

SEVERSTAL

Consolidated condensed interim financial statements
for the six months ended June 30, 2005

Severstal

Consolidated condensed interim financial statements for the six months ended June 30, 2005

Contents

	<u>Page</u>
Independent accountants' review report	1
Consolidated condensed interim balance sheet	2
Consolidated condensed interim statement of operations	3
Consolidated condensed interim consolidated statement of cash flows	4
Consolidated condensed interim consolidated statement of changes in shareholders' equity	5
Notes to the consolidated condensed interim financial statements	6 – 10



KPMG Limited
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (095) 937 4477
Fax +7 (095) 937 4400/99
Internet www.kpmg.ru

Independent Accountants' Review Report

The Board of Directors
OAO Severstal

We have reviewed the accompanying consolidated condensed interim balance sheet of OAO Severstal and its subsidiaries (the "Group") as of 30 June 2005 and the related consolidated condensed interim statements of operations, changes in shareholders' equity and cash flows for the six-month period then ended. This consolidated condensed interim financial information is the responsibility of the Group's management. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review 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 review, nothing has come to our attention that causes us to believe that the consolidated condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

KPMG Limited.

KPMG Limited
7 October 2005

Severstal

Consolidated condensed interim balance sheet June 30, 2005

(Amounts expressed in thousands of US dollars)

	June 30, 2005 (unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	693,868	924,371
Reserves at Central Bank of Russia	4,829	4,695
Banking assets	336,424	217,286
Trade accounts receivable	457,740	456,132
Inventories	1,017,730	1,024,304
Amounts receivable from related parties	274,780	287,213
VAT recoverable	273,512	173,372
Income tax recoverable	19,732	43,945
Other current assets	107,001	118,315
Financial assets	724,231	662,544
Total current assets	<u>3,909,847</u>	<u>3,912,177</u>
Non-current assets:		
Financial assets	616,660	90,494
Investment in associates	79,377	85,770
Property, plant and equipment	2,613,310	2,488,771
Intangible assets	6,360	6,386
Total non-current assets	<u>3,315,707</u>	<u>2,671,421</u>
Total assets	<u><u>7,225,554</u></u>	<u><u>6,583,598</u></u>
Liabilities and shareholders' equity		
Current liabilities:		
Trade accounts payable	367,439	311,971
Bank customer accounts	115,666	44,695
Amounts payable to related parties	102,816	112,093
Income taxes payable	7,642	30,465
Other taxes and social security payable	40,982	32,520
Deferred income	469	1,956
Debt finance	170,556	227,821
Lease liabilities	180	351
Dividends payable	25,150	18,440
Other current liabilities	161,259	171,504
Total current liabilities	<u>992,159</u>	<u>951,816</u>
Non-current liabilities:		
Debt finance	1,474,860	1,325,324
Lease liabilities	159	450
Deferred tax liabilities	260,518	277,831
Other non-current liabilities	102,911	104,700
Total non-current liabilities	<u>1,838,448</u>	<u>1,708,305</u>
Equity:		
Share capital	3,311,129	3,311,129
Revaluation reserve	584,314	631,455
Foreign exchange differences	45,443	169,735
Accumulated earnings/(deficit)	398,823	(252,868)
Total equity attributable to shareholders of parent	<u>4,339,709</u>	<u>3,859,451</u>
Minority interest	55,238	64,026
Total equity	<u>4,394,947</u>	<u>3,923,477</u>
Total equity and liabilities	<u><u>7,225,554</u></u>	<u><u>6,583,598</u></u>

Severstal

Consolidated condensed interim statement of operations Six months ended June 30, 2005

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

	Six months June 30, 2005 (unaudited)	Six months June 30, 2004 (unaudited)
Sales		
Sales - external	3,912,463	2,538,354
Sales - to related parties	212,339	179,296
	4,124,802	2,717,650
Cost of sales	(2,623,902)	(1,675,658)
Gross profit	1,500,900	1,041,992
Indirect taxes and contributions	(12,666)	(8,529)
Selling, general and administration expenses	(119,656)	(125,033)
Distribution expenses	(272,758)	(201,207)
Net other operating expenses	(18,694)	(16,652)
Net expenses with insurance operations	-	(10,118)
Net income from bank lending operations	3,961	4,138
Net (expenses)/income from securities operations	(7,497)	15,993
Profit from operations	1,073,590	700,584
Non-operating expenses	(13,185)	(10,571)
Impairment of property, plant and equipment	2,487	(1,037)
Negative goodwill	2,653	57,143
Share of associates' (losses)/profits	(1,629)	3,763
Profit before financing and taxation	1,063,916	749,882
Net financing expense	(95,656)	(39,406)
Profit before income tax	968,260	710,476
Income tax expense	(227,437)	(162,588)
Profit for the period	740,823	547,888
Attributable to:		
shareholders of OAO Severstal	742,457	541,970
minority interest	(1,634)	5,918
Weighted average number of shares outstanding during the period (units after split)	551,854,800	551,854,800
Basic and diluted earnings per share (US dollars)	1.35	0.98

Severstal

Consolidated condensed interim statement of cash flows Six months ended June 30, 2005 (Amounts expressed in thousands of US dollars)

	Six months June 30, 2005 (unaudited)	Six months June 30, 2004 (unaudited)
Operating activities:		
Profit before financing and taxation	1,063,916	749,882
Adjustments to reconcile profit to cash provided by operating activities:		
Depreciation of property, plant and equipment	130,383	115,938
Amortization of intangible assets	24	105
Asset impairment	(2,487)	1,037
Negative goodwill	(2,653)	(57,143)
Foreign exchange losses	13,663	6,859
Loss on disposal of property, plant and equipment	16,819	16,215
Loss on disposal of subsidiaries/associates	300	-
Gain on disposal of financial assets	(3,646)	(5,133)
Adjustment of financial assets to fair value	12,942	(12,906)
Share of associates income	1,629	(3,763)
Bank loan loss provisions	641	754
Provision for doubtful accounts receivable	1,267	3,202
Provision against inventories	10,695	6,372
Changes in operating assets and liabilities:		
Reserves at Central Bank of Russia	(292)	668
Banking assets	(129,669)	(69,933)
Trade accounts receivable	(15,689)	(104,404)
Amounts receivable from related parties	9,380	5,948
VAT recoverable	(107,697)	(15,396)
Inventories	(19,103)	(151,260)
Lease receivables	-	162
Other current assets	7,761	(83,462)
Short term bank deposits	(1,254)	(77,465)
Trade accounts payable	62,885	76,154
Bank customer accounts	74,101	(8,302)
Amounts payable to related parties	(5,964)	1,027
Other taxes and social security payable	12,380	27
Deferred income	(1,457)	(612)
Other current liabilities	(5,371)	14,891
Other non-current liabilities	277	33,776
Cash generated from operations	1,123,781	443,238
Interest received (excluding banking operations)	22,919	16,883
Interest paid (excluding banking operations)	(66,913)	(28,171)
Income tax paid	(236,459)	(110,127)
Net cash provided from operating activities	843,328	321,823
Investing activities:		
Additions to property, plant and equipment	(356,206)	(202,584)
Additions to intangible assets	-	(2)
Additions to financial assets	(932,160)	(77,056)
Buy out of minority interests	(5,668)	-
Net cash outflow on acquisitions	-	(240,845)
Purchase of treasury shares	-	(101)
Proceeds from disposal of property, plant and equipment	(1,316)	(4,567)
Proceeds from disposal of financial assets	259,464	57,513
Cash used for investing activities	(1,035,886)	(467,642)
Financing activities:		
Proceeds from debt finance	388,972	1,302,966
Repayment of debt finance	(271,923)	(335,019)
Repayment of lease finance	(450)	(345)
Parent company dividends paid	(130,397)	(79,456)
Minority capital contributions	6,228	709
Dividends paid to minorities	(3,170)	-
Dividends from associates	4,614	5,760
Cash provided from financing activities	(6,126)	894,615
Effect of exchange rates on cash and cash equivalents	(31,819)	10,406
Net (decrease)/increase in cash and cash equivalents	(230,503)	759,202
Cash and cash equivalents at beginning of the period	924,371	463,702
Cash and cash equivalents at end of the period	693,868	1,222,904

Severstal

Consolidated condensed interim statement of changes in shareholders' equity Six months ended June 30, 2005 (Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal					Minority interest	Total	
	Share capital	Treasury shares	Revaluation reserve	Foreign exchange differences	Accumulated earnings/ (deficit)			Total
Balances at December 31, 2003	3,311,129	-	728,467	-	(1,438,193)	2,601,403	60,459	2,661,862
Dividends (unaudited)	-	-	-	-	(52,843)	(52,843)	-	(52,843)
Purchase of treasury shares (unaudited)	-	(90)	-	-	(11)	(101)	-	(101)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	-	-	4,884	4,884
Realization of revaluation reserve:								
Disposals (unaudited)	-	-	(2,469)	-	2,469	-	-	-
Depreciation (unaudited)	-	-	(59,152)	-	59,152	-	-	-
Deferred tax on realization (unaudited)	-	-	14,789	-	(14,789)	-	-	-
Foreign exchange differences (unaudited)	-	-	-	43,325	-	43,325	566	43,891
Profit attributable to shareholders (unaudited)	-	-	-	-	541,970	541,970	5,918	547,888
Balances at June 30, 2004 (unaudited)	<u>3,311,129</u>	<u>(90)</u>	<u>681,635</u>	<u>43,325</u>	<u>(902,245)</u>	<u>3,133,754</u>	<u>71,827</u>	<u>3,205,581</u>
Balances at December 31, 2004	3,311,129	-	631,455	169,735	(252,868)	3,859,451	64,026	3,923,477
Dividends (unaudited)	-	-	-	-	(137,907)	(137,907)	(3,170)	(141,077)
Effect of acquisitions and disposals (unaudited)	-	-	-	-	-	-	(2,093)	(2,093)
Realization of revaluation reserve:								
Disposals (unaudited)	-	-	(8,230)	-	8,230	-	-	-
Depreciation (unaudited)	-	-	(53,798)	-	53,798	-	-	-
Deferred tax on realization (unaudited)	-	-	14,887	-	(14,887)	-	-	-
Foreign exchange differences (unaudited)	-	-	-	(124,292)	-	(124,292)	(1,891)	(126,183)
Profit attributable to shareholders (unaudited)	-	-	-	-	742,457	742,457	(1,634)	740,823
Balances at June 30, 2005 (unaudited)	<u>3,311,129</u>	<u>-</u>	<u>584,314</u>	<u>45,443</u>	<u>398,823</u>	<u>4,339,709</u>	<u>55,238</u>	<u>4,394,947</u>

Severstal

Notes to the consolidated condensed interim financial statements for the six months ended June 30, 2005

(Amounts expressed in thousands of US dollars)

1. Accounting policies

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

As of January 1, 2005, the Group adopted all of the new and revised IFRS and interpretations adopted by IASB that are relevant to its operations and effective for the accounting periods beginning on January 1, 2005 with the exception of IFRS 3 "Business Combinations", IAS 21 "The Effects of Changes in Foreign Exchange Rates", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets", which were adopted before their effective dates for the financial statements for the year ended December 31, 2004.

There was no impact on opening retained earnings as at January 1, 2004 from the adoption of any of the above-mentioned standards.

Significant changes in accounting policies as they relate to the Group's financial position, results of its operations and its cash flows, as presented in these consolidated condensed interim financial statements, are summarized as follows:

Application of IAS 1 "Presentation of Financial Statements" (revised 2003) has affected the presentation of minority interest, and will result in increased disclosures in the full year financial statements.

Beginning from January 1, 2005 all foreign exchange differences that relate to the statement of operations are included in the line "Net financing expense". In previous periods foreign exchange differences were allocated to different line items in the statement of operations depending on their nature. 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.

All of the Group's significant accounting policies will be updated to reflect the requirements of the new and revised standards and interpretations adopted by the IASB when the full set of consolidated financial statements of the Group is prepared for the year ended December 31, 2005.

2. Seasonality

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

Severstal

Notes to the consolidated condensed interim financial statements for the six months ended June 30, 2005

(Amounts expressed in thousands of US dollars)

3. Related party balances

	June 30, 2005	December 31,
	(unaudited)	2004
Amounts receivable from related parties:		
Advances paid	19,271	26,557
Trade accounts receivable	66,803	62,701
Other receivables	188,706	197,955
	274,780	287,213
Cash and cash equivalents include the following balances with related parties:		
Cash at related party banks	41,012	31,096
Deposits at related party banks	8,862	128,715
Promissory notes from related parties	10,215	-
	60,089	159,811
Banking assets include loans to related party customers	22,665	31,009
Current financial assets include the following balances with related parties:		
Held to maturity securities - bank deposits	132,982	83,012
Originated loans	124,476	35,143
Trading securities - promissory notes	5,154	10,114
	262,612	128,269
Non-current financial assets include the following balances with related parties:		
Available-for-sale securities - non-quoted equity shares	195,434	28,710
Originated loans	416,296	58,991
Held-to-maturity securities - promissory notes	15	-
	611,745	87,701
Amounts payable to related parties:		
Advances received	3,261	1,874
Trade accounts payable	72,933	68,519
Other accounts payable	3,015	122
Bank demand deposits	10,048	11,827
Bank term deposits	13,559	29,751
	102,816	112,093

Severstal

Notes to the consolidated condensed interim financial statements for the six months ended June 30, 2005

(Amounts expressed in thousands of US dollars)

4. Related party transactions

	Six months June 30, 2005 (unaudited)	Six months June 30, 2004 (unaudited)
Income:		
Sales	212,339	179,296
Banking income	1,003	2,678
Insurance premiums	-	1,717
	<u>213,342</u>	<u>183,691</u>
Expenditure:		
Purchases - non-capital	722,121	371,915
Purchases - capital	57,255	200
Bank expenses	102	-
Insurance claims	-	712
	<u>779,478</u>	<u>372,827</u>

5. Commitments and Contingents

The Group has provided for all significant contingent liabilities, which are probable of assertion and success.

As at June 30, 2005, the Group had capital commitments of US\$ 197.2 million (December 31, 2004: US\$ 212.6 million).

6. Acquisitions and disposals

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 of Euro 430.0 million, Severstal and its related parties obtained 61.9% voting control of Lucchini SpA. In May-June 2005, related parties, financed by Severstal, acquired from third parties additional 7.9% of the outstanding share capital of Lucchini SpA for Euro 61 million. Long-term financial assets as of June 30, 2005, in these condensed consolidated financial statements include the following balances related to these transactions: US\$ 167.1 million of cost of 19.99% shares of Lucchini SpA and US\$ 406.0 million of loans to related parties.

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 acquired an additional 4.99% in ChSPZ for US\$ 5.4 million from third parties. As a result, as of June 30, 2005, the Group owned 88.84% of the outstanding share capital of ChSPZ.

Severstal

**Notes to the consolidated condensed interim financial statements
for the six months ended June 30, 2005**
(Amounts expressed in thousands of US dollars)

7. Segmental information – Statement of operations

	Net sales (unaudited)	Profit before financing and tax (unaudited)
Six months ended June 30, 2005:		
Steel segment	3,978,937	1,058,913
Metalware segment	314,138	(3,855)
Financing segment	-	3,192
Intersegmental transactions	(168,273)	5,666
Total	<u>4,124,802</u>	<u>1,063,916</u>
Six months ended June 30, 2004:		
Steel segment	2,618,415	723,666
Metalware segment	245,845	16,083
Financing segment	-	1,135
Insurance segment	-	6,040
Intersegmental transactions	(146,610)	2,958
Total	<u>2,717,650</u>	<u>749,882</u>

8. Post balance sheet events

On September 22, 2005, Severstal's shareholders approved an interim dividend for the first half-year of 2005 of Rbs 3.90 per share.

In August 2005, the Group sold its 9.8% ownership in OAO Industry & Construction Bank for US\$ 27.5 million, realizing a US\$ 15.9 million gain on disposal.

In September, 2005, Severstal and its related parties have initiated the SeverCorr project related to the 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 million, and the project will be financed by Severstal, its related parties, third party equity participants and bank financing. In September 2005, Severstal and its related parties have contributed US\$ 80 million to the project, and have the obligations to provide future financing in the amount of US\$ 184 million by June 13, 2006, and have issued guarantees to third parties in the amount of US\$ 10 million. The effective ownership interest of OAO Severstal in this project is 44.5% and the combined ownership interest of OAO Severstal and its related parties in this project is 74.3%.

Severstal

Notes to the consolidated condensed interim financial statements for the six months ended June 30, 2005

(Amounts expressed in thousands of US dollars)

In September, 2005, the Group, through its U.S. holdings, has contributed an initial US\$ 50 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\$ 80 million, and \$10 million in cash. The Group, within the next several months, will contribute an additional \$70 million to the Mountain State Carbon LLC. This cash and \$30 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 U.S. integrated steel operations a reliable and competitive supply of metallurgical coke. Upon completion of all contributions, each partner will have a 50 percent share in Mountain State Carbon LLC.

In July 2005, the Group established a joint venture with Arcelor group by selling to 50% of Group's ownership in ZAO TA Cord for US\$ 2.9 million. Net assets of TA Cord on July 1, 2005 were US\$ 8.4 million.

* * *