to consist of immovable property located in Russia, a Non-Resident Holder-Legal Entity may be subject to:

(1) 24 percent withholding income tax on the capital gain realised from the sale being the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the ordinary shares or GDRs; or

(2) 20 percent withholding income tax on the gross proceeds from the sale of the ordinary shares or GDRs.

Notwithstanding the above, capital gains arising from the sale of ordinary shares or GDRs by Non-Resident Holder-Legal Entities on foreign stock exchanges if such ordinary shares or GDRs are listed and traded on those foreign stock exchanges should not be subject to taxation in Russia. Therefore, so long as the GDRs remain listed and traded on the London Stock Exchange, gains arising from their sale, exchange or other disposition on the London Stock Exchange by Non-Resident Holders-Legal Entities that have no permanent establishment in Russia to which such sale, exchange or disposition could be connected, should not be subject to Russian income tax and, hence, to taxation in Russia. Furthermore, if the GDRs are listed and traded in the PORTAL Market of the NASDAQ Stock Market, Inc., gains arising from their sale, exchange or other disposition in the PORTAL Market of the NASDAQ Stock Market, Inc. by Non-Resident Holders-Legal Entities that have no permanent establishment in Russia to which such sale, exchange or disposition could be connected, should not be subject to Russian withholding income tax and, hence, to taxation in Russia.

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in Russia for Non-Resident Holder-Legal Entities qualifying for the relevant treaty benefits.

Under the United States-Russia Tax Treaty, capital gains from the sale of ordinary shares or GDRs by US Treaty Holders should be exempt from taxation in Russia, unless more than 50 percent of the fixed assets of Severstal were to consist of immovable property located in Russia.

Since relief from capital gains taxation in Russia provided by the United States-Russia Tax Treaty referred to above, is no more beneficial for a US Treaty Holder (legal entity or organisation) than the treatment provided by the current Russian domestic tax legislation, it is unlikely that the need will arise for such Non-Resident

Holders-Legal Entity to seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from sale, exchange or other disposition of the ordinary shares or GDRs.

Under the United Kingdom-Russia Tax Treaty, capital gains from sale of ordinary shares by UK Treaty Holders should not be subject to tax in Russia, unless the value of ordinary shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs.

There is a risk that entities or organisations that are tax agents who are obligated to withhold tax on capital gains may not have sufficient information regarding Severstal's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to Non-Resident Holders-Legal Entities selling the ordinary shares or GDRs.

Where the ordinary shares or GDRs are sold by a Non-Resident Holder-Legal Entity to persons other than a Russian company or a foreign legal entity or organisation with a permanent establishment in Russia (or, arguably, with any registered presence in Russia) even if the resulting capital gain is considered taxable Russian source income, there is currently no mechanism under which the respective tax could be withheld and remitted to the Russian tax authorities.

Individuals

Taxation of capital gains as income for Non-Resident Holders-Individuals will depend on whether this income is received from Russian or non-Russian sources. While Russian tax law gives no clear indication as to how the sale, exchange or other disposition of the ordinary shares or GDRs should be treated in this regard, a common practical approach is to consider the place of sale. For example, the sale of ordinary shares or GDRs outside of Russia by Non-Resident Holders-Individuals should not be considered Russian source income and, therefore, should not be taxable in Russia. However, as there is no definition of what would be considered to be a "sale in Russia", the Russian tax authorities have a certain amount of discretion to conclude whether transactions take place inside or outside of Russia. The sale, exchange or other disposition of the ordinary shares or GDRs by a Non-Resident Holder-Individual in Russia will be considered Russian source income and will be subject to tax at the rate of 30 percent of the sales price minus the acquisition cost of the ordinary shares or GDRs and other documented expenses, such as depositary expenses and broker fees. However, the acquisition cost and related expenses can only be deducted from the sale price at the source of payment if the sale is made by a Non-Resident Holder-Individual through a licensed Russian broker, asset manager or another person carrying out operations under an agency agreement or other similar agreement, or a Tax Agent, who should withhold the applicable tax. The Tax Agent is required to report to the Russian tax authorities on the income realised by the Non-Resident Holder-Individual and the tax withheld upon the sale, exchange or other disposition of the ordinary shares or GDRs. Where the sale exchange or other disposition of the ordinary shares or GDRs is made in Russia but not through a Tax Agent generally no withholding needs to be made and the Non-Resident Holder-Individual will have an obligation to file a tax return with the Russian tax authorities, report his or her realised income and to pay Russian income tax as appropriate.

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in Russia for Non-Resident Holder-Individuals qualifying for the relevant treaty benefits.

US Treaty Holders or UK Treaty Holders (individuals) whose income from the sale, exchange or other disposition of the ordinary shares is taxed at source by withholding at a 30 percent rate may technically claim a refund of the tax withheld under the relevant treaty provisions. However, in practice the refund procedures are very time-consuming and more complicated than those for corporate holders, and successful outcomes for individuals are less likely.

Under the United States-Russia Tax Treaty, capital gains from the sale of ordinary shares or GDRs by US Treaty Holders should be exempt from taxation in Russia, unless more than 50 percent of the fixed assets of Severstal were to consist of immovable property located in Russia. With respect to US Treaty Holders (individual) the treatment provided by the United States-Russia Tax Treaty may be more beneficial in cases where the immovable property does not make up 50 percent of Severstal's fixed assets.

Under the United Kingdom-Russia Tax Treaty, capital gains from a sale of shares by UK Treaty Holders should not be subject to tax in Russia, unless the value of ordinary shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the ordinary shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs. With respect to a UK Treaty Holder who is an individual, the treatment provided by the United

Kingdom-Russia Tax Treaty may be more beneficial for any gains derived from the disposition of Severstal's ordinary shares quoted on an approved stock exchange or in cases where Severstal's ordinary shares are not quoted on any approved stock exchange but do not derive their value or greater part of their value directly or indirectly from immovable property situated in Russia.

In order to apply the treaties, the Non-Resident Holder-Individual must receive clearance from the Russian tax authorities. Advance treaty clearance is not provided for by the current Russian legislation and individuals wishing to make a treaty claim would be required to submit a tax return to the tax authorities as described below in "— Tax Treaty Procedures" to claim the refund of tax.

Where a US Treaty Holder or UK Treaty Holder who is an individual sells ordinary shares or GDRs in Russia other than through a professional broker or dealer that is a Russian legal entity or a foreign legal entity or organisation with a permanent establishment in Russia (or, arguably, with any registered presence in Russia), and no withholding occurs due to the absence of a Tax Agent that US Treaty Holder or UK Treaty Holder (individual) is required to submit an annual income tax return to the Russian tax authorities and pay Russian income tax as appropriate. The same rules are applicable to any Non-Resident Holder-Individual from countries other than the UK or the US.

Tax Treaty Procedures

A Non-Resident Holder-Legal Entity seeking to obtain relief from or reduction of Russian withholding income tax under a tax treaty must provide the tax agent with a confirmation of its tax residency for the purposes of the applicable double tax treaty legalised or apostilled with notarised Russian translation attached to it. The tax residency confirmation needs to be renewed on an annual basis, and provided to the payer of income in advance of the first payment of income in each calendar year.

In accordance with the Tax Code, a Non-Resident Holder-Individual must present to the tax authorities a residence certificate issued by the competent authorities in his/her country of residence for tax purposes together with a confirmation of the income received and the tax paid in such foreign jurisdictions, as confirmed by the relevant foreign tax authorities. Such requirements mean that the reduction of the applicable tax rate under the treaty cannot be obtained in practice until such time that the Non-Resident Holder-Individual pays the tax in the jurisdiction of his or her tax residence and provides sufficient documentation to the Russian tax authorities confirming that the taxes have been paid in another jurisdiction.

US Treaty Holders may obtain the certification of US residency by mailing a completed Form 8802, Application for United States Residency Certification, together with any additional information required to: Internal Revenue Service, P.O. Box 42530, Philadelphia, PA 191014-2530. The procedures for obtaining certification are described in greater detail in Internal Revenue Service Publication 686. Obtaining the required certification from the Internal Revenue Service may take at least six to eight weeks. If the US Non-Resident Holder is eligible for certification, he will receive a Form 6166, Certification of United States Residency, upon filing a completed Form 8802 with the Internal Revenue Service.

A UK Treaty Holder may obtain the appropriate certification by mailing completed forms to his/her local Inspector of Taxes for certification that the UK Treaty Holder is resident in the United Kingdom for tax purposes. As obtaining this confirmation may take several weeks, UK Treaty Holders should apply for such certification in advance.

For individuals, advance relief from or reduction of withholding income taxes will generally be impossible to obtain as it is unlikely that the supporting documentation for the treaty relief can be provided to Russian tax authorities and approval from the latter obtained before receipt of dividends or sales proceeds occurs.

If a Non-Resident Holder does not obtain double tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian payer, the Non-Resident Holder may apply for a refund within three years from the end of the year in which the tax was withheld, if the recipient is a legal entity or organisation, or within one year from the end of the tax year in which the tax was withheld, if the recipient is an individual. To process a claim for a refund, the Russian tax authorities require: (1) an apostilled or legalised confirmation of the tax residency of the Non-Resident Holder at the time the income was paid, as required by an applicable tax treaty; (2) an application for refund of the tax withheld; (3) copies of the relevant contracts or other documents based on which the income was paid, as well as payment documents confirming the payment of the tax that was withheld to the appropriate Russian authorities (Form 1012DT for dividends and interest and 1011DT for other income is designed to combine (1) and (2) for foreign legal entities and organisations; individuals are also required to submit a document issued or approved by the tax authorities in the country in which they are resident for tax purposes confirming the amount of income received and taxed in that country).

The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month following the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, in practice, the procedures for processing such tax refund claims have not been clearly established and there is significant practical uncertainty regarding the availability and timing of such refunds.

The procedures described above may be more complicated with respect to dividends paid to Holders of GDRs due to the separation of legal and beneficial ownership of the Russian shares underlying the GDRs. Russian tax legislation does not provide clear guidance regarding the availability of double tax treaty relief or reduction for GDRs holders. See "— Taxation of Dividends". In practice, it may be impossible for the depositary to collect confirmations of residence from all GDR holders and submit them to Severstal and, in addition, Severstal may be unaware of the exact amount of income payable to each holder. Thus, Severstal cannot assure potential investors that elimination or reduction of tax will be available under any applicable tax treaty in respect of Russian taxes payable or withheld in respect of dividends on ordinary shares represented by GDRs. Moreover, the opinion expressed in 2005 and 2006 by the Ministry of Finance referred only to dividends and did not cover capital gains, which may leave room for varying interpretations by the tax authorities. See "Risk Factors".

Taxation of Russian Resident Holders

Russian Resident Holders will be subject to all applicable Russian taxes in respect of gains from the sale, exchange or other disposition of the ordinary shares or GDRs and dividends received on the ordinary shares or GDRs.

With respect to Russian Resident Holders of GDRs, Severstal may be obliged to withhold income tax at a rate of 15 percent from dividend payments made to the Depositary. The tax authorities are unlikely either to allow a deduction of the tax so withheld against any applicable Russian taxes of Russian Resident Holders of GDRs, or to refund the tax withheld.

United States Federal Income Tax Considerations

The following discussion is a summary under present law of certain US federal income tax consequences of the acquisition, ownership and disposition of the ordinary shares or GDRs. The summary is not tax advice. It does not describe all tax considerations that may be relevant to a particular US Holder. It addresses only US Holders that hold ordinary shares or GDRs as capital assets and use the US dollar as their functional currency. It does not address the tax treatment of persons subject to special rules, such as financial institutions, dealers or traders, insurance companies, tax exempt entities, persons liable for the alternative minimum tax, persons owning (actually or constructively) 10 percent or more of OAO Severstal's share capital, individual retirement accounts and other tax-deferred accounts, investors that have a permanent residence in Russia and persons holding ordinary shares or GDRs as part of a hedge, straddle, conversion or constructive sale transaction. It also does not address US state and local tax considerations.

THESE STATEMENTS ABOUT US FEDERAL INCOME TAX MATTERS ARE MADE TO SUPPORT MARKETING OF THE ORDINARY SHARES AND GDRS. NO TAXPAYER CAN RELY ON THEM TO AVOID US FEDERAL TAX PENALTIES. EACH TAXPAYER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE ORDINARY SHARES AND GDRS.

As used here, "US Holder" means a beneficial owner of ordinary shares or GDRs that is (i) a US citizen or individual resident, (ii) a corporation, partnership or other entity created or organised under the laws of the United States, (iii) a trust subject to the control of a US person and the primary supervision of a US court or (iv) an estate the income of which is subject to US federal income tax regardless of its source. The tax consequences to a partner in a partnership acquiring, owning and disposing of GDRs will generally depend on the status of the partner and the activities of the partnership.

Generally, holders of GDRs will be treated for US federal income tax purposes as holding ordinary shares represented by the GDRs. No gain or loss will be recognised upon an exchange of ordinary shares for GDRs or an exchange of GDRs for ordinary shares.

Dividends

Dividends on the ordinary shares or GDRs (including the amount of Russian withholding tax that Russian law imposed on the US Holder) should be included in a US Holder's gross income as ordinary income from foreign sources. The dividends will not be eligible for the dividends-received deduction generally available to US corporations, but they should qualify for the reduced rate available to US individuals on qualified dividend income. Dividends paid in Russian roubles, or other non-US currency, will be includable in income in a US dollar amount based on the exchange rate in effect on the date of receipt whether or not the payment is converted into US dollars at that time. Any gain or loss on a subsequent disposition of the Russian roubles (or other non-US currency) for a different amount generally will be US source ordinary income or loss.

A US Holder eligible for benefits under the income tax treaty between Russia and the United States may be able to claim a reduced rate of Russian withholding tax. Each US Holder should consult its own tax advisor about its eligibility for reduction of Russian withholding tax. A US Holder may claim a deduction or a foreign tax credit, subject to other applicable limitations, only for tax withheld at the appropriate rate. A US Holder will not be allowed a foreign tax credit for withholding tax it could have avoided by claiming benefits under the treaty. In computing foreign tax credit limitations, US individuals may take into account only the portion of the dividend effectively taxed at the highest applicable marginal rate.

Disposition

A US Holder will recognise capital gain or loss on the sale or other disposition of ordinary shares or GDRs in an amount equal to the difference between the US Holder's adjusted tax basis in the ordinary shares or GDRs and the amount realised from the disposition. Any gain or loss generally will be long-term capital gain or loss if the ordinary shares or GDRs have been held for more than one year. Deductions for capital losses are subject to limitations.

A US Holder that receives Russian roubles on the sale or other disposition of ordinary shares or GDRs will realise an amount equal to the US dollar value of the Russian roubles on the date of sale, or, in the case of cash basis and electing accrual basis taxpayers, the settlement date. A US Holder will have a tax basis in the Russian roubles received equal to the US dollar amount realised. Any gain or loss on a subsequent conversion of the Russian roubles (or other non-US currency) into US dollars for a different amount generally will be US source ordinary income or loss.

A US Holder eligible for benefits under the income tax treaty between Russia and the United States may be exempt from Russian capital gains tax, so long as 50 percent or more of the fixed assets of OAO Severstal are not represented by immovable property located in Russia. Each US Holder should consult its own tax advisor about its eligibility for the exemption. Any gain or loss on the sale or disposition of the ordinary shares or GDRs generally will be treated as arising from US sources. Consequently, in the case of a sale or disposition that is subject to tax in Russia, a US Holder may not be able to claim a foreign tax credit for Russian tax imposed unless it can apply the credit against tax due on income from foreign sources. A US Holder will not be allowed a foreign tax credit for Russian capital gains tax it could have avoided by claiming benefits under the treaty.

Passive Foreign Investment Company

OAO Severstal does not believe that it is a passive foreign investment company, or PFIC and it does not expect to become a PFIC.

Passive income for this purpose generally includes net gains from commodities transactions. The principal products of OAO Severstal are commodities, but passive income does not include active business gains or losses from the sale of commodities if substantially all of the OAO Severstal commodities are inventory, depreciable property used in its trade or business or supplies used or consumed by Severstal in the ordinary course of business. At this time, Severstal believes that it qualifies for the active business exception, but it cannot assure a U.S. Holder that the requirements for this exception will be met in future years. If a company is a PFIC in any year when a US Holder owns its ordinary shares or GDRs, the US Holder is subject to additional taxes on any excess distributions received from the company and any gain realised from the sale or other disposition of its ordinary shares or GDRs, regardless of whether the company continues to be a PFIC. A US Holder has an excess distribution to the extent that distributions on the ordinary shares or GDRs during a taxable year exceed 125 percent of the average amount received during the three preceding taxable years, or, if shorter, the US Holder's holding period. To compute the tax on excess distributions or any gain, (i) the excess distribution or the gain is allocated rateably over a US Holder's holding period, (ii) the amount allocated to the current taxable year and any year before the company became a PFIC is taxed as ordinary income in the current year and (iii) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year.

If OAO Severstal is a PFIC, a US Holder could avoid some of the tax consequences just described by electing to mark the ordinary shares or GDRs to market annually. A US Holder can elect to mark the ordinary shares or GDRs to market only if the ordinary shares or GDRs are marketable stock. The ordinary shares or GDRs will be marketable stock only if they are traded (other than in de minimis quantities) on at least 15 days during each calendar quarter. The London Stock Exchange and the NASDAQ Stock Market, Inc. should be qualified exchanges. Any gain from marking the ordinary shares or GDRs to market or from disposing of them is ordinary income. A US Holder can recognise loss from marking the ordinary shares or GDRs to market, but only to the extent of its unreversed gains. Loss recognised from marking the ordinary shares or GDRs to market is ordinary, but loss on disposing of them is capital loss except to the extent of unreversed gains.

If OAO Severstal is a PFIC, a US Holder could not avoid the tax consequences just described by electing to treat OAO Severstal as a qualified electing fund, or QEF, because OAO Severstal will not prepare the information that a US Holder would need to make a QEF election.

Information Reporting and Backup Withholding

Dividends and proceeds from the sale or other disposition of the ordinary shares or GDRs may be reported to the US Internal Revenue Service unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number. The amount of any backup withholding tax will be refunded or allowed as a credit against the holder's US income tax liability if the holder furnishes the appropriate information to the Internal Revenue Service.

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current UK law and published H.M. Revenue & Customs practice, both of which are subject to change, possibly with retrospective effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of ordinary shares or GDRs and any dividends paid in respect of them, in circumstances where the dividends paid are regarded for UK tax purposes as that person's own income, and not the income of some other person, and who are resident, or, in the case of individuals only, ordinarily resident, in the UK for tax purposes and who are not resident in Russia and do not have a permanent establishment or fixed base in Russia with which the holding of ordinary shares or GDRs is connected ("UK holders"). In addition, the summary (a) only addresses the tax consequences for holders who hold the ordinary shares or GDRs as capital assets and does not address the tax consequences which may be relevant to certain other categories of holders, for example, dealers; (b) does not address the tax consequences for holders that are insurance companies, collective investment schemes or persons connected with the company; (c) assumes that the holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10 percent or more of the ordinary shares and/or voting power of Severstal; (d) assumes that there will be no register in the UK in respect of the ordinary shares or GDRs; (e) assumes that the ordinary shares will not be held by, and that the GDRs will not be issued by, a depositary incorporated in the UK; and (f) assumes that neither the ordinary shares nor the GDRs will be paired with shares issued by a company incorporated in the UK.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of ordinary shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

Taxation of Dividends

Income tax and corporation tax. Holders who are resident, or, in the case of individuals only, ordinarily resident, in the UK will, in general, be subject to income tax or corporation tax on the total of the dividends received on their ordinary shares or GDRs plus any withholding tax deducted in Russia.

Withholding tax. Dividend payments in respect of GDRs or ordinary shares should not be subject to UK withholding tax. As discussed in "— Russian Tax Law Considerations — Taxation of Dividends", such dividends will be subject to Russian withholding taxes. Any Russian withholding tax is generally allowed as a credit against the UK income tax or corporation tax liability of a UK holder, but any excess of such Russian withholding tax over the UK tax payable on the aggregate amount of the dividend is not generally refundable. The amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under Russian domestic law and under the 1994 Income and Capital Gains Tax Convention between the UK and Russia to minimise the amount of tax payable in Russia, including obtaining relief at source and any available refunds.

Tax liability for individual holders. For an individual holder who is liable to UK tax on the dividend at the dividend ordinary rate, currently 10 percent, the credit for Russian tax deducted at source may equal or exceed his UK income tax liability in respect of the dividend in which case he will have no further UK tax to pay. For an individual holder who is liable to UK tax on the dividend at the dividend upper rate, currently 32.5 percent, the UK tax will be chargeable on the gross dividend with credit (as discussed above) for Russian tax deducted at source.

An individual holder of ordinary shares or GDRs who is resident but not domiciled in the UK for tax purposes, or who is resident but not ordinarily resident in the UK for tax purposes, will be liable to UK income tax only to the extent that dividends paid by the Company are remitted or deemed to be remitted to the UK.

Tax liability for corporate shareholders. A holder within the charge to UK corporation tax will be liable for UK corporation tax on the receipt of the gross dividend, with credit (as discussed above) for the Russian tax deducted at source.

Taxation of Capital Gains

The disposal or deemed disposal of the ordinary shares or GDRs by a holder who is resident, or, in the case of individuals only, ordinarily resident, in the UK for tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains, depending on the holder's circumstances and subject to any available exemption or relief. In addition, holders who are individuals and who dispose of their ordinary shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK. Any gains or losses in respect of currency fluctuations over the period of holding ordinary shares or GDRs would also be brought into account on the disposal.

As regards a holder who is an individual, the principal factors that will determine the extent to which such gain will be subject to capital gains tax are the extent to which the holder realises any other capital gains in that year, the extent to which the holder has incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place, or the annual exemption, and the level of available taper relief.

Taper relief will reduce the proportion of any gain realised on the disposal of the ordinary shares or GDRs that is brought into the charge to capital gains tax if, in the case of non-business assets, the ordinary shares or GDRs are held by the holder for at least three years. In the case of non-business assets, a reduction of 5 percent of the gain is made for each whole year for which the ordinary shares or GDRs have been held in excess of two years up to the maximum reduction available of 40 percent after ten complete years of holding.

The annual exemption for individuals is £8,800 for the 2006-2007 tax year and, under current legislation, this exemption is, unless the UK Parliament decides otherwise, increased annually in line with the rate of increase in the retail price index (rounded up to the nearest £100). Holders should be aware that the UK Parliament is entitled to withdraw this link between the level of the annual exemption and the retail price index or even to reduce the level of the annual exemption for future tax years below its current level.

A holder that is a UK resident company is entitled to an indexation allowance that applies to reduce capital gains (broadly speaking) to the extent that they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create or increase any allowable loss.

As discussed in "Russian Tax Considerations — Taxation of Capital Gains", certain capital gains may be subject to Russian tax. Credit against UK capital gains or corporation tax on the same gain may be available in respect of the Russian tax suffered, subject to the detailed UK tax law and practice regarding the availability and calculation of such credit.

Stamp Duty and Stamp Duty Reserve Tax

No UK stamp duty will be payable on the transfer of the ordinary shares or GDRs, provided that any instrument of transfer is not executed in the UK and does not relate to any property situated or to any matter or thing done or to be done in the UK. No UK stamp duty reserve tax will be payable on the transfer of ordinary shares or GDRs.

No stamp duty or SDRT will arise in the UK in respect of the issue of the GDRs, the delivery of the GDRs into a clearance service (such as Euroclear or Clearstream) or any dealings with the GDRs once they are issued into a clearance service where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Inheritance Tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, ordinary shares or GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For inheritance tax purposes, a transfer of assets as less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE SHARES OR GDRS UNDER THE INVESTOR'S OWN CIRCUMSTANCES.

PLAN OF DISTRIBUTION

This offering comprises (i) an offering of ordinary shares and GDRs outside the United States and the Russian Federation in reliance on Regulation S under the Securities Act, (ii) an offering of ordinary shares and GDRs within the United States to qualified institutional buyers as defined in, and in reliance on, Rule 144A under the Securities Act and (iii) an offering of ordinary shares in the Russian Federation.

Under the terms of, and subject to, the conditions contained in (i) a listing agreement dated 8 November 2006 entered into between Severstal and the managers, and (ii) a selling shareholder agreement dated 8 November 2006 entered into between the selling shareholder and the managers, the managers named below have severally agreed to procure purchasers for, or to themselves purchase, at the offer price, the number of ordinary shares and the number of ordinary shares in the form of GDRs, in the aggregate amount as indicated below. The selling shareholder has agreed to make available, at the offer price, to the managers, the following number of ordinary shares:

Manager	Number of ordinary shares in the form of GDRs and shares
Citigroup Global Markets Limited	28,333,334
Deutsche Bank AG, London Branch	28,333,333
UBS Limited	28,333,333
Total	85,000,000

The total expenses payable by the selling shareholder for this offering, other than the managers' commissions, are estimated to be approximately US$2.5 million. A portion of these expenses, calculated to reflect the proceeds received by Severstal from the capital increase in connection with this offering relative to the proceeds received by the selling shareholder from this offering, will be reimbursed by Severstal to the selling shareholder. This reimbursement will be reflected in a discount in the price paid by the selling shareholder to subscribe for shares in the capital increase in connection with this offering.

The managers will be soliciting non-binding indications of interest in acquiring ordinary shares (in the form of ordinary shares or GDRs) in the offering from prospective investors. Prospective investors will be required to specify the number of ordinary shares or GDRs they would be prepared to acquire at the offer price (subject to it being determined). This process is known as book-building.

Ordinary shares (in the form of ordinary shares and GDRs) allocated under the offering, following determination of the offer price, will be fully underwritten by the managers as described in this section. Allocations will be determined by Severstal and the managers after non-binding indications of interest from prospective investors have been received in the book-building process.

All ordinary shares and GDRs sold in the offering will be sold at the offer price.

The offer price for the ordinary shares and the GDRs will be determined by agreement between Severstal, the selling shareholder and the managers. A number of factors may be considered in determining the offer price and the bases of allocation under the offering, including the level and nature of demand for ordinary shares and GDRs and the objective of encouraging the development of an orderly after-market in the ordinary shares and GDRs. The offer price may be established at a level determined in accordance with these arrangements, taking into account indications of interest received (whether before or after the times and/or dates stated) from persons (including market makers and fund managers) connected with the managers.

The selling shareholder agreement and listing agreement entered into in connection with this offering contain the following provisions:

- The selling shareholder has granted an over-allotment option to the managers to acquire up to 12,750,000 additional ordinary shares in the form of GDRs at the offer price for the purpose of covering over-allotments in connection with this offering. The over-allotment option is exercisable upon written notice to the selling shareholder by the managers, on one or more occasions, up to and including the thirtieth day following the determination of the offer price. If the managers exercise the over-allotment option, the selling shareholder will be obligated to sell, and each manager will be severally obligated, subject to the conditions contained in the selling shareholder agreement, to purchase, a number of additional ordinary shares in the form of GDRs proportionate to that manager's initial amount indicated in the table above.

- The managers will deduct from the proceeds of this offering:
  - costs and expenses incurred by the managers in connection with this offering; and
  - a fee of two percent of the aggregate proceeds of this offering (including those proceeds received in connection with the exercise of the over-allotment option) and an additional fee of up to one percent of the aggregate proceeds of this offering (including those received in connection with the exercise of the over-allotment option) to be decided at the absolute discretion of the selling shareholder. The total amount of these commissions and fees will be up to US$31.9 million with respect to this offering and up to US$4.8 million with respect to the exercise of the over-allotment option, assuming that the over-allotment option is exercised in full.
- The obligations of the parties to the selling shareholder agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties under the selling shareholder agreement and the listing agreement and the application for admission to the Official List of the FSA and to trading on the London Stock Exchange having been approved on or prior to the closing of this offering. The managers may terminate the selling shareholder agreement and listing agreement prior to the closing of this offering in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in Severstal's condition, financial or otherwise, or in Severstal's earnings, business affairs, business prospects, trading position or property and certain changes in financial, political or economic conditions. If any of the above-mentioned conditions are not satisfied or waived or the selling shareholder agreement and listing agreement is terminated prior to the closing of this offering, then this offering will lapse.
- Severstal and the selling shareholder have given customary representations and warranties to the managers, including in relation to Severstal's business, its accounting records and legal compliance, in relation to ordinary shares and GDRs and in relation to the contents of this prospectus. The selling shareholder has given certain further warranties to the managers, including in relation to its capacity, its good title to the ordinary shares and its conduct.
- Severstal and the selling shareholder have each given customary indemnities to the managers in connection with this offering.
- If a manager defaults, the selling shareholder agreement provides that in certain circumstances, the purchase commitments of the non-defaulting managers may be increased or the selling shareholder agreement may be terminated.

Severstal, the Selling Shareholder and the other entities through which the controlling shareholder of Severstal holds ordinary shares prior to the offering have agreed, as part of the arrangements with the managers, for a period of 180 days after the closing of the offering, without the prior written consent of the managers, not to issue (in the case of Severstal), offer, sell or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any ordinary shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any ordinary shares or any financial product whose value is determined directly or indirectly by reference to the price of the ordinary shares or enter into any agreement that transfers, in whole or in part, any of the economic consequences of ownership of any ordinary shares or enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether any such transaction is to be settled by delivery of ordinary shares or such other securities, in cash or otherwise.

The lock-up arrangement described above shall not apply to (1) the offering or the capital increase described in this prospectus, (2) the offer and sale of ordinary shares to other subsidiaries of Severstal provided that such entities first agree to be bound by lock-up provisions substantially similar to that described above and (3) any transaction with a third party, reasonably believed to be entering into such transaction without the intention of making a further public distribution of the relevant securities, as consideration in the context of, or in connection with, an acquisition of or an offer to acquire (or any financing in respect thereof), assets or equity stakes in the metals and mining industry; provided that (a) to the extent that such transaction relates to more than 10% of the issued share capital of Severstal immediately following the capital increase described in this prospectus, the managers (subject to certain special provisions applicable in the event of a conflict of interest) provide their prior consent (such consent not to be unreasonably withheld or delayed), and (b) in any case any such third party first agrees to be bound by lock-up provisions substantially similar to that described above;

In connection with this offering, Citigroup Global Markets Limited, or the stabilising manager, or any agent or other person acting for the stabilising manager, may, but will be under no obligation to, over-allot or effect transactions intended to enable it to satisfy any over-allocations or which stabilise, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail for a period of 30 days after the date of adequate public disclosure of the offer price. However, there is no obligation on the stabilising manager, or any agent of the stabilising manager, to do this. Such transactions may be effected on the London Stock Exchange and any other securities market, over-the-counter-market, stock exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end 30 days after the date of such adequate public disclosure of the offer price. Save as required by law, the managers do not intend to disclose the extent of any over-allotments and/or stabilisation transactions under this offering.

In connection with this offering, each of the managers and any affiliate acting as an investor for its own account may take up the ordinary shares offered in this offering and in that capacity may retain, purchase or sell the ordinary shares, including in the form of GDRs, for its own account and may offer or sell such securities otherwise than in connection with this offering. The managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Application has been made to: (i) the FSA for a listing of up to 355,524,632 GDRs, consisting of up to 85,000,000 GDRs to be issued on the closing of the offering, up to 12,750,000 additional GDRs issued pursuant to the over-allotment option, as described herein, and up to 257,774,632 additional GDRs to be issued from time to time against the deposit of ordinary shares of Severstal with the depositary, and to be admitted to the Official List, and (ii) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities. Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL. The ordinary shares that will be in circulation on completion of the offering have been admitted to trading on the RTS and MICEX in their respective capacities as a self-regulatory stock exchanges operating in the Russian Federation. Prior to this offering, there has been no substantial market for the ordinary shares or the GDRs. Trading in the GDRs on the London Stock Exchange is expected to commence on 8 November 2006, on a "when and if issued" basis. Closing and settlement are expected to take place on 13 November 2006, and admission to the Official List of the FSA and to unconditional trading on the London Stock Exchange's regulated market for listed securities are expected to take place on 14 November 2006.

Investors wishing to enter into transactions in the GDRs prior to the closing of this offering, whether such transactions are effected on the London Stock Exchange or otherwise, should be aware that the closing of this offering may not take place on 13 November 2006 or at all if certain conditions or events referred to in the selling shareholder agreement are not satisfied or waived or do not occur on or prior to such date. All such transactions will be of no effect if the offering does not become unconditional. In addition, the GDRs are expected to be eligible for trading in PORTAL. However, Severstal cannot assure investors that an active public or other market will develop for the GDRs or that a liquid trading market of the GDRs will exist. Severstal does not intend to list the ordinary shares or the GDRs offered in this offering on any national securities exchange in the United States or to seek the admission thereof to trading on the Nasdaq National Market System.

The security identification numbers of the ordinary shares and the GDRs offered hereby are as follows:

Ordinary Shares ISIN:	RU0009046510
Regulation S GDRs ISIN:	US8181503025
Regulation S GDRs Common Code:	027254624
Regulation S GDRs CUSIP Number:	818150302
Rule 144A GDRs ISIN:	US8181501045
Rule 144A GDRs Common Code:	027181031
Rule 144A GDRs CUSIP Number:	818150104
London Stock Exchange GDR trading symbol:	SVST
PORTAL identification number:	SGDNP201
RTS Ordinary Shares trading symbol:	CHMF
MICEX Ordinary Shares trading symbol:	CHMF

Some of the managers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with Severstal and/or the selling shareholder. They have received customary fees and commissions for these transactions and services.

Deutsche Bank AG, London Branch is acting as one of the joint global coordinators and joint bookrunners with respect to the offering of shares and GDRs contemplated by this prospectus, whilst Deutsche Bank Trust Company Americas has been appointed in a distinct capacity by Severstal to act as depositary in connection with the issuance of the GDRs. Deutsche Bank Trust Company Americas is a wholly-owned subsidiary of Deutsche Bank Trust Corporation, a registered bank holding company which is a wholly-owned subsidiary of Deutsche Bank AG. Deutsche Bank AG, London Branch is the London based branch office of Deutsche Bank AG.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

No action has been or will be taken in any jurisdiction that would permit a public offering of the ordinary shares or the GDRs offered in this offering, or possession or distribution of this prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, neither the ordinary shares nor the GDRs may be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisement in connection with the ordinary shares and the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this prospectus comes should inform themselves about and observe any restrictions on the distribution of this prospectus and the offer, subscription and sale of ordinary shares and the GDRs offered in this offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This prospectus does not constitute an offer to subscribe for or buy any of the ordinary shares or the GDRs offered in this offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Russian Federation

Each manager has agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Joint Bookrunners may distribute this prospectus to persons in the Russian Federation in a manner that does not constitute advertisement (as defined in Russian law) of the GDRs and may sell the GDRs to Russian persons in a manner that does not constitute "placement" or "public circulation" of the GDRs in the Russian Federation (as defined in Russian law).

United States

The ordinary shares and the GDRs offered in this offering have not been and will not be registered under the Securities Act, and, subject to certain exceptions, may not be offered or sold within the United States except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. The managers propose (i) to offer the ordinary shares and the ordinary shares in the form of GDRs to institutional investors outside the United States in accordance with Regulation S under the Securities Act, and (ii) to offer the ordinary shares and the ordinary shares in the form of GDRs to qualified institutional buyers, or QIBs, in the United States as defined under and in accordance with Rule 144A under the Securities Act. Each of the managers has agreed that, except as permitted in the underwriting agreement, it will not offer, sell or deliver ordinary shares or the GDRs into or within the United States.

In addition, until 40 days after the commencement of this offering, an offer or sale of ordinary shares or the GDRs offered in this offering into or within the United States by a dealer, whether or not such dealer is participating in this offering, may violate the registration and prospectus delivery requirements of the Securities Act if such offer or sale is not made in accordance with Rule 144A under the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive, or Relevant Member State, an offer to the public of any ordinary shares or GDRs which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State other than the offers contemplated in this prospectus in the United Kingdom once this prospectus has been approved by the competent authority in such Member State and published in accordance with the Prospectus Directive as implemented in the United Kingdom except that an offer to the public in that Relevant Member State of any ordinary shares or GDRs may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(iii) by the managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the managers for any such offer; or

(iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of ordinary shares or GDRs shall result in a requirement for the publication by Severstal or any manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any ordinary shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any ordinary shares or GDRs to be offered so as to enable an investor to decide to purchase any ordinary shares or GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each manager has represented, warranted and agreed that:

(i) it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any ordinary shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply to Severstal; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the ordinary shares or GDRs in, from or otherwise involving the United Kingdom.

Canada

This document is not, and under no circumstances is it to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Representations and Agreements by Purchasers. The offer is being made in Canada only in the Canadian provinces of British Columbia, Ontario and Québec, or Canadian Jurisdictions, by way of a private placement of ordinary shares and GDRs. The offer in the Canadian Jurisdictions is being made pursuant to this document through the managers named in this document or through their selling agents who are permitted under applicable law to distribute such securities in Canada. Each Canadian investor who purchases the ordinary shares or GDRs will be deemed to have represented to Severstal, the selling shareholder and the managers that:

(a) the offer and sale was made exclusively through this document and was not made through an advertisement of the ordinary shares or GDRs in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada;

(b) such investor has reviewed the terms referred to below under "Canadian Resale Restrictions";

(c) where required by law, such investor is, or is deemed to be, acquiring the ordinary shares or GDRs as principal for its own account in accordance with the laws of the Canadian Jurisdiction in which the investor is resident and not as agent or trustee; and

(d) such investor or any ultimate investor for which such investor is acting as agent is entitled under applicable Canadian securities laws to acquire the ordinary shares or GDRs without the benefit of a prospectus qualified under such securities laws, and without limiting the generality of the foregoing:

   (i) in the case of an investor resident in a province or territory other than Ontario, without the manager having to be registered;

(ii) in the case of an investor resident in British Columbia or Québec such investor is an "accredited investor", as defined in section 1.1 of National Instrument 45-106 — *Prospectus and Registration Exemptions*, or NI 45-106;

(iii) in the case of an investor resident in Ontario, such investor, or any ultimate investor for which such investor is acting as agent (a) is an "accredited investor", other than an individual, as defined in NI 45-106 and is a person to which a dealer registered as an international dealer within the meaning of section 98 of the Regulation to the *Securities Act* (Ontario), or the OSA, may sell the ordinary shares or GDRs or (b) is an "accredited investor", including an individual, as defined in NI 45-106 who is purchasing the ordinary shares or GDRs from a fully registered dealer within the meaning of section 204 of the Regulation to the OSA;

and

(e) such investor, if not an individual or an investment fund, has a pre-existing purpose and was not established solely or primarily for the purpose of acquiring the ordinary shares or GDRs in reliance on an exemption from applicable prospectus requirements in the Canadian Jurisdictions.

Each resident of Ontario who purchases the ordinary shares or GDRs will be deemed to have represented to Severstal and the relevant manager that such investor:

(a) has been notified by Severstal that:

(i) Severstal is required to provide information, or personal information, pertaining to the investor as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any ordinary shares or GDRs purchased), which Form 45-106F1 is required to be filed by Severstal under NI 45-106;

(ii) such personal information will be delivered to the Ontario Securities Commission, or the OSC in accordance with NI 45-106;

(iii) such personal information is being collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario;

(iv) such personal information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and

(v) the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administration Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 5520 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086,

and

(b) has authorised the indirect collection of the personal information by the OSC.

Further, the investor acknowledges that its name, address, telephone number and other specified information, including the number of ordinary shares or GDRs it has purchased and the aggregate purchase price to the purchaser, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable laws. Each resident of a Canadian Jurisdiction other than Ontario who purchases the ordinary shares or GDRs hereby acknowledges to Severstal and the relevant manager that its name and other specific information, including the number of ordinary shares or GDRs it has purchased and the aggregate purchase price to the investor, may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable Canadian securities laws. By purchasing the ordinary shares or GDRs, each Canadian investor consents to the disclosure of such information.

Selling Restrictions. Each manager has agreed that:

(a) no prospectus has been issued or will be issued in respect of the ordinary shares or GDRs for distribution to the public under applicable Canadian securities laws; and

(b) the ordinary shares or GDRs may not be offered or sold, directly or indirectly, in Canada except with the consent of the managers and in compliance with applicable Canadian securities laws and accordingly, any sales of ordinary shares or GDRs will be made

(i) through an appropriately registered securities dealer or in accordance with an available exemption from the registered securities dealer requirements of applicable Canadian securities laws; and

(ii) pursuant to an exemption from the prospectus requirements of such laws.

Language of Document. Each purchaser of ordinary shares or GDRs in Canada that receives a purchase confirmation hereby agrees that it is such purchaser's express wish that all documents evidencing or relating in any way to the sale of such ordinary shares or GDRs be drafted in the English language only. *Chaque acheteur au Canada des valeurs mobilières recevant un avis de confirmation à l'égard de son acquisition reconnaît que c'est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des valeurs mobilières soient rédigés uniquement en anglais.*

Canadian Resale Restrictions. The distribution of the ordinary shares or GDRs in the Canadian Jurisdictions is being made on a private placement basis. Accordingly, any resale of the ordinary shares or GDRs must be made (i) through an appropriately registered dealer or in accordance with an available exemption from the dealer registration requirements of applicable provincial securities laws and (ii) in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws. Such resale restrictions may not apply to resales made outside of Canada, depending on the circumstances. Purchasers of ordinary shares or GDRs are advised to seek legal advice prior to any resale of ordinary shares or GDRs.

Severstal is not, and may never be, a "reporting issuer", as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada in which the ordinary shares or GDRs will be offered and there currently is no public market for any of the securities of Severstal in Canada, including the ordinary shares and GDRs, and one may never develop. Under no circumstances will Severstal be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the ordinary shares or GDRs to the public in any province or territory of Canada. Canadian investors are advised that Severstal currently has no intention to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the ordinary shares or GDRs to the public in any province or territory in Canada.

Rights of Action for Damages or Rescission (Ontario). Securities legislation in Ontario provides investors in ordinary shares or GDRs pursuant to this prospectus with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where this prospectus or any amendment to it, contains a "Misrepresentation". Where used herein, "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by the applicable securities legislation.

Section 130.1 of the OSA provides that every purchaser of securities pursuant to an offering memorandum (such as this prospectus) shall have a statutory right of action for damages or rescission against the issuer in the event that the offering memorandum contains a Misrepresentation. A purchaser who purchases securities offered by an offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer provided that:

(a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer;

(b) the issuer will not be liable if it proves that the purchaser purchased the securities with knowledge of the Misrepresentation;

(c) the issuer will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and

(d) in no case shall the amount recoverable exceed the price at which the securities were offered.

Subject to the paragraph below, all or any one or more of the issuer and any selling securityholder are jointly and severally liable, and every person or company who becomes liable to make any payment for a Misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

Despite the paragraph above, the issuer shall not be liable where it is not receiving any proceeds from the distribution of the securities being distributed and the Misrepresentation was not based on information provided by the issuer, unless the Misrepresentation (a) was based on information that was previously publicly disclosed by the issuer, (b) was a Misrepresentation at the time of its previous public disclosure and (c) was not subsequently publicly corrected or superseded by the issuer prior to the completion of the distribution of the securities.

Section 138 of OSA provides that no action shall be commenced to enforce these rights more than:

(a) in the case of an action for rescission, 180 days from the day of the transaction that gave rise to the cause of action; or

(b) in the case of an action for damages, the earlier of:

  (i) 180 days from the day that the purchaser first had knowledge of the facts giving rise to the cause of action; or

  (ii) three years from the day of the transaction that gave rise to the cause of action.

The rights referred to in section 130.1 of the OSA do not apply in respect of an offering memorandum (such as this prospectus) delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus requirement in section 2.3 of NI 45-106 if the prospective purchaser is:

(a) a Canadian financial institution (as defined in NI 45-106) or a Schedule III bank,

(b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada), or

(c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

The foregoing summary is subject to the express provisions of the OSA and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain limitations and statutory defences on which Severstal and the selling shareholder may rely. ***Prospective purchasers should refer to the applicable provisions of the relevant securities legislation and are advised to consult their own legal advisers as to which, or whether any, of such rights may be available to them.*** The enforceability of these rights may be limited as described herein under "Enforcement of Legal Rights".

The rights of action discussed above will be granted to the purchasers to whom such rights are conferred upon acceptance by the relevant manager of the purchase price for the ordinary shares or GDRs. The rights discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law. Similar rights may be available to investors resident in other Canadian Jurisdictions under local provincial securities laws.

Enforcement of Legal Rights. All of the directors and officers (or their equivalents) of Severstal and the selling shareholder, as well as any experts named herein, may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon Severstal, the selling shareholder or such experts. All or a substantial portion of the assets of Severstal, the selling shareholder and such experts may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against Severstal, the selling shareholder or such experts in Canada or to enforce a judgment obtained in Canadian courts against Severstal, the selling shareholder or such experts outside of Canada.

Canadian Tax Considerations and Eligibility for Investment. This document does not address the Canadian tax consequences of ownership of the ordinary shares or GDRs. Prospective purchasers of ordinary shares or GDRs should consult their own tax advisers with respect to the Canadian and other tax considerations applicable to their individual circumstances and with respect to the eligibility of the ordinary shares or GDRs for investment by purchasers under relevant Canadian legislation.

Transfer Restrictions

Each purchaser of ordinary shares or GDRs pursuant to Rule 144A under the Securities Act, by its acceptance of delivery of this prospectus, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser (i) is a qualified institutional buyer, or QIB, as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such ordinary shares or GDRs has been

advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act (iii) is acquiring such ordinary shares or GDRs for its own account or for the account of a QIB and (iv) if it is acquiring such ordinary shares or GDRs for the account of one or more QIBs, it has sole investment discretion with respect to each such account and it has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.

2. The purchaser is aware that the ordinary shares or GDRs purchased pursuant to Rule 144A under the Securities Act have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in transactions not involving any public offering in the United States and are restricted securities within the meaning of the Securities Act.

3. In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the ordinary shares or GDRs purchased pursuant to Rule 144A under the Securities Act or the ordinary shares represented thereby, such GDRs and ordinary shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legends, which the ordinary shares or GDRs purchased pursuant to Rule 144A under the Securities Act will respectively bear unless otherwise determined by Severstal and the depositary in accordance with applicable law:

THIS ORDINARY SHARE OF SEVERSTAL (THE "SHARE") HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS SHARE. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARE MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTIONS PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR THE RESALE OF THE SHARES.

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF SEVERSTAL REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF APPLICABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT, OR CAUSE TO BE DEPOSITED, SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES

ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK (INCLUDING ANY SUCH FACILITY MAINTAINED FOR THE RULE 144A GDRS), OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTIONS PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR THE RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

4. Severstal, the managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that the sellers of the ordinary shares or the GDRs purchased pursuant to Rule 144A under the Securities Act may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs offered in this offering and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant tax laws and regulations of the United States. See "Taxation — United States Federal Income Tax Considerations".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form of GDRs

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by a master Regulation S GDR registered in the name of BT Globenet Nominees Limited as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by a master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by Mellon Investor Services LLC as custodian for DTC. As necessary, the depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The depositary will be responsible for ensuring that payments received by it from Severstal for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the depositary will also be responsible for ensuring that payments received by it from Severstal for holders holding through DTC are received by DTC.

Severstal will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the depositary in accordance with the terms of the relevant deposit agreements.

Clearing and Settlement of Shares

The ordinary shares offered in this offering are listed on the RTS and MICEX. The trading symbol for the ordinary shares is CHMF.

In order to be able to take delivery of ordinary shares, investors should (i) be registered as a shareholder of record on the shareholders' register of Severstal or (ii) have a depository account with ZAO Depositary Clearing Company or with another depositary that is, directly or through one or more intermediary, a shareholder of record on the shareholders' register of Severstal. Any investor who chooses to hold the ordinary shares as a shareholder of record on the shareholders' register of Severstal or through an account in the shareholders' register of Severstal will not be able to trade those ordinary shares on the RTS or MICEX.

In addition, any investor wishing to purchase ordinary shares and pay for such ordinary shares in Russian roubles will pay an amount of Russian roubles calculated on the basis of the US dollar offer price and the CBR exchange rate for the day immediately preceding such payment.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see "Selling and Transfer Restrictions — Transfer Restrictions".

Trading between Euroclear and Clearstream, Luxembourg participants. Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants. Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser. When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the master Regulation S GDR.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser. When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the master Regulation S GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the master Rule 144A GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of Severstal, the selling shareholder, the managers, the depositary, the custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The depositary is Deutsche Bank Trust Company Americas. Deutsche Bank Trust Company Americas was incorporated on 5 March 1903 as a bank with limited liability in the State of New York and is an indirect wholly-owned subsidiary of Deutsche Bank AG. The depositary is subject to regulation and supervision by the New York State Banking Department, the Federal Reserve Board and the Federal Deposit Insurance Corporation. The registered office of the depositary is located at 60 Wall Street, New York, NY 10005 and the registered number is BR1026. A copy of the depositary's by-laws, as amended, together with copies of its most recent financial statements and annual report will be available for inspection at the principal administrative establishment of the depositary located at 60 Wall Street, DR Department, 25th Floor, New York, NY 10005 and at the office of the depositary located at Winchester House, 1 Great Winchester Street, London EC2N 2EQ. Such information will be updated periodically so long as the GDRs are admitted to listing on the official list maintained by the United Kingdom Listing Authority.

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for Severstal with respect to laws of the Russian Federation, the United Kingdom and the United States by Freshfields Bruckhaus Deringer. Certain legal matters in connection with this offering will be passed upon for the managers with respect to laws of the United Kingdom and the United States by Linklaters, London, England and with respect to the laws of the Russian Federation by Linklaters CIS, Moscow, Russian Federation.

INDEPENDENT AUDITORS

KPMG

Severstal's Special Purpose Financial Statements as at and for the years ended 31 December 2004 and 2005 and Severstal's General Purpose Financial Statements as at and for the years ended 31 December 2003, 2004 and 2005 have been audited by KPMG Limited, independent auditors of Severstal. The reports of KPMG Limited thereon are included in the prospectus. KPMG Limited have registered offices at 11 Gogolevsky Boulevard, Moscow 119019, Russian Federation. KPMG Limited are a member firm of the Audit Chamber of Russia (AchR) and the Institute of Professional Accountants of Russia (IPAR).

Reconta Ernst & Young S.p.A.

Lucchini's audited annual consolidated financial statements as at and for the years ended 31 December 2005 and 2004 have been audited by Reconta Ernst & Young S.p.A., independent auditors of Lucchini, as stated in its reports appearing herein. Reconta Ernst & Young S.p.A. have registered offices at 18/A, Via G.D. Romagnosi, 00196 Rome, Italy. Reconta Ernst & Young S.p.A. are a member firm of the Special Professional Register of Independent Auditors in Italy, with Registration No. 2, and the Register of Professional Accountants in Italy, with Registration No. 70945.

ADDITIONAL INFORMATION

1. All regulatory consents, approvals, authorisations or other orders required for the issuance of the ordinary shares and the GDRs under the laws of the Russian Federation have been given or obtained (subject only, in respect of the new ordinary shares issued in the capital increase, to the filing with the FSFM of a statutory notification on the results of the placement of the new ordinary shares).

2. The issuance of the newly issued ordinary shares was duly authorised by the board of directors of Severstal on 14 September 2006 in accordance with its charter and was registered with the FSFM on 17 October 2006. The circulation of the ordinary shares outside the Russian Federation in the form of GDRs was approved by the FSFM on 20 October 2006.

3. It is expected that listing of the GDRs will take place on 14 November 2006 subject only to the issuance of the master GDRs. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 14 November 2006. Transactions will normally be effected for settlement in US dollars and for delivery on the third working day after the day of the transaction. Listing of the GDRs on the London Stock Exchange is conditional upon the issuance of the GDRs by the depositary.

4. Except for the acquisitions of Severstal Mining and Lucchini disclosed in the section titled "Business — History and Development of Severstal — Severstal Mining" and "— Lucchini" on page 110 of this prospectus and the decrease in profits reflected in the Consolidated Interim Income Statement on page F-6 of this prospectus, there has been no significant change in Severstal's financial or trading position since 31 December 2005.

5. From time to time Severstal is involved in legal proceedings arising in the ordinary course of business. However, there are no governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which Severstal is aware, during the twelve months preceding the date of this prospectus which may have, or have had in the recent past significant effects on Severstal's financial position or profitability.

6. In the event that certificates in definitive form are issued in respect of the GDRs, Severstal will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.

7. Copies in English of the following documents may be inspected at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS, during usual business hours on any weekday, excluding Saturday, Sunday and public holidays, for a period of one year following admission of the GDRs to trading on the London Stock Exchange:

(a) The charter of Severstal in effect upon completion of this offering;

(b) Severstal's audited annual consolidated IFRS financial statements as at and for the years ended 31 December 2003, 2004 and 2005;

(c) Lucchini's audited annual consolidated IFRS financial statements as at and for the years ended 31 December 2004 and 2005; and

(d) all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the issuer's request any part of which is included or referred to in the prospectus.

8. Severstal prepares annual and consolidated interim financial statements in accordance with IFRS. Copies of Severstal's future annual audited consolidated financial statements and unaudited interim consolidated financial statements required to be provided to holders of GDRs will be available for inspection and may be obtained free of charge at the office of Severstal or the depositary.

9. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in this offering. This offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the managers. Holders may inspect the rules governing the issue of the certificates at the offices of the depositary from the closing date of this offering.

10. The following table sets forth the registered offices of all of Severstal's subsidiaries and associates as at 30 June 2006:

Company	Beneficial ownership/ voting rights, percent	Country of incorporation
Steel segment — Russia:		
Subsidiaries:		
ZAO Severgal	75.0 percent	Russia
ZAO Izhorsky Tube Factory	100.0 percent	Russia
OOO SSM-Tyazhmash	100.0 percent	Russia
OAO Domnaremont	82.1 percent	Russia
ZAO Firma Stoik	100.0 percent	Russia
OAO Metallurgremont	79.8 percent	Russia
OOO Energoremont	100.0 percent	Russia
OOO Electroremont	93.3 percent	Russia
OOO Uralmash MO	100.0 percent	Russia
OOO AviaCompany Severstal	100.0 percent	Russia
Severstal Export GmbH	100.0 percent	Switzerland
AS Severstallat	50.5 percent	Latvia
Latvijas Metals	50.5 percent	Latvia
Armaturu Servisa Centrs SIA	25.2 percent	Latvia
Associates:		
Severstal US Holdings LLC	60.0 percent	USA
Steel segment — USA:		
Subsidiaries:		
Severstal North America Inc	93.0 percent	USA
Associates:		
Double Eagle Steel Coating company	46.5 percent	USA
Spartan Steel Coating LLC	44.6 percent	USA
Delaco Processing LLC	45.6 percent	USA
FDS Coke Holdings LLC	41.9 percent	USA
Mountain State Carbon LLC	31.0 percent	USA
Metalware segment:		
Subsidiaries:		
ZAO Severstal-Metiz	96.6 percent	Russia
OAO Dneprometiz	57.9 percent	Ukraine
Carrington Wire Ltd	100.0 percent	UK
OAO Cherepovets Steel Rolling Mill	n/a	Russia
OAO Orlovsky Steel Rolling Mill	n/a	Russia
OOO Volgometiz	100.0 percent	Russia
OOO Policher	86.9 percent	Russia
Associates:		
OOO ChSPZ MKR	48.3 percent	Russia
Mining segment:		
Subsidiaries:		
OAO Karelsky Okatysh	90.8 percent	Russia
OAO Olkon	91.8 percent	Russia

Company	Beneficial ownership/ voting rights, percent	Country of incorporation
OAO Vorkutaugol	89.2 percent	Russia
OAO Mine Vorgashorskaya	73.6 percent	Russia
OAO Mine Pervomaiskaya	99.1 percent	Russia
OAO Mine Berezovskaya	96.1 percent	Russia
OAO SShEMK	75.6 percent	Russia
OAO Severokuzbasskoe PTU	87.3 percent	Russia
OAO Anzhero-Sudzhenskoe PTU	94.4 percent	Russia
OAO Pechorugol	99.3 percent	Russia
OOO Olkon-Invest	100.0 percent	Russia
OOO Terra	100.0 percent	Russia
OOO Holding Gornaya Company	100.0 percent	Russia
ZAO Impulse-Consult	100.0 percent	Russia
OOO Investment Company Kuzbassugol	100.0 percent	Russia
Financing and insurance segment:		
Subsidiaries:		
OAO Metallurgical Commercial Bank	74.2 percent	Russia

11. The GDRs have no nominal or par value. The offer price was determined based on the results of the book building exercise conducted by the managers.

GLOSSARY

Annealing	The heat treatment process by which steel products are reheated to a suitable temperature in order to remove stresses resulting from previous processing and to soften them and/or improve their machinability and cold-forming properties.
Bars	Long steel products that are rolled from billets. Merchant bar and reinforcing bar, or rebar, are two common categories of bars, where merchants include rounds, flats, angles, squares and channels that are used by fabricators to manufacture a wide variety of products such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete structures.
Basic oxygen furnace	A pear-shaped furnace, lined with refractory bricks, which refines molten pig iron from the blast furnace and scrap into steel. Scrap is charged into the furnace vessel, followed by the hot metal from the blast furnace. A lance is lowered from above, through which blows a high-pressure stream of oxygen to cause chemical reactions that separate impurities into fumes or slag.
Beneficiation	The treatment of mined material to make it more concentrated or richer. Uses the process of crushing, grinding, and often froth-flotation to remove waste rock from ore. The metal content is increased as the waste is removed.
Billet	A semi-finished steel product with a square cross section up to 150mm x 150mm. This product is either rolled or continuously cast and is further processed by rolling to produce finished long products. The range of semi-finished products above 150mm x 150mm are called blooms.
Blast furnace	A furnace used in the integrated metallurgical process in which iron ore in the form of sinter is melted down under a hot air flow (enriched with oxygen), using coal in the form of coke as a heating and reducing agent in the chemical process. As a result, a liquid hot metal is produced, also called pig iron.
Blooms	See "Billet".
Coated steel	Steel sheet coated by immersion in a bath of molten material (known as hot-dip) to protect the base metal (substrate) against corrosion. The most commonly used protective material is zinc. An organic coating (paint, plastic) can also be deposited on the layer of zinc. The zinc-coated steel is often referred to as "galvanised steel".
Cogging	An intermediate rolling process when a hot ingot is reduced to a bloom or slab in a cogging mill.
Coils	Steel that has been wound.
Coke	A fuel obtained by the pyrolysis of coal in coke ovens and used as a reducing agent for iron ore in the blast furnace.
Coke breeze	A lightweight aggregate stone formed by a refractory process.
Coking coal	Coal used for making coke, used to make steel.
Cold-rolled sheet	Sheet steel that has been run through a cold-rolling mill.
Cold-rolling mill	Equipment that reduces the thickness, or gauge, of flat steel products by rolling steel between alloy steel cylinders without prior reheating. Several roll passes are generally necessary to gradually reduce the steel to the desired thickness.

Continuous casting	The process pursuant to which molten steel is cooled into semi-finished products such as billets, blooms and slabs. The molten steel is poured at a steady rate from a ladle into a bottomless mould. As the molten steel enters the water-cooled mould, it starts to cool into a pliable solid that can then be cut into required lengths.
Cooling-tower	A structure which cools heated refining process water by circulating the water through a series of louvers and baffles through which cool air is forced by large fans.
Cowper	A modern furnace to pre-heat the blast air to high temperatures in order to avoid cooling (and thus having to re-heat) the mix, and use fairly complex systems to extract the heat from the hot carbon dioxide when it escapes from the top of the furnace, further improving efficiency.
Debottlenecking	When the output of a multi-step process is limited by the capacity of one unit or activity, that unit or activity is a bottleneck. Debottlenecking this step in a process can increase the capacity of the other steps both upstream and downstream.
Dolomite	A sedimentary rock composed largely of calcium magnesium carbonate.
Draglines	Large scale mining equipment for removing overburden and inter-zone rock intervals. The rock is removed along a long strip by dragging a bucket capable of holding up to 90 cubic metres until the top of the coal is exposed. Waste rock is deposited behind the active mining area on land under which the coal has already been removed. This waste rock is then smoothed and land surface reclamation to restore the surface to its pre-mining condition is undertaken.
Electric arc furnace	A furnace that refines molten pig iron from the blast furnace and scrap into steel. In this process, the proportion of scrap used can be increased to 100 percent of the metal charge. Once the furnace is charged and covered, graphite electrodes are lowered through holes in the roof. The electric arc travelling between the electrodes and the metallic charge creates intense heat that melts the charge. Alloying elements can be added during the process.
Ferro-alloy	A metal product commonly used as a raw materials feed in steel-making, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.
Ferrous	Metals that consist primarily of iron.
Flat products	A product that is produced by rolls with smooth surfaces and ranges of dimension, varying in thickness and width. The major flat steel product categories are (i) thin flat products (up to 4mm in thickness), (ii) thick flat products (between 4mm and 50mm in thickness); and (iii) plates (over 50mm in thickness). Flat products are used in the automotive and white-goods industries, for production of large welded pipes, shipbuilding, construction, major works and boilers. They include hot- and cold-rolled sheet, plates and coils.
Galvanised steel	See "Coated Steel".
Galvannealed	Steel that is zinc-iron alloy-coated by the hot-dip process followed by heating the steel to induce diffusion alloying between the molten zinc coating and the steel.

High Strength Low Alloy steel, or HSLA	A type of steel that provides many benefits over regular steel. It is much tougher and stronger than ordinary carbon-based steel. It is used in cars, trucks, cranes, bridges and other structures that must be able to handle a lot of strain.
Hot-rolled steel	Steel rolled in a hot-rolling mill.
Hot-rolling	A process whereby solidified steel, preheated to a high temperature, is continuously rolled between rotating cylinders.
Ingot	An intermediate product made by pouring molten steel into moulds of given dimensions. In further processing steps carried out in a cogging mill, the ingots are transformed first to simple shape semi-finished products like blooms or slabs and then fed to hot-rolling mills. Ingot casting is now largely replaced by continuous casting.
Integrated metallurgical process	The process including all stages starting from raw coal and iron ore to rolling finished products at one site.
Ladle furnace	A furnace used for refining hot metal between the converter or electric arc furnaces and casting.
Lance (Oxygen)	A length of pipe used to convey oxygen onto a bath of molten metal. A steel tube, consumed during cutting, through which cutting oxygen passes, for the cutting or boring of holes.
Long products	Long products are used in all industrial sectors, particularly in the construction and engineering industries. They include all types of bars, wire rod and a wide range of cold-formed profiles like closed profile, S-shape profile, E-shape profile, trough-shape profile, angle profile and others. They also include pipes with circular, oblong and semi-oblong, square and rectangular cross sections of a wide range of sizes.
Long-wall mining	A mining technique in which large blocks of coal are removed in a single pass. This technique uses two tunnels which are about 1,500 metres long and 250 metres apart and are joined together at the end by a third tunnel. The third tunnel marks the spot where longwall mining starts.
Metallurgical lime	Quick lime. Slag- former and lining protector used in metallurgical processes.
Metalware	Household articles made of metal.
Middlings	The mixture of water, clay, sand and bitumen that remains between the bitumen froth at the surface and the sand at the bottom of a primary separation vessel.
Open-hearth furnace	A broad, shallow hearth to refine pig iron and scrap into steel (also known as a "Martin furnace"). Heat is supplied from a large flame over the surface and the refining takes 7-9 hours.
Open-pit methods	Open-pit mining refers to a method of extracting rock or minerals from the earth by their removal from an open pit or borrow. The term is used to differentiate this form of mining from extractive methods that require tunneling into the earth.
Pellets	Iron ore or limestone particles which are baked into little balls of a specified size in a balling drum and hardened by heat.
Pickling	The process in which the surface of the steel is cleaned with acid to remove scale, rust and dirt, such process being preparation for further processing, such as cold-rolling, galvanising or polishing.

Polymer-coated steel products	A variety of products produced either by film coating or direct extrusion of a multi-layer polymer coating.
Refining	A stage in the process of making crude steel, during which most residual impurities are removed from the crude steel and additions of other metals may be made before it is cast (see also "Ladle furnace").
Reinforcing bar, or Rebar	A commodity-grade steel used to strengthen concrete in highway and building construction.
Scrap	Iron containing material (mainly industrial or household waste) that generally is remelted and recast into new steel. The scrap could be used as part of a metal charge together with pig iron loaded into steel-melting furnaces.
Semi-finished products	Steel products such as billet, blooms and slabs. These products can be made by direct continuous casting of hot steel or by pouring the liquid steel into ingots, which are then hot-rolled into semi-finished products.
Sinter	Particles in roughly one-inch chunks produced by mixing and baking iron ore concentrate and limestone flux prior to loading it into the blast furnaces for reduction into pig iron.
Slab	A semi-finished steel product obtained by rolling ingots on a rolling mill or processed through a continuous caster and cut into various lengths. The slab has a rectangular cross section and is used as a starting material in the production process of flat products.
Slag	A by-product, containing inert materials, produced during the blast-furnace smelting process and other steel-making operations.
Slitting	Cutting a sheet of steel into narrower strips.
Strip	Flat steel products used for production of pipes. Strips with widths of less than 600mm are used for large pipes with a spiral welded seam and smaller pipes with a straight-line welded seam. Large-diameter pipes (of up to 1,420mm diameter) with a straight-line welded seam require strips up to 4,600mm wide and 30mm thick.
Tandem mill	A cold-rolling mill that gives greater strength, a more uniform and smoother surface, and a reduced thickness to the steel sheet. This mill rolls steel through a series of rolls, to achieve a desired thickness and surface quality.
Tempering	A process of re-heating quench-hardened or normalised steel to a temperature below the transformation range and then cooling at any rate desired. The primary purpose of tempering is to impart a degree of plasticity or toughness to the steel to alleviate the brittleness of its martensite.
Vacuum degasser	An advanced steel refining facility that removes oxygen, hydrogen and nitrogen under low pressures (in a vacuum) to produce ultra-low-carbon steel for demanding electrical and automotive applications. Normally performed in the ladle, the removal of dissolved gases results in cleaner, higher-quality, more pure steel.

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KPMG Limited
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Accountants' Review Report

The Board of Directors
OAO Severstal

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

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

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

KPMG Limited.

KPMG Limited
29 August 2006

Severstal

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

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

These consolidated interim financial statements were approved by the Board of Directors on August 29, 2006.

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

Severstal

Consolidated interim income statement
Six months ended June 30, 2006
(Amounts expressed in thousands of US dollars, except shares and earnings per share)

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

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

Severstal

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

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

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

Severstal

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

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

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

1. Operations

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

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

The Group comprises the following segments:

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

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

Recent acquisitions of controlling stakes from the group's majority shareholder

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

Intended business combination with Lucchini SpA subsequent to June 30, 2006

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

Economic environment

A large part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Group and the realization and settlement of its assets and liabilities.

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

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

2. Presentation of the consolidated interim financial statements

Statement of compliance

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

Going concern basis

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

Use of estimates

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

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

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

Functional and presentation currency

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

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

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

Basis of consolidation

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

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

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

Accounting for business combinations of entities under common control

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

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

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

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

3. Summary of the principal accounting policies

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

a. Cash and cash equivalents

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

b. Inventories

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

c. Trade and other receivables

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

d. Foreign currency

Foreign currency transactions

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

Presentation and consolidation

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

e. Investments

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

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

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

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

f. Property, plant and equipment

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

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

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

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

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

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

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

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

g. Goodwill and negative goodwill

Goodwill

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

Negative goodwill

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

h. Asset impairment

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

Calculation of recoverable amount

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

Reversals of impairment

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

i. Dividends payable

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

j. Indirect taxes and contributions

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

k. Income tax

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

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

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

Deferred tax is not recognized in respect of the following:

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

l. Debt finance

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

m. Income recognition

Sales

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

Banking income

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

n. Net financing expense

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

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

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

o. Net income/(expenses) from securities operations

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

p. Earnings per share

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

q. Provisions

Retirement benefits

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

Decommissioning liability

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

Other provisions

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

r. New Standards and Interpretations adopted

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

s. New Standards and Interpretations not yet adopted

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

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

4. Sales

Sales by product were as follows:

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

Sales by delivery destination were as follows:

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

5. Staff costs

Employment costs were as follows:

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

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

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

6. Net income from bank lending operations

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

7. Net income/(expenses) from securities operations

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

8. Net other non-operating expenses

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

9. Net financing expense

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

10. Taxation

The following is an analysis of the income tax expense:

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

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

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

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

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

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

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

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

11. Cash and cash equivalents

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

As described in note 27 to these consolidated interim financial statements, the Group has a subsidiary OAO Metallurgical commercial bank ("Metcombank"). Nostro accounts of Metcombank at the Central Bank of

Russia and at other banks and interbank loans given by Metkombank with an original maturity of three months or less are included in cash and equivalents.

12. Short-term bank deposits

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

13. Short-term financial investments

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

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

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

14. Trade accounts receivable

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

15. Amounts receivable from related parties

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

Sales and income received from related parties were as follows:

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

16. Inventories

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

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

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

17. Other current assets

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

18. Long-term financial investments

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

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

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

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

19. Investment in associates

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

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

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

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

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

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

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

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

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

20. Property, plant and equipment

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

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

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

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

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

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

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

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

21. Bank customer accounts

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

22. Amounts payable to related parties

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

Purchases from related parties were as follows:

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

23. Debt finance

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

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

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

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

24. Other current liabilities

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

25. Other non-current liabilities

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

Retirement benefit liability

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

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

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

The components of the retirement benefit liabilities were as follows:

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

The movements in the retirement benefit liabilities were as follows:

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

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

Decommissioning liability

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

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

Restructured tax liabilities

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

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

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

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

26. Share capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUR0.01 each. Authorized share capital of Severstal at December 31, 2005 comprised 551,854,800 shares and was fully issued and paid on that date. At June 30, 2006, Severstal had 930,784,663 issued and fully paid shares and 5,139,618,137 authorized but not issued shares.

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

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

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

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

All shares carry equal voting and distribution rights.

Dividends

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

On June 9, 2006, the Meeting of Shareholders approved the final dividend of RUR4.00 (US$0.15) per share in respect of 2005. Owners of 551.9 million shares were entitled to this dividend, as June 2006 share issue was completed later than the date of closing of share register for these dividends.

27. Subsidiary and associated companies

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

Company	June 30, 2006	December 31, 2005	Location	Activity
Steel segment — Russia:				
Subsidiaries:				
ZAO Severgal	75.0%	75.0%	Russia	Hot dip galvanizing
ZAO Izhorsky Tube Factory	100.0%	100.0%	Russia	Wide pipes
OOO SSM-Tyazhmash	100.0%	100.0%	Russia	Repairs & construction
OAO Domnaremont	82.1%	56.4%	Russia	Repairs & construction
ZAO Firma Stoik	100.0%	100.0%	Russia	Repairs & construction
OAO Metallurgremont	79.8%	79.3%	Russia	Repairs & construction
OOO Energoremont	100.0%	100.0%	Russia	Repairs & construction
OOO Electroremont	93.3%	100.0%	Russia	Repairs & construction
OOO Uralmash MO	100.0%	100.0%	Russia	Engineering & design
OOO AviaCompany Severstal	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	Switzerland*	Steel sales
AS Severstallat	50.5%	50.5%	Latvia*	Steel sales
Latvijas Metals	50.5%	50.5%	Latvia*	Steel sales
Armaturu Servisa Centrs SIA	25.2%	25.2%	Latvia*	Steel service center
Associates:				
Severstal US Holdings LLC **	60.0%	60.0%	USA*	Mini-mill
Steel segment — USA:				
Subsidiaries:				
Severstal North America Inc	93.0%	93.0%	USA	Iron & steel mill
Associates:				
Double Eagle Steel Coating company	46.5%	46.5%	USA	Electro-galvanizing
Spartan Steel Coating LLC	44.6%	44.6%	USA	Hot dip galvanizing
Delaco Processing LLC	45.6%	45.6%	USA	Steel slitting
FDS Coke Holdings LLC	41.9%	41.9%	USA	Coking coal
Mountain State Carbon LLC	31.0%	31.0%	USA	Coking coal
Metalware segment:				
Subsidiaries:				
ZAO Severstal-Metiz	96.6%	100.0%	Russia	Steel machining
OAO Dneprometiz	57.9%	nil%	Ukraine	Steel machining
Carrington Wire Ltd	100.0%	nil%	UK	Steel machining
OAO Cherepovets Steel Rolling Mill	n/a	88.8%	Russia	Steel machining
OAO Orlovsky Steel Rolling Mill	n/a	87.2%	Russia	Steel machining
OOO Volgometiz	100.0%	100.0%	Russia	Steel machining
OOO Policher	86.9%	80.0%	Russia	Polymer coatings
Associates:				
OOO ChSPZ MKR	48.3%	44.4%	Russia	Mattress springs
Mining segment:				
Subsidiaries:				
OAO Karelsky Okatysh	90.8%	90.8%	Russia	Iron ore pellets
OAO Olkon	91.8%	91.6%	Russia	Iron ore concentrate
OAO Vorkutaugol	89.2%	88.1%	Russia	Coking coal concentrate
OAO Mine Vorgashorskaya	73.6%	70.2%	Russia	Coking coal concentrate
OAO Mine Pervomaiskaya	99.1%	99.1%	Russia	Coking coal concentrate
OAO Mine Berezovskaya	96.1%	96.0%	Russia	Coking coal concentrate
OAO SShEMK	75.6%	75.6%	Russia	Engineering

Company	June 30, 2006	December 31, 2005	Location	Activity
OAO Severokuzbasskoe PTU	87.3%	87.3%	Russia	Transportation
OAO Anzhero-Sudzhenskoe PTU	94.4%	94.4%	Russia	Transportation
OAO Pechorugol	99.3%	99.3%	Russia	Holding company
OOO Olkon-Invest	100.0%	100.0%	Russia	Holding company
OOO Terra	100.0%	100.0%	Russia	Holding company
OOO Holding Gornaya Company	100.0%	100.0%	Russia	Holding company
ZAO Impulse-Consult	100.0%	100.0%	Russia	Holding company
OOO Investment Company Kuzbassugol	100.0%	100.0%	Russia	Holding company
Financing and insurance segment:				
Subsidiaries:				
OAO Metallurgical Commercial Bank	74.2%	72.6%	Russia	Banking

(*) — 'Steel segment — Russia' contains Russian production entities, foreign trading companies, which are selling products primarily produced in Russia, and other foreign companies, which either provide services to Russian production entities or are managed from Russia.

(**) — 20.2% and 19.9% of ordinary shares at June 30, 2006 and December 31, 2005, respectively.

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

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

Acquisitions of subsidiaries from related parties during 2006

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

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

On March 29, 2006, having received a fairness opinion on the proposed transaction from Citigroup, the Board of Directors approved the independent appraiser's valuations of the Parent Company shares being issued at RUR320.74 per share (US$11.24 at the exchange rate on the date of valuation — October 1, 2005) and of the mining assets being acquired at RUR117,202 million (US$4,107 million at the exchange date on the date of valuation — October 1, 2005).

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

Shareholders of the Parent Company, which were entitled to voting on March 27, 2006 but did not participate in it or voted against the deal, had the right to participate in the additional share issue by purchasing for cash the amount of shares that maintained their current shareholding interest at a price of RUR320.74 per share. The market price of shares on March 27, 2006 was RUR384 (US$13.79) per share. The Parent Company issued 13,516,489 shares to the shareholders that used these pre-emptive purchase rights.

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

Acquisitions of subsidiaries from third parties during 2006

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

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

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

A summary of acquired assets and liabilities is presented below:

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

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

Reorganization of Metalware segment during 2006

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

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

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

28. Subsequent events

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

29 Segment information

Segmental balance sheets as at June 30, 2006:

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

Segmental balance sheets as at December 31, 2005:

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

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

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

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

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

30. Commitments and contingencies

a. For litigation, tax and other liabilities

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

b. Long term purchase and sales contracts

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

c. Capital commitments

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

d. Insurance

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

e. Guarantees

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

31. Financial instruments

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

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

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

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

The above amounts exclude accrued interest.

Credit risk

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

Liquidity risk

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

Foreign exchange rate risk

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

Interest rate risk

Interest rates on Group's debt finance are either fixed or variable, at a fixed spread over LIBOR or Euribor for the duration of each contract. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

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

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

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

SEVERSTAL

Special purpose consolidated financial statements
for the year ended December 31, 2005

Severstal

Special purpose consolidated financial statements for the year ended December 31, 2005

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KPMG Limited
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

The Board of Directors of OAO Severstal

We have audited the accompanying special purpose consolidated balance sheets of OAO Severstal (the "Company") and its subsidiaries (the "Group") as at 31 December 2005 and 2004, and the related special purpose consolidated statements of income, changes in equity and cash flows for the years then ended. These special purpose consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these special purpose consolidated financial statements based on our audit.

The special purpose consolidated financial statements have been prepared for the purpose of presenting the consolidated financial position, results of operations and cash flows of the Group as if acquisitions of subsidiaries from the common controlling shareholder in May and June 2006 had taken place as at the date when control was obtained by the common controlling shareholder. The basis of preparation is described in notes 1 and 2.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the special purpose consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG Limited.

KPMG Limited
29 August 2006

Severstal

Special purpose consolidated balance sheet
December 31, 2005
(Amounts expressed in thousands of US dollars)

	Note	December 31, 2005	December 31, 2004
Assets			
Current assets:			
Cash and cash equivalents	11	941,609	1,090,061
Short-term bank deposits	12	674,512	556,623
Short-term financial investments	13	262,440	191,540
Trade accounts receivable	14	497,275	479,781
Amounts receivable from related parties	15	176,807	297,089
Inventories	16	1,089,967	1,122,700
VAT receivable		390,121	201,632
Income tax receivable		17,064	46,322
Other current assets	17	157,571	162,793
Total current assets		4,207,366	4,148,541
Non-current assets:			
Amounts receivable from related parties	15	22,026	19,976
Long-term financial investments	18	653,150	96,594
Investment in associates	19	208,317	85,770
Property, plant and equipment	20	7,464,629	3,477,886
Intangible and other assets		37,250	8,267
Total non-current assets		8,385,372	3,688,493
Total assets		12,592,738	7,837,034
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		369,765	359,848
Bank customer accounts	21	98,867	44,695
Amounts payable to related parties	22	264,943	198,998
Income taxes payable		45,284	42,705
Other taxes and social security payable		150,198	422,130
Short-term debt finance	23	344,170	273,995
Dividends payable		12,275	18,440
Other current liabilities	24	241,371	232,603
Total current liabilities		1,526,873	1,593,414
Non-current liabilities:			
Long-term debt finance	23	1,441,304	1,399,267
Deferred tax liabilities	10	1,111,597	339,616
Other non-current liabilities	25	411,474	260,762
Total non-current liabilities		2,964,375	1,999,645
Equity:			
Share capital	26	3,311,254	3,311,248
Additional capital		60,367	60,367
Revaluation reserve		3,093,608	631,996
Foreign exchange differences		24,877	191,770
Accumulated earnings/(deficit)		1,410,958	(73,656)
Total equity attributable to shareholders of parent		7,901,064	4,121,725
Minority interest		200,426	122,250
Total equity		8,101,490	4,243,975
Total equity and liabilities		12,592,738	7,837,034

These special purpose financial statements were approved by the Board of Directors on August 29, 2006.

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

Severstal

Special purpose consolidated income statement
Year ended December 31, 2005
(Amounts expressed in thousands of US dollars, except shares and earnings per share)

	Note	Year ended December 31, 2005	2004
Sales			
Sales — external		7,964,490	6,407,518
Sales — to related parties	15	659,835	602,614
	4	8,624,325	7,010,132
Cost of sales		(5,304,357)	(4,189,926)
Gross profit		3,319,968	2,820,206
Selling, general and administrative expenses		(379,914)	(343,544)
Distribution expenses		(590,568)	(442,748)
Indirect taxes and contributions		(71,826)	(56,781)
Share of associates' (losses)/profits		(4,266)	7,158
Net income from bank lending operations	6	9,982	4,263
Net income from securities operations	7	6,841	18,592
Net expenses from insurance operations		—	(18,237)
Loss on disposal of property, plant and equipment		(35,551)	(41,111)
Net other operating (expense)/income		(4,412)	8,069
Profit from operations		2,250,254	1,955,867
Reversal of impairment/(impairment) of property, plant and equipment	20	73,710	(16,097)
Penalties on tax liabilities under restructuring		(26,675)	(16,699)
Gain on restructuring of tax liabilities		200,853	6,793
Negative goodwill		7,630	61,274
Net other non-operating expenses	8	(52,647)	(44,798)
Profit before financing and taxation		2,453,125	1,946,340
Net financing expense	9	(170,594)	(106,106)
Profit before income tax		2,282,531	1,840,234
Income tax expense	10	(550,635)	(481,329)
Profit for the year		1,731,896	1,358,905
Attributable to:			
shareholders of OAO Severstal and acquired companies		1,672,297	1,344,321
minority interest		59,599	14,584
Weighted average number of shares outstanding during the year (millions of shares after split)		908.7	872.6
Basic and diluted earnings per share (US dollars)		1.84	1.54

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

Severstal

Special purpose consolidated statement of cash flows
Year ended December 31, 2005
(Amounts expressed in thousands of US dollars)

	Year ended December 31, 2005	Year ended December 31, 2004
Operating activities:		
Profit before financing and taxation	2,453,125	1,946,340
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	416,275	391,882
(Reversal of impairment)/impairment of assets	(73,710)	16,097
Provisions against inventories and receivables	9,306	11,414
Negative goodwill	(7,630)	(61,274)
Loss on disposal of property, plant and equipment	35,551	41,111
Gain on restructuring of tax liabilities	(200,853)	(6,793)
Loss on disposal of subsidiaries/associates	9,759	10,118
Gain on remeasurement and disposal of financial investments	(3,315)	(18,067)
Dividends from associates less share of associates' income	17,312	4,362
Changes in operating assets and liabilities:		
Trade accounts receivable	(36,169)	(205,834)
Amounts receivable from related parties	56,141	12,527
VAT receivable	(199,104)	(98,733)
Inventories	(17,506)	(515,485)
Trade accounts payable	39,796	174,631
Amounts payable to related parties	71,734	106,684
Other non-current liabilities	31,484	58,765
Net other changes in operating assets and liabilities	114,580	(9,077)
Cash generated from operations	2,716,776	1,858,668
Interest paid (excluding banking operations)	(152,383)	(92,229)
Income tax paid	(538,121)	(541,864)
Net cash provided from operating activities	2,026,272	1,224,575
Investing activities:		
Additions to property, plant and equipment	(1,143,501)	(723,491)
Additions to intangible assets	(30,290)	(4,886)
Net additions to short-term bank deposits	(133,526)	(420,231)
Additions to financial investments and associates	(1,502,005)	(305,320)
Buy out of minority interests	(24,040)	(12,926)
Net cash outflow on acquisitions of subsidiaries	(4,880)	(254,927)
Net cash inflow/(outflow) on disposals of subsidiaries	13,701	(22,964)
Proceeds from disposal of property, plant and equipment	5,983	13,751
Proceeds from disposal of financial investments	749,380	323,651
Interest received (excluding banking operations)	46,549	40,965
Cash used for investing activities	(2,022,629)	(1,366,378)
Financing activities:		
Proceeds from debt finance	747,322	1,501,338
Repayment of debt finance	(604,947)	(463,736)
Parent company dividends paid	(277,605)	(337,255)
Minority capital contributions	22,765	4,024
Net other cash flows from financing activities	(7,742)	(682)
Cash (used for)/provided from financing activities	(120,207)	703,689
Effect of exchange rates on cash and cash equivalents	(31,888)	264
Net (decrease)/increase in cash and cash equivalents	(148,452)	562,150
Cash and cash equivalents at beginning of the period	1,090,061	527,911
Cash and cash equivalents at end of the period	941,609	1,090,061

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

Severstal

Special purpose consolidated statement of changes in equity
Year ended December 31, 2005
(Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal							
	Share capital	Additional capital	Revaluation reserve	Foreign exchange differences	Accumulated earnings/ (deficit)	Total	Minority interest	Total
Balances at December 31, 2003	3,311,229	44,443	728,467	—	(1,191,860)	2,892,279	129,164	3,021,443
Profit for the year	—	—	—	—	1,344,321	1,344,321	14,584	1,358,905
Realization of revaluation reserve:								
Disposals	—	—	(12,455)	—	12,455	—	—	—
Depreciation	—	—	(114,481)	—	114,481	—	—	—
Deferred tax on realization	—	—	30,465	—	(30,465)	—	—	—
Foreign exchange differences								
Origination	—	—	—	189,137	—	189,137	3,669	192,806
Business de-combinations	—	—	—	2,633	(2,633)	—	—	—
Total recognized income and expenses					—	1,533,458	18,253	1,551,711
Dividends	—	—	—	—	(316,214)	(316,214)	(58)	(316,272)
Effect of acquisitions and disposals	19	15,924	—	—	(3,741)	12,202	(25,109)	(12,907)
Balances at December 31, 2004	3,311,248	60,367	631,996	191,770	(73,656)	4,121,725	122,250	4,243,975

Severstal

Special purpose consolidated statement of changes in equity
Year ended December 31, 2005
(Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal							
	Share capital	Additional capital	Revaluation reserve	Foreign exchange differences	Accumulated earnings/ (deficit)	Total	Minority interest	Total
Balances at December 31, 2004	3,311,248	60,367	631,996	191,770	(73,656)	4,121,725	122,250	4,243,975
Profit for the year	—	—	—	—	1,672,297	1,672,297	59,599	1,731,896
Realization of revaluation reserve:								
Disposals	—	—	(13,383)	—	13,383	—	—	—
Business de-combinations	—	—	—	—	—	—	—	—
Depreciation	—	—	(105,030)	—	105,030	—	—	—
Deferred tax on realization	—	—	28,419	—	(28,419)	—	—	—
Revaluation of property, plant & equipment:								
Revaluation	—	—	3,358,502	(6,104)	(50,580)	3,301,818	50,580	3,352,398
Deferred tax	—	—	(806,896)	1,465	12,200	(793,231)	(12,200)	(805,431)
Foreign exchange differences								
Origination	—	—	—	(162,254)	—	(162,254)	(4,445)	(166,699)
Business de-combinations	—	—	—	—	—	—	—	—
Revaluation of available-for-sale investments	—	—	—	—	14,124	14,124	—	14,124
Total recognized income and expenses						4,032,754	93,534	4,126,288
Dividends	—	—	—	—	(271,996)	(271,996)	(3,181)	(275,177)
Effect of acquisitions and disposals	6	—	—	—	18,575	18,581	(12,177)	6,404
Balances at December 31, 2005	3,311,254	60,367	3,093,608	24,877	1,410,958	7,901,064	200,426	8,101,490

Included in Accumulated earnings/(deficit) at December 31, 2005 are US$14,124 thousand of unrealized gains on available-for-sale investments (2004: US$nil, 2003: US$nil).

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

1. Operations

These special purpose consolidated financial statements of OAO Severstal comprise the parent company, OAO Severstal ('Severstal' or 'the Parent Company'), its subsidiaries, and those companies that were acquired from the common controlling shareholder in May and June 2006 (collectively 'the Group') as listed in note 27.

Severstal began operations on August 24, 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On September 24, 1993, as part of the Russian privatization programme, Severstal was registered as a Joint Stock Company ('OAO') and privatized. Severstal's registered office is located at Ul Mira 30, Cherepovets, Russia. Severstal's shares are quoted on the Russian Trading System, and since June 2005, on the Moscow Interbank Currency Exchange ('MICEX'). Through participating in Severstal's privatization auctions and other purchases, Alexey Mordashov (the "Majority Shareholder") has purchased shares in Severstal such that as at the balance sheet date he controlled, directly or indirectly, 82.75% (2004: 82.75%) of Severstal's share capital.

The Group comprises the following segments:

- *Steel segment* — this segment operates full cycle integrated iron and steel mills in Russia and the USA and has supporting companies for the sale of products in the Russian and international markets. The maintenance companies, which also are part of this segment, were sold to related parties in December 2004, and the majority of them was purchased back in 2006.
- *Metalware segment* — this segment comprises three locations in Russia containing wire drawing equipment that takes long products (mainly wire) from the Steel segment and turns them into products with a higher value added for the Russian and international markets.
- *Mining segment* — this segment comprises two locations in Russia, where coking coal is produced, one location, where iron ore is produced, and one location, where pellets are produced. This segment also includes coal refining facilities and other auxiliary businesses.
- *Financing and insurance segment* — this segment operates a retail bank. A leasing company, which also had been part of this segment, was sold to related parties in December 2004. This segment also operated two general insurance companies; a specialist medical insurance company; and a life insurance company. A large part of the insurance business was sold to related parties in December 2004, and the remaining part in April 2005.

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

OAO Severstal and its subsidiaries have earlier issued consolidated financial statements for the year ended December 31, 2005, which were authorized for issue by the Board of Directors on April 24, 2006. In May and June 2006 OAO Severstal and its subsidiaries completed the acquisitions of controlling stakes in mining and repair assets previously controlled by Severstal's Majority Shareholder. These special purpose consolidated financial statements take account of such acquisitions as if they had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the common controlling shareholder. The acquisition transactions are described in the following paragraphs.

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

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

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

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

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

Intended business combination with Lucchini SpA subsequent to December 31, 2005

The Group's Majority Shareholder intends to sell to the Group the majority stake in Lucchini SpA, a European steel and metalware products producer. Lucchini SpA is not included in these special purpose consolidated financial statements.

Economic environment

A large part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Group and the realization and settlement of its assets and liabilities.

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

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

2. Presentation of the special purpose consolidated financial statements

Statement of compliance

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

Going concern basis

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

Use of estimates

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

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

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

Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble. After extensive reviews of Severstal's operations management determined that Severstal's functional currency changed from the United States dollar ('US dollar') to the Russian rouble ('RUR') at January 1, 2004. This change reflected mainly the consequences of the changes in the Russian economic environment, such as a decrease in inflation level, that led Severstal to move its selling and purchasing activities from mainly US dollar based transactions to mainly rouble based transactions.

Since the Group's consolidated financial statements prior to January 1, 2004 were presented in US dollars, management has elected to continue to use the US dollar as the Group's presentation currency to facilitate the comparability of the Group's results.

The rouble is not a fully convertible currency outside the Russian Federation and accordingly, any conversion of rouble amounts into US dollars should not be construed as a representation that rouble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates used, or at any other exchange rate.

Basis of consolidation

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

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

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

Accounting for business combinations of entities under common control

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

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

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

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

3. Summary of the principal accounting policies

The following significant accounting policies have been consistently applied in the preparation of the special purpose consolidated financial statements. These accounting policies are based on the accounting policies used by OAO Severstal for the preparation of consolidated financial statements of Severstal and its subsidiaries for the year ended December 31, 2005, which were authorized for issue by the Board of Directors on April 24, 2006.

a. Cash and cash equivalents

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

b. Inventories

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

c. Trade and other receivables

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

d. Foreign currency

Foreign currency transactions

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

Presentation and consolidation

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

e. Investments

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

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

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

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

f. Property, plant and equipment

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

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

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

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

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

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

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

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

g. Goodwill and negative goodwill

Goodwill

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

Negative goodwill

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

h. Asset impairment

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

Calculation of recoverable amount

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

Reversals of impairment

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

i. Dividends payable

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

j. Indirect taxes and contributions

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

k. Income tax

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

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

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

Deferred tax is not recognized in respect of the following:

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

l. Debt finance

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

m. Income recognition

Sales

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

Banking income

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

n. Net financing expense

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

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

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

o. Net income from securities operations

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

p. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year, assuming the share split in 2004 had occurred at the start of the earliest comparative period and assuming that shares issued in consideration for the companies acquired from the Majority Shareholder were issued from the moment these companies are included in these special purpose consolidated financial statements.

q. Provisions

Retirement benefits

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

Decommissioning liability

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

Other provisions

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

r. Early adoption of IFRS

Management early adopted IFRS 3 *'Business Combinations'* from the first occasion on which the Group started to prepare general purpose consolidated financial statements. This standard was effective for business combinations for which agreement date is on or after March 31, 2004. If the Group had adopted this standard only from its effective date, then cumulative negative goodwill of US$105.1 million and US$43.8 million would have been capitalized at December 31, 2004 and 2003, respectively, instead of being recognized directly in the income statement, and in accordance with transitional provisions set out in this standard, the amount of US$105.1 million would have been derecognized as an adjustment to the opening balance of retained earnings for the year ended December 31, 2005.

s. New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these special purpose consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Amendment to IAS 19 Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures, which is effective for annual periods beginning on or after January 1, 2006. The amendment includes an option for actuarial gains and losses to be recognized in full as they arise, directly in the statement of changes in equity. Management has not used this option in preparation of these special purpose consolidated financial statements.
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts — Financial Guarantee Contracts, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at

fair value upon initial recognition. The adoption of this change in accounting policies will have no significant impact on the Group's financial position and results of operations.

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

4. Sales

Sales by product were as follows:

	Year ended December 31,	
	2005	**2004**
Hot rolled sheet	3,279,885	2,447,882
Cold rolled sheet	1,468,927	1,331,408
Galvanized sheet	1,041,711	797,078
Hot rolled sections	493,078	480,015
Semi finished products	348,330	323,502
Further processed products	277,905	262,102
Wire	253,894	249,402
Fastenings	69,544	59,662
Wire rope	72,969	62,807
Netting	29,011	28,752
Electric arc welding rods	19,977	16,114
Pellets and iron ore	400,194	133,316
Coke	142,819	201,901
Chemical by-products	67,570	69,975
Repair services	21,337	26,352
Manufactured equipment	23,381	23,308
Shipping and handling costs billed to customers	405,829	334,801
Other	207,964	161,755
	8,624,325	7,010,132

Sales by delivery destination were as follows:

	Year ended December 31,	
	2005	**2004**
Russian Federation	3,736,437	2,892,991
United States of America ('USA')	2,052,284	1,787,659
Europe	1,205,056	1,372,241
China and Central Asia	540,781	123,604
The Middle East	353,001	340,893
South-East Asia	325,394	102,784
Central America	172,689	161,204
Africa	148,570	116,856
South America	64,417	71,628
North America (excluding the USA)	25,696	40,272
	8,624,325	7,010,132

5. Staff costs

Employment costs were as follows:

	Year ended December 31, 2005	Year ended December 31, 2004
Wages and salaries	(780,866)	(670,099)
Social security costs	(167,091)	(164,217)
Retirement benefit costs (see note 25)	4,566	(547)
	(943,391)	(834,863)
Actuarial losses recognized (see note 25)	(59,635)	(80,293)
Staff costs	(1,003,026)	(915,156)

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

	Year ended December 31, 2005	Year ended December 31, 2004
Wages and salaries	(3,040)	(3,168)
Social security costs	(108)	(113)
Other benefits	(114)	(251)
	(3,262)	(3,532)

6. Net income from bank lending operations

	Year ended December 31, 2005	Year ended December 31, 2004
Interest income:		
Placements with other financial institutions	3,759	1,871
Loans to bank customers:		
— third parties	5,635	3,801
— related parties	1,304	2,597
Interest expense:		
Deposits from other financial institutions	—	(3)
Client accounts:		
— third parties	(593)	(3,899)
— related parties	(622)	(99)
Loan loss provisions	470	(319)
Leasing income	29	314
	9,982	4,263

7. Net income from securities operations

	Year ended December 31, 2005	2004
Held-for-trading securities		
Profit on disposal	2,034	2,477
Restatement to fair value	198	—
Held to maturity securities and originated loans		
Restatement to fair value	(15,347)	11,836
Coupon income	9	—
Available-for-sale securities		
Profit on disposal	29,497	21,479
Restatement to fair value	(13,076)	(17,725)
Dividends received	3,526	525
	6,841	18,592

8. Net other non-operating expenses

	Year ended December 31, 2005	2004
Social expenditure	(28,387)	(16,207)
Charitable donations	(13,283)	(17,022)
Depreciation of community and infrastructure assets	(1,218)	(1,451)
Loss on disposal of subsidiaries and associates	(9,759)	(10,118)
	(52,647)	(44,798)

9. Net financing expense

	Year ended December 31, 2005	2004
Interest income:		
Third parties	45,005	29,428
Related parties	12,977	11,537
Interest expense:		
Third parties	(154,179)	(121,169)
Related parties	(2,668)	(4,914)
Amortization of transaction costs	(4,099)	(2,398)
Foreign exchange losses	(67,630)	(18,590)
	(170,594)	(106,106)

10. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31, 2005	2004
Current tax charge	(567,527)	(521,704)
Corrections to prior year's current tax charge	(5,296)	4,304
Deferred tax benefit	22,188	36,071
Income tax expense	(550,635)	(481,329)

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

	Year ended December 31,	
	2005	2004
Profit before income tax	2,282,531	1,840,234
Tax charge at the statutory rate	(547,807)	(441,656)
Non-tax deductible expenses, net	(17,359)	(28,727)
Profits taxed at different rates	19,827	(15,250)
Corrections to prior year's current tax charge	(5,296)	4,304
Income tax expense	(550,635)	(481,329)

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

	December 31,	
	2005	2004
Deferred tax assets/(liabilities):		
Property, plant and equipment	(1,116,457)	(372,507)
Provisions	31,988	42,796
Other	(27,128)	(9,905)
	(1,111,597)	(339,616)

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

	Year ended December 31,	
	2005	2004
Opening balance	(339,616)	(326,363)
Recognized in income statement	22,188	36,071
Recognized in shareholders' equity	(805,431)	—
Business combinations	(76)	(37,343)
Business de-combinations	913	7,499
Foreign exchange difference	10,425	(19,480)
Closing balance	(1,111,597)	(339,616)

Temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US$565.4 million at December 31, 2005 (2004: US$431.4 million).

11. Cash and cash equivalents

	December 31, 2005	December 31, 2004
Petty cash	378	184
Cash at bank	350,999	514,801
Escrow accounts	18,911	34,492
Short term deposits with maturity less than 3 months:		
Related party banks	—	128,859
Other banks	428,074	204,032
Cash balances of consolidated bank:		
Cash	823	1,741
Nostro accounts at the Central Bank of Russia	39,781	48,904
Nostro accounts at other banks	16,997	27,210
Placements with international banks	85,646	96,686
Placements with Russian banks	—	33,152
	941,609	1,090,061

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

12. Short-term bank deposits

Short-term bank deposits comprise of deposits with original maturity of more than three months but remaining period to maturity of less than one year. The majority of such deposits has the original maturity of less than 6 months, and such deposits are used by the Group to earn investment income, while preserving a high liquidity position. Substantially all such deposits can be withdrawn, in case of necessity, prior to the maturity date with no loss in principal but reduced interest income.

	December 31, 2005	December 31, 2004
Deposits at Russian banks	674,512	473,611
Deposits at related banks	—	83,012
	674,512	556,623

13. Short-term financial investments

	December 31, 2005	December 31, 2004
Held-for-trading securities:		
Promissory notes from related parties	4,772	10,524
Promissory notes and bonds of third parties	72,429	49,744
Russian Government bonds	—	579
Quoted equity shares	1,079	826
Originated loans:		
Loans to related parties	83,700	56,027
Loans to third parties	16,430	13,425
Loans to bank customers:		
Related parties	15,739	31,009
Third parties	71,232	32,835
Loan loss provisions	(3,008)	(3,606)
Available-for-sale securities	67	177
	262,440	191,540

Loans given to related parties were provided at interest rates ranging from nil to 14% per annum, and were given to finance working capital and investments.

14. Trade accounts receivable

	December 31, 2005	December 31, 2004
Customers	528,594	515,493
Allowance for doubtful accounts	(31,319)	(35,712)
	497,275	479,781

15. Amounts receivable from related parties

	December 31, 2005	December 31, 2004
Advances paid	18,140	28,998
Trade accounts receivable	175,351	142,766
Other receivables	5,342	145,301
	198,833	317,065
Maturity analysis:		
within one year	176,807	297,089
after more than one year	22,026	19,976
	198,833	317,065

Sales and income received from related parties were as follows:

	Year ended December 31, 2005	Year ended December 31, 2004
Associates:		
Sales	1,467	12,320
Other related parties:		
Sales	658,368	590,294
Banking income	1,304	2,597
Interest income	10,678	11,316
Insurance premiums	—	3,568
	671,817	620,095

16. Inventories

	December 31, 2005	December 31, 2004
Raw materials and supplies	603,034	516,970
Work-in-progress	131,001	131,591
Finished goods	355,932	474,139
	1,089,967	1,122,700

Of the above amounts US$40.2 million (2004: US$52.2 million) are stated at net realizable value, these amounts exclude inventories fully provided against.

Inventory write-downs were US$10.9 million for the year ended December 31, 2005 (2004: US$17.3 million).

17. Other current assets

	December 31, 2005	December 31, 2004
Advances paid	107,369	103,101
Prepayments	26,119	26,585
Other taxes and social security prepaid	6,692	12,303
Reserves at Central Bank of Russia	4,938	4,695
Other assets	12,453	16,109
	157,571	162,793

18. Long-term financial investments

	December 31, 2005	December 31, 2004
Originated loans:		
Loans to related parties	450,889	59,199
Loans to third parties	2,567	5,827
Available-for-sale securities:		
Shares in Lucchini SpA	187,386	—
Other investments in shares	10,320	31,552
Held to maturity securities	1,988	16
	653,150	96,594

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

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

Management used the share price of the November transaction to determine the fair value of 19.99% stake in Lucchini SpA at December 31, 2005, resulting in a US$13.8 million gain being recognized directly in the statement of changes in equity.

19. Investment in associates

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

	December 31, 2005	December 31, 2004
Double Eagle Steel Coating Company	26,409	29,296
Spartan Steel Coating LLC	56,374	52,915
FDS Coke Holdings LLC	—	2,893
Severstal US Holdings LLC	59,415	—
Mountain State Carbon LLC	60,205	—
TA Cord	2,108	—
Air Liquide Severstal	3,214	—
Others	592	666
	208,317	85,770

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

	2005	2004
Assets	476,742	174,499
Liabilities	54,569	13,628
Equity	422,173	160,871
Revenues	153,654	100,255
Net income	(3,645)	12,025

Double Eagle Steel Coating Company, Spartan Steel Coating LLC and FDS Coke Holdings LLC were associates of the bankrupt Rouge Steel Company, and were acquired on January 30, 2004, when the Group through its subsidiary Severstal North America Inc, acquired the assets and business of Rouge Steel Company. FDS Coke Holdings LLC was fully impaired in 2005, as a result of management impairment review.

Severstal US Holdings LLC, was created by Severstal and its related parties as a holding company for the SeverCorr project — construction of a mini mill in the United States of America. SeverCorr's mini mill is expected to produce approximately 1.5 million tons of high-quality flat-rolled steel on an annual basis. Total financing requirements of this project are approximately US$880.0 million, and the project will be financed by Severstal, its related parties, third party equity participants and bank financing. Severstal have contributed to the project US$48.0 million in September 2005 and US$16.8 million in October 2005. Related parties of Severstal have contributed to the project US$32.1 million in September 2005 and US$13.4 million in October 2005. Subsequent to December 31, 2005, Severstal contributed a further US$57.7 million to the project and provided a US dollar denominated loan to Severcorr LLC in the amount of US$60.0 million. The loan is repayable in 2014 and bears interest at 15% per annum. Subsequent to December 31, 2005, Severstal's related parties contributed US$40.0 million. Having completed those contributions, Severstal and its related parties have fully fulfilled their financing obligations for this project.

The Group, through its subsidiary Severstal North America Inc, has contributed US$50.0 million in September 2005 and US$10.0 million in November 2005 to the Mountain State Carbon LLC, a joint venture with Wheeling-Pittsburgh Steel Corporation ("Wheeling-Pittsburgh"). Wheeling-Pittsburgh has contributed to the joint venture all of its coking assets in Follansbee, USA, valued at US$86.9 million, and US$3.1 million in cash. Subsequent to December 31, 2005, the Group has contributed US$60.0 million to the Mountain State Carbon LLC. This cash and US$30.0 million of additional contributions from Wheeling-Pittsburgh over the next three years will be used to rehabilitate all of the coke batteries of the joint venture and provide the Group's US integrated steel operations a reliable and competitive supply of metallurgical coke. Each partner has a 50% share in Mountain State Carbon LLC from April 2006.

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

20. Property, plant and equipment

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

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Valuation or cost:							
December 31, 2004	1,039,354	2,723,492	184,784	3,947,630	40,743	752,565	4,740,938
Reclassifications	(6,288)	6,858	265	835	(835)	—	—
Additions:							
External	—	—	—	—	—	1,152,553	1,152,553
Interest capitalised	—	—	—	—	—	13,128	13,128
Business combinations	3,983	—	53	4,036	—	—	4,036
Disposals:							
External	(4,225)	(63,350)	(8,902)	(76,477)	(1,243)	(10,074)	(87,794)
Business de-combinations	(5,542)	(5,720)	(24)	(11,286)	—	(258)	(11,544)
Transfer to inventories	—	—	—	—	—	(12,060)	(12,060)
Transfers	104,139	533,292	55,820	693,251	22,622	(715,873)	—
Foreign exchange difference	(38,669)	(104,476)	(7,713)	(150,858)	(1,742)	(29,819)	(182,419)
	1,092,752	3,090,096	224,283	4,407,131	59,545	1,150,162	5,616,838
Adjustment to fair market value	627,210	1,537,135	62,729	2,227,074	(36,783)	(95,699)	2,094,592
December 31, 2005	1,719,962	4,627,231	287,012	6,634,205	22,762	1,054,463	7,711,430
Depreciation and impairment:							
December 31, 2004	179,029	886,151	62,391	1,127,571	21,592	113,889	1,263,052
Reclassifications	(3,188)	5,316	(834)	1,294	(1,294)	—	—
Depreciation expense	63,547	319,389	31,749	414,685	1,303	—	415,988
Business combinations	—	—	—	—	—	—	—
Disposals — external:							
External	(1,561)	(35,047)	(5,502)	(42,110)	(1,188)	(2,962)	(46,260)
Business de-combinations	(625)	(2,011)	(10)	(2,646)	—	—	(2,646)
Transfers	400	6,080	656	7,136	17,071	(24,207)	—
Impairment of assets:							
included in income statement	—	761	—	761	4,932	11,138	16,831
included in equity	—	—	—	—	—	—	—
Foreign exchange difference	(7,467)	(36,659)	(2,744)	(46,870)	(1,134)	(3,813)	(51,817)
	230,135	1,143,980	85,706	1,459,821	41,282	94,045	1,595,148
Adjustment to fair market value	(187,327)	(987,433)	(45,011)	(1,219,771)	(36,700)	(91,876)	(1,348,347)
December 31, 2005	42,808	156,547	40,695	240,050	4,582	2,169	246,801

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Valuation or cost:							
December 31, 2003	928,990	2,349,448	149,515	3,427,953	32,416	346,888	3,807,257
Reclassifications	20,016	(19,644)	(959)	(587)	587	—	—
Additions:							
External	—	—	—	—	—	723,491	723,491
Interest capitalised	—	—	—	—	—	4,639	4,639
Business combinations	29,142	66,768	1,230	97,140	—	380	97,520
Disposals:							
External	(6,912)	(68,210)	(13,604)	(88,726)	(1,845)	(14,446)	(105,017)
Business de-combinations	(13,860)	(3,732)	(11,542)	(29,134)	—	(1,341)	(30,475)
Transfer to inventories	—	—	—	—	—	(6,324)	(6,324)
Transfers	23,161	248,890	49,769	321,820	7,403	(329,223)	—
Foreign exchange difference	58,817	149,972	10,375	219,164	2,182	28,501	249,847
December 31, 2004	1,039,354	2,723,492	184,784	3,947,630	40,743	752,565	4,740,938
Depreciation and impairment:							
December 31, 2003	98,917	585,923	40,648	725,488	14,492	113,880	853,860
Reclassifications	13,169	(12,510)	(841)	(182)	182	—	—
Depreciation expense	62,019	301,421	26,700	390,140	1,465	—	391,605
Business combinations	—	737	—	737	—	—	737
Disposals — external:							
External	(1,793)	(34,825)	(5,358)	(41,976)	(637)	(13,101)	(55,714)
Business de-combinations	(2,327)	(759)	(3,591)	(6,677)	(1)	(23)	(6,701)
Transfers	724	2,421	552	3,697	3,920	(7,617)	—
Impairment of assets:							
included in income statement	—	—	1,067	1,067	1,093	13,937	16,097
included in equity	—	—	—	—	—	—	—
Foreign exchange difference	8,320	43,743	3,214	55,277	1,078	6,813	63,168
December 31, 2004	179,029	886,151	62,391	1,127,571	21,592	113,889	1,263,052
Net book values:							
December 31, 2004	860,325	1,837,341	122,393	2,820,059	19,151	638,676	3,477,886
December 31, 2005	1,677,154	4,470,684	246,317	6,394,155	18,180	1,052,294	7,464,629
Net book values based on cost, less depreciation and impairment:							
December 31, 2004	844,526	936,156	122,393	1,903,075	19,153	641,037	2,563,265
December 31, 2005	962,186	1,213,005	105,798	2,280,989	16,999	1,056,119	3,354,107

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

Impairment of assets, which was recognized during 2005 before the revaluation, primarily relates to social objects purchased or constructed by the Group. The amounts of costs incurred in purchase or construction of social objects, which are not expected to be profit-generating, are normally impaired as incurred.

As described in Note 3f, the Group uses the revaluation model of accounting for property, plant and equipment. Management commissioned independent appraisers to evaluate the fair value of productive property, plant and equipment as of December 31, 2005 of the key entities of the Steel segment — the Parent Company and Severstal North America LLC, and of the coal producing assets. Management considers that the carrying value of property, plant and equipment of other business segments approximate their fair values as of the balance sheet date. The impact of the independent appraisers' valuation report on the property, plant and equipment is shown in the lines "Adjustment to fair market value" in the tables above and is further described in the tables below.

The majority of the Group's property, plant and equipment is specialized in nature and can not be sold on the open market other than as part of a continuing business. In the absence of the active market for similar items, the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the recoverability of values, based on the depreciated replacement cost. The results of cash flow testing confirmed that the estimated future cash flows from each cash generating unit are higher than the depreciated replacement cost, which therefore represents the fair value of property, plant and equipment.

The fair value of property, plant and equipment was determined on an item-by-item basis. Where the carrying value of an individual item prior to the revaluation exceeded the current fair value, a revaluation decrease was recognized. Revaluation decreases were mainly driven by decreases in purchase prices of certain types of production equipment and by reduction of the estimated remaining useful lives for certain items of property, plant and equipment. To the extent that such revaluation decrease related to a previously recognized revaluation increase, it was recognized directly in equity, and the remaining amount was recognized as an impairment loss in the income statement.

The following amounts were recognized in the income statement and statement of changes in equity as a result of the revaluation:

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Adjustment to fair market value during 2005:							
Cost	627,210	1,537,135	62,729	2,227,074	(36,783)	(95,699)	2,094,592
Accumulated depreciation	187,327	987,433	45,011	1,219,771	36,700	91,876	1,348,347
	814,537	2,524,568	107,740	3,446,845	(83)	(3,823)	3,442,939
Adjustment to fair market value:							
Revaluation included in equity:							
revaluation increase	679,346	2,584,082	109,964	3,373,392	—	—	3,373,392
revaluation decrease	—	(20,993)	(1)	(20,994)	—	—	(20,994)
	679,346	2,563,089	109,963	3,352,398	—	—	3,352,398
Revaluation included in income statement:							
reversal of previous impairment	143,843	11,428	278	155,549	—	—	155,549
impairment	(8,652)	(49,949)	(2,501)	(61,102)	(83)	(3,823)	(65,008)
	135,191	(38,521)	(2,223)	94,447	(83)	(3,823)	90,541
	814,537	2,524,568	107,740	3,446,845	(83)	(3,823)	3,442,939

The gain of US$73.7 million recognized in the income statement for the year ended December 31, 2005 under the caption 'Reversal of impairment/ (impairment) of property, plant and equipment, net' is composed of net gain on revaluation of property, plant and equipment in the amount US$90.5 million and of impairment loss on property, plant and equipment in the amount of US$16.2 million.

21. Bank customer accounts

	December 31, 2005	December 31, 2004
Customer accounts:		
Demand deposits	26,997	42,825
Term deposits	68,365	1,865
Deposits from other financial institutions	3,505	5
	98,867	44,695

22. Amounts payable to related parties

	December 31, 2005	December 31, 2004
Trade accounts payable	116,328	90,945
Advances received	1,995	15,712
Other accounts payable	112,894	50,763
Bank demand deposits	16,302	11,827
Bank term deposits	17,424	29,751
	264,943	198,998

Purchases from related parties were as follows:

	Year ended December 31, 2005	Year ended December 31, 2004
Purchases from associates:		
Non-capital expenditures	85,420	68,114
Purchases from other related parties:		
Non-capital expenditures	578,613	372,198
Capital expenditures	57,413	33,779
Bank expenses	—	99
Insurance claims paid	—	2,307

23. Debt finance

	December 31, 2005	December 31, 2004
International banks	1,390,051	1,279,424
Russian banks	223,371	220,372
Bonds issued in Russia	104,230	108,113
Factoring of receivables	16,801	22,924
Promissory notes issued	1,388	5,006
Other financing	37,840	30,089
Accrued interest	28,051	22,200
Unamortized balance of transaction costs	(16,258)	(14,866)
	1,785,474	1,673,262
Total debt is denominated in the following currencies:		
US dollars	1,287,620	1,228,578
Roubles	333,743	360,353
Euro	164,111	84,331
	1,785,474	1,673,262
Total debt is contractually repayable after the balance sheet date as follows:		
Less than one year	344,170	273,995
Between one and five years	1,006,306	972,095
After more than five years	434,998	427,172
	1,785,474	1,673,262

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

- US$96.1 million (2004: US$178.5 million) net book value of plant and equipment;
- US$1,296.2 million (2004: US$508.2 million) of current assets; and,
- US$97.1 million (2004: US$39.5 million) of financial assets.

At the balance sheet date the Group had US$319.9 million (2004: US$289.2 million) of unused long term credit lines available to it.

24. Other current liabilities

	December 31, 2005	December 31, 2004
Advances received	130,305	115,293
Amounts payable to employees	75,731	74,625
Accrued expenses	19,183	13,830
Lease liabilities	180	2,075
Other liabilities	15,972	26,780
	241,371	232,603

25. Other non-current liabilities

	December 31, 2005	December 31, 2004
Retirement benefit liability	203,458	158,022
Decommissioning liability	102,885	86,137
Restructured tax liabilities	97,368	—
Insurance related reserves	—	623
Lease liabilities	32	2,803
Other	7,731	13,177
	411,474	260,762

Retirement benefit liability

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

	December 31, 2005		2004		2003
	USA	Russia	USA	Russia	Russia
Discount rate	5.50%	6.85%	5.75%	8.50%	8.27%
Future rate of benefit increase	n/a	6.20%	n/a	6.20%	0.00%
Future rate of medical cost increases	0.00%	n/a	11.00%	n/a	n/a

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

The components in the retirement benefit liabilities were as follows:

	December 31, 2005	December 31, 2004
Retirees	156,345	120,513
Other participants:		
Vested	13,560	8,943
Non-vested	82,724	78,868
Present value of the defined benefit obligation	252,629	208,324
Fair value of the plan assets	(49,171)	(50,302)
	203,458	158,022

The movements in the retirement benefit liabilities were as follows:

	Year ended December 31,	
	2005	2004
Net liability at beginning of year	158,022	51,298
Business combinations	—	31,347
Business de-combinations		
Contributions made during the year	(17,843)	(19,496)
Amounts recognized in the income statement:		
Return on plan assets	(9,084)	(3,143)
Interest cost	13,551	8,324
Service cost	4,518	3,690
Actuarial losses	59,635	80,293
Foreign exchange (gain)/loss	(5,341)	5,709
Net liability at end of year	203,458	158,022

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

Decommissioning liability

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

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

Restructured tax liabilities

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

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

Payable within one year	26,059
Payable after one year	97,368
	123,427

26. Share capital

The Parent Company's authorized capital, according to its Charter Document, at December 31, 2003, 2004 and 2005 comprised 551,854,800 ordinary shares with a nominal value of RUR0.01 each, and this authorized share capital was issued and fully paid at these dates. The nominal amount of initial share capital was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions. The Parent Company did not issue shares until June 2006. However, as described in notes 1 and 2, Parent Company shares issued in 2006 in consideration for the acquired companies are recognized from the moment the acquired companies are included in these special purpose financial statements. The Parent Company shares issued in respect of the interests that the Majority Shareholder had in the acquired mining companies at December 31, 2003, are recognized in the special purpose share capital at that date. Additional share issues are recognized in 2004 and 2005, in respect of ownership interests that the Majority Shareholder acquired in those companies during 2004 and 2005.

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

	Number of shares, mln	US$'000
Nominal share capital at current exchange rate	551.9	199
Historic difference	—	3,310,930
Total historic value of share capital	551.9	3,311,129
Shares issued for acquisition of mining companies at December 31, 2003	293.1	100
Adjusted share capital at December 31, 2003	845.0	3,311,229
Shares issued for acquisition of mining companies during 2004	55.2	19
Adjusted share capital at December 31, 2004	900.2	3,311,248
Shares issued for acquisition of mining companies during 2005	17.0	6
Adjusted share capital at December 31, 2005	917.2	3,311,254

Numbers of shares in the table above is given, after adjusting for 1 to 25 share split, effective December 30, 2004.

All shares carry equal voting and distribution rights.

Dividends

The maximum dividend payable is restricted to the total accumulated retained earnings of the parent company determined according to Russian law. As at the balance sheet date, reserves available for distribution were US$3,308.6 million (2004: US$2,471.7 million).

On June 10, 2005, the Meeting of Shareholders approved the final dividend of RUR3.00 (US$0.11) per share in respect of 2004, and an interim dividend of RUR4.00 (US$0.14) per share in respect of the first quarter of 2005.

On September 22, 2005, the Meeting of Shareholders approved an interim dividend of RUR3.90 (US$0.14) per share in respect of the first half of 2005.

On December 6, 2005, the Meeting of Shareholders approved an interim dividend of RUR3.00 (US$0.10) per share in respect of the first nine months of 2005.

Share issue subsequent to December 31, 2005

As described in note 1, subsequent to December 31, 2005, the Group has completed the issuance of additional shares by the Parent Company to acquire controlling stakes in mining assets previously controlled by its Majority Shareholder. In addition, 13,516,489 shares were issued to the shareholders that used their pre-emptive rights related to this share issue. Total cash proceeds from shares issued under pre-emptive rights were US$162,179 thousand.

27. Subsidiary and associated companies

The following is a list of the Group's significant subsidiaries, including those acquired from the Majority Shareholder in 2006, and associates and the effective ownership holdings therein.

Company	December 31, 2005	December 31, 2004	Location	Activity
Steel segment — Russia:				
Subsidiaries:				
ZAO Severgal	75.0%	75.0%	Russia	Hot dip galvanizing
ZAO Izhorsky Tube Factory	100.0%	100.0%	Russia	Wide pipes
OOO SSM-Tyazhmash*	100.0%	100.0%	Russia	Repairs & construction
OAO Domnaremont*	56.4%	56.4%	Russia	Repairs & construction
ZAO Firma Stoik*	100.0%	100.0%	Russia	Repairs & construction
OAO Metallurgremont*	79.3%	79.3%	Russia	Repairs & construction
OOO Energoremont*	100.0%	100.0%	Russia	Repairs & construction
OOO Electroremont*	100.0%	100.0%	Russia	Repairs & construction
OOO Uralmash MO*	100.0%	100.0%	Russia	Engineering & design
OOO AviaCompany Severstal	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	Switzerland**	Steel sales
AS Severstallat	50.5%	50.5%	Latvia**	Steel sales
Latvijas Metals	50.5%	nil%	Latvia**	Steel sales
Armaturu Servisa Centrs SIA	25.0%	25.0%	Latvia**	Steel service center
Associates:				
Severstal US Holdings LLC ***	60.0%	nil%	USA**	Mini-mill
Steel segment — USA:				
Subsidiaries:				
Severstal North America Inc	93.0%	100.0%	USA	Iron & steel mill
Associates:				
Double Eagle Steel Coating company	46.5%	50.0%	USA	Electro-galvanizing
Spartan Steel Coating LLC	44.6%	48.0%	USA	Hot dip galvanizing
Delaco Processing LLC	45.6%	49.0%	USA	Steel slitting
FDS Coke Holdings LLC	41.9%	45.0%	USA	Coking coal
Mountain State Carbon LLC	31.0%	nil%	USA	Coking coal
Metalware segment:				
Subsidiaries:				
ZAO Severstal-Metiz	100.0%	nil%	Russia	Management company
OAO Cherepovets Steel Rolling Mill	88.8%	83.1%	Russia	Steel machining
OAO Orlovsky Steel Rolling Mill	87.2%	85.0%	Russia	Steel machining
OOO Volgometiz	100.0%	100.0%	Russia	Steel machining
OOO Policher	80.0%	74.8%	Russia	Polymer coatings
Associates:				
OOO ChSPZ MKR	44.4%	41.5%	Russia	Mattress springs
Mining segment:				
Subsidiaries:				
OAO Karelsky Okatysh*	90.8%	84.2%	Russia	Iron ore pellets
OAO Olkon*	91.6%	90.9%	Russia	Iron ore concentrate
OAO Vorkutaugol*	88.1%	85.5%	Russia	Coking coal concentrate
OAO Mine Vorgashorskaya*	70.2%	65.8%	Russia	Coking coal concentrate
OAO Mine Pervomaiskaya*	99.1%	99.1%	Russia	Coking coal concentrate
OAO Mine Berezovskaya*	96.0%	92.6%	Russia	Coking coal concentrate
OAO SShEMK*	75.6%	60.0%	Russia	Engineering
OAO Severokuzbasskoe PTU*	87.3%	87.3%	Russia	Transportation
OAO Anzhero-Sudzhenskoe PTU*	94.4%	94.4%	Russia	Transportation
OAO Pechorugol*	99.3%	99.3%	Russia	Holding company
OOO Olkon-Invest*	100.0%	100.0%	Russia	Holding company
OOO Terra*	100.0%	100.0%	Russia	Holding company
OOO Holding Gornaya Company*	100.0%	100.0%	Russia	Holding company
ZAO Impulse-Consult*	100.0%	100.0%	Russia	Holding company
OOO Investment Company Kuzbassugol*	100.0%	100.0%	Russia	Holding company
Financing and insurance segment:				
Subsidiaries:				
OAO Metallurgical Commercial Bank	72.6%	71.4%	Russia	Banking

(*) — subsidiaries acquired during 2006

(**) — 'Steel segment — Russia' contains Russian production entities, foreign trading companies, which are selling products primarily produced in Russia, and other foreign companies, which either provide services to Russian production entities or are managed from Russia.

(***) — 19.9% of ordinary shares

In addition, at the balance sheet date, a further 26 (2004: 59) subsidiaries and associates, which are not material to the Group, either individually or in aggregate, have been included in these special purpose consolidated financial statements.

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

Acquisitions of subsidiaries and additional interests in subsidiaries during 2005

During the first six months of 2005, the Group bought 84.8% of new share issue by OAO Cherepovets Steel Rolling Mill ("ChSPZ") for US$32.4 million and minority shareholders purchased 15.2% of this share issue for US$5.8 million. Subsequently the Group acquired an additional 4.99% in ChSPZ for US$5.4 million from third parties. Net assets of ChSPZ at the time of acquisition were US$162.0 million, resulting in recognition of US$2.7 million of negative goodwill.

ZAO Severstal-Metiz was a holding company that managed the activities of the Metalware segment, provided all administrative services to the companies of the Metalware segment and was the sole sales and procurement organization for the Metalware segment. In January 2005, Severstal acquired 100.0% of the outstanding share capital of ZAO Severstal-Metiz, from a company under common shareholder control, for US$0.8 million.

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

During 2005, AS Severstallat, a 50.5% subsidiary of the Group, acquired 100% of Latvijas Metals for US$5.5 million. Latvijas Metals is the metals trader in Baltic states, and the acquisition was undertaken to strengthen the Group's position in this market. A summary of acquired assets and liabilities is presented below:

Cash and cash equivalents	657
Trade accounts receivable	1,311
Inventories	4,906
Other current assets	792
Property, plant and equipment	4,036
Trade accounts payable	(199)
Other taxes and social security payable	(144)
Other current liabilities	(151)
Debt finance	(841)
Net identifiable assets and liabilities acquired	10,367
Consideration paid	(5,537)
Negative goodwill	4,830

28. Subsequent events

Acquisitions of mining and repairs and construction companies from the Majority Shareholder are discussed in note 1 to these special purpose consolidated financial statements. Share issue to shareholders that used their pre-emptive rights is discussed in note 26. Contributions by the Group to its equity associates that were made subsequent to December 31, 2005, are described in note 19. In addition, the following material subsequent events have taken place:

Acquisitions of subsidiaries from third parties subsequent to December 31, 2005

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

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

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

A summary of acquired assets and liabilities is presented below:

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

These fair values were determined provisionally, and are subject to changes after completion of the independent appraisers' valuation report and of internal management review.

Dividends subsequent to December 31, 2005

On June 9, 2006, the Meeting of Shareholders approved the final dividend for 2005 of RUR4 (US$0.15) per share.

29. Segment information

Segmental balance sheets as at December 31, 2005:

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

Segmental balance sheets as at December 31, 2004:

	Steel segment		Metalware segment	Mining segment	Financing & insurance segment	Inter segment balances	Consolidated
	Russia	USA					
Assets							
Current assets:							
Cash and cash equivalents	1,032,796	4,412	3,858	4,985	212,326	(168,316)	1,090,061
Short-term bank deposits	555,359	—	—	1,264	—	—	556,623
Short-term financial investments	109,381	85	102	21,692	120,373	(60,093)	191,540
Trade accounts receivable	336,691	101,815	28,746	12,529	—	—	479,781
Amounts receivable from related parties	261,412	1,053	8,423	40,128	—	(13,927)	297,089
Inventories	616,145	385,220	69,929	75,257	—	(23,851)	1,122,700
VAT receivable	155,177	—	26,249	20,206	—	—	201,632
Income tax receivable	42,712	6	3,264	340	—	—	46,322
Other current assets	109,108	18,883	8,405	21,447	4,950	—	162,793
Total current assets	3,218,781	511,474	148,976	197,848	337,649	(266,187)	4,148,541
Non-current assets:							
Amounts receivable from related parties	—	—	—	19,976	—	—	19,976
Long-term financial investments	463,156	—	1,156	6,072	827	(374,617)	96,594
Investment in associates	408	85,104	7,618	—	—	(7,360)	85,770
Property, plant and equipment	2,303,502	69,587	132,663	971,610	524	—	3,477,886
Intangible assets	5,721	—	1,418	1,028	100	—	8,267
Total non-current assets	2,772,787	154,691	142,855	998,686	1,451	(381,977)	3,688,493
Total assets	5,991,568	666,165	291,831	1,196,534	339,100	(648,164)	7,837,034
Liabilities and shareholders' equity							
Current liabilities:							
Trade accounts payable	209,432	107,620	8,428	34,357	—	11	359,848
Bank customer accounts	—	—	—	—	44,695	—	44,695
Amounts payable to related parties	115,107	2,427	14,916	40,789	255,550	(229,791)	198,998
Income taxes payable	21,290	9,403	3	12,009	—	—	42,705
Other taxes and social security payable	21,001	2,396	14,463	384,262	8	—	422,130
Short-term debt finance	211,322	18,568	27,115	29,602	—	(12,612)	273,995
Dividends payable	18,440	—	—	—	—	—	18,440
Other current liabilities	148,337	22,449	11,623	50,014	180	—	232,603
Total current liabilities	744,929	162,863	76,548	551,033	300,433	(242,392)	1,593,414
Non-current liabilities:							
Long-term debt finance	1,318,812	—	6,512	74,137	—	(194)	1,399,267
Deferred tax liabilities	216,558	52,351	12,482	65,719	(108)	(7,386)	339,616
Other non-current liabilities	52,946	39,513	16,839	150,841	623	—	260,762
Total non-current liabilities	1,588,316	91,864	35,833	290,697	515	(7,580)	1,999,645
Equity	3,658,323	411,438	179,450	354,804	38,152	(398,192)	4,243,975
Total equity and liabilities	5,991,568	666,165	291,831	1,196,534	339,100	(648,164)	7,837,034

Segmental income statements for the year ended December 31, 2005:

	Steel segment		Metalware segment	Mining segment	Financing segment	Inter segment balances	Consolidated
	Russia	USA					
Sales							
Sales — external	5,170,145	1,822,573	562,630	409,142	—	—	7,964,490
Sales — to related parties	775,721	—	56,200	962,516	—	(1,134,602)	659,835
	5,945,866	1,822,573	618,830	1,371,658	—	(1,134,602)	8,624,325
Cost of sales	(3,395,194)	(1,716,332)	(556,963)	(742,385)	—	1,106,517	(5,304,357)
Gross profit	2,550,672	106,241	61,867	629,273	—	(28,085)	3,319,968
Selling, general and administrative expenses	(223,342)	(29,539)	(36,882)	(88,248)	(1,903)	—	(379,914)
Distribution expenses	(509,944)	—	(27,848)	(52,776)	—	—	(590,568)
Indirect taxes and contributions	(26,367)	—	(3,444)	(41,886)	(129)	—	(71,826)
Share of associates' (losses)/profits	(4,968)	2,749	(2,047)	—	—	—	(4,266)
Net income from bank lending operations	(812)	—	—	—	6,250	4,544	9,982
Net income/(expenses) from securities operations	(3,078)	505	470	3,728	3,461	1,755	6,841
Net expenses from insurance operations	—	—	—	—	—	—	—
Loss/(gain) on disposal of property, plant and equipment	(29,612)	(184)	(1,885)	(3,880)	10	—	(35,551)
Net other operating (expenses)/income	(3,309)	1,981	(273)	(4,342)	1,531	—	(4,412)
Profit from operations	1,749,240	81,753	(10,042)	441,869	9,220	(21,786)	2,250,254
Reversal of impairment/(impairment) of property, plant and equipment, net	85,249	—	(914)	(10,625)	—	—	73,710
Penalties on tax liabilities under restructuring	—	—	—	(26,675)	—	—	(26,675)
Gain on restructuring of tax liabilities	—	—	—	200,853	—	—	200,853
Negative goodwill	4,830	—	—	—	—	2,800	7,630
Net other non-operating expenses	(30,337)	—	(4,142)	(8,379)	—	(9,789)	(52,647)
Profit before financing and taxation	1,808,982	81,753	(15,098)	597,043	9,220	(28,775)	2,453,125
Net financing (expense)/income	(129,047)	(12,524)	197	(23,657)	—	(5,563)	(170,594)
Profit before income tax	1,679,935	69,229	(14,901)	573,386	9,220	(34,338)	2,282,531
Income tax expense	(408,072)	(27,088)	(2,819)	(118,040)	(2,378)	7,762	(550,635)
Profit for the year	1,271,863	42,141	(17,720)	455,346	6,842	(26,576)	1,731,896
Additional information:							
depreciation expense	233,280	7,159	19,550	155,853	146	—	415,988
revaluation of assets recognized in equity:							
revaluation increase	2,980,525	8,559	—	384,308	—	—	3,373,392
revaluation decrease	(20,994)	—	—	—	—	—	(20,994)

Segmental income statements for the year ended December 31, 2004:

	Steel segment		Metalware segment	Mining segment	Financing & insurance segment	Inter segment balances	Consoli-dated
	Russia	USA					
Sales							
Sales — external	4,428,230	1,332,733	521,731	124,824	—	—	6,407,518
Sales — to related parties	674,532	10,563	45,484	720,916	—	(848,881)	602,614
	5,102,762	1,343,296	567,215	845,740	—	(848,881)	7,010,132
Cost of sales	(2,675,127)	(1,201,880)	(487,544)	(658,629)	—	833,254	(4,189,926)
Gross profit	2,427,635	141,416	79,671	187,111	—	(15,627)	2,820,206
Selling, general and administration expenses	(203,355)	(17,748)	(32,881)	(103,447)	(7,687)	21,574	(343,544)
Distribution expenses	(418,658)	—	(18,876)	(7,937)	—	2,723	(442,748)
Indirect taxes and contributions	(22,264)	(19)	(2,759)	(31,515)	(224)	—	(56,781)
Share of associates' (losses)/profits	288	6,907	1,245	—	282	(1,564)	7,158
Net income from bank lending operations	—	—	—	—	4,465	(202)	4,263
Net income/(expenses) from securities operations	4,629	—	—	(9,013)	63	22,913	18,592
Net expenses from insurance operations	—	—	—	—	6,217	(24,454)	(18,237)
(Loss)/gain on disposal of property, plant and equipment	(25,971)	—	153	(15,009)	(284)	—	(41,111)
Net other operating (expenses)/income	(1,384)	646	(380)	7,095	2,260	(168)	8,069
Profit from operations	1,760,920	131,202	26,173	27,285	5,092	5,195	1,955,867
Impairment of property, plant and equipment	(15,764)	—	(302)	(31)	—	—	(16,097)
Penalties on tax liabilities under restructuring	—	—	—	(16,699)	—	—	(16,699)
Gain on restructuring of tax liabilities	—	—	—	6,793	—	—	6,793
Negative goodwill	—	57,143	3,934	—	—	197	61,274
Net other non-operating income/(expenses)	2,387	—	(2,667)	(10,760)	(32,941)	(817)	(44,798)
Profit before financing and taxation	1,747,543	188,345	27,138	6,588	(27,849)	4,575	1,946,340
Net financing (expense)/income	(52,123)	(8,441)	(5,488)	(16,043)	5,961	(29,972)	(106,106)
Profit before income tax	1,695,420	179,904	21,650	(9,455)	(21,888)	(25,397)	1,840,234
Income tax expense	(428,637)	(43,966)	(9,728)	(1,408)	(2,876)	5,286	(481,329)
Profit for the year	1,266,783	135,938	11,922	(10,863)	(24,764)	(20,111)	1,358,905
Additional information: depreciation expense	225,024	6,093	16,401	141,836	2,251	—	391,605

30. Commitments and contingencies

a. For litigation, tax and other liabilities

At the balance sheet date, the Group was subject to various claims from customers and suppliers and the tax authorities. Based on experience in resolving such matters, management believes that it has adequately provided for any liabilities in the accompanying financial statements.

The taxation system and regulatory environment of the Russian Federation are relatively new and characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during 2004 and 2005 suggest that the regulatory authorities within the Russian Federation are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks, however, management has adopted a conservative approach to interpreting legislation and believes that it has complied with all relevant legislation and adequately provides for tax and other regulatory liabilities.

b. Long term purchase and sales contracts

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

c. Capital commitments

At the balance sheet date the Group had contractual capital commitments of US$358.8 million (2004: US$267.7 million).

d. Insurance

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

e. Guarantees

At the balance sheet date the Group had given US$23.8 million (2004: US$5.3 million) of guarantees, the majority of which were given for bank borrowings by related parties.

31. Financial instruments

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The steel, metalware, mining and insurance segments of the Group have not used derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. As at December 31, 2005 and 2004, the financing segment had no outstanding foreign exchange contracts.

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

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

	December 31, 2004		
	Market value	Book value	Difference
Citibank — Eurobonds 2009	334,750	325,000	9,750
Citibank — Eurobonds 2014	404,063	375,000	29,063
	738,813	700,000	38,813

The above amounts exclude accrued interest.

Credit risk

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

Liquidity risk

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

Foreign exchange rate risk

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

Interest rate risk

Interest rates on Group's debt finance are either fixed or variable, at a fixed spread over LIBOR or Euribor for the duration of each contract. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

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

	Rouble	US dollar	Euro
As at December 31, 2005:			
Interest bearing assets			
Short term bank deposits	5.92%	5.18%	—
Placements at financial institutions	6.17%	2.40%	2.25%
Loans to bank customers	8.79%	11.20%	—
Held-for-trading securities	6.25%	—	—
Originated loans	9.86%	7.91%	3.42%
Interest bearing liabilities			
Bank customer accounts	4.26%	1.85%	1.28%
Bank loan finance	9.89%	7.98%	3.46%
Bonds issued in Russia	8.10%	—	—

	Rouble	US dollar	Euro
As at December 31, 2004:			
Interest bearing assets			
Short term bank deposits	6.75%	3.40%	4.50%
Placements at financial institutions	0.18%	2.21%	1.63%
Loans to bank customers	9.20%	11.76%	12.65%
Held-for-trading securities	8.17%	—	—
Originated loans	8.17%	—	—
Interest bearing liabilities			
Bank customer accounts	2.91%	0.63%	0.51%
Promissory notes issued	8.17%	—	—
Bank loan finance	9.88%	7.91%	5.70%
Bonds issued in Russia	9.75%	—	—

SEVERSTAL

Consolidated financial statements
for the year ended December 31, 2005

Severstal

Consolidated financial statements for the year ended December 31, 2005

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KPMG Limited
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

The Board of Directors of OAO Severstal

We have audited the accompanying consolidated balance sheet of OAO Severstal (the "Company") and its subsidiaries (the "Group") as at 31 December 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Limited.

KPMG Limited
24 April 2006

Severstal

Consolidated balance sheet
December 31, 2005
(Amounts expressed in thousands of US dollars)

	Note	December 31, 2005	2004	2003
Assets				
Current assets:				
Cash and cash equivalents	11	870,129	1,081,419	523,999
Short-term bank deposits	12	673,441	555,359	127,939
Short-term financial investments	13	275,795	167,423	180,308
Trade accounts receivable	14	460,151	456,132	167,059
Amounts receivable from related parties	15	164,696	287,213	52,280
Inventories	16	992,774	1,024,304	344,713
VAT receivable		337,982	173,372	83,635
Income tax receivable		927	43,945	2,216
Other current assets	17	120,669	123,010	84,634
Total current assets		3,896,564	3,912,177	1,566,783
Non-current assets:				
Amounts receivable from related parties	15	—	—	181,443
Long-term financial investments	18	652,342	90,494	126,620
Investment in associates	19	208,317	85,770	809
Property, plant and equipment	20	5,985,450	2,488,771	1,995,581
Intangible assets		6,418	6,386	2,567
Total non-current assets		6,852,527	2,671,421	2,307,020
Total assets		10,749,091	6,583,598	3,873,803
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		317,893	311,971	108,759
Bank customer accounts	21	98,867	44,695	50,879
Amounts payable to related parties	22	190,586	112,093	42,540
Income taxes payable		43,418	30,465	5,967
Other taxes and social security payable		32,312	32,520	17,632
Short-term debt finance	23	252,858	227,821	186,088
Dividends payable		12,275	18,440	39,481
Other current liabilities	24	178,686	173,811	130,044
Total current liabilities		1,126,895	951,816	581,390
Non-current liabilities:				
Long-term debt finance	23	1,418,173	1,325,324	342,917
Deferred tax liabilities	10	973,847	277,831	247,643
Other non-current liabilities	25	140,504	105,150	39,991
Total non-current liabilities		2,532,524	1,708,305	630,551
Equity:				
Share capital	26	3,311,129	3,311,129	3,311,129
Revaluation reserve		2,800,994	631,455	728,467
Foreign exchange differences		23,754	169,735	—
Accumulated earnings/(deficit)		868,444	(252,868)	(1,438,193)
Total equity attributable to shareholders of parent		7,004,321	3,859,451	2,601,403
Minority interest		85,351	64,026	60,459
Total equity		7,089,672	3,923,477	2,661,862
Total equity and liabilities		10,749,091	6,583,598	3,873,803

These financial statements were approved by the Board of Directors on April 24, 2006.

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

Severstal

Consolidated income statement
Year ended December 31, 2005
(Amounts expressed in thousands of US dollars, except shares and earnings per share)

	Note	Year ended December 31, 2005	2004	2003
Sales				
Sales — external		7,484,308	6,282,694	2,915,510
Sales — to related parties	15	488,393	381,153	281,775
	4	7,972,701	6,663,847	3,197,285
Cost of sales		(5,292,733)	(4,019,025)	(1,907,914)
Gross profit		2,679,968	2,644,822	1,289,371
Selling, general and administrative expenses		(269,445)	(240,097)	(157,876)
Distribution expenses		(535,622)	(434,811)	(314,954)
Indirect taxes and contributions		(29,297)	(25,266)	(17,671)
Share of associates' (losses)/profits		(4,266)	7,158	(280)
Net income from bank lending operations	6	10,794	4,263	1,956
Net income/(expenses) from securities operations	7	3,814	25,830	(7,585)
Net expenses from insurance operations		—	(18,237)	(14,297)
Loss on disposal of property, plant and equipment		(31,677)	(26,102)	(20,345)
Net other operating income		37	974	3,739
Profit from operations		1,824,306	1,938,534	762,058
Reversal of impairment/(impairment) of property, plant and equipment, net	20	84,336	(16,066)	(5,413)
Impairment of goodwill		—	—	(10,548)
Negative goodwill		7,630	61,274	5,099
Net other non-operating expenses	8	(42,960)	(3,445)	(20,846)
Profit before financing and taxation		1,873,312	1,980,297	730,350
Net financing (expense)/income	9	(145,997)	(90,156)	35,998
Profit before income tax		1,727,315	1,890,141	766,348
Income tax expense	10	(435,650)	(481,624)	(162,262)
Profit for the year		1,291,665	1,408,517	604,086
Attributable to:				
shareholders of OAO Severstal		1,288,772	1,401,179	596,515
minority interest		2,893	7,338	7,571
Weighted average number of shares outstanding during the year (units after split)		551,854,800	551,854,800	551,854,800
Basic and diluted earnings per share (US dollars)		2.34	2.54	1.08

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

Severstal

Consolidated statement of cash flows
Year ended December 31, 2005
(Amounts expressed in thousands of US dollars)

	Year ended December 31,		
	2005	2004	2003
Operating activities:			
Profit before financing and taxation	1,873,312	1,980,297	730,350
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization	255,793	250,038	226,605
(Reversal of impairment)/impairment of assets	(84,336)	16,066	18,909
Provisions against inventories and receivables	18,972	15,743	7,037
Negative goodwill	(7,630)	(61,274)	(5,099)
Loss on disposal of property, plant and equipment	31,677	26,102	20,345
Loss/(gain) on disposal of subsidiaries/associates	10,342	(20,475)	736
(Gain)/loss on remeasurement and disposal of financial investments	(1,354)	(22,828)	9,431
Dividends from associates less share of associates' income	17,312	4,362	280
Changes in operating assets and liabilities:			
Trade accounts receivable	(30,887)	(233,228)	(21,037)
Amounts receivable from related parties	63,728	32,057	(192,071)
VAT recoverable	(174,145)	(93,838)	(28,829)
Inventories	(22,746)	(510,014)	(93,880)
Trade accounts payable	35,338	172,895	(12,206)
Amounts payable to related parties	83,548	117,700	8,689
Other non-current liabilities	38,679	42,128	(13,971)
Net other changes in operating assets and liabilities	68,126	11,240	82,296
Cash generated from operations	2,175,729	1,726,971	737,585
Interest paid (excluding banking operations)	(150,316)	(88,624)	(28,611)
Income tax paid	(387,392)	(515,828)	(208,123)
Net cash provided from operating activities	1,638,021	1,122,519	500,851
Investing activities:			
Additions to property, plant and equipment	(827,879)	(610,890)	(247,915)
Additions to intangible assets	(104)	(4,878)	—
Net additions to short-term bank deposits	(133,718)	(423,077)	(107,183)
Additions to financial investments and associates	(1,516,182)	(301,723)	(87,502)
Buy out of minority interests	(5,465)	(377)	(6,475)
Net cash outflow on acquisitions of subsidiaries	(4,880)	(254,927)	(61,448)
Net cash inflow/(outflow) on disposals of subsidiaries	13,701	(22,964)	—
Proceeds from disposal of property, plant and equipment	3,067	1,745	5,112
Proceeds from disposal of financial investments	721,677	357,525	254,214
Interest received (excluding banking operations)	44,328	39,961	21,140
Cash used for investing activities	(1,705,455)	(1,219,605)	(230,057)
Financing activities:			
Proceeds from debt finance	747,322	1,453,059	606,488
Repayment of debt finance	(602,846)	(463,736)	(290,356)
Parent company dividends paid	(276,792)	(337,255)	(309,451)
Minority capital contributions	22,765	4,024	22,994
Net other cash flows from financing activities	(3,742)	(682)	(626)
Cash (used for)/provided from financing activities	(113,293)	655,410	29,049
Effect of exchange rates on cash and cash equivalents	(30,563)	(904)	10,628
Net (decrease)/increase in cash and cash equivalents	(211,290)	557,420	310,471
Cash and cash equivalents at beginning of the period	1,081,419	523,999	213,528
Cash and cash equivalents at end of the period	870,129	1,081,419	523,999

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

Severstal

Consolidated statement of changes in equity
Year ended December 31, 2005
(Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal						Minority interest	Total
	Share capital	Additional capital	Revaluation reserve	Foreign exchange differences	Accumulated earnings/ (deficit)	Total		
Balances at December 31, 2002	3,311,129	136	832,048	—	(1,777,417)	2,365,896	34,514	2,400,410
Profit for the year	—	—	—	—	596,515	596,515	7,571	604,086
Realization of revaluation reserve:								
Disposals	—	—	(8,759)	—	8,759	—	—	—
Depreciation	—	—	(122,595)	—	122,595	—	—	—
Deferred tax on realization	—	—	31,525	—	(31,525)	—	—	—
Impairment of property, plant & equipment:								
Impairment	—	—	(4,936)	—	—	(4,936)	—	(4,936)
Deferred tax on impairment	—	—	1,184	—	—	1,184	—	1,184
Total recognized income and expenses						592,763	7,571	600,334
Dividends	—	—	—	—	(348,161)	(348,161)	—	(348,161)
Acquisition from common shareholder	—	(136)	—	—	(8,959)	(9,095)	—	(9,095)
Effect of acquisitions and disposals	—	—	—	—	—	—	18,374	18,374
Balances at December 31, 2003	3,311,129	—	728,467	—	(1,438,193)	2,601,403	60,459	2,661,862
Profit for the year	—	—	—	—	1,401,179	1,401,179	7,338	1,408,517
Realization of revaluation reserve:								
Disposals	—	—	(12,455)	—	12,455	—	—	—
Business de-combinations	—	—	(541)	—	541	—	—	—
Depreciation	—	—	(114,481)	—	114,481	—	—	—
Deferred tax on realization	—	—	30,465	—	(30,465)	—	—	—
Foreign exchange differences								
Origination	—	—	—	173,083	—	173,083	133	173,216
Business de-combinations	—	—	—	(3,348)	3,348	—	—	—
Total recognized income and expenses						1,574,262	7,471	1,581,733
Dividends	—	—	—	—	(316,214)	(316,214)	(58)	(316,272)
Effect of acquisitions and disposals	—	—	—	—	—	—	(3,846)	(3,846)
Balances at December 31, 2004	3,311,129	—	631,455	169,735	(252,868)	3,859,451	64,026	3,923,477

Severstal

Consolidated statement of changes in equity
Year ended December 31, 2005
(Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal						Minority interest	Total
	Share capital	Additional capital	Revaluation reserve	Foreign exchange differences	Accumulated earnings/ (deficit)	Total		
Balances at December 31, 2004	3,311,129	—	631,455	169,735	(252,868)	3,859,451	64,026	3,923,477
Profit for the year	—	—	—	—	1,288,772	1,288,772	2,893	1,291,665
Realization of revaluation reserve:								
Disposals	—	—	(13,383)	—	13,383	—	—	—
Depreciation	—	—	(105,030)	—	105,030	—	—	—
Deferred tax on realization	—	—	28,419	—	(28,419)	—	—	—
Revaluation of property, plant & equipment:								
Revaluation	—	—	2,974,196	(6,106)	(599)	2,967,491	599	2,968,090
Deferred tax	—	—	(714,663)	1,465	204	(712,994)	(204)	(713,198)
Foreign exchange differences	—	—	—	(141,340)	—	(141,340)	(2,135)	(143,475)
Revaluation of available-for-sale investments	—	—	—	—	14,124	14,124	—	14,124
Total recognized income and expenses						3,416,053	1,153	3,417,206
Dividends	—	—	—	—	(271,183)	(271,183)	(3,181)	(274,364)
Effect of acquisitions and disposals	—	—	—	—	—	—	23,353	23,353
Balances at December 31, 2005	3,311,129	—	2,800,994	23,754	868,444	7,004,321	85,351	7,089,672

Included in Accumulated earnings/(deficit) at December 31, 2005 are US$14,124 thousand of unrealized profits on available-for-sale investments (2004: US$ nil, 2003: US$ nil).

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

Severstal

Notes to the consolidated financial statements
for the year ended December 31, 2005
(Tabular amounts expressed in thousands of US dollars)

1. Operations

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

Severstal began operations on August 24, 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On September 24, 1993, as part of the Russian privatization program, Severstal was registered as a Joint Stock Company ('OAO') and privatized. Severstal's registered office is located at Ul Mira 30, Cherepovets, Russia. Severstal's shares are quoted on the Russian Trading System, and since June 2005, on the Moscow Interbank Currency Exchange ('MICEX'). Through participating in Severstal's privatization auctions and other purchases, Alexey Mordashov (the "Majority Shareholder") has purchased shares in Severstal such that as at the balance sheet date he controlled, directly or indirectly, 82.75% (2004: 82.75%; 2003: 82.75%) of Severstal's share capital.

The Group comprises the following segments:

- *Steel segment* — this segment operates full cycle integrated iron and steel mills in Russia and the USA and has supporting companies for the sale of products in the Russian and international markets. The maintenance companies, which also had been part of this segment, were sold to related parties in December 2004.
- *Metalware segment* — this segment comprises three locations in Russia containing wire drawing equipment that takes long products (mainly wire) from the Steel segment and turns them into products with a higher value added for the Russian and international markets.
- *Financing segment* — this segment operates a retail bank. A leasing company, which also had been part of this segment, was sold to related parties in December 2004.
- *Insurance segment* — this segment operated two general insurance companies; a specialist medical insurance company; and a life insurance company. A large part of this segment was sold to related parties in December 2004, and the remaining part in April 2005.

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

As described in note 28, subsequent to December 31, 2005, the Group initiated the acquisition of controlling stakes in coal and iron ore mining assets currently controlled by the Majority Shareholder.

A large part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Group and the realization and settlement of its assets and liabilities.

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

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

2. Presentation of the financial statements

Statement of compliance

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

Going concern basis

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

Use of estimates

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

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

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

Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble. After extensive reviews of Severstal's operations management determined that Severstal's functional currency changed from the United States dollar ('US dollar') to the Russian rouble ('RUR') at January 1, 2004. This change reflected mainly the consequences of the changes in the Russian economic environment, such as a decrease in inflation level, that led Severstal to move its selling and purchasing activities from mainly US dollar based transactions to mainly rouble based transactions.

Since the Group's consolidated financial statements prior to January 1, 2004 were presented in US dollars, management has elected to continue to use the US dollar as the Group's presentation currency to facilitate the comparability of the Group's results.

The rouble is not a fully convertible currency outside the Russian Federation and accordingly, any conversion of rouble amounts into US dollars should not be construed as a representation that rouble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates used, or at any other exchange rate.

Basis of consolidation

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

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

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

Acquisitions of controlling interests in companies that were previously under the control of the same controlling shareholder as the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the common controlling shareholder. For this purpose comparatives are restated. The assets and liabilities acquired are recognized at their book values of the common controlling shareholder. The components of equity of the acquired companies are added to the same components within Group equity except that any share capital of the acquired companies is recorded as part of additional paid in capital. Any cash paid for the acquisition is debited to equity.

3. Summary of the principal accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied except for the changes in accounting policy described in Note 3s.

a. Cash and cash equivalents

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

b. Inventories

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

c. Trade and other receivables

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

d. Foreign currency

Foreign currency transactions

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

Presentation and consolidation

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

e. Investments

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

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

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

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

f. Property, plant and equipment

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

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

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

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

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

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

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

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

g. Goodwill and negative goodwill

Goodwill

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

Negative goodwill

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

h. Asset impairment

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

Calculation of recoverable amount

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

Reversals of impairment

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

i. Dividends payable

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

j. Indirect taxes and contributions

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

k. Income tax

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

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

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

Deferred tax is not recognized in respect of the following:

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

l. Debt finance

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

m. Income recognition

Sales revenues

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

Banking income

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

n. Net financing (expense)/income

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

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

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

o. Net income from securities operations

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

p. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year, assuming the share split in 2004 had occurred at the start of the earliest comparative period.

q. Provisions

Retirement benefits

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

Other provisions

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

r. Early adoption of IFRS

Management early adopted IFRS 3 *'Business Combinations'* from the first occasion on which the Group started to prepare general purpose consolidated financial statements. This standard was effective for business combinations for which agreement date is on or after March 31, 2004. If the Group had adopted this standard only from its effective date, then cumulative negative goodwill US$105.1 million and US$43.8 million would have been capitalized at December 31, 2004 and 2003, respectively, instead of being recognized directly in the income statement, and in accordance with transitional provisions set out in this standard, the amount of US$105.1 million would have been derecognized as an adjustment to the opening balance of retained earnings for the year ended December 31, 2005.

s. Changes in accounting policy

During the current year the Group changed a number of its accounting policies as a result of new or revised Standards that are effective for periods beginning on or after 1 January 2005 and as a result of management's review of classification and presentation policies. The following changes had a material impact on the Group's financial position or results of operations, or resulted in material changes in classification.

Presentation of minority interests

The following changes in presentation result from revised IAS 1 Presentation of Financial Statements:

- In the income statement, the minority interest share in the results of subsidiaries is no longer added or subtracted in arriving at the Group's net profit (loss) for the period. Instead it is presented as an allocation of the Group's net profit (loss) for the period.
- In the balance sheet, minority interests are presented as a separate component of equity rather than being presented between equity and liabilities. As a result, the statement of changes in equity shows the movement in minority interests during the period.
- Comparatives were restated to reflect these changes.

Investments

Previously the Group recognized changes in the fair value of available-for-sale investments in the income statement. Revised IAS 39 Financial Instruments: Recognition and Measurement requires that changes in the fair values of available-for-sale investments should be recognized directly in equity. This change had no impact on the Group's previously reported financial position or results of operations.

Foreign currency

Beginning from January 1, 2005 all foreign exchange differences that relate to the income statement are included into the line 'Net financing (expense) / income'. In previous periods foreign exchange gains/ (losses) were allocated to different line items in the income statement depending on their nature, as shown in the table below:

	Year ended December 31,	
	2004	**2003**
Net sales	(15,918)	6,599
Cost of sales	(3,530)	(971)
Selling, general and administration expenses	910	(1,025)
Indirect taxes and contributions	303	(1,672)
Net other operating income	(32,429)	12,787
Net income from banking operations	—	(57)
Net income from securities operations	—	38,312
Net financing expense	31,585	(9,234)
Income tax expense	2	(137)
Total foreign exchange (losses) / gains recognized in income statement	(19,077)	44,602

Comparative information was restated to comply with current period presentation.

Further, previously exchange differences were calculated and included in the revaluation reserve under equity. Effective from January 1, 2005 the revaluation reserve under equity is stated at the historical exchange rate. Comparative information has been restated to conform to the current accounting policy. As a result, revaluation reserve at December 31, 2004 was decreased by US$38.8 million, foreign exchange differences at December 31, 2004 were increased US$41.7 million and accumulated earnings at December 31, 2004 were decreased by US$2.9 million. Amounts reported at December 31, 2003 and 2002 were not affected.

Short-term bank deposits

In previous periods net changes in short-term bank deposits were included in cash flows from operating activities of cash flow statement, as a part of changes in working capital.

Management reviewed this policy and decided that short-term bank deposits with original maturity of more than three months represent financial investments rather than part of working capital. Accordingly, net changes in short-term bank deposits are included in cash flows from investing activities of cash flow statement. Comparative information has been restated to conform to the current accounting policy. This resulted in increase in 'Net cash provided from operating activities' by US$423.1 million and US$107.2 million for the years ended December 31, 2004 and 2003, respectively, with a corresponding decrease in 'Cash used for investing activities'.

Cash and cash equivalents and financial investments

In previous periods, management reported most financial assets held by the consolidated bank under the separate heading 'Banking assets'. After review of this presentation practice management has decided that these assets should be presented in the balance sheet according to their nature. In addition, short-term bank deposits, which were previously included in short-term financial investments, are currently shown are a separate line of the balance sheet. This resulted in the following changes in the previously reported consolidated balance sheets:

	Currently reported December 31,		Previously reported December 31,	
	2004	**2003**	**2004**	**2003**
Cash and cash equivalents	1,081,419	523,999	924,371	463,702
Banking assets	—	—	217,286	117,559
Short-term bank deposits	555,359	127,939	—	—
Short-term financial investments	167,423	180,308	662,544	250,985
Subtotal	1,804,201	832,246	1,804,201	832,246

Other changes in presentation

As a result of management review of presentation policies, other insignificant changes were adopted and comparative information was restated to comply with current period presentation. None of these changes had an impact on net assets or net income for the reported periods.

t. New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Amendment to IAS 19 Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures, which is effective for annual periods beginning on or after January 1, 2006. The amendment includes an option for actuarial gains and losses to be recognized in full as they arise, directly in the statement of changes in equity. Depending on what accounting policy will be chosen by the Group when this amendment becomes effective, the Group might change the treatment of US$42.0 million (2004: US$48.2 million, 2003: US$5.6 million) of actuarial losses, currently fully recognized in the income statement.
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts — Financial Guarantee Contracts, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition. The Group had US$83.8 million financial guarantee contracts at December 31, 2005 (2004: US$65.3 million, 2003: US$55.8 million) but management has not yet estimated their fair values and, accordingly, the impact of this amendment on the Group's financial position and performance cannot yet be quantified.
- IFRS 7 Financial Instruments: Disclosures, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's consolidated financial instruments.

4. Sales

Sales by product were as follows:

	Year ended December 31,		
	2005	2004	2003
Hot rolled sheet	3,279,921	2,447,882	1,191,273
Cold rolled sheet	1,468,927	1,331,408	650,352
Galvanized sheet	1,041,711	797,078	212,127
Hot rolled sections	494,160	481,985	286,772
Semi finished products	337,937	323,502	78,508
Further processed products	275,716	262,102	211,572
Wire	253,894	249,402	117,919
Chemical by-products	67,570	69,975	47,757
Fastenings	69,544	59,662	33,815
Wire rope	72,969	62,807	27,919
Netting	29,011	28,752	13,219
Repair services	2,131	26,352	19,816
Manufactured equipment	—	23,308	2,913
Electric arc welding rods	19,977	16,114	10,659
Other	153,973	148,717	33,682
Shipping and handling costs billed to customers	405,260	334,801	258,982
	7,972,701	6,663,847	3,197,285

Sales by delivery destination were as follows:

	Year ended December 31,		
	2005	2004	2003
Russian Federation	3,300,791	2,709,513	1,854,112
United States of America ('USA')	2,052,284	1,787,659	3,149
Europe	999,840	1,209,435	441,090
The Middle East	353,001	340,894	193,792
China and Central Asia	532,578	123,602	304,208
Africa	148,570	116,856	99,413
Central America	172,689	161,204	62,993
South-East Asia	322,835	102,784	216,087
South America	64,417	71,628	22,441
North America (excluding the USA)	25,696	40,272	—
	7,972,701	6,663,847	3,197,285

5. Staff costs

Employment costs were as follows:

	Year ended December 31,		
	2005	2004	2003
Wages and salaries	(524,747)	(492,028)	(227,977)
Social security costs	(93,541)	(105,474)	(69,164)
	(618,288)	(597,502)	(297,141)
Retirement benefit costs (see note 25)	5,376	595	1,576
Actuarial losses recognized (see note 25)	(42,003)	(48,156)	(5,560)
Staff costs	(654,915)	(645,063)	(301,125)

Included within the total social security costs paid to governments are payments to state pension funds totaling US$66.2 million (2004: US$70.5 million; 2003: US$57.4 million).

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

	Year ended December 31,		
	2005	2004	2003
Wages and salaries	(3,040)	(3,168)	(4,275)
Social security costs	(108)	(113)	(157)
Other benefits	(114)	(251)	(250)
	(3,262)	(3,532)	(4,682)

The number of full time employees at the balance sheet date was as follows:

	December 31,		
	2005	2004	2003
Iron and steel manufacture and sales	36,330	36,485	36,858
Metal reprocessing and machining	13,373	14,828	12,906
Other activities	3,216	3,284	11,613
Total active employees	52,919	54,597	61,377
Retired employees receiving benefits	24,794	24,439	23,432
	77,713	79,036	84,809

6. Net income from bank lending operations

	Year ended December 31, 2005	2004	2003
Interest income:			
Placements with other financial institutions	3,759	1,871	861
Loans to bank customers:			
- external	5,635	3,801	2,109
- related parties	2,116	2,597	1,774
Interest expense:			
Deposits from other financial institutions	—	(3)	(410)
Client accounts:			
- external	(593)	(3,899)	(397)
- related parties	(622)	(99)	(5)
Loan loss provisions	470	(319)	(2,303)
Leasing income	29	314	327
	10,794	4,263	1,956

7. Net income/(expenses) from securities operations

	Year ended December 31, 2005	2004	2003
Held-for-trading securities:			
Net trading income	2,034	2,477	1,432
Restatement to fair value	298	—	2,402
Held to maturity securities and originated loans:			
Restatement to fair value	(13,783)	10,061	(10,933)
Coupon income	9	—	22
Available-for-sale securities:			
Profit on disposal	21,523	21,479	220
Impairment loss	(8,726)	(8,712)	(1,120)
Dividends received	2,459	525	392
	3,814	25,830	(7,585)

8. Net other non-operating expenses

	Year ended December 31, 2005	2004	2003
Social expenditure	(18,588)	(12,199)	(9,126)
Charitable donations	(12,830)	(10,272)	(8,682)
Depreciation of community and infrastructure assets	(1,200)	(1,449)	(2,302)
(Loss)/gain on disposal of subsidiaries and associates	(10,342)	20,475	(736)
	(42,960)	(3,445)	(20,846)

9. Net financing (expense)/income

	Year ended December 31,		
	2005	2004	2003
Interest income:			
Related parties	13,213	10,584	11,190
External banks	42,548	29,377	9,950
Interest expense:			
Related parties	—	(1,007)	(454)
External	(132,418)	(107,711)	(29,290)
Amortization of transaction costs	(2,527)	(2,322)	—
Foreign exchange (losses)/gains	(66,813)	(19,077)	44,602
	(145,997)	(90,156)	35,998

10. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31,		
	2005	2004	2003
Current tax charge	(440,019)	(501,084)	(213,155)
Corrections to prior year's current tax charge	(3,610)	4,607	8,398
Deferred tax benefit	7,979	14,853	42,495
Income tax expense	(435,650)	(481,624)	(162,262)

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

	Year ended December 31,		
	2005	2004	2003
Profit before income tax	1,727,315	1,890,141	766,348
Tax charge at the statutory rate	(414,556)	(453,634)	(183,924)
Non-tax deductible items	(35,303)	(21,298)	(17,836)
Activities taxed at different rates	19,827	(15,250)	11,668
Effect of exchange rate differences on temporary differences	(2,008)	3,951	19,432
Corrections to prior year's current tax charge	(3,610)	4,607	8,398
Income tax expense	(435,650)	(481,624)	(162,262)

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

	December 31,		
	2005	2004	2003
Deferred tax assets/(liabilities):			
Property, plant and equipment	(968,876)	(277,109)	(272,212)
Provisions	31,538	32,770	5,787
Other	(36,509)	(33,492)	18,782
	(973,847)	(277,831)	(247,643)

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

	Year ended December 31,		
	2005	2004	2003
Opening balance	(277,831)	(247,643)	(285,447)
Recognized in income statement	7,979	14,853	42,495
Recognized in shareholders' equity	(713,198)	—	1,184
Business combinations	(76)	(37,343)	(5,875)
Business de-combinations	913	7,284	—
Foreign exchange difference	8,366	(14,982)	—
Closing balance	(973,847)	(277,831)	(247,643)

Temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US$565.4 million at December 31, 2005 (2004: US$431.4 million; 2003: US$194.2 million).

11. Cash and cash equivalents

	December 31,		
	2005	2004	2003
Petty cash	358	131	113
Cash at bank:			
Related party banks	—	31,096	31,555
International banks	165,654	44,345	77,124
Russian banks	116,601	431,696	80,477
Escrow accounts	18,911	33,711	56,963
Bank deposits with original maturity of three monhs or less:			
Related party banks	—	128,715	82,220
International banks	94,327	124,557	36,727
Russian banks	331,031	79,475	46,731
Cash balances of consolidated bank:			
Cash	823	1,741	1,104
Nostro accounts at the Central Bank of Russia	39,781	48,904	50,688
Nostro accounts at other banks	16,997	27,210	1,987
Placements with international banks	85,646	96,686	57,191
Placements with Russian banks	—	33,152	1,119
	870,129	1,081,419	523,999

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

12. Short-term bank deposits

Short-term bank deposits comprise of deposits with original maturity of more than three months but remaining period to maturity of less than one year. The majority of such deposits has the original maturity of less than 6 months, and such deposits are used by the Group to earn investment income, while preserving a high liquidity position. Substantially all such deposits can be withdrawn, in case of necessity, prior to the maturity date with no loss in principal but reduced interest income.

	December 31,		
	2005	2004	2003
Deposits at Russian banks	673,441	472,347	24,121
Deposits at international banks	—	—	82,054
Deposits at related banks	—	83,012	21,764
	673,441	555,359	127,939

As at December 31, 2005, of the short term deposits US$nil (2004: US$nil; 2003: US$80.8 million) were used as collateral to guarantee borrowings by related parties.

13. Short-term financial investments

	December 31,		
	2005	2004	2003
Held-for-trading securities:			
Promissory notes from related parties	4,772	10,114	18,225
Promissory notes and bonds of third parties	72,320	50,150	38,592
Quoted equity shares	1,079	826	2,192
Originated loans:			
Loans to related parties	99,750	35,143	4,313
Loans to third parties	7,705	10,867	57,395
Loans to bank customers:			
Related parties	21,945	31,009	41,612
Third parties	71,232	32,835	19,292
Loan loss provisions	(3,008)	(3,606)	(3,642)
Available-for-sale securities:			
Non-quoted equity shares	—	—	2,329
Other	—	85	—
	275,795	167,423	180,308

Loans given to related parties were provided at interest rates ranging from nil to 14% per annum, and were given to finance working capital and investments.

14. Trade accounts receivable

	December 31,		
	2005	2004	2003
Customers	472,272	461,058	170,896
Allowance for doubtful accounts	(12,121)	(4,926)	(3,837)
	460,151	456,132	167,059

15. Amounts receivable from related parties

	December 31,		
	2005	2004	2003
Advances paid	17,167	26,557	13,299
Trade accounts receivable	79,724	62,701	38,227
Other receivables	67,805	197,955	182,197
	164,696	287,213	233,723
Maturity analysis:			
within one year	164,696	287,213	52,280
after more than one year	—	—	181,443
	164,696	287,213	233,723

Sales and income received from related parties were as follows:

	Year ended December 31,		
	2005	2004	2003
Associates:			
Sales	1,467	12,320	1,616
Other related parties:			
Sales	486,926	368,833	280,159
Banking income	2,116	2,597	1,774
Interest income	13,213	10,584	11,190
Insurance premiums	—	3,568	6,827
	502,255	385,582	299,950

16. Inventories

	December 31,		
	2005	2004	2003
Raw materials	447,347	370,797	140,967
Work-in-progress	119,000	122,727	67,079
Finished goods	365,487	472,307	105,751
Spare parts and other inventories	60,940	58,473	30,916
	992,774	1,024,304	344,713

Of the above amounts US$40.2 million (2004: US$52.2 million; 2003: US$26.5 million) are stated at net realizable value, these amounts exclude inventories fully provided against.

Inventory write-downs were US$11.7 million for the year ended December 31, 2005 (2004: US$17.5 million; 2003: US$8.6 million).

17. Other current assets

	December 31,		
	2005	2004	2003
Advances paid	83,640	81,329	48,740
Prepayments	20,948	23,343	7,035
Other taxes and social security prepaid	5,664	6,998	468
Reserves at Central Bank of Russia	4,938	4,695	13,247
Insurance and reinsurance receivables	—	—	2,388
Other assets	5,479	6,645	12,756
	120,669	123,010	84,634

18. Long-term financial investments

	December 31,		
	2005	2004	2003
Originated loans:			
Loans to related parties	455,956	58,991	79,352
Loans to third parties	—	1,466	1
Available-for-sale securities:			
Shares in Lucchini SpA	187,386	—	—
Other investments in shares	9,000	30,037	44,604
Held to maturity securities:			
Promissory notes from related parties	—	—	87
Promissory notes from third parties	—	—	2,576
	652,342	90,494	126,620

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

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

Management used the share price of the November transaction to determine the fair value of 19.99% stake in Lucchini SpA at December 31, 2005, resulting in a US$13.8 million gain being recognised directly in the statement of changes in equity.

19. Investment in associates

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

	December 31,		
	2005	2004	2003
Double Eagle Steel Coating Company	26,409	29,296	—
Spartan Steel Coating LLC	56,374	52,915	—
FDS Coke Holdings LLC	—	2,893	—
Severstal US Holdings LLC	59,415	—	—
Mountain State Carbon LLC	60,205	—	—
TA Cord	2,108	—	—
Air Liquide Severstal	3,214	—	—
Others	592	666	809
	208,317	85,770	809

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

	2005	2004	2003
Assets	476,742	174,499	5,891
Liabilities	54,569	13,628	3,705
Equity	422,173	160,871	2,186
Revenues	153,654	100,255	13,878
Net income	(3,645)	12,025	568

Double Eagle Steel Coating Company, Spartan Steel Coating LLC and FDS Coke Holdings LLC were associates of the bankrupt Rouge Steel Company, and were acquired on January 30, 2004, when the Group through its subsidiary Severstal North America Inc, acquired the assets and business of Rouge Steel Company. FDS Coke Holdings LLC was fully impaired in 2005, as a result of management impairment review.

Severstal US Holdings LLC, was created by Severstal and its related parties as a holding company for the SeverCorr project — construction of a mini mill in the United States of America. SeverCorr's mini mill is expected to produce approximately 1.5 million tons of high-quality flat-rolled steel on an annual basis. Total financing requirements of this project are approximately US$880.0 million, and the project will be financed by Severstal, its related parties, third party equity participants and bank financing. Severstal have contributed to the project US$48.0 million in September 2005 and US$16.8 million in October 2005. Related parties of Severstal have contributed to the project US$32.1 million in September 2005 and US$13.4 million in October 2005. Subsequent to December 31, 2005, Severstal contributed a further US$28.5 million to the project, and Severstal's related parties contributed US$21.4 million. Severstal has the obligation to provide future financing in the amount of US$108.6 million by June 13, 2006, and have issued guarantees to third parties in the amount of US$10.0 million.

The Group, through its subsidiary Severstal North America Inc, has contributed US$50.0 million in September 2005 and US$10.0 million in November 2005 to the Mountain State Carbon LLC, a joint venture with Wheeling-Pittsburgh Steel Corporation ("Wheeling-Pittsburgh"). Wheeling-Pittsburgh has contributed to the joint venture all of its coking assets in Follansbee, USA, valued at US$86.9 million, and US$3.1 million in cash. Subsequent to December 31, 2005, the Group has contributed US$30.0 million to the Mountain State Carbon LLC, and will contribute an additional US$30.0 million by July 2006. This cash and US$30.0 million of additional contributions from Wheeling-Pittsburgh over the next three years will be used to rehabilitate all of the coke batteries of the joint venture and provide the Group's US integrated steel operations a reliable and competitive supply of metallurgical coke. Each partner has a 50% share in Mountain State Carbon LLC from April 2006.

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

20. Property, plant & equipment

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

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Valuation or cost:							
December 31, 2004	439,646	2,243,403	87,128	2,770,177	36,311	669,111	3,475,599
Reclassifications	7,234	(7,417)	678	495	(495)	—	—
Additions:							
External	331	1,380	302	2,013	876	824,990	827,879
Interest capitalised	—	—	—	—	—	12,176	12,176
Business combinations	3,983	—	53	4,036	—	—	4,036
Disposals:							
External	(3,436)	(55,773)	(5,557)	(64,766)	(307)	(9,397)	(74,470)
Business de-combinations	(5,542)	(5,720)	(24)	(11,286)	—	(258)	(11,544)
Transfer to inventories	—	—	—	—	—	(8,159)	(8,159)
Transfers	85,611	364,627	19,180	469,418	20,616	(490,034)	—
Foreign exchange difference	(17,062)	(84,234)	(3,643)	(104,939)	(1,661)	(24,949)	(131,549)
	510,765	2,456,266	98,117	3,065,148	55,340	973,480	4,093,968
Adjustment to fair market value	415,125	1,611,484	51,894	2,078,503	(36,678)	(82,801)	1,959,024
December 31, 2005	925,890	4,067,750	150,011	5,143,651	18,662	890,679	6,052,992
Depreciation and impairment:							
December 31, 2004	112,034	723,822	34,767	870,623	17,644	98,561	986,828
Reclassifications	3,555	(3,394)	(10)	151	(151)	—	—
Depreciation expense	28,748	212,466	13,238	254,452	1,273	—	255,725
Disposals — external:							
External	(1,348)	(31,169)	(3,952)	(36,469)	(295)	(2,962)	(39,726)
Business de-combinations	(625)	(2,011)	(10)	(2,646)	—	—	(2,646)
Transfers	400	6,080	656	7,136	17,071	(24,207)	—
Impairment of assets:							
included in income statement	—	760	—	760	4,411	11,012	16,183
Foreign exchange difference	(4,581)	(28,902)	(1,474)	(34,957)	(1,018)	(3,262)	(39,237)
	138,183	877,652	43,215	1,059,050	38,935	79,142	1,177,127
Adjustment to fair market value	(120,054)	(836,628)	(37,246)	(993,928)	(36,678)	(78,979)	(1,109,585)
December 31, 2005	18,129	41,024	5,969	65,122	2,257	163	67,542
Net book values:							
December 31, 2004	327,612	1,519,581	52,361	1,899,554	18,667	570,550	2,488,771
December 31, 2005	907,761	4,026,726	144,042	5,078,529	16,405	890,516	5,985,450
Net book values based on cost, less depreciation and impairment:							
December 31, 2004	311,909	618,397	52,362	982,668	18,667	570,550	1,571,885
December 31, 2005	509,023	819,589	52,762	1,381,374	16,405	890,516	2,288,295
Adjustment to fair market value during 2005:							
Cost	415,125	1,611,484	51,894	2,078,503	(36,678)	(82,801)	1,959,024
Accumulated depreciation	120,054	836,628	37,246	993,928	36,678	78,979	1,109,585
	535,179	2,448,112	89,140	3,072,431	—	(3,822)	3,068,609

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

Impairment of assets, which was recognized during 2005 before the revaluation, primarily relates to social objects purchased or constructed by the Group. The amounts of costs incurred in purchase or construction of social objects, which are not expected to be profit-generating, are normally impaired as incurred.

As described in Note 3f, the Group uses the revaluation model of accounting for property, plant and equipment. Management commissioned independent appraisers to evaluate the fair value of productive property, plant and equipment as of December 31, 2005 of the key entities of the Steel segment — the Parent Company and Severstal North America LLC. Management considers that the carrying value of property, plant and equipment of other business segments approximate their fair values as of the balance sheet date. The impact of the independent appraisers' valuation report on the property, plant and equipment is shown in the lines "Adjustment to fair market value" in the tables above and is further described in the tables below.

The majority of the Group's property, plant and equipment is specialised in nature and can not be sold on the open market other than as part of a continuing business. In the absence of the active market for similar items, the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the recoverability of values, based on the depreciated replacement cost. The results of cash flow testing confirmed that the estimated future cash flows from each cash generating unit are higher than the depreciated replacement cost, which therefore represents the fair value of property, plant and equipment.

The fair value of property, plant and equipment was determined on an item-by-item basis. Where the carrying value of an individual item prior to the revaluation exceeded the current fair value, a revaluation decrease was recognized. Revaluation decreases were mainly driven by decreases in purchase prices of certain types of production equipment and by reduction of the estimated remaining useful lives for certain items of property, plant and equipment. To the extent that such revaluation decrease related to a previously recognized revaluation increase, it was recognized directly in equity, and the remaining amount was recognized as an impairment loss in the income statement.

The following amounts were recognized in the income statement and statement of changes in equity as a result of the revaluation:

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Adjustment to fair market value:							
Revaluation included in equity:							
revaluation increase	393,764	2,504,042	91,278	2,989,084	—	—	2,989,084
revaluation decrease	—	(20,993)	(1)	(20,994)	—	—	(20,994)
	393,764	2,483,049	91,277	2,968,090	—	—	2,968,090
Revaluation included in income statement:							
reversal of previous impairment	143,843	11,428	278	155,549	—	—	155,549
impairment	(2,428)	(46,365)	(2,415)	(51,208)	—	(3,822)	(55,030)
	141,415	(34,937)	(2,137)	104,341	—	(3,822)	100,519
	535,179	2,448,112	89,140	3,072,431	—	(3,822)	3,068,609

The gain of US$84,336 thousand recognized in the income statement for the year ended December 31, 2005 under the caption 'Reversal of impairment/(impairment) of property, plant and equipment, net' is composed of the following amounts:

Amounts related to revaluation:	
Reversal of previously recognized impairment loss	155,549
Impairment loss	(55,030)
Impairment loss recognized in 2005 prior to revaluation	(16,183)
	84,336

21. Bank customer accounts

	December 31,		
	2005	2004	2003
Customer accounts:			
Demand deposits	26,997	42,825	49,514
Term deposits	68,365	1,865	713
Deposits from other financial institutions	3,505	5	652
	98,867	44,695	50,879

22. Amounts payable to related parties

	December 31,		
	2005	2004	2003
Associates:			
Trade accounts payable	14,149	4,217	—
Other related parties:			
Trade accounts payable	140,649	64,302	23,540
Advances received	1,900	1,874	1,909
Other accounts payable	162	122	16,534
Bank demand deposits	16,302	11,827	472
Bank term deposits	17,424	29,751	85
	190,586	112,093	42,540

Purchases from related parties were as follows:

	Year ended December 31,		
	2005	2004	2003
Purchases from associates:			
Non-capital purchases	85,420	68,114	—
Purchases from other related parties:			
Non-capital purchases	1,346,002	817,095	596,774
Capital purchases	175,055	23,003	773
Bank expenses	622	99	5
Insurance claims paid	—	2,307	680

23. Debt finance

	December 31, 2005	2004	2003
International banks	1,342,181	1,222,988	276,827
Russian banks	199,719	181,687	134,901
Related party banks	—	—	6,251
Bonds issued in Russia	104,230	108,113	101,852
Factoring of receivables	16,801	22,924	1,240
Promissory notes issued	—	3,650	5,734
Other	698	4,933	230
Accrued interest	23,466	21,912	1,970
Unamortized balance of transaction costs	(16,064)	(13,062)	—
	1,671,031	1,553,145	529,005
Total debt is denominated in the following currencies:			
US dollars	1,228,626	1,172,042	237,602
Roubles	281,751	302,801	270,333
Euro	160,654	78,302	21,070
	1,671,031	1,553,145	529,005
Total debt is contractually repayable after the balance sheet date as follows:			
Less than one year	252,858	227,821	186,088
Between one and five years	1,001,245	939,826	323,169
More than five years	416,928	385,498	19,748
	1,671,031	1,553,145	529,005

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

- US$50.5 million (2004: US$144.4 million; 2003: US$133.6 million) net book value of plant and equipment;
- US$1,296.2 million (2004: US$508.2 million; 2003: US$67.2 million) of current assets; and,
- US$97.1 million (2004: US$39.5 million; 2003: US$60.3 million) of financial assets.

At the balance sheet date the Group had US$319.9 million (2004: US$289.2 million; 2003: US$286.4 million) of unused long term credit lines available to it.

24. Other current liabilities

	December 31, 2005	2004	2003
Advances received	112,950	108,005	85,896
Amounts payable to employees	45,898	48,660	22,724
Accrued expenses	16,162	12,590	2,819
Insurance and reinsurance payables	—	—	13,014
Lease liabilities	180	351	246
Other liabilities	3,496	4,205	5,345
	178,686	173,811	130,044

25. Other non-current liabilities

	December 31, 2005	2004	2003
Retirement benefit liability	133,977	98,574	31,827
Insurance related reserves	—	623	7,717
Lease liabilities	32	450	447
Other	6,495	5,503	—
	140,504	105,150	39,991

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

	December 31,				
	2005		2004		2003
	USA	Russia	USA	Russia	Russia
Discount rate	5.50%	6.85%	5.75%	8.50%	8.27%
Future rate of benefit increase	0.00%	6.20%	0.00%	6.20%	0.00%
Future rate of medical cost increases	0.00%	n/a	11.00%	n/a	n/a

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

The components in the retirement benefit liabilities were as follows:

	December 31,		
	2005	2004	2003
Retirees	78,049	52,293	35,045
Other participants:			
Vested	17,743	12,805	7,700
Non-vested	87,253	83,722	18,539
Present value of the defined benefit obligation	183,045	148,820	61,284
Fair value of the plan assets	(49,068)	(50,246)	(29,457)
	133,977	98,574	31,827

The movements in the retirement benefit liabilities were as follows:

	Year ended December 31,		
	2005	2004	2003
Net liability at beginning of year	98,574	31,827	38,288
Business combinations	—	31,368	—
Business de-combinations	—	(4,770)	—
Contributions made during the year	(7,981)	(17,406)	(18,913)
Amounts recognized in the income statement:			
Expected return on plan assets	(9,016)	(3,143)	(2,462)
Interest cost	9,656	6,990	4,493
Service cost	3,640	2,548	886
Actuarial losses	42,003	48,156	5,560
Foreign exchange (gain)/loss	(2,899)	3,004	3,975
Net liability at end of year	133,977	98,574	31,827

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

26. Share capital

The Parent Company's authorized capital, according to its Charter Document, at the balance sheet date comprised 551,854,800 ordinary shares with a nominal value of RUR0.01 each. This nominal amount was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions.

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

	December 31,		
	2005	2004	2003
Nominal share capital at current exchange rate	192	199	187
Historic difference	3,310,937	3,310,930	3,310,942
Total historic value of share capital	3,311,129	3,311,129	3,311,129

All authorized share capital was issued and fully paid at each balance sheet date. All shares carry equal voting and distribution rights. The movements in shares during the period were as follows:

	Shares issued and fully paid
As at December 31, 2003	22,074,192
Share split (1 to 25 effective December 30, 2004)	529,780,608
As at December 31, 2005 and 2004	551,854,800

Dividends

The maximum dividend payable is restricted to the total accumulated retained earnings of the parent company determined according to Russian law. As at the balance sheet date, reserves available for distribution were US$3,308.6 million (2004: US$2,471.7 million; 2003: US$1,283.4 million).

On June 10, 2005, the Meeting of Shareholders approved the final dividend of RUR3.00 (US$0.11) per share in respect of 2004, and an interim dividend of RUR4.00 (US$0.14) per share in respect of the first quarter of 2005.

On September 22, 2005, the Meeting of Shareholders approved an interim dividend of RUR3.90 (US$0.14) per share in respect of the first half of 2005.

On December 6, 2005, the Meeting of Shareholders approved an interim dividend of RUR3.00 (US$0.10) per share in respect of the first nine months of 2005.

Share issue subsequent to December 31, 2005

As described in note 28, subsequent to December 31, 2005, the Group initiated issuance of additional shares by the Parent Company to acquire controlling stakes in coal and iron ore mining assets currently controlled by its majority shareholder.

27. Subsidiary and associated companies

The following is a list of the Group's significant subsidiaries and associates and the effective holdings of ordinary shares therein.

Company	December 31, 2005	2004	2003	Location	Activity
Steel segment — Russia:					
Subsidiaries:					
ZAO Severgal	75.0%	75.0%	75.0%	Russia	Hot dip galvanizing
ZAO Izhorsky Tube Factory	100.0%	100.0%	100.0%	Russia	Wide pipes
Severstal Export GmbH	99.8%	99.8%	99.8%	Switzerland	Steel sales
AS Severstallat	50.5%	50.5%	50.5%	Latvia	Steel sales
Latvijas Metals	50.5%	nil%	nil%	Latvia	Steel sales
OOO AviaCompany Severstal	100.0%	100.0%	100.0%	Russia	Air transport
OOO SSM-Tyazhmash	nil%	nil%	100.0%	Russia	Repairs & construction
OAO Domnaremont	nil%	nil%	56.4%	Russia	Repairs & construction
OAO Metallurgremont	nil%	nil%	78.3%	Russia	Repairs & construction
ZAO Firma Stoik	nil%	nil%	100.0%	Russia	Repairs & construction
OOO Energoremont	nil%	nil%	100.0%	Russia	Repairs & construction
OOO Uralmash MO	nil%	nil%	100.0%	Russia	Engineering & design
Associates:					
Severstal US Holdings LLC *	19.9%	nil%	nil%	USA	Mini-mill
Armaturu Servisa Centrs SIA	25.0%	25.0%	25.0%	Latvia	Steel service center
(*) — 59.95% of total capital, which includes preference shares					
Steel segment — USA:					
Subsidiaries:					
Severstal North America Inc	93.0%	100.0%	nil%	USA	Iron & steel mill
Associates:					
Double Eagle Steel Coating company	46.5%	50.0%	nil%	USA	Electro-galvanizing
Spartan Steel Coating LLC	44.6%	48.0%	nil%	USA	Hot dip galvanizing
Delaco Processing LLC	45.6%	49.0%	nil%	USA	Steel slitting
FDS Coke Holdings LLC	41.9%	45.0%	nil%	USA	Coking coal
Mountain State Carbon LLC	31.0%	nil%	nil%	USA	Coking coal
Metalware segment:					
Subsidiaries:					
ZAO Severstal-Metiz	100.0%	nil%	nil%	Russia	Management company
OAO Cherepovets Steel Rolling Mill	88.8%	83.1%	82.3%	Russia	Steel machining
OAO Orlovsky Steel Rolling Mill **	92.0%	89.8%	89.8%	Russia	Steel machining
OOO Volgometiz	100.0%	100.0%	nil%	Russia	Steel machining
OOO Policher	80.0%	74.8%	41.2%	Russia	Polymer coatings
Associates:					
OOO ChSPZ MKR	44.4%	41.5%	41.2%	Russia	Mattress springs
(**) — 87.2% of total capital, which includes preference shares					
Insurance segment:					
Subsidiaries:					
OAO Insurance Company Sheksna	nil%	nil%	92.2%	Russia	Insurance
OAO Sheksna-M	nil%	nil%	92.2%	Russia	Medical insurance
OOO Sheksna-Life	nil%	nil%	nil%	Russia	Life insurance
Star Insurance Company Ltd	14.0%	100.0%	100.0%	UK	Insurance
Financing segment:					
Subsidiaries:					
OAO Metallurgical Commercial Bank	72.6%	71.4%	72.5%	Russia	Banking
OOO Promleasing	13.8%	13.6%	56.3%	Russia	Leasing

In addition, at the balance sheet date, a further 22 (2004: 55; 2003: 87) subsidiaries and associates, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

'Steel segment — Russia' contains Russian production entities, foreign trading companies, which are selling products primarily produced in Russia, and other foreign companies, which either provide services to Russian production entities or are managed from Russia.

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

Acquisitions of subsidiaries and additional interests in subsidiaries during 2005

During the first six months of 2005, the Group bought 84.8% of new share issue by OAO Cherepovets Steel Rolling Mill ("ChSPZ") for US$32.4 million and minority shareholders purchased 15.2% of this share issue for US$5.8 million. Subsequently the Group acquired an additional 4.99% in ChSPZ for US$5.4 million from third parties. Net assets of ChSPZ at the time of acquisition were US$162.0 million, resulting in recognition of US$2.7 million of negative goodwill.

ZAO Severstal-Metiz was a holding company that managed the activities of the Metalware segment, provided all administrative services to the companies of the Metalware segment and was the sole sales and procurement organization for the Metalware segment. In January 2005, Severstal acquired 100.0% of the outstanding share capital of ZAO Severstal-Metiz, from a company under common shareholder control, for US$0.8 million.

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

During 2005, AS Severstallat, a 50.5% subsidiary of the Group, acquired 100% of Latvijas Metals for US$5.5 million. Latvijas Metals is the metals trader in Baltic states, and the acquisition was undertaken to strengthen the Group's position in this market. A summary of acquired assets and liabilities is presented below:

Cash and cash equivalents	657
Trade accounts receivable	1,311
Inventories	4,906
Other current assets	792
Property, plant and equipment	4,036
Trade accounts payable	(199)
Other taxes and social security payable	(144)
Other current liabilities	(151)
Debt finance	(841)
Net identifiable assets and liabilities acquired	10,367
Consideration paid	(5,537)
Negative goodwill	4,830

28. Subsequent events

Additional share issue subsequent to December 31, 2005

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

On March 29, 2006, the Board of Directors approved the independent appraiser's valuations of the Parent Company shares being issued at RUR320.74 per share (US$11.24 at the exchange rate on the date of valuation — October 1, 2005) and of the mining assets being acquired at RUR117,202 million (US$4,107 million at the exchange date on the date of valuation — October 1, 2005).

Shareholders of the Parent Company, which were entitled to voting but did not participate in it or voted against the deal, have the right to participate in additional share issue by purchasing for cash the amount of shares that maintains their current shareholding interest at a price of RUR320.74 per share. The market price of shares on March 27, 2006 was RUR384 (US$13.79) per share. Shareholders, owning approximately 16.5% of the outstanding share capital, are entitled to such purchase.

On April 14, 2006, the Board of Directors called for an extraordinary shareholder meeting on May 29, 2006 to approve the price and other terms of the share issue for acquiring the mining assets.

Acquisitions of subsidiaries subsequent to December 31, 2005

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

In April 2006, the Group acquired 100% of Carrington Wire Ltd., a UK wire and other metalware products producer, for US$35 million.

These acquisitions were conducted to strengthen the Group's position in the metalware market. Management does not currently possess all necessary information to disclose the effect of these subsequent acquisitions.

Subsequent to December 31, 2005, the Group has initiated the process of purchasing back the controlling stakes in repair and construction companies, which were disposed by the Group on December 31, 2004 to related parties. This purchase, together with the acquisition of mining assets, would allow the Group to become a fully integrated steel company. Purchase prices would be determined in accordance with independent appraisers' reports. Management expects that total consideration for the stakes in these companies would not deviate significantly from the amounts received by the Group for their disposal on December 31, 2004 and is unlikely to exceed US$70 million.

Contributions to equity associates subsequent to December 31, 2005

Contributions by the Group to its equity associates that were made subsequent to December 31, 2005, are described in note 19 to these consolidated financial statements.

29. Segment information

Segmental balance sheets as at December 31, 2005:

	Steel segment		Metalware segment	Financing segment	Inter segment balances	Consolidated
	Russia	USA				
Assets						
Current assets:						
Cash and cash equivalents	779,230	—	3,921	143,246	(56,268)	870,129
Short-term bank deposits	718,705	—	18,274	—	(63,538)	673,441
Short-term financial investments	263,736	—	15,619	143,999	(147,559)	275,795
Trade accounts receivable	265,958	166,541	27,652	—	—	460,151
Amounts receivable from related parties	165,498	970	9,411	—	(11,183)	164,696
Inventories	542,303	401,146	59,457	—	(10,132)	992,774
VAT receivable	304,185	—	33,797	—	—	337,982
Income tax receivable	13	—	914	—	—	927
Other current assets	84,478	22,964	8,041	5,186	—	120,669
Total current assets	3,124,106	591,621	177,086	292,431	(288,680)	3,896,564
Non-current assets:						
Long-term financial investments	985,961	—	7,601	—	(341,220)	652,342
Investment in associates	63,209	142,988	2,120	—	—	208,317
Property, plant and equipment	5,789,462	83,863	111,734	391	—	5,985,450
Intangible assets	4,950	—	1,418	50	—	6,418
Total non-current assets	6,843,582	226,851	122,873	441	(341,220)	6,852,527
Total assets	9,967,688	818,472	299,959	292,872	(629,900)	10,749,091
Liabilities and shareholders' equity						
Current liabilities:						
Trade accounts payable	179,982	129,040	7,354	—	1,517	317,893
Bank customer accounts	—	—	—	218,673	(119,806)	98,867
Amounts payable to related parties	143,030	14,149	10,610	33,725	(10,928)	190,586
Income taxes payable	29,131	14,183	104	—	—	43,418
Other taxes and social security payable	14,568	1,681	16,063	—	—	32,312
Short-term debt finance	237,801	143,818	20,560	—	(149,321)	252,858
Dividends payable	12,275	—	—	—	—	12,275
Other current liabilities	145,830	22,169	10,587	100	—	178,686
Total current liabilities	762,617	325,040	65,278	252,498	(278,538)	1,126,895
Non-current liabilities:						
Long-term debt finance	1,413,690	—	4,483	—	—	1,418,173
Deferred tax liabilities	906,694	62,508	8,462	466	(4,283)	973,847
Other non-current liabilities	73,810	45,340	21,354	—	—	140,504
Total non-current liabilities	2,394,194	107,848	34,299	466	(4,283)	2,532,524
Total equity	6,810,877	385,584	200,382	39,908	(347,079)	7,089,672
Total equity and liabilities	9,967,688	818,472	299,959	292,872	(629,900)	10,749,091

Segmental balance sheets as at December 31, 2004:

	Steel segment		Metalware segment	Financing segment	Insurance segment	Inter segment balances	Consolidated
	Russia	USA					
Assets							
Current assets:							
Cash and cash equivalents	1,029,139	4,412	3,858	207,693	4,633	(168,316)	1,081,419
Short-term bank deposits	555,359	—	—	—	—	—	555,359
Short-term financial investments	106,956	85	102	120,373	—	(60,093)	167,423
Trade accounts receivable	325,571	101,815	28,746	—	—	—	456,132
Amounts receivable from related parties	291,513	1,053	8,423	—	—	(13,776)	287,213
Inventories	577,556	385,220	69,929	—	—	(8,401)	1,024,304
VAT receivable	147,123	—	26,249	—	—	—	173,372
Income tax receivable	40,675	6	3,264	—	—	—	43,945
Other current assets	90,772	18,883	8,405	4,948	2	—	123,010
Total current assets	3,164,664	511,474	148,976	333,014	4,635	(250,586)	3,912,177
Non-current assets:							
Long-term financial assets	463,128	—	1,156	827	—	(374,617)	90,494
Investment in associates	408	85,104	7,618	—	—	(7,360)	85,770
Property, plant and equipment	2,285,997	69,587	132,663	524	—	—	2,488,771
Intangible assets	4,868	—	1,418	100	—	—	6,386
Total non-current assets	2,754,401	154,691	142,855	1,451	—	(381,977)	2,671,421
Total assets	5,919,065	666,165	291,831	334,465	4,635	(632,563)	6,583,598
Liabilities and shareholders' equity							
Current liabilities:							
Trade accounts payable	195,923	107,620	8,428	—	—	—	311,971
Bank customer accounts	—	—	—	44,695	—	—	44,695
Amounts payable to related parties	68,774	2,427	14,916	255,550	—	(229,574)	112,093
Income taxes payable	21,059	9,403	3	—	—	—	30,465
Other taxes and social security payable	15,653	2,396	14,463	8	—	—	32,520
Short-term debt finance	194,750	18,568	27,115	—	—	(12,612)	227,821
Dividends payable	18,440	—	—	—	—	—	18,440
Other current liabilities	139,559	22,449	11,623	169	11	—	173,811
Total current liabilities	654,158	162,863	76,548	300,422	11	(242,186)	951,816
Non-current liabilities:							
Long-term debt finance	1,318,812	—	6,512	—	—	—	1,325,324
Deferred tax liabilities	216,784	52,351	12,482	(108)	—	(3,678)	277,831
Other non-current liabilities	48,175	39,513	16,839	—	623	—	105,150
Total non-current liabilities	1,583,771	91,864	35,833	(108)	623	(3,678)	1,708,305
Total equity	3,681,136	411,438	179,450	34,151	4,001	(386,699)	3,923,477
Total equity and liabilities	5,919,065	666,165	291,831	334,465	4,635	(632,563)	6,583,598

Segmental balance sheets as at December 31, 2003:

	Steel segment	Metalware segment	Financing segment	Insurance segment	Inter segment balances	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	515,241	4,100	112,089	32,079	(139,510)	523,999
Short-term bank deposits	127,939	—	—	—	—	127,939
Short-term financial investments	59,213	29	100,099	36,295	(15,328)	180,308
Trade accounts receivable	148,120	18,472	467	—	—	167,059
Amounts receivable from related parties	55,854	2,629	211	9,482	(15,896)	52,280
Inventories	308,230	41,208	23	78	(4,826)	344,713
VAT receivable	75,239	8,043	353	—	—	83,635
Income tax receivable	1,331	—	—	885	—	2,216
Other current assets	61,401	5,436	13,775	4,027	(5)	84,634
Total current assets	1,352,568	79,917	227,017	82,846	(175,565)	1,566,783
Non-current assets:						
Amounts receivable from related parties	181,443	—	—	—	—	181,443
Long-term financial investments	213,431	1,882	1,014	2,535	(92,242)	126,620
Investment in associates	120	6,851	—	—	(6,162)	809
Property, plant and equipment	1,876,081	114,733	2,093	2,674	—	1,995,581
Intangible assets	1,010	1,418	139	—	—	2,567
Total non-current assets	2,272,085	124,884	3,246	5,209	(98,404)	2,307,020
Total assets	3,624,653	204,801	230,263	88,055	(273,969)	3,873,803
Liabilities and shareholders' equity						
Current liabilities:						
Trade accounts payable	102,960	4,992	807	—	—	108,759
Bank customer accounts	—	—	50,879	—	—	50,879
Amounts payable to related parties	40,999	9,321	149,994	4	(157,778)	42,540
Income taxes payable	5,395	480	92	—	—	5,967
Other taxes and social security payable	16,084	1,222	294	32	—	17,632
Debt finance	174,246	12,947	20	6,066	(7,191)	186,088
Dividends payable	39,481	—	—	—	—	39,481
Other current liabilities	111,612	4,995	165	13,277	(5)	130,044
Total current liabilities	490,777	33,957	202,251	19,379	(164,974)	581,390
Non-current liabilities:						
Debt finance	342,917	—	—	—	—	342,917
Deferred tax liabilities	229,857	10,615	(365)	7,765	(229)	247,643
Other non-current liabilities	24,884	7,390	—	16,683	(8,966)	39,991
Total non-current liabilities	597,658	18,005	(365)	24,448	(9,195)	630,551
Total equity	2,536,218	152,839	28,377	44,228	(99,800)	2,661,862
Total liabilities and shareholders' equity	3,624,653	204,801	230,263	88,055	(273,969)	3,873,803

Segmental income statements for the year ended December 31, 2005:

	Steel segment		Metalware segment	Financing segment	Inter segment balances	Consolidated
	Russia	USA				
Sales						
Sales — external	5,099,105	1,822,573	562,630	—	—	7,484,308
Sales — to related parties	773,296	—	56,200	—	(341,103)	488,393
	5,872,401	1,822,573	618,830	—	(341,103)	7,972,701
Cost of sales	(3,358,810)	(1,716,332)	(556,963)	—	339,372	(5,292,733)
Gross profit	2,513,591	106,241	61,867	—	(1,731)	2,679,968
Selling, general and administrative expenses	(201,121)	(29,539)	(36,882)	(1,903)	—	(269,445)
Distribution expenses	(507,774)	—	(27,848)	—	—	(535,622)
Indirect taxes and contributions	(25,724)	—	(3,444)	(129)	—	(29,297)
Share of associates' (losses)/profits	(4,968)	2,749	(2,047)	—	—	(4,266)
Net income from bank lending operations	—	—	—	6,250	4,544	10,794
Net income/(expenses) from securities operation	673	505	470	3,461	(1,295)	3,814
Loss/(gain) on disposal of property, plant and equipment	(29,618)	(184)	(1,885)	10	—	(31,677)
Net other operating (expenses)/income	(3,202)	1,981	(273)	1,531	—	37
Profit from operations	1,741,857	81,753	(10,042)	9,220	1,518	1,824,306
Reversal of impairment/(impairment) of property, plant and equipment, net	85,250	—	(914)	—	—	84,336
Negative goodwill	4,830	—	—	—	2,800	7,630
Net other non-operating expenses	(29,029)	—	(4,142)	—	(9,789)	(42,960)
Profit before financing and taxation	1,802,908	81,753	(15,098)	9,220	(5,471)	1,873,312
Net financing (expense)/income	(128,107)	(12,524)	197	—	(5,563)	(145,997)
Profit before income tax	1,674,801	69,229	(14,901)	9,220	(11,034)	1,727,315
Income tax expense	(404,802)	(27,088)	(2,819)	(2,378)	1,437	(435,650)
Profit for the year	1,269,999	42,141	(17,720)	6,842	(9,597)	1,291,665
Attributable to:						
shareholders of OAO Severstal	1,268,947	40,628	(16,153)	4,967	(9,617)	1,288,772
minority interest	1,052	1,513	(1,567)	1,875	20	2,893
Additional information:						
depreciation expense	228,870	7,159	19,550	146	—	255,725
revaluation of assets recognized in equity:						
revaluation increase	2,980,525	8,559	—	—	—	2,989,084
revaluation decrease	(20,994)	—	—	—	—	(20,994)

Segmental income statements for the year ended December 31, 2004:

	Steel segment		Metalware segment	Financing segment	Insurance segment	Inter segment balances	Consolidated
	Russia	USA					
Sales							
Sales — external	4,428,230	1,332,733	521,731	—	—	—	6,282,694
Sales — to related parties	674,532	10,563	45,484	—	—	(349,426)	381,153
	5,102,762	1,343,296	567,215	—	—	(349,426)	6,663,847
Cost of sales	(2,672,730)	(1,201,880)	(487,544)	—	—	343,129	(4,019,025)
Gross profit	2,430,032	141,416	79,671	—	—	(6,297)	2,644,822
Selling, general and administration expenses	(203,355)	(17,748)	(32,881)	(2,468)	(5,219)	21,574	(240,097)
Distribution expenses	(418,658)	—	(18,876)	—	—	2,723	(434,811)
Indirect taxes and contributions	(22,264)	(19)	(2,759)	(149)	(75)	—	(25,266)
Share of associates' (losses)/profits	288	6,907	1,245	—	282	(1,564)	7,158
Net income from bank lending operations	—	—	—	4,465	—	(202)	4,263
Net income/(expenses) from securities operation	—	—	—	2,239	(2,176)	25,767	25,830
Net expenses from insurance operations	—	—	—	—	6,217	(24,454)	(18,237)
(Loss)/gain on disposal of property, plant and equipment	(25,971)	—	153	(284)	—	—	(26,102)
Net other operating (expenses)/income	(1,384)	646	(380)	1,687	573	(168)	974
Profit from operations	1,758,688	131,202	26,173	5,490	(398)	17,379	1,938,534
Impairment of property, plant and equipment	(15,764)	—	(302)	—	—	—	(16,066)
Negative goodwill	—	57,143	3,934	—	—	197	61,274
Net other non-operating income/(expenses)	32,980	—	(2,667)	(79)	(32,862)	(817)	(3,445)
Profit before financing and taxation	1,775,904	188,345	27,138	5,411	(33,260)	16,759	1,980,297
Net financing (expense)/income	(52,216)	(8,441)	(5,488)	—	5,961	(29,972)	(90,156)
Profit before income tax	1,723,688	179,904	21,650	5,411	(27,299)	(13,213)	1,890,141
Income tax expense	(428,101)	(43,966)	(9,728)	(1,380)	(1,496)	3,047	(481,624)
Profit for the year	1,295,587	135,938	11,922	4,031	(28,795)	(10,166)	1,408,517
Attributable to:							
shareholders of OAO Severstal	1,290,442	135,938	11,334	4,042	(28,796)	(11,781)	1,401,179
minority interest	5,145	—	588	(11)	1	1,615	7,338
Additional information:							
depreciation expense	225,024	6,093	16,401	841	1,410	—	249,769

Segmental income statements for the year ended December 31, 2003:

	Steel segment	Metalware segment	Financing segment	Insurance segment	Inter segment balances	Consolidated
Sales						
Sales — external	2,662,752	252,758	—	—	—	2,915,510
Sales — to related parties	423,733	23,096	—	—	(165,054)	281,775
	3,086,485	275,854	—	—	(165,054)	3,197,285
Cost of sales	(1,836,138)	(232,304)	—	—	160,528	(1,907,914)
Gross profit	1,250,347	43,550	—	—	(4,526)	1,289,371
Selling, general and administration expenses	(161,829)	(15,970)	(819)	(3,657)	24,399	(157,876)
Distribution expenses	(304,484)	(11,157)	—	—	687	(314,954)
Indirect taxes and contributions	(14,381)	(2,119)	(1,115)	(56)	—	(17,671)
Share of associates' (losses)/profits	70	359	—	415	(1,124)	(280)
Net income from bank lending operations	—	—	1,948	—	8	1,956
Net income/(expenses) from securities operation	(10,353)	—	1,853	225	690	(7,585)
Net expenses from insurance operations	—	—	—	8,968	(23,265)	(14,297)
(Loss)/gain on disposal of property, plant and equipment	(20,221)	(327)	203	—	—	(20,345)
Net other operating income	702	334	1,857	846	—	3,739
Profit from operations	739,851	14,670	3,927	6,741	(3,131)	762,058
Impairment of property, plant and equipment	(4,399)	(1,014)	—	—	—	(5,413)
Impairment of goodwill	(10,548)	—	—	—	—	(10,548)
Negative goodwill	—	5,544	—	—	(445)	5,099
Net other non-operating expenses	(19,858)	(988)	—	—	—	(20,846)
Profit before financing and taxation	705,046	18,212	3,927	6,741	(3,576)	730,350
Net financing (expense)/income	28,794	(1,271)	(57)	8,540	(8)	35,998
Profit before income tax	733,840	16,941	3,870	15,281	(3,584)	766,348
Income tax expense	(155,614)	(2,426)	(331)	(3,487)	(404)	(162,262)
Profit for the year	578,226	14,515	3,539	11,794	(3,988)	604,086
Attributable to:						
shareholders of OAO Severstal	574,227	12,932	3,407	11,794	(5,845)	596,515
minority interest	3,999	1,583	132	—	1,857	7,571
Additional information:						
depreciation expense	213,649	12,029	83	735	—	226,496

30. Commitments and contingencies

a. For litigation, tax and other liabilities

At the balance sheet date, the Group was subject to various claims from customers and suppliers totaling US$5.0 million (2004: US$nil; 2003: US$4.0 million) and the tax authorities totaling US$nil (2004: US$15.0 million; 2003: US$nil). Based on experience in resolving such matters, management believes that it has adequately provided for any liabilities in the accompanying financial statements.

The taxation system and regulatory environment of the Russian Federation are relatively new and characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during 2004 and 2005 suggest that the regulatory authorities within the Russian Federation are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks, however, management has adopted a conservative approach to interpreting legislation and believes that it has complied with all relevant legislation and adequately provides for tax and other regulatory liabilities.

b. Long term purchase and sales contracts

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

c. Capital commitments

At the balance sheet date the Group had contractual capital commitments of US$284.9 million (2004: US$212.6 million; 2003: US$208.1 million).

d. Insurance

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

e. Guarantees

At the balance sheet date the Group had given US$83.8 million (2004: US$65.3 million; 2003: US$55.8 million) of guarantees, majority of which were given for bank borrowings by related parties. These guarantees mature in accordance with the debts they guarantee over periods up to 2013.

31. Financial instruments

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The steel, metalware, mining and insurance segments of the Group do not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. As at December 31, 2005, 2004 and 2003 the financing segment had no outstanding foreign exchange contracts.

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

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

	December 31, 2004		
	Market value	Book value	Difference
Citibank — Eurobonds 2009	334,750	325,000	9,750
Citibank — Eurobonds 2014	404,063	375,000	29,062
	738,813	700,000	38,812

The above amounts exclude accrued interest.

Credit risk

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

Liquidity risk

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

Foreign exchange rate risk

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

Interest rate risk

Interest rates on Group's debt finance are either fixed or variable, at a fixed spread over LIBOR or Euribor for the duration of each contract. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

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

	Rouble	US dollar	Euro
As at December 31, 2005:			
Interest bearing assets			
Short term bank deposits	5.92%	5.18%	—
Placements at financial institutions	6.17%	2.40%	2.25%
Loans to bank customers	8.79%	11.20%	—
Held-for-trading securities	6.25%	—	—
Originated loans	9.86%	7.91%	3.42%
Interest bearing liabilities			
Bank customer accounts	4.26%	1.85%	1.28%
Bank loan finance	9.89%	7.98%	3.46%
Bonds issued in Russia	8.10%	—	—

	Rouble	US dollar	Euro
As at December 31, 2004:			
Interest bearing assets			
Short term bank deposits	6.75%	3.40%	4.50%
Placements at financial institutions	0.18%	2.21%	1.63%
Loans to bank customers	9.20%	11.76%	12.65%
Held-for-trading securities	8.17%	—	—
Originated loans	8.17%	—	—
Interest bearing liabilities			
Bank customer accounts	2.91%	0.63%	0.51%
Promissory notes issued	8.17%	—	—
Bank loan finance	9.88%	7.91%	5.70%
Bonds issued in Russia	9.75%	—	—

	Rouble	US dollar	Euro
As at December 31, 2003:			
Interest bearing assets			
Short term bank deposits	7.69%	3.21%	1.87%
Placements at financial institutions	1.58%	0.99%	2.20%
Loans to bank customers	10.52%	10.29%	14.25%
Held-for-trading securities	9.72%	—	—
Held-to-maturity securities	9.00%	—	—
Originated loans	9.00%	—	—
Interest bearing liabilities			
Bank customer accounts	5.62%	0.46%	1.86%
Promissory notes issued	9.10%	—	—
Bank loan finance	10.71%	4.28%	3.95%
Bonds issued in Russia	9.75%	—	—

Lucchini SpA

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

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for the six months ended June 30, 2006

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ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Corso Magenta, 29
25121 Brescia

Tel. (+39) 030 2896111
Fax (+39) 030 295437
www.ey.com

INDEPENDENT AUDITORS' REVIEW REPORT
on the interim condensed consolidated financial statements
for the six months period ended June 30, 2006

To the Board of Directors of
Lucchini S.p.A.

We have reviewed the accompanying interim condensed consolidated balance sheet of Lucchini S.p.A. and its subsidiaries (the "Lucchini Group") as at June 30, 2006 and the related interim condensed consolidated statements of income, changes in shareholders' equity and cash flows for the six months period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the 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.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Brescia, Italy
September 15, 2006

Reconta Ernst & Young SpA

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
Capitale Sociale €1,259,500,00 i.v.
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Lucchini SpA

Condensed consolidated interim balance sheet
June 30, 2006
(Amounts expressed in thousands of Euro)

	Note	June 30, 2006 unaudited	Dec 31, 2005
Assets			
Current assets:			
Cash and cash equivalents		219,345	323,839
Financial investments	3	34,488	6,681
Trade accounts receivable	4	486,955	567,915
Amounts receivable from related parties	5	26,358	12,659
Inventories		501,850	533,020
VAT recoverable		23,956	42,553
Income tax recoverable		8,929	9,343
Other assets		23,898	17,566
Total current assets		1,325,779	1,513,576
Non-current assets:			
Financial investments	3	17,431	19,931
Amounts receivable from related parties	5	11,004	11,004
Investment in associates		1,966	1,966
Property, plant and equipment		1,086,623	1,113,403
Intangible assets		14,417	16,660
Other assets		10,823	8,887
Deferred tax assets		57,759	68,950
Assets held for sale		54,500	55,668
Total non-current assets		1,254,523	1,296,469
Total assets		2,580,302	2,810,045
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		439,455	415,236
Amounts payable to related parties	6	36,708	18,106
Income taxes payable		13,271	34,393
Other taxes and social security payable	7	57,534	90,280
Government grants		3,240	3,318
Debt finance		248,547	546,477
Lease liabilities		1,455	1,447
Other liabilities		91,653	89,573
Total current liabilities		891,863	1,198,830
Non-current liabilities:			
Trade accounts payable		7,972	8,346
Government grants		2,315	2,417
Debt finance		469,883	412,446
Lease liabilities		7,138	7,874
Deferred tax liabilities		99,723	101,824
Deferred employee benefits		114,505	113,689
Provisions for contingencies	7	47,779	57,230
Other liabilities		38	39
Liabilities related to assets held for sale		2,280	145
Total non-current liabilities		751,633	704,010
Shareholders' equity:			
Share capital		694,200	694,200
Legal reserve		12,079	11,578
Foreign exchange differences		80	1,162
Retained earnings		228,457	197,805
Equity attributable to parent company shareholders		934,816	904,745
Minority interest		1,990	2,460
Total shareholders' equity		936,806	907,205
Total liabilities and shareholders' equity		2,580,302	2,810,045

These condensed consolidated financial statements were approved by the Board of Directors on September 11, 2006.

Lucchini SpA

Condensed consolidated interim income statement
Six months ended June 30, 2006
(Amounts expressed in thousands of Euro, except shares and earnings per share)

	Six months June 30, 2006 unaudited	Six months June 30, 2005 unaudited
Sales		
Sales of goods and services	1,361,441	1,289,759
	1,361,441	1,289,759
Cost of sales	(1,153,415)	(1,004,958)
Gross profit	208,026	284,801
Selling, general and administration expenses	(94,809)	(95,191)
Distribution expenses	(23,579)	(27,584)
Share of associates' profits	111	75
Net other operating income/(expenses)	1,342	(10,356)
Profit from operations	91,091	151,745
Net (impairment)/reversal of impairment of property, plant and equipment	(2,032)	(790)
Profit before financing and taxation	89,059	150,955
Net financing expense	(19,860)	(22,108)
Profit before income tax	69,199	128,847
Income tax expense	(37,153)	(44,020)
Profit from continuing activities	32,046	84,827
Discontinuing activities	(677)	2,963
Profit for the period	31,369	87,790
Attributable to:		
Parent company shareholders	31,153	85,722
Minority interest	216	2,068
	31,369	87,790
Weighted average number of shares outstanding during the year		
Basic	31,554,545	17,918,182
Fully diluted	37,329,545	23,693,182
Continuing earnings per share (Euros)		
Basic	1.02	4.73
Fully diluted	0.86	3.58
Discontinuing earnings per share (Euros)		
Basic	(0.02)	0.17
Fully diluted	(0.02)	0.13

Lucchini SpA

Condensed consolidated interim statement of cash flows
Six months ended June 30, 2006
(Amounts expressed in thousands of Euro)

	Six months June 30, 2006 unaudited	Six months June 30, 2005 unaudited
Operating activities:		
Profit before financing and taxation	89,059	150,955
Adjustments to reconcile profit to cash provided by operating activities:		
Depreciation of property, plant and equipment	53,917	46,260
Amortization of intangible assets	2,699	2,494
Asset impairment	2,032	790
(Gain)/loss on disposal of property, plant and equipment	(1,243)	—
(Gain)/loss on disposal of subsidiaries/associates	4	—
Share of associates' profits	(111)	(75)
Changes in provisions	7,455	29,126
Changes in operating assets and liabilities:		
Trade accounts receivable	(51,424)	(29,937)
Amounts receivable from related parties	(14,238)	2,999
VAT recoverable	18,585	17,237
Inventories	29,622	(73,208)
Other assets	(6,307)	(20,866)
Trade accounts payable	24,024	(27,197)
Amounts payable to related parties	20,870	13,645
Other taxes and social security payable	(32,740)	21,315
Deferred income	(180)	(390)
Other liabilities	2,123	29,163
Assets held for sale	2,179	(3,163)
Deferred employee benefits	(7,272)	(4,901)
Provisions for contingencies	(9,786)	(2,963)
Cash generated from operations	129,268	151,288
Interest received	5,641	3,127
Interest paid	(27,009)	(41,736)
Income tax paid	(48,756)	(8,781)
Net cash provided from operating activities	59,144	103,898
Investing activities:		
Additions to property, plant and equipment	(32,905)	(25,618)
Additions to intangible assets	(456)	(1,060)
Additions to financial investments	(100)	—
Buy out of minority interest	—	(220)
Proceeds from disposal of property, plant and equipment	4,773	4,211
Proceeds from disposal of financial investments	3	433
Proceeds from disposal of subsidiary	210	—
Cash used for investing activities	(28,475)	(22,254)
Financing activities:		
Proceeds from debt finance	48,432	—
Repayment of debt finance	(187,940)	(456,569)
Change in short term debt finance	5,992	(11,588)
Proceeds from new share issue	—	450,000
Repayment of lease finance	(899)	(907)
Dividends paid to minorities	(558)	(576)
Dividends received	111	75
Cash used for financing activities	(134,862)	(19,565)
Effect of exchange rates on cash and cash equivalents	(301)	228
Net increase in cash and cash equivalents	(104,494)	62,307
Cash and cash equivalents at beginning of the period	323,839	165,830
Cash and cash equivalents at end of the period	219,345	228,137

Lucchini SpA

Condensed consolidated interim statement of changes in shareholders' equity
Six months ended June 30, 2006
(Amounts expressed in thousands of Euro)

	Attributable to Parent Company shareholders						
	Share capital	Legal reserve	Foreign exchange reserve	Retained earnings	Total	Minority interest	Total equity
Balances at December 31, 2004	444,000	554	6,497	(117,130)	333,921	10,486	344,407
New share capital issued	450,000	—	—	—	450,000	—	450,000
Losses written off against capital	(199,800)	—	—	199,800	—	—	—
Transfer to legal reserve	—	11,024	—	(11,024)	—	—	—
Foreign exchange differences	—	—	1,159	—	1,159	103	1,262
Dividends paid	—	—	—	—	—	(576)	(576)
Result of buying out minorities	—	—	—	—	—	(178)	(178)
Profit for the period	—	—	—	85,722	85,722	2,068	87,790
Balances at June 30, 2005 (unaudited)	694,200	11,578	7,656	157,368	870,802	11,903	882,705
Balances at December 31, 2005	694,200	11,578	1,162	197,805	904,745	2,460	907,205
Transfer to legal reserve	—	501	—	(501)	—	—	—
Foreign exchange differences	—	—	(1,082)	—	(1,082)	(11)	(1,093)
Dividends paid	—	—	—	—	—	(558)	(558)
Discontinued activities	—	—	—	—	—	(117)	(117)
Profit for the period	—	—	—	31,153	31,153	216	31,369
Balances at June 30, 2006 (unaudited)	694,200	12,079	80	228,457	934,816	1,990	936,806

Lucchini SpA

Notes to the condensed consolidated interim financial statements
for the six months ended June 30, 2006
(Amounts expressed in thousands of Euro)
(unaudited)

1. Accounting policies

These condensed consolidated interim financial statements for the Lucchini SpA Group ('the Group') are prepared in accordance with International Financial Reporting Standard ('IFRS') number 34 *Interim Financial Reporting,* as issued by the International Accounting Standards Board ('IASB'), and use the accounting conventions and accounting policies as were used to prepare the Group's consolidated IFRS financial statements for the year ended December 31, 2005.

As of January 1, 2006 the Group (being Lucchini SpA, a steel manufacturer, registered office Piazza Meda 3/5, Milan, Italy and its subsidiary companies) adopted all new and revised IFRS and interpretations adopted by the IASB that are relevant to its operations and effective for the accounting periods beginning on January 1, 2006. There was no impact on opening retained earnings as at January 1, 2006 from the adoption of any of these standards.

2. Seasonality

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

3. Financial investments

	June 30, 2006	Dec 31, 2005
Originated loans to related parties:		
Coimpex Spzoo	344	344
Relco Spzoo	100	100
Originated loans to third parties:		
Elettra Group	22,799	22,799
Eli	100	—
Bank deposit accounts	26,598	—
Accrued interest	47	1,438
Available-for-sale securities:		
Unquoted shares held for investment purposes	5,367	5,369
Impairment	(3,436)	(3,438)
Total	51,919	26,612
Maturity analysis:		
Within one year	34,488	6,681
More than one year	17,431	19,931
Total	51,919	26,612

	2006	2005
Movement in provisions:		
Opening balance	(3,438)	(3,523)
Sundry shares written off against provision	2	85
Closing balance	(3,436)	(3,438)

Impairment amounts have been recorded to reflect management's assessment of each investment's recoverable amount through dividends or sale.

4. Trade accounts receivable

	June 30, 2006	Dec 31, 2005
Amounts receivable from customers	497,813	578,291
Allowance for doubtful accounts	(10,858)	(10,376)
Total	486,955	567,915

	2006	2005
Movement in allowance for doubtful accounts:		
Opening balance	(10,376)	(12,770)
Amounts written off during the period	1,138	621
Change in provision	(1,633)	1,778
Foreign exchange differences	13	(5)
Closing balance	(10,858)	(10,376)

The change in amounts receivable from customers incorporates a change in receivables securitization contracts, forced by new legislation, that results in €128.0 million of receivables being derecognized in accordance with the principles of IAS 39 *Financial instruments: Recognition and Measurement*. Of the total derecognized, €101.4 million has been derecognized from debt finance and €26.6 million has been recognized as financial investments because its entire maturity is greater than 90 days.

5. Amounts receivable from related parties

	June 30, 2006	Dec 31, 2005
Coimpex Spzoo from sale of land by Huta LW Spzoo	13,535	13,535
Provision against Coimpex receivable	(2,531)	(2,531)
Trade accounts receivable from:		
Companies under common shareholder control	26,354	12,534
Partners in jointly owned subsidiaries	4	125
Total	37,362	23,663
Maturity analysis:		
Within one year	26,358	12,659
More than one year	11,004	11,004
Total	37,362	23,663

All transactions with related parties were entered into on an arm's length basis. Trade balances are settled on normal trading terms. Total sales to related parties during the six months were €91.2 million (2005: €1.3 million).

6. Amounts payable to related parties

	June 30, 2006	Dec 31, 2005
Commercial trade payables with:		
Companies held for disposal (assets held for sale)	—	—
Associated companies	1,769	1,318
Companies under common shareholder control	23,199	14,716
Companies accounted for as investments	2	2
Partners in jointly owned subsidiaries	11,738	2,070
Total	36,708	18,106

All transactions with related parties were entered into on an arm's length basis. Trade balances are settled on normal trading terms. Purchases of goods and services from related parties during the six months were €71.1 million (2005: €47.0 million).

7. Other taxes and social security payable

	June 30, 2006	Dec 31, 2005
VAT	10,644	9,261
Import duties	2,850	8,266
Various other taxes and contributions payable	9,212	13,306
Social security charges payable	34,828	35,791
Social security amounts under dispute	—	23,656
	57,534	90,280

The social security amounts under dispute were paid during January 2006.

8. Provisions for contingencies

The components of the provision for contingent liabilities were as follows:

	June 30, 2006	Dec 31, 2005
Environment	5,119	8,094
Social security claims	19,209	19,032
Legal claims and contingencies	8,510	17,739
Carbon dioxide emission quotas to purchase	340	320
Warranty	379	217
Onerous contracts	771	464
Employee related	12,593	10,931
Other	858	433
Total	47,779	57,230

	2006	2005
Movement in provisions for contingencies:		
Opening balance	57,230	66,236
Change in provisions (net other operating income/expenses)	347	17,012
Utilization of provisions	(9,786)	(6,941)
Transfer to other assets	—	(19,080)
Business decombinations (note 9)	(19)	—
Foreign exchange differences	7	3
Closing balance	47,779	57,230

The Group has an ongoing requirement to undertake measures to prevent environmental damage and remediate past damage. The provision made represents management's best estimate of the more important work currently outstanding.

The Group has various claims against it relating to social security incentives utilized to facilitate employment. The provision represents management's best estimate of the potential losses arising in these cases.

The Group has a variety of claims against it from suppliers, customers and the tax inspectorate. The provisions made represent management's best estimate of the potential losses relating to these claims.

The Group has a number of claims against it by current and former employees in connection with employment conditions and industrial illnesses, the provisions made represent management's best estimate of the potential losses relating to these claims.

9. Commitments and contingencies

At the balance sheet date, the Group had contractual capital commitments of €53.7 million (December 31, 2005: €64.5 million).

Guarantees and letters of credit issued at the balance sheet date on behalf of the Group by banks to third parties totaled €203.4 million (December 31, 2005: €196.4 million).

10. Subsidiary and associated companies

On April 7, 2006 the Group sold its 65% interest in Spiro HPS AG to Sipro Stal Holding AG, who held the remaining 35% of this company. The effect of this disposal on these condensed consolidated interim financial statements is as follows:

Amounts receivable from related parties	361
VAT recoverable	4
Other assets	56
Contingent liabilities	(19)
Advances to suppliers	9
Income tax payable	(43)
Other liabilities	(37)
Net identifiable assets	331
Minority interest	(117)
Sub-total	214
Proceeds:	
Immediate cash payment	210
Loss on disposal (net other operating income/(expenses)	(4)
Net change in cash and cash equivalents	210

11. Other information

On May 24, 2006, the Group repaid its outstanding €200 million bond in full with accrued interest. Being €187.9 million net of the purchases in the secondary market during 2005.

The amounts of impairment recorded in the balance sheet as at December 31, 2004 were carried forward unchanged during the six months ended June 30, 2005.

12. Post balance sheet events

No events occurred after the balance sheet date that would have a material effect on the consolidated financial statements for the six months ended

* * *

Lucchini SpA

Consolidated Financial Statements
for the year ended December 31, 2005 and 2004

Lucchini SpA

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for the year ended December 31, 2005 and 2004

CONTENTS

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Corso Magenta, 29
25121 Brescia

Tel. (+39) 030 2896111
Fax (+39) 030 295437
www.ey.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Lucchini S.p.A.

We have audited the accompanying consolidated balance sheets of Lucchini S.p.A. (the "Company") and its subsidiaries (together with the Company, the "Lucchini Group") as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended and the related explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. These consolidated financial statements represent the first consolidated financial statements prepared by the Company in accordance with International Financial Reporting Standards ("IFRS").

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the consolidated financial position of the Lucchini Group as of December 31, 2005 and 2004 and the consolidated results of its operations and its cash flows for the years then ended, in accordance with IFRS.

Brescia, Italy
August 31, 2006

Reconta Ernst & Young SpA

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
Capitale Sociale €1,259,500,00 i.v.
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(vecchio numero R.I. 6697/89 - numero R.E.A. 250904)

Lucchini SpA

Consolidated balance sheets
December 31, 2005 and 2004
(Amounts expressed in thousands of Euro)

	Note	December 31, 2005	December 31, 2004
Assets			
Current assets:			
Cash and cash equivalents	9	323,839	165,830
Financial investments	10	6,681	20,331
Trade accounts receivable	11	567,915	544,282
Amounts receivable from related parties	12	12,659	3,572
Inventories	13	533,020	437,422
VAT recoverable		42,553	38,214
Income tax recoverable		9,343	11,766
Other assets	14	17,566	19,587
Total current assets		1,513,576	1,241,004
Non-current assets:			
Financial investments	10	19,931	61,045
Amounts receivable from related parties	12	11,004	11,090
Investment in associates	15	1,966	1,877
Property, plant and equipment	16	1,113,403	1,091,957
Intangible assets	17	16,660	19,854
Other assets	14	8,887	10,976
Deferred tax assets	8	68,950	88,914
Assets held for sale	28	55,668	195,726
Total non-current assets		1,296,469	1,481,439
Total assets		2,810,045	2,722,443
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		415,236	465,235
Amounts payable to related parties	18	18,106	30,003
Income taxes payable		34,393	8,963
Other taxes and social security payable	19	90,280	91,230
Government grants		3,318	5,404
Debt finance	20	546,477	626,295
Lease liabilities	21	1,447	1,389
Other liabilities	22	89,573	67,302
Total current liabilities		1,198,830	1,295,821
Non-current liabilities:			
Trade accounts payable		8,346	2,840
Government grants		2,417	1,112
Debt finance	20	412,446	641,427
Lease liabilities	21	7,874	9,296
Deferred tax liabilities	8	101,824	108,620
Deferred employee benefits	23	113,689	112,067
Provisions for contingencies	24	57,230	58,827
Other liabilities	22	39	232
Liabilities related to assets held for sale	28	145	147,794
Total non-current liabilities		704,010	1,082,215
Shareholders' equity:			
Share capital	25	694,200	444,000
Legal reserve		11,578	554
Foreign exchange differences		1,162	6,497
Retained earnings		197,805	(117,130)
Equity attributable to parent company shareholders		904,745	333,921
Minority interest		2,460	10,486
Total shareholders' equity		907,205	344,407
Total liabilities and shareholders' equity		2,810,045	2,722,443

These financial statements were approved by the Board of Directors on August 25, 2006.

The accompanying accounting policies and notes on pages F-137 to F-161 form an integral part of these consolidated financial statements.

Lucchini SpA

Consolidated income statements
Years ended December 31, 2005 and 2004
(Amounts expressed in thousands of Euro, except shares and earnings per share)

	Note	Year ended December 31, 2005	2004
Sales			
Sales of goods and services		2,399,899	2,141,192
	4	2,399,899	2,141,192
Cost of sales		(1,998,957)	(1,759,993)
Gross profit		400,942	381,199
Selling, general and administration expenses		(176,797)	(170,065)
Distribution expenses		(41,405)	(49,366)
Share of associates' profits	15	164	361
Net other operating expenses	5	(17,834)	(15,850)
Profit from operations		165,070	146,279
Net reversal of impairment of property, plant and equipment	16	62,011	96,088
Profit before financing and taxation		227,081	242,367
Net financing expense	7	(44,227)	(63,341)
Profit before income tax		182,854	179,026
Income tax expense	8	(56,433)	(65,685)
Profit from continuing activities		126,421	113,341
Discontinuing activities	28	(5,716)	(3,536)
Profit for the year		120,705	109,805
Attributable to:			
Parent company shareholders		118,918	106,069
Minority interest		1,787	3,736
		120,705	109,805
Weighted average number of shares outstanding during the year			
Basic		24,736,363	10,683,333
Fully diluted		30,511,363	16,875,000
Continuing earnings per share (Euros)			
Basic		5.11	10.61
Fully diluted		4.14	6.72
Discontinuing earnings per share (Euros)			
Basic		(0.23)	(0.33)
Fully diluted		(0.19)	(0.21)

The accompanying accounting policies and notes on pages F-137 to F-161 form an integral part of these consolidated financial statements.

Lucchini SpA

Consolidated statement of cash flows
Years ended December 31, 2005 and 2004
(Amounts expressed in thousands of Euro)

	Year ended December 31,	
	2005	**2004**
Operating activities:		
Profit before financing and taxation	227,081	242,367
Adjustments to reconcile profit to cash provided by operating activities:		
Depreciation of property, plant and equipment	92,616	77,649
Amortization of intangible assets	5,509	3,973
Asset impairment	(62,011)	(96,088)
(Gain)/loss on disposal of property, plant and equipment	(516)	21
Loss on disposal of intangible assets	—	121
Share of associates' profits	(164)	(361)
Changes in provisions	31,283	44,097
Changes in operating assets and liabilities:		
Trade accounts receivable	(19,003)	(105,891)
Amounts receivable from related parties	(8,568)	24,302
VAT recoverable	(4,323)	1,782
Inventories	(97,257)	(32,547)
Other assets	(19,204)	14,069
Trade accounts payable	(41,755)	12,912
Amounts payable to related parties	(15,659)	10,807
Other taxes and social security payable	(947)	15,243
Deferred income	(781)	3,580
Other liabilities	22,131	(11,944)
Assets held for sale	(14,124)	(427)
Deferred employee benefits	(11,485)	(11,951)
Provisions for contingencies	(9,904)	(11,980)
Cash generated from operations	72,919	179,734
Interest received	8,540	6,724
Interest paid	(58,857)	(71,546)
Income tax paid	(15,309)	(3,568)
Net cash provided from operating activities	7,293	111,344
Investing activities:		
Additions to property, plant and equipment	(60,421)	(49,432)
Additions to intangible assets	(2,315)	(3,430)
Additions to financial investments	(910)	(21,263)
Proceeds from disposal of property, plant and equipment	9,249	3,854
Proceeds from disposal of financial investments	55,310	31,787
Proceeds from disposal of assets held for sale	8,483	60,250
Cash used for investing activities	9,396	21,766
Financing activities:		
Proceeds from debt finance	300,000	—
Repayment of debt finance	(613,530)	(174,682)
Change in short term debt finance	6,784	12,608
Proceeds from new share issue	450,000	20,000
Repayment of lease finance	(1,923)	(1,654)
Proceeds from lease finance	—	744
Dividends paid to minorities	(576)	(167)
Dividends received	146	658
Cash provided from financing activities	140,901	(142,493)
Effect of exchange rates on cash and cash equivalents	419	49
Net increase in cash and cash equivalents	158,009	(9,334)
Cash and cash equivalents at beginning of year	165,830	175,164
Cash and cash equivalents at end of year	323,839	165,830

The accompanying accounting policies and notes on pages F-137 to F-161 form an integral part of these consolidated financial statements.

Lucchini SpA

Consolidated statement of changes in shareholders' equity
Years ended December 31, 2005 and 2004
(Amounts expressed in thousands of Euro)

	Attributable to Parent Company shareholders						
	Share capital	Legal reserve	Foreign exchange reserve	Retained earnings	Total	Minority interest	Total equity
Balances at January 1, 2004	424,000	554	—	(223,199)	201,355	5,905	207,260
New share capital issued	20,000	—	—	—	20,000	—	20,000
Foreign exchange differences	—	—	6,497	—	6,497	1,030	7,527
Dividends paid	—	—	—	—	—	(167)	(167)
Result of buying out minorities	—	—	—	—	—	(18)	(18)
Profit for the year	—	—	—	106,069	106,069	3,736	109,805
Balances at December 31, 2004	444,000	554	6,497	(117,130)	333,921	10,486	344,407
New share capital issued	450,000	—	—	—	450,000	—	450,000
Losses written off against capital	(199,800)	—	—	199,800	—	—	—
Transfer to legal reserve	—	11,024	—	(11,024)	—	—	—
Foreign exchange differences	—	—	1,906	—	1,906	83	1,989
Dividends paid	—	—	—	—	—	(576)	(576)
Result of buying out minorities	—	—	—	—	—	(1,803)	(1,803)
Discontinued activities	—	—	(7,241)	7,241	—	(7,517)	(7,517)
Profit for the year	—	—	—	118,918	118,918	1,787	120,705
Balances at December 31, 2005	694,200	11,578	1,162	197,805	904,745	2,460	907,205

The accompanying accounting policies and notes on pages F-137 to F-161 form an integral part of these consolidated financial statements.

Lucchini SpA

Notes to the consolidated financial statements
Years ended December 31, 2005 and 2004
(Tabular amounts expressed in thousands of Euro)

1. Operations

The consolidated financial statements of Lucchini Group comprise the Parent Company, Lucchini SpA ('Lucchini' or 'the Group'), and its subsidiaries as listed in note 28.

Lucchini, through various acquisitions, became a leading European producer of special and high quality steels. After acquiring Ascometal in 1999, the Group also became a leading European producer of quality and specialty long products. Lucchini's registered office is located at Piazza Meda 3/5, Milan, Italy.

In the middle of the 2003 the Lucchini Group entered financial difficulties and the consortium of lending banks appointed a crisis management team with a mandate to dispose of certain assets to cover the Group's liabilities. As a result, a series of assets and companies were identified for disposal. This disposal list included (i) mini-mills located in Sarezzo, Mura and Dolcé in Italy (realized in 2003); (ii) the electric power generation assets of the Elettra Group (realized in 2004); (iii) the steel plant Huta LW Spzoo and its associated steel scrap companies (realized in 2005); and (iv) various other minority shareholdings owned by the Group.

As part of the on-going financial restructuring, on April 26, 2005, Lucchini SpA issued an additional €450.0 million of share capital of which €430.0 million was subscribed to by companies, directly or indirectly, controlled by Alexey Mordashov and €20.0 million was subscribed to by the founding Lucchini family. As a consequence of this, and other purchases from minorities. At December 31, 2005, Alexey Mordashov indirectly controlled 70.8% of the outstanding ordinary share capital and the remaining share capital was controlled by members of the founding Lucchini family.

2. Presentation of the financial statements

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board, under the historic cost convention, except for: derivative financial instruments, held for trading securities and assets held for sale, all of which are stated at fair value; and, investments in associates which are accounted for using the equity participation method. The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. Consequently, those statutory financial statements have been restated according to International Financial Reporting Standards for the purpose of preparing these consolidated financial statements. The accounting policies consistently applied in the preparation of these consolidated financial statements are set out in note 3.

First time application of IFRS

The Group has prepared consolidated IFRS financial statements for the first time as at and for the year ended December 31, 2005. The Group has adopted the provisions of IFRS 1 *First-time adoption of international financial reporting standards,* which require corresponding figures to be presented, and an opening IFRS balance sheet be prepared as at the date of transition to IFRS. For the purposes of these consolidated financial statements, the Group has used the balance sheet as at January 1, 2004 for transition to IFRS.

In preparing these consolidated financial statements in accordance with IFRS, the Group has elected to apply the following exemptions:

- For certain items of property, plant and equipment the Group has elected to take an exemption under IFRS 1 and used fair values, as supported by independent valuations, as deemed cost at the date of transition to IFRS.
- The provisions of IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* have been adopted starting from the January 1, 2004 financial statements;
- As permitted by IFRS 1, the recognition of financial instruments at fair value through the income statement and available for trading were recorded starting from January 1, 2004 as per IAS 39;

• IFRS 3 *Business Combinations* has not been applied retrospectively; and,

• IAS 21 *The Effects of Changes in Foreign Exchange Rates* has not been applied retrospectively.

In prior years, the Group prepared and published audited consolidated financial statements in accordance with Italian legislation. The reconciliations required by IFRS 1 of the Group's Italian equity as of December 31, 2005 and January 1, 2004, and results for the year ended December 31, 2005 to equity and results in these consolidated IFRS financial statements are as follows:

	2005 results	Dec 31, 2005 equity	Jan 1, 2004 equity
Reported in Italian consolidated financial statements:			
Attributable to Parent Company shareholders	73,150	710,262	127,178
Attributable to minority shareholders	1,232	2,379	2,211
Sub-total	74,382	712,641	129,389
Adjustments to convert to IFRS:			
Effect of using deemed cost	(4,279)	65,563	60,389
Deferred tax recognized	(27,239)	(48,340)	35,476
Depreciation recalculated	(14,697)	208,332	223,952
Impairment of property, plant and equipment	80,589	(15,172)	(230,202)
Results of companies disposed of	10,545	—	—
Margin on goods sold but held on site until call off	(4,430)	(5,526)	(1,611)
Intangible and other assets written off	7,672	(13,112)	(24,945)
Debt finance restated to amortized cost	(838)	1,450	1,957
Finance leases capitalized	1,225	5,301	3,062
Deferred employee benefits	(1,657)	(2,015)	4,591
Other	6,673	(1,917)	5,202
Total	127,946	907,205	207,260
Reported in these consolidated financial statements as:			
Attributable to Parent Company shareholders	126,159	904,745	201,355
Attributable to minority shareholders	1,787	2,460	5,905
Total	127,946	907,205	207,260

Comments on certain of the reconciling items between the Italian and IFRS financial statements:

• The use of deemed cost for certain companies within the group terminated the requirement to eliminate unrealized gains on asset transfers within the Group.

• Where companies within the Group do not use the component approach to calculate depreciation of property, plant and equipment, the depreciation has been recalculated in accordance with the principals of the component approach required by IFRS.

• In the Italian consolidated financial statements of 2005 the results, up to the date of disposal, of the companies sold on August 31, 2005 had not been included.

• Certain customers in Italy have agreements whereby the Group manufactures goods under contract and holds them on site until they are called off. In the Italian financial statements the revenue related to these goods is recognized when the goods are transferred into storage for the customer. Under IFRS the revenue is recognized when the goods are finally called off by the customer.

• In Italy the deferred employee benefits (called 'TFR') are calculated according to statutory regulations. For IFRS purposes these benefits need to be calculated according to the projected unit credit method. In France deferred employee benefits are accounted for using the corridor method, in these consolidated financial statements all actuarial liabilities are recognized in full.

In addition to the changes to net assets there have been a number of reclassifications within the balance sheet, in particular presenting factoring and securitization of trade accounts receivable on a gross basis by recording the advances received with Debt Finance (note 20).

Going-concern basis

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

Use of estimates

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

Information and analysis concerning significant estimates, uncertainties, and judgments in applying accounting policies is given in the following notes:

- note 11 — Trade accounts receivable;
- note 13 — Inventories;
- note 16 — Property, plant and equipment;
- note 24 — Provision for contingencies; and,
- note 28 — Assets held for sale.

Basis of consolidation

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

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

The Group enters into transactions with special purpose entities ('SPE's'), for business purposes, in which it does not hold any direct or indirect equity interest. These entities are established with arrangements that impose limits on the operational decision-making powers of the entities' management. To the extent that the Group retains significant beneficial interests in the entities' activities, the beneficial interests of the Group in the financial position and results of these entities are included in these consolidated financial statements.

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

Acquisitions of controlling interests in companies that were previously under the control of the same controlling shareholder as the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date control was obtained by the common controlling shareholder. For this purpose, comparative financial information is restated. The assets and liabilities acquired are recognized at their book values as already recorded in the IFRS consolidated financial statements of the common controlling shareholder. The components of equity of the acquired companies are added to the same components within Group equity except that any share capital of the acquired companies is recorded as part of additional paid in capital. Any cash paid for the acquisition is debited to equity.

Statement of cash flow

The statement of cash flow has been prepared using the indirect method, whereby net cash provided from operating activities of the period has been adjusted for non-monetary transactions, for all deferred or accrued payments as well as all revenue and cost amounts related to investing or financing activities.

Assets held for sale and discontinued operations

The statement of cash flow presents net cash provided from operating activities together with non-current assets held for sale and discontinued operations. Therefore, additional information is provided in the notes to the financial statements.

3. Summary of the principal accounting policies

a. Cash and cash equivalents

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

b. Inventories

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

c. Trade and other receivables

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

d. Foreign currency

Foreign currency transactions: Transactions in foreign currencies are translated to the functional currency of each entity at the foreign exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of each entity at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency of the entity at the foreign exchange rate ruling at the date of the transaction.

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

e. Financial investments

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

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

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

Additions to financial investments and proceeds from disposals of financial investments are shown separately in the cash flow statement.

f. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. In the case of assets constructed by the Company, related works and direct project overheads are included in cost. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognized in the income statement.

Depreciation is provided so as to write off property, plant and equipment over its expected useful life. Depreciation is calculated using the straight-line basis. The estimated useful lives of assets are reviewed regularly and revised when necessary.

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

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

g. Intangible assets

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

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

Other intangible assets are stated at cost less accumulated amortization and impairment losses. Expenditure on internally generated goodwill and brands is recognized in the statement of operations as an expense as incurred. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is charged to *Selling, general and administration expenses* in the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is not amortized and other intangible assets are amortized from the date they are available for use. The estimated useful lives are as follows:

Software	3 – 10 years
Other	5 – 10 years

h. Asset impairment

The carrying amount of goodwill is tested for impairment at least annually. The carrying amounts of the Group's other assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Calculation of recoverable amount The recoverable amount of an asset is the greater of its net selling price and its value in use. In assessing value in use, estimated future cash flows associated with the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. If an asset is systematically depreciated or amortized, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i. Dividends payable

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

j. Income tax

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

Current tax expense is calculated by each entity on its taxable income determined in accordance with the tax laws of the countries in which they operate using tax rates enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

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

Deferred tax is not recognized in respect of the following:

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

k. Debt finance

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

l. Leases

Finance leases: Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

Operating leases: Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease payments made.

m. Revenue recognition

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

n. Government grants

Government grants related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying value of the related assets. The grant is recognized as income over the life of the related assets by way of a reduced depreciation charge.

o. Net financing expense

Net financing expense comprises interest on debt finance, interest income and foreign exchange gains and losses.

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

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

p. Net income from securities operations

Net income (expenses) from securities operations comprises dividends income, except for dividends from equity associates, gains and losses on disposal of securities and restatement of financial investments to fair values.

q. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year.

r. Related parties

The following are defined by the Group as its related parties:

- shareholders and their immediate families;
- directors and officers of Group companies and their immediate families;
- entities over which the abovementioned related parties have directly or via intermediaries control or significant influence; and
- the Group's investments in associated companies.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

s. Provisions

Deferred employee benefits have been recorded according to the provisions of the applicable law or benefit plan. The Group's net obligation in respect of such deferred benefits plans is calculated separately for each country and/or benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value. The discount rate used is the yield at the balance sheet date on highly rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed at least once every three years by independent actuaries, using the projected unit credit method. Any actuarial gain or loss arising from the calculation of the deferred benefit obligation is fully recognized in the current year's income statement.

Technical warranties: A provision for technical warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Restructuring: A provision for restructuring is accounted for when the Group has approved a detailed formal restructuring plan, and has raised a valid expectation that it will carry out the restructuring by commencing the implementation of the plan or announcing its main features to those affected by it.

Environment: The Group generally estimates provisions related to environmental issues on a case-by-case basis, taking into account applicable legal requirements. A best estimate, based on available information, is calculated, provided that the available information indicates that the loss is probable and can be estimated in a sufficiently reliable manner.

Onerous contracts: A provision for onerous contracts is recognized when the expected economic benefits to be received by the Group under a contract are lower than the unavoidable costs of meeting its obligations under it.

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

t. Emission rights

The Group's industrial sites concerned by the European Directive on Carbon Dioxide Emission Rights, effective as of January 1, 2005, are located in France and Italy. The emission rights allotted to the Group on a no-charge basis, pursuant to annual national allocation plans, are recorded in the balance sheet at nil value. The Group continuously monitors rights that have expired and that will have to be surrendered. The number of rights to be surrendered is equal to the total emissions over a given period. Any difference between available rights and expired rights to be surrendered is subject to provisioning at market value. Excess allowances sold on the allowance market are recognized in the income statement. Allowance purchases or sales are recorded at cost.

u. Research and development

Research and development costs are expensed as incurred. Expenditure on research and development was €5.3 million in the year ended December 31, 2005 (2004: €5.1 million).

v. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at December 31, 2005, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Amendment to IAS 19 *Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures* which is effective for annual periods beginning on or after January 1, 2006. The amendment includes an option for actuarial gains and losses to be recognized in full as they arise, directly in the statement of changes in equity. Depending on what accounting policy will be chosen by the Group when this amendment becomes effective, the Group might change the treatment of €0.8 million (2004: €2.8 million) of actuarial losses, currently fully recognized in the income statement.

- IFRS 7 *Financial Instruments: Disclosures* which is effective for annual periods beginning on or after January 1, 2007. This Standard will require increased disclosure in respect of the Group's consolidated financial instruments.

4. Sales

The following table shows the geographical analysis of income:

	2005	2004
Income from sales of goods and services		
Italy	1,101,804	986,283
Rest of European Union	975,194	858,794
Rest of Europe	65,490	76,978
Americas	192,173	149,684
Asia	20,525	23,554
Rest of the world	44,713	45,899
Total	2,399,899	2,141,192

5. Net other operating expense

	2005	2004
Change in provisions for contingencies (note 24)	(27,417)	(16,756)
Change in provision against the AKR receivable (note 14)	12,072	(7,000)
Gain/loss on disposal of plant, property and equipment	516	(21)
Resolution of rental dispute with the Port Authority of Trieste	(3,230)	—
Gain/loss on disposal of intangible assets	—	(121)
Insurance recoveries	225	8,048
Total	(17,834)	(15,850)

6. Staff costs

Employment costs were as follows:

	2005	2004
Wages and salaries	247,025	238,518
Social security costs	103,823	101,005
Deferred benefit costs (note 23)	6,943	8,491
Gross staff costs	357,791	348,014
Actuarial losses recognized (note 23)	828	2,858
Net staff costs	358,619	350,872

Included in the above employment costs are amounts payable to directors of the Parent Company totaling €4.3 million (2004: €2.0 million)

The number of full time employees at the balance sheet date were as follows:

	2005	2004
Senior management	302	309
Administrative staff	2,163	2,182
Production staff	5,192	4,736
Total active employees	7,657	7,227

7. Net financing expense

	2005	2004
Interest income	8,067	7,532
Interest expense	(53,874)	(64,997)
Interest cost from deferred employee benefits (note 23)	(5,336)	(5,365)
Finance lease interest	(559)	(612)
Amortization of transaction costs	(2,683)	(1,463)
Amortization of premium and discount on issuance of debt	(247)	(150)
Foreign exchange gains/losses	6,863	(4,633)
Mark-to-market adjustments of forward currency contracts and interest rate swaps	3,238	4,415
Gain on disposal of available-for-sale securities	109	1,167
Dividends received from available-for-sale securities	71	583
Reversal of impairment of mandatory loans to employees	124	164
Result of minority ceding its share in a subsidiary	—	18
Total	(44,227)	(63,341)

8. Taxation

The following is an analysis of the income tax expense:

	2005	2004
Current tax charge	(41,164)	(11,562)
Corrections to prior year's current tax charge	(1,984)	38
Deferred tax benefit/(charge)	(13,285)	(54,161)
Income tax expense	(56,433)	(65,685)

The following is a reconciliation of the reported net income tax expense and the amount calculated by applying the Parent Company's statutory income tax rate of 33% to consolidated reported profit before income tax.

	2005	2004
Profit before income tax	182,854	179,026
Tax charge at the statutory rate	(60,342)	(59,079)
Non-taxable items	5,750	(1,088)
Tax exempt income	741	966
Activities taxed at different rates	(12,438)	(10,486)
Change in valuation allowance	54,657	15,424
Effects of multiple tax rates on deferred tax	(3,406)	(6,451)
Corrections to prior year's current tax charge	(1,984)	38
Deferred tax liabilities derecognized during the period	8,846	—
Adjustments to opening valuation allowance	7,377	—
Tax-loss carry forwards expired	(55,634)	(5,009)
Income tax expense	(56,433)	(65,685)

The derecognition of deferred tax liabilities and adjustments to opening valuation allowances shown above are a result of using different assumptions when preparing the final tax declarations for Italian companies for 2004 than were used when preparing the statutory financial statements. These assumptions particularly affect accelerated depreciation and tax values of provisions against investments.

The composition of the deferred tax assets and liabilities based on the temporary differences (namely: depreciation, impairment and provisions) arising between the fiscal and reporting balance sheets of the consolidated companies is given below:

	December 31,	
	2005	2004
Deferred tax assets:		
Property, plant and equipment	15,127	46,674
Intangible assets	7,437	8,860
Financial investments	22,709	25,070
Inventories	10,315	9,841
Receivables	14,614	1,597
Payables	12,035	3,111
Debt financing	94	605
Provisions	32,875	45,317
Tax-loss carry forwards	56,906	105,658
sub-total	172,112	246,733
Valuation allowance	(103,162)	(157,819)
Net deferred tax assets recognized	68,950	88,914

	December 31, 2005	December 31, 2004
Deferred tax liabilities:		
Property, plant and equipment	(86,108)	(97,241)
Intangible assets	(632)	(344)
Financial assets	(1,764)	(2,640)
Inventories	(6,224)	(979)
Receivables	(2,338)	(2,541)
Payables	(407)	(85)
Debt financing	(572)	(722)
Financial leasing	(1,962)	(1,513)
Provisions	(1,622)	(2,352)
Profits taxable in future periods	(195)	(203)
Total deferred tax liabilities recognized	(101,824)	(108,620)

	2005	2004
The movement in net deferred tax balance is as follows:		
Opening balance	(19,706)	34,532
Recognized in the income statements	(13,285)	(54,161)
Foreign exchange differences	117	(77)
Closing balance	(32,874)	(19,706)

As at December 31, 2005 the Group had cumulative tax-loss carry forwards of €174.1 million that expire as follows: in 2006: €42.1 million; in 2007: €46.1 million; in 2008: €33.1 million; in 2009: €2.0 million; in 2010: €19.0 million and €31.8 million have no expiry date.

Temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal, and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to €141.9 million at December 31, 2005 (2004: €123.7 million; January 1, 2004: €84.9 million)

9. Cash and cash equivalents

	December 31, 2005	December 31, 2004
Petty cash	40	41
Cash at bank:		
Demand accounts	31,291	17,674
Deposit accounts	218,146	144,758
Available-for-sale securities:		
Investments in quoted monetary instruments	74,362	3,357
Total	323,839	165,830

10. Financial investments

	December 31, 2005	December 31, 2004
Originated loans to related parties:		
Coimpex Spzoo	344	344
Huta LW Spzoo	—	37,125
Relco Spzoo	100	—
Originated loans to third parties:		
Elettra Group	22,799	22,799
Bank deposit account held in escrow	—	18,076
Accrued interest	1,438	1,911
Available-for-sale securities:		
Unquoted shares held for investment purposes	5,369	4,644
Impairment	(3,438)	(3,523)
Total	26,612	81,376
Maturity analysis:		
Within one year	6,681	20,331
More than one year	19,931	61,045
Total	26,612	81,376

	2005	2004
Movement in provisions:		
Opening balance	(3,523)	(3,535)
Sundry shares written off against provision	85	12
Closing balance	(3,438)	(3,523)

Impairment amounts have been recorded to reflect management's assessment of each investment's recoverable amount through dividends or sale.

11. Trade accounts receivable

	December 31, 2005	December 31, 2004
Amounts receivable from customers	578,291	556,654
Allowance for doubtful accounts	(10,376)	(12,372)
Total	567,915	544,282

	2005	2004
Movement in allowance for doubtful accounts:		
Opening balance	(12,372)	(11,855)
Amounts written off during the year	3,026	2,948
Change in provision	(1,010)	(3,474)
Foreign exchange differences	(20)	9
Closing balance	(10,376)	(12,372)

12. Amounts receivable from related parties

	December 31, 2005	December 31, 2004
Coimpex Spzoo from sale of land by Huta LW Spzoo	13,535	13,403
Provision against Coimpex receivable	(2,531)	(2,313)
Trade accounts receivable from:		
Companies held for disposal (assets held for sale)	—	80
Associated companies	—	6
Companies under common shareholder control	12,534	3,231
Partners in jointly owned subsidiaries	125	255
Total	23,663	14,662
Maturity analysis:		
Within one year	12,659	3,572
More than one year	11,004	11,090
Total	23,663	14,662

	2005	2004
Movement in provisions against receivables from related parties		
Opening balance	(2,313)	(2,009)
Foreign exchange rate differences	(218)	(304)
Closing balance	(2,531)	(2,313)

All transactions with related parties were entered into on an arm's length basis. Trade balances are settled on normal trading terms. Total sales to related parties during the year were €35.1 million (2004: €5.3 million).

13. Inventories

	December 31, 2005	December 31, 2004
Raw materials	153,525	98,164
Non-production inventories	113,454	112,557
Work-in-progress	165,923	142,898
Finished goods	130,417	110,703
Obsolescence provision	(30,299)	(26,900)
Total	533,020	437,422

	2005	2004
Movement in inventory obsolescence provisions:		
Opening balance	(26,900)	(28,053)
Change in provision	(3,369)	(1,103)
Amounts written off against provisions	—	2,256
Foreign exchange differences	(30)	—
Closing balance	(30,299)	(26,900)

14. Other assets

	December 31, 2005	December 31, 2004
Sundry tax receivables	4,764	5,794
Sundry social security receivables	1,050	944
Employees	334	504
Advances paid to suppliers	3,511	5,326
Prepaid insurance cover	5,359	2,229
Insurance claims receivable	1,848	—
Receivable from Polish privatization agency ('AKR')	—	32,819
Fine paid to the European Commission	19,080	—
Loans to employees mandated by legislation	3,580	3,797
Security deposits given in the normal course of business	6,503	6,379
Prepaid taxes on deferred employee benefits	1,129	1,835
Other	2,295	3,370
Sub-total	49,453	62,997
Provision against the AKR receivable	—	(28,940)
Provision against mandatory loans to employees	(3,370)	(3,494)
Provision against European Commission fine	(19,080)	—
Other doubtful amounts provided for	(550)	—
Total	26,453	30,563
Maturity analysis:		
Realizable within one year	17,566	19,587
Realizable between one and five years	8,887	10,976
Total	26,453	30,563

	2005	2004
Movement in provisions against other assets:		
Opening balance	(32,434)	(25,598)
Change in provision against mandatory loans	124	164
Change in provision for AKR receivable (note 5)	12,072	(7,000)
Utilization of provision against the AKR receivable	16,868	—
Transferred from provisions for contingences (note 24)	(19,080)	—
Other amounts provided for	(550)	—
Closing balance	(23,000)	(32,434)

15. Investments in associates

The Group's investment in associated companies is described in the tables below. Group structure and certain additional information on investments in associated companies, including ownership percentages, is given in note 28.

	December 31, 2005	December 31, 2004
ESPRA SAS	246	242
Logistica Servola Srl	10	11
Setrans Srl	1,307	1,243
Tecnologie Ambientali Pulite Srl	403	381
Total	1,966	1,877

	2005	2004
Movement in value of associates:		
Opening balance	1,877	1,591
Share of income for the year	164	361
Dividends received	(75)	(75)
Closing balance	1,966	1,877

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

	December 31,	
	2005	2004
Assets	32,556	34,212
Liabilities	(25,795)	(27,762)
Equity	6,761	6,450
Revenues	20,567	24,949
Net income	560	1,185

16. Property, plant and equipment

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

	Land	Buildings	Plant and machinery	Other equipment	Other assets	Construction-in-progress	Total assets
Cost:							
December 31, 2004	63,449	245,200	1,415,578	15,633	28,054	28,665	1,796,579
Reclassifications	—	—	—	142	(142)	—	—
Additions:							
External		1,178	10,042	2,015	843	45,106	59,184
Internal work capitalised	—	—	—	—		1,237	1,237
Disposals:							
External	—	(2,013)	(12,219)	(719)	(3,387)	(2,386)	(20,724)
Transfers	—	3,499	35,432	825	1,437	(41,193)	—
Foreign exchange differences	24	81	(149)	9	80	8	53
December 31, 2005	63,473	247,945	1,448,684	17,905	26,885	31,437	1,836,329
Depreciation and impairment:							
December 31, 2004	—	73,334	603,930	7,370	19,988	—	704,622
Reclassifications	—	—	—	92	(92)	—	—
Depreciation expense	—	8,524	80,219	2,209	1,664	—	92,616
Disposals:							
External	—	(860)	(7,408)	(325)	(3,398)	—	(11,991)
Impairment of assets:							
new impairment	—	5	20,704	38	750	—	21,497
reversal of prior impairment	—	(10,862)	(72,028)	(405)	(213)	—	(83,508)
Foreign exchange differences	—	(5)	(344)	(25)	64	—	(310)
December 31, 2005	—	70,136	625,073	8,954	18,763	—	722,926
Net book values:							
December 31, 2004	63,449	171,866	811,648	8,263	8,066	28,665	1,091,957
December 31, 2005	63,473	177,809	823,611	8,951	8,122	31,437	1,113,403

The Group has no assets held under noncancelable leases, and the following assets, by category, held under capital leases at:

December 31, 2004							
Cost	4,613	14,977	1,053	—	196		20,839
Accumulated depreciation	—	(2,251)	(188)	—	(2)		(2,441)
Net book value	4,613	12,726	865	—	194		18,398
December 31, 2005							
Cost	4,613	14,977	1,053	—	230		20,873
Accumulated depreciation	—	(2,757)	(286)	—	(35)		(3,078)
Net book value	4,613	12,220	767	—	195		17,795

The impairment amounts recorded arose as a result of management's annual review of the Group's compliance with IAS 36 *Impairment of Assets*. For each cash generating unit where indications of impairment existed, management determined that the recoverable value of the assets should be their value in use, and calculated this by discounting projected cash flows, as determined by relevant business plans, determined annually because of changes in prices, supplies and demand that were or had in fact occurred in the European and world steel markets, for each cash generating unit using rates determined for the relevant cash-generating unit.

The amounts of impairment recognized/(reversed) by each cash generating units are as follows:

Cash generating unit	Discount rate used	Buildings	Plant and machinery	Other equipment	Other assets	Total
Amounts recognized/(reversed) during 2004:						
Ascoforge Safe SAS	11.8%	(251)	(5,301)	—	(7)	(5,559)
Lucchini Sidermeccanica SpA	(*)	500	—	—	—	500
Lucchini Sidermeccanica SpA	10.3%	(271)	(4,081)	(78)	(26)	(4,456)
Vertek Srl	11.5%	(2,478)	(5,560)	(65)	(43)	(8,146)
Lucchini Spa, Servola SpA and Lucchini Piombino SpA	10.1%	(12,252)	(65,265)	(548)	(362)	(78,427)
Total		(14,752)	(80,207)	(691)	(438)	(96,088)
Amounts recognized/(reversed) during 2005:						
Ascoforge Safe SAS	11.8%	3	906	—	76	985
Vertek Srl	11.4%	(1,720)	(2,596)	(16)	(14)	(4,346)
Lucchini Spa and Servola SpA	(**)	—	18,578	—	—	18,578
Lucchini Spa and Servola SpA	10.0%	(9,142)	(68,931)	(389)	(198)	(78,660)
GSI Lucchini SpA	(*)	2	239	38	15	294
Ascometal SAS	(*)		480		658	1,138
Total		(10,857)	(51,324)	(367)	537	(62,011)

(*) Impairment relating to specific assets that are to be sold or shut down.

(**) Impairment relating to coke battery #27 at Piombino, Italy for which a mandatory closure order had been served on the Group by the State administration.

17. Intangible assets

The movements in intangible assets are as follows:

	Software	Assets in formation	Total intangible assets
Cost:			
December 31, 2004	22,319	9,069	31,388
Additions:			
External	402	1,913	2,315
Disposals:			
External	(2,772)	—	(2,772)
Transfers	10,153	(10,153)	—
December 31, 2005	30,102	829	30,931
Amortization and impairment:			
December 31, 2004	11,534	—	11,534
Amortization expense	5,509	—	5,509
Disposals:			
External	(2,772)	—	(2,772)
December 31, 2005	14,271	—	14,271
Net book values:			
December 31, 2004	10,785	9,069	19,854
December 31, 2005	15,831	829	16,660

18. Amounts payable to related parties

	December 31, 2005	December 31, 2004
Commercial trade payables with:		
Companies held for disposal (assets held for sale)	—	4,379
Associated companies	1,318	1,277
Companies under common shareholder control	14,716	21,933
Companies accounted for as investments	2	2,405
Partners in jointly owned subsidiaries	2,070	9
Total	18,106	30,003

All transactions with related parties were entered into on an arm's length basis. Trade balances are settled on normal trading terms. Purchases of goods and services from related parties during the year were €98.1 million (2004: €76.7 million).

19. Other taxes and social security payable

	December 31, 2005	December 31, 2004
VAT	9,261	12,338
Import duties	8,266	302
Various other taxes and contributions payable	13,306	12,592
Social security charges payable	59,447	65,998
	90,280	91,230

20. Debt finance

	December 31, 2005	December 31, 2004
Bank overdraft	26,008	39,511
Bank borrowings	576,237	709,928
Loans from banks who are shareholders	—	34,874
Non financial institution borrowings	13,882	43,884
Bonds issued (fixed rate)	200,000	200,000
Bonds issued	—	100,000
Bonds repurchased in the secondary market	(12,060)	—
Factoring and securitization of trade accounts receivable	148,180	127,544
Accrued interest	10,216	15,199
Unamortized transaction costs	(3,503)	(3,073)
Unamortized discounts/premium on debt issuance	(37)	(145)
Total	958,923	1,267,722
Total debt is contractually repayable after balance sheet date as follows:		
Within one year	546,477	626,295
Between one and five years	412,134	581,033
After more than five years	312	60,394
Total	958,923	1,267,722

All debt is denominated in Euros.

Debt finance obtained from banks and unused long-term credit lines are secured by fixed and floating charges over property, plant and equipment with a net book value of €802.0 million (2004: €570.5 million).

At the balance each sheet date presented, the Group had no unused fully committed credit lines.

21. Lease liabilities

	Total payable	Interest	Net payable
As at December 31, 2005			
Less than one year	1,925	(478)	1,447
Between one and five years	8,846	(972)	7,874
	10,771	(1,450)	9,321
As at December 31, 2004			
Less than one year	1,939	(550)	1,389
Between one and five years	10,744	(1,448)	9,296
	12,683	(1,998)	10,685

Lease interest is recognized in the statement of operations as it falls due.

22. Other liabilities

	December 31, 2005	December 31, 2004
Advances received from customers	21,774	4,735
Amounts payable to employees	58,189	47,512
Defined customer claims payable	608	376
Accrued expenses	287	402
Buy out of minorities in Huta LW Spzoo	1,700	9,888
Buy out of minorities in Bari Fonderie Meridionali SpA	—	400
Financing from SP SpA in respect of European Commission fine	3,500	—
Other	3,554	4,221
Total	89,612	67,534
Maturity analysis:		
Payable within one year	89,573	67,302
Payable after between one and five years	39	232
Total	89,612	67,534

23. Deferred employee benefits

The movements in the deferred employee benefit liabilities were as follows:

	2005	2004
Net liability at beginning of year	112,067	107,304
Payments made during the year	(11,485)	(11,951)
Amounts recognized in the income statement:		
Interest cost	5,336	5,365
Service cost	6,943	8,491
Actuarial losses	828	2,858
Net liability at end of year	113,689	112,067

The actuarial liabilities of the various employee benefit obligations have been calculated country by country and company by company. Consequently, the following ranges of assumptions used in these calculations are:

	December 31, 2005	December 31, 2004
Discounts rate	4.0% to 5.0%	4.5% to 5.0%
Future rate of benefit increase	3.0% to 3.5%	3.0% to 3.5%

For the Italian deferred benefits: withdrawal rates of between 2.5% and 10% and prepayment rates of 3% have been used.

All deferred employee benefit obligations are unfunded.

Some of the Group's employees have elected to have their deferred benefits paid into defined contribution plans in Italy called 'Cometa' and 'Previndai'. The amounts paid to these plans are insignificant.

24. Provisions for contingencies

The components of the provision for contingent liabilities were as follows:

	December 31, 2005	December 31, 2004
Restructuring	—	3,309
Environment	8,094	13,854
Social security claims	19,032	14,100
Legal claims and contingencies	17,739	4,842
European Commission fine	—	12,252
Carbon dioxide emission quotas to purchase	320	—
Warranty	217	409
Onerous contracts	464	906
Employee related	10,931	8,870
Other	433	285
Total	57,230	58,827

	2005	2004
Movement in provisions for contingencies:		
Opening balance	58,827	54,050
Change in provisions (note 5)	27,417	16,756
Utilization of provisions	(9,904)	(11,980)
Transfer to other assets (note 14)	(19,080)	—
Foreign exchange differences	(30)	1
Closing balance	57,230	58,827

As part of the Group restructuring initiated by the crisis management team of 2003 restructuring provisions were created in 2003 to cover legal and other costs associated with the restructuring and disposal of assets mandated by the lenders. This provision was completely utilized during 2005.

The Group has an ongoing requirement to undertake measures to prevent environmental damage and remediate past damage. The provision made represents management's best estimate of the more important work currently outstanding.

The Group has various claims against it relating to social security incentives utilized to facilitate employment. The provision represents management's best estimate of the potential losses arising in these cases.

The Group has a variety of claims against it from suppliers, customers and the tax inspectorate. The provisions made represent management's best estimate of the potential losses relating to these claims.

In 2003, Lucchini SpA and a related party, SP SpA, were penalized jointly by the European commission for dumping. Initial legal opinion indicated that the penalty should be annulled. However, subsequent court rulings have gone against the Company and payment of the fine was mandated in 2005. Since the company is continuing its efforts to annul this fine, the provision has been transferred to *other assets* where it offsets the payment made in 2005.

The Group has a number of claims against it by current and former employees in connection with employment conditions and industrial illnesses, the provisions made represent management's best estimate of the potential losses relating to these claims.

25. Share capital

As at December 31, 2005, the Parent Company's share capital comprised:

- Issued and fully paid: €694,199,990 divided into 31,554,545 shares without par value.
- Un-issued: €231,000,000 divided into 5,775,000 ordinary shares for subscription by holders of the '*2003 Lucchini Warrants*' that expire on June 30, 2010 for a value of €40.00 per share warrant option exercised.

All shares carry equal voting and distribution rights. The movements in shares outstanding were as follows:

	Number	Nominal	Amount
As at January 1, 2004	10,600	40	424,000
New shares issued as a result of warrants exercised	500	40	20,000
As at December 31, 2004	11,100	40	444,000
Reduction in nominal value per share	—	(18)	(199,800)
Share capital after nominal value reduction	11,100	22	244,200
New shares issued as a result of capital increase	20,454	22	450,000
As at December 31, 2005	31,554	22	694,200

26. Commitments and contingencies

a. Long-term purchase and sales contracts

In the normal course of business, Group companies enter into long-term purchase contracts for raw materials, with volume commitments calibrated to production requirements, and long term sales contracts. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

b. Capital commitments

At the balance sheet date, the Group had contractual capital commitments of €64.5 million (2004: €48.6 million).

c. Insurance

The Group has insured its property and equipment to compensate for expenses arising from accidents. The Group has also insured third party liability in respect of property or environmental damage.

d. Guarantees

Guarantees and letters of credit issued at the balance sheet date on behalf of the Group by banks to third parties totaled €196.4 million (2004: €234.2 million).

27. Financial instruments

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. Group companies use derivative financial instruments to reduce exposure to fluctuations in foreign exchange and interest rates.

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

	Fair value	Book value	Difference
As at December 31, 2005			
Bonds issued	189,906	187,940	1,966
As at December 31, 2004			
Bonds issued	204,039	200,000	4,039

The above amounts exclude accrued interest. The fair value of the bonds was estimated by comparing the net present value of the bonds discounted using a market rate for debt of similar size, risk and maturing at the balance sheet date, with the discounted value of the same bonds using the actual fixed rate applicable to each bond.

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet and guarantees (note 26d). The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitor credit risk and the use of credit insurance.

Liquidity risk

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

Foreign exchange rate risk

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

The Group has identified that its exposure to foreign currency risks arises mainly in connection with future collection of amounts principally in US dollars as their subsequent conversion could occur at potentially unfavorable conditions, with negative impact on results. To mitigate this risk, the Group uses forward foreign currency contracts.

These contracts are usually drawn up after invoicing takes place. It is not possible to identify a close relationship between the maturity date of the contracts and the dates of the underlying financial cash flows, hence the contracts cannot be classified as hedging operations and have been recognized as financial assets/liabilities held for trading and accounted for at fair value, with changes in fair value being recorded in the income statement.

Interest rate risk

Interest rates on the Group's debt finance are either fixed or variable, being a fixed spread over Euribor ('European Inter-Bank Rate'), for the duration of each contract. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed-rate debt) or their future cash flows (variable-rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be at fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

When deemed necessary the Group enters into Interest Rate Swap contracts to mitigate interest rate risk. During 2005, the loans and borrowings for which the swaps were originally contracted were fully repaid. Consequently, the derivatives become hedging operations on the overall debt position. Since all of the requirements established for designation as hedging instruments are not met, the swaps are recognized as financial assets/liabilities held for trading and are accounted for at fair value, with changes in fair value being recorded in the income statement.

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

	December 31, 2005	December 31, 2004
Euro denominated items		
Bank demand accounts	0.31%	0.36%
Bank deposit accounts	2.05%	1.98%
Originated loans	3.90%	3.53%
Available for sale securities	n/a	n/a
Overdrafts	2.61%	4.08%
Bank borrowings	3.67%	3.92%
Loans from banks that are shareholders	n/a	5.22%
Other borrowings	4.93%	5.06%
Bonds	6.75%	5.89%
Factoring and securitization	3.50%	3.39%
Lease liabilities	5.30%	5.29%
US dollar denominated items		
Bank demand accounts	0.64%	0.35%
Bank deposit accounts	1.75%	n/a

28. Subsidiary and associated companies

The following is a list of the Group's significant subsidiaries and the effective holdings of ordinary shares therein.

Company	December 31, 2005	December 31, 2004	Location	Activity
Ascometal SAS	100.00%	100.00%	France	Steel manufacturing
Ascometal GmbH	100.00%	100.00%	Germany	Sales
Ascoforge Safe SAS	100.00%	100.00%	France	Forgings
Bari Fonderie Meridionali SpA	100.00%	100.00%	Italy	Forgings
Bi-Mec Srl	100.00%	100.00%	Italy	Maintenance
GSI Lucchini SpA	69.27%	69.27%	Italy	Steel spheres
Nitruvid SAS	100.00%	100.00%	France	Steel finishing
Lucchini Asia Pacific Pte Ltd	100.00%	100.00%	Singapore	Sales
Lucchini Holland BV	100.00%	100.00%	Netherlands	Investment holding
Lucchini HPS Gmbh	65.00%	65.00%	Germany	Sales
Lucchini Iberia Sl	100.00%	100.00%	Spain	Sales
Lucchini Piombino SpA	n/a	100.00%	Italy	Iron and steel mill
Lucchini Poland Spzoo	100.00%	100.00%	Poland	Machining
Lucchini Servizi Srl	100.00%	100.00%	Italy	Dormant
Lucchini Sidermeccanica SpA	100.00%	100.00%	Italy	Casting and machining
Lucchini Siderprodukte AG	65.00%	65.00%	Switzerland	Sales
Lucchini Sweden AB	100.00%	100.00%	Sweden	Machining
Lucchini UK Ltd	100.00%	100.00%	UK	Machining
Lucchini USA Inc	100.00%	100.00%	USA	Sales
Servola SpA	100.00%	100.00%	Italy	Asset holding
Sideris Steel SAS	100.00%	100.00%	France	Investment holding
Simmofos Sarl	100.00%	100.00%	France	Asset holding
Sipro HPS AG	65.00%	65.00%	Switzerland	Sales
Vertek Srl	100.00%	100.00%	Italy	Steel finishing
Companies classified as assets held for sale				
Crapex Spzoo	n/a	68.50%	Poland	Steel scrap
Huta LW Spzoo	n/a	85.90%	Poland	Steel manufacturing
Huta Serwiz Spzoo	n/a	85.90%	Poland	Dormant
Silscrap Spzoo	n/a	70.00%	Poland	Steel scrap
Relco Spzoo	100.00%	n/a	Poland	Land holding

The following is a list of the Group's significant associates and the effective holdings of ordinary shares therein.

Company	December 31, 2005	December 31, 2004	Location	Activity
ESPRA SAS	35.00%	35.00%	France	Steel scrap
Logistica Servola Srl	50.00%	50.00%	Italy	Dormant
Setrans Srl	30.00%	30.00%	Italy	Logistics and storage
Tecnologie Ambientali Pulite Srl	24.90%	24.90%	Italy	Environmental services
Companies classified as assets held for sale				
Coimpex Spzoo	40.03%	30.70%	Poland	Land holding

The accounting years of all of the subsidiaries and associates are the same as the Parent Company, being December 31.

Changes within the structure of the Group were as follows:

- Meteco Immobiliare Srl merged with Lucchini Sidermeccanica SpA with practical effect from January 1, 2004
- Servola Srl merged with Lucchini Piombino SpA with practical effect from January 1, 2004
- Lucchini Piombino SpA merged with Lucchini SpA with practical effect from January 1, 2005

Acquisitions

Following a final settlement with the Polish privatization agency ('AKR') in May 2005, the Parent Company received 100% of the share capital of Relco Spzoo in settlement of the Group's receivable of €15.9 million net from AKR. Relco Spzoo was created by AKR specifically for settlement of this receivable by transferring land adjacent to the Huta LW Spzoo site into the Company for an independent valuation of €13.8 million. Since the land received is adjacent to the Huta LW Spzoo site, it forms part of the disposal group identified in 2003 and has accordingly been accounted for as an asset held for sale.

Disposals

As part of the realization of the disposal plan identified in 2003, on August 31, 2005 the Group sold its interests in Silscrap Spzoo; Crapex Spzoo; and, Huta LW Spzoo and its subsidiaries to Arcelor. The proceeds comprised an immediate cash payment and a deferred component that is receivable on August 31, 2007 but for which Lucchini granted Arcelor the option to repay with assets, including land, currently owned by Huta LW Spzoo. In these consolidated financial statements, the assets, liabilities and results of these companies have been accounted for as assets held for disposal.

Since Arcelor has the option to settle the deferred consideration with assets (including land), the receivable has been adjusted to take account of the estimated market value of the assets concerned and accounted for as assets held for sale because the assets that can be returned would continue to constitute part of the disposal list formulated in 2003 for which management would continue to seek a purchaser.

Initially the Lucchini Group owned a minority of the shares in the Elettra Group companies with the majority being controlled by the founding Lucchini family. To facilitate the sale of the Elettra Group, all the shares controlled by the founding family were transferred to Lucchini SpA in July 2003. Final sale of these shares was completed in October 2004. Consequently, these shares have been treated as acquired specifically for disposal and accounted for at fair value within assets held for disposal.

Assets held for sale

Summarized information regarding assets held for sale in these consolidated financial statements is as follows:

	Assets	Liabilities	Total
As at December 31, 2004			
Huta group of companies	187,541	(147,794)	39,747
Goodwill on consolidation of Huta LW Spzoo	8,185	—	8,185
Total	195,726	(147,794)	47,932
As at December 31, 2005			
Relco Spzoo	10,129	(145)	9,984
Lucchini SpA — land in Warsaw received from AKR	2,173	—	2,173
Deferred consideration for sale of Huta LW Spzoo	61,423	—	61,423
Adjustment to fair value of deferred consideration	(18,057)	—	(18,057)
Total	55,668	(145)	55,523

	Income	Costs	Result
Net results for the year ended December 31, 2004:			
Huta group of companies	233,234	(213,613)	19,621
Impairment of goodwill on consolidation	—	(19,093)	(19,093)
Result from sale of Elettra Gll SpA shares	60,250	(63,154)	(2,904)
Equity participation in Coimpex Spzoo	—	(1,160)	(1,160)
Total	293,484	297,020	(3,536)
Net results for the year ended December 31, 2005:			
Results of the Huta group of companies the eight ended August 31, 2005 until disposal	167,545	(157,000)	10,545
Loss on disposal of the Huta group of companies	—	(11,952)	(11,952)
Results of Relco Spzoo	240	(4,549)	(4,309)
Total	167,785	(173,501)	(5,716)

All the above companies were in a tax loss position and had no tax expense.

Goodwill is stated at cost less impairment, with impairment been based on management's estimates of it recoverable value through the sale of these companies.

The shares of Elettra Gll SpA are accounted for at fair value based on management's expectation of the recoverable value of these shares on sale.

The adjustment to fair value of the deferred consideration for the sale of Huta LW Spzoo form Arcelor reflects management's best estimate of the market value of the assets (including land) that Arcelor can use to settle this amount.

Effect on the consolidated financial statements of the acquisitions and disposals

Details of the effect of the acquisitions and disposals described above on these consolidated financial statements are as follows:

	Acquisition 2005	Disposal 2005	Disposal 2004
Assets held for sale	13,779	179,556	63,154
Liabilities connected with assets held for sale	—	(116,872)	—
Net identifiable assets	13,779	62,684	63,154
Minority interest	—	(7,517)	—
Goodwill disposed of	—	8,185	—
Costs of disposal	—	450	—
Sub-total	13,779	63,802	63,154
Proceeds:			
Immediate cash payment	—	8,484	60,250
Deferred consideration	—	61,423	—
Fair value of option granted to settle with assets	—	(18,057)	—
Receivable from AKR	15,951	—	—
Land received directly by Lucchini SpA	(2,172)	—	—
sub-total	13,779	51,850	60,250
Loss on disposal	—	(11,952)	(2,904)
Net change in cash and cash equivalents	—	8,484	60,250

29. Subsequent events

In May 2006, the Group repaid its outstanding €200 million bond in full with accrued interest.

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REGISTERED OFFICE OF SEVERSTAL

OAO Severstal
Ul. Mira 30
162600 Cherepovets
Russian Federation

REGISTERED OFFICE OF THE SELLING SHAREHOLDER

Frontdeal Limited
Themistokli Dervi, 3, Julia House
P.C. 1066, Nicosia
Cyprus

JOINT BOOKRUNNERS

Citigroup Global Markets Limited
Citigroup Centre, Canada Square,
Canary Wharf,
London E14 5LB
England

Deutsche Bank AG, London Branch
Winchester House,
1 Great Winchester Street,
London EC2N 2DB
England

UBS Limited
1 Finsbury Avenue,
London EC2M 2PP
England

ADVISERS TO SEVERSTAL

ABN AMRO
250 Bishopsgate
London EC2M 4AA
England

LEGAL ADVISERS TO SEVERSTAL

as to English and United States law:

Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS
England

as to Russian law:

Freshfields Bruckhaus Deringer
Kadashevskaya nab. 14/2
Moscow 119017
Russian Federation

LEGAL ADVISERS TO THE MANAGERS

as to English and United States law:

Linklaters
One Silk Street
London EC2Y 8HQ
England

as to Russian law:

Linklaters CIS
Paveletskaya Sq. 2, bld 2
115054 Moscow
Russian Federation

AUDITORS TO SEVERSTAL

KPMG
11 Gogolevsky Boulevard
121019 Moscow
Russian Federation

AUDITORS TO LUCCHINI

Reconta Ernst & Young S.p.A.
Corso Magenta, 29
25121 Brescia
Italy

TAX ADVISERS TO SEVERSTAL

Ernst and Young (CIS) B.V.
Sadovnicheskaya Nab., 77, bld 1
115035 Moscow
Russian Federation

DEPOSITARY

Deutsche Bank Trust Company Americas
60 Wall Street
New York, New York 10005
United States

CUSTODIAN

Deutsche Bank Limited
4 Shepkina Street
Moscow 129090
Russian Federation

BOWNE
U50887