Severstal

Striving for Excellence

Annual Report and Accounts 2009

Welcome

Severstal is Russia's largest steel producer. We combine the growth potential of Russia's emerging market with the margin sustainability of an international steel producer.

We aim to add value to our customers' businesses by providing products, processes and services that allow them to increase the efficiency and quality of their operations. Throughout the world, Severstal companies supply leading technology, supported by outstanding technical service.

Overview

Business Review

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Highlights 2009

Operational

Revenue of $13,054 million (FY2008: $22,393 million), as a result of lower sales volumes and a drop in average prices, particularly in early 2009

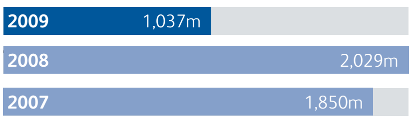
EBITDA of $844 million (FY 08: EBITDA of $5,358 million)

Net loss of $1,037 million (FY 08: net profit of $2,029 million)

Net Loss attributable to shareholders 2009 (US$)

1,037m

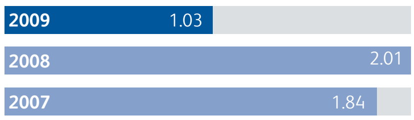
(2008 profit: 2,029m)



Loss per share 2009 (US$)

1.03

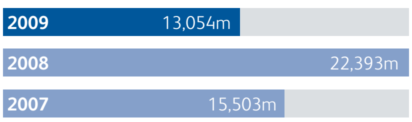
(2008 Earnings per share: 2.01)



Revenue 2009 (US$)

13,054m

(2008: 22,393m)



Mission, Vision and Values

"Severstal's mission is to become the leader in value creation."

In 2009 OAO Severstal developed its mission, vision and values. This important initiative, which is fully supported by the Board of Directors, lays the foundation for Severstal to become one of the world leaders in the steel industry.

We aim to create value through vertical integration and a relentless pursuit of excellence.

We want to be leaders in manufacturing high-demand products globally for the construction, power industry, transportation, industrial equipment and consumer goods sectors.

For us, leadership in value creation means constantly striving to achieve better results and consistently exceeding customer expectations.

It is about using our knowledge, experience and expertise for the development and sustainable growth of the Company. We strive to meet the goals and needs of all stakeholders, including shareholders, clients, employees, business partners and the communities in which we operate.

Our vision

Severstal is an international vertically integrated steel and mining Company. We aspire to become a leader in creating value through the following attributes:

Excellence

Aspiring to excellence will enable us to be more effective than our competitors. We will develop Severstal's business system to increase our competitive advantages.

The quality of our processes, and their execution, will become the key differentiator between Severstal and our competitors. Currently our focus is on improving customer satisfaction and improving business processes such as customer care, business standards, cultural transformation, continuous improvement, market foresight, industrial safety, technology development, management of investment projects and strategic planning.

People

People are the driving force of our success. Professional and dedicated people, united by a strong corporate culture and shared values, enable us to achieve excellence together.

Unity

Our unity is based on shared values, goals, business standards and principles of work. We are a united Company, benefiting from synergies throughout our divisions. We respect and welcome initiatives and entrepreneurship which support the achievement of our corporate goals and facilitate the development of a united Company.

To become a global leader in integrated steel production, we aim to balance a centralised approach with local initiatives in developing our processes.

Our values

Safety

We create and maintain safe working conditions to safeguard our teams' health and safety. We aspire to preventing environmental pollution and to promoting the efficient use and conservation of energy and natural resources. Nothing can justify a violation of industrial safety rules or behaviour that neglects our health and well being.

Customer care

Our Company operates to satisfy the needs of our customers. We assess their needs carefully in order to react efficiently and develop for them and with them. We achieve this by building new operations, launching new products, improving our technology and services and making our business processes more efficient.

Efficiency and agility

'Doing the right thing in the right way' is a key principle that guides our work. We aspire to achieve the best results by prioritising timely innovation and being rigorous in optimising our resources.

Vadim Saveliev

SVP Corporate Communication and Investor Relations

Mission, Vision, Values. New Brand and Cultural Transformation

During 2009, Severstal took a major step forwards in its development, establishing its corporate mission, vision and values. These form the basis of our long-term strategy and are the starting point for the creation of a corporate culture. The launch of a new brand in 2009 supported these developments.

Why a new corporate culture? Our Company is developing rapidly. In 15 years we have grown from being a large regional enterprise to a leading national Company, and are now a leading international steel and mining Company. Our vision, brand and corporate culture need to develop alongside this transformation and reflect this growth.

Severstal's derives competitive advantage from three important strengths: striving for excellence, the experience and dedication of our people, and our vertically integrated value chain. The philosophy of our new brand interconnects with our mission, which is to become leaders in value creation. Our slogan, Achieve more together, has an important role to inspire call to action, uniting everyone across Severstal.

Having set a direction for our development, we are establishing a new Severstal Business System, encompassing a number of strategic projects designed to bring our mission and vision to life. Each project is managed by a specific functional area of our operations and all of them are critical for achieving our goal of being an industry leader. Severstal Business System is based on our corporate values of safety, customer care, efficiency and agility, respect for employees and teamwork.

Having launched these projects in 2009, we are already seeing progress. Each project means changing existing business processes, looking at things from the standpoint of our values, and devising solutions to the challenges we face.

Cultural change is impossible without good internal communication, and we worked hard at this during 2009. Our intranet became a single conduit for informing our employees about our Company and its many developments. The chief executive and heads of divisions now regularly communicate with employees in each region by videoconferencing, and any employee can now ask the chief executive the most demanding of questions.

In summary, the work carried out in 2009 has laid the foundations for the future. In 2010 and the years ahead we will witness the development of a radically new Company. Three key words underpin our new brand: People, Excellence and Unity. They lay the basis for the success that we will achieve together in the future.

Respect to employees

We create and appreciate the atmosphere of mutual respect amongst our employees. We aim to become the employer of choice by providing good working conditions, making fair appraisals of employee performance and providing the potential for self-fulfilment and career development.

Teamwork

Through teamwork, we can achieve more together. Our actions are based on trust, responsibility and decisions which we reach together by using the potential and professionalism of all members of our team. Our shared Company vision and goals will lead to lasting success.

Mission, vision and values are critical to any Company's success. They unite our actions toward shared goals and objectives, educate us about our corporate culture, and inspire and involve us in the business process.

Severstal is made valuable by what people can achieve together.

Severstal at a Glance

Severstal has three business divisions: Resources, Russian Steel and International. Our strategy of focusing on high-value-added products in niche markets and of acquiring assets in the USA, Italy, France and the UK has enabled us to realise greater earnings than other Russian steel producers.

13,054m
Revenue

Annual comparisons

	2009	2008	2007
Crude steel production, million tonnes	16.7	19.2	17.5
Revenues, US$ million	13,054	22,393	15,503
EBITDA, US$ million	844	5,358	3,688
Net (loss)/profit*, US$ million	(1,037)	2,029	1,850

* attributable to shareholders

16.7m tonnes
Production volumes of steel

Quarterly comparisons

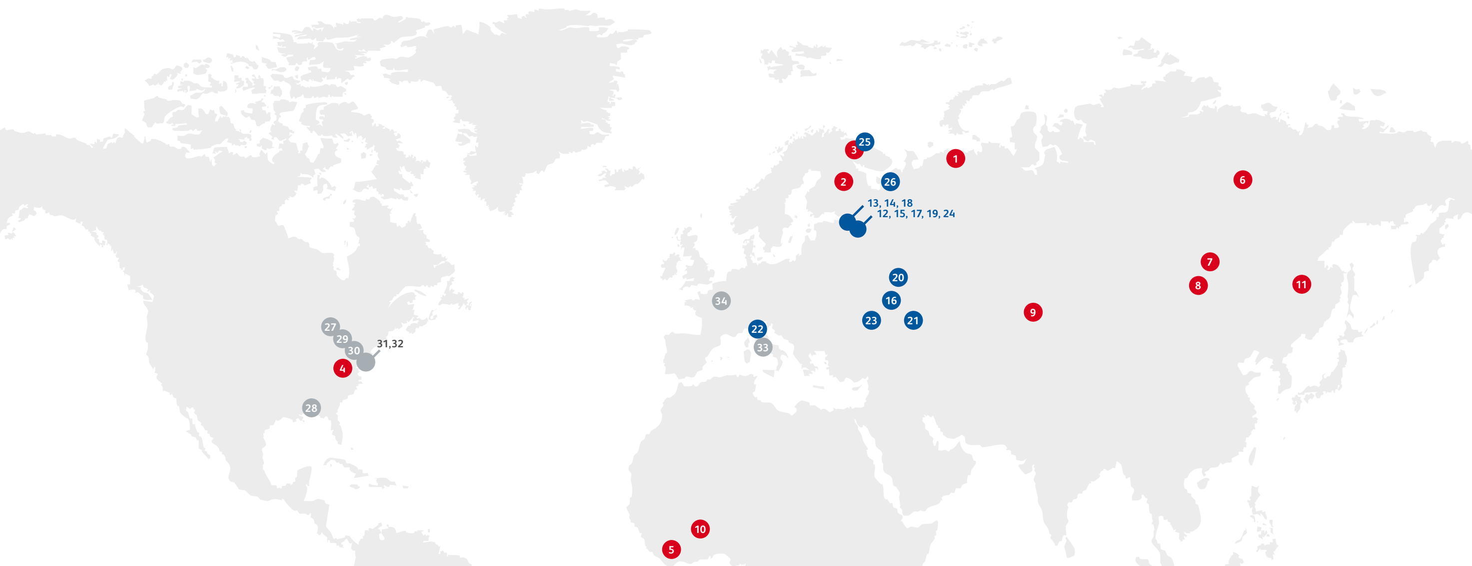
	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Crude steel production, million tonnes	4.6	4.5	3.8	3.8
Revenues, US$ million	3,919	3,487	2,852	2,796
EBITDA, US$ million	630	373	(5)	(154)

Severstal Resources

Severstal is one of Russia's largest producers of iron ore and coking coal.

Mining
1. Vorkutaugoll (Vorkuta, Russia)
2. Karelsky Okatysh (Kostomuksha, Russia)
3. Olkon (Olenegorsk, Russia)
4. PBS Coals (Friedens, Pennsylvania, USA)
5. Severstal Liberia Iron Ore (Liberia)

Gold
6. Neryungri Metallic (Yakutia, Russia)
7. Mine Aprelkovo (Transbaikal region, Russia)
8. Buryatzoloto (Buryatia, Russia)
9. Suzdal (Eastern Kazakhstan)
10. Taparko (Burkina Faso)
11. Berezitoviy (Amur region, Russia)



Severstal Russian Steel

In Russia Severstal is the prime high-quality supplier of flats, longs and steel pipes for the construction, automotive, machinery, and oil and gas industries.

Steel products

- 12 Cherepovets Steel Mill (Cherepovets, Russia)
- 13 Izhora Pipe Mill (St. Petersburg, Russia)
- 14 SMZ-Kolpino (St. Petersburg, Russia)
- 15 TPZ Sheksna (Vologda, Russia)
- 16 Gestamp-Severstal-Kaluga (Kaluga, Russia)
- 17 Severgal (Cherepovets, Russia)
- 18 Neva-Metal (St. Petersburg, Russia)

Metalware products

- 19 Cherepovets (Russia)
- 20 Orel (Russia)
- 21 Volgograd (Russia)
- 22 Redaelli Tecna (Italy)
- 23 Dneprometiz (Dnepropetrovsk, Ukraine)

Scrap processing

- 24 Vtorchermet (Cherepovets, Russia)
- 25 Murmanskvtormet (Murmansk, Russia)
- 26 Archangelski vtormet (Archangelsk, Russia)

Severstal International

Severstal is one of the majors in the USA, Italy and France with premium customers in the automotive, energy, construction, household appliances, and packaging industries.

Steel products

- 27 Dearborn (Michigan, USA)
- 28 Columbus (Mississippi, USA)
- 29 Warren (Ohio, USA)
- 30 Wheeling (West Virginia, USA)
- 31 Sparrows Point (Maryland, USA)
- 32 Mountain State Carbon (West Virginia, USA)
- 33 Lucchini (Piombino, Italy)
- 34 Ascometal (Paris, France)

Chairman's Review

"The Company has emerged from this challenging period stronger than ever and is well positioned to exploit global economic recovery as it gathers pace."

Company Milestone

1940
Decree of the Government of the USSR On Organization of Metallurgical Base in the North-West of the USSR overlooking construction of a metal-working plant in Cherepovets.

1947
Construction of Cherepovets Steel Mill in Vologda Region.

1955
The first Cherepovets cast iron is produced.

1993
Cherepovets Steel Mill registered as Open Joint Stock Company 'Severstal'.

1994–99
Acquisition of the controlling stake in Karelian Pellet, an iron ore pellet manufacturer based in the Republic of Karelia, Russia.

Severstal stock is listed on RTS.

2000
Acquisition of the controlling stake in Olenegorsk Mining and Processing Integrated Works, specializing in the extraction of iron ore and production of iron ore concentrate (Murmansk Region, Russia).

2003
Acquisition of the controlling stake in Kuzbassugol.

Acquisition of Vorkutaugol comprising several mines and coking coal production and beneficiation plants in the Republic of Komi, Russia.

2004
Severstal acquires Rouge Steel, an integrated steel making facility based in Michigan, USA. The Company is later renamed Severstal Dearborn.

2005
Severstal stock is listed on MICEX.

Severstal met the challenges of 2009 decisively and effectively.

We were early to reduce costs and put in place other initiatives to manage our business during the downturn. Consequently, we were able to contain the impact of a 50% fall in global demand for steel on 2009 performance. We were also successful in generating significant cash through the year and have further strengthened our financing structure. As a result, the Company has emerged from this challenging period stronger than ever and is well positioned to exploit global economic recovery as it gathers pace.

The steel industry showed signs of stabilisation in the second half of the year, having reached the bottom of the cycle in the first half. We have seen tentative recovery in pricing and demand in some of our key markets, particularly in Russia and the USA. Although we remain cautious about the outlook for 2010, these trends are encouraging.

As a result we are increasing our capital expenditure in 2010. This is focused on enhancing our vertically integrated model and ability to target growth in the Russian infrastructure and construction markets, and on improving our competitive position in higher-value-added markets in the USA. As part of our plan to step up production, we have re-started some of our idle facilities in the USA. Over the longer term we remain confident in our ability to achieve industry-leading returns given our integrated model, low-cost Russian production, lean international operations and diverse emerging markets sales channels.

Throughout 2009 we continued to focus on developing our people and processes to ensure that we are industry leaders in health and safety, customer care, efficiency and teamwork. The introduction of our 'Mission, Vision and Values' programme across all our operations was an important strategic initiative designed to deliver leadership across these areas and will continue to be a priority.

Severstal remains committed to the highest standards of corporate governance. The Board is well balanced between executive and non-executive directors, who challenge the executive team and scrutinise the implementation of our development plans. The executive management team is using the Board's wide experience to the benefit of the Company. During the year, Alexey Kulichenko became Chief Financial Officer in July, joining the Board in October. Sergey Kuznetsov, who was previously Chief Financial Officer of the Company, became Chief Executive Officer of our International Division.

Severstal rose to the challenges of a difficult 2009. I would like to thank the Board, the executive team and all my colleagues across the Group for their loyalty and commitment over this period, as well as our suppliers and customers for their continuing support. Solid economic growth in emerging markets and a gradual recovery of demand in mature markets have improved the outlook for 2010. Combined with the benefits of the cost management and debt reduction initiatives implemented during 2009, we believe we are well positioned to benefit from improving steel markets in 2010 and to invest in growth and an enhanced product mix.

Christopher Clark
Independent Chairman of the Board of Directors

2006

Severstal IPO on the London Stock Exchange.

Consolidation of a number of steel and mining companies into OAO Severstal.

The foundations of Izhora Pipe Mill in Leningrad region, Russia.

Acquisition of Lucchini Group, an integrated steel-making facility based in Italy and France.

2007

Severstal acquires Celtic Resources, a gold mining Company with a number of assets in Kazakhstan. A Gold Mining segment is created within Severstal Resources.

2008

Severstal acquires African Iron Ore Group Ltd (AIOG) in western Africa. After the acquisition, AIOG changes its name to Severstal Liberia Iron Ore Ltd.

A 53.8% stake in High River Gold, the owner of a number of plants in Buryatia and Amur Region and a gold mine in Burkina Faso (Africa). This deal makes Severstal Russia's second largest gold mining Company.

Acquisition of PBS Coals, a coking coal producer based in Pennsylvania, USA.

Acquisition of Esmark Incorporated based in West Virginia, later renamed Severstal Wheeling

Reorganization of OAO Severstal. Three divisions are created: Severstal Russian Steel, Severstal Resources and Severstal International.

Acquisition of Sparrows Point based in Maryland, USA. The Company is later renamed Severstal Sparrows Point.

Acquisition of exploration and gold mining licences for six fields in Irkutsk Region and Trans-Baikal Province.

2009

According to Metal Bulletin ratings, Severstal remains the largest producer by volume among companies in the CIS.

Chief Executive's Review

2009 was a difficult year for the global steel industry but the decisive actions we took leave the Company well positioned for 2010.

Our flexible cost base, vertically integrated model and solid financial position provide additional competitive advantage. Revenue for the year decreased to US$13,054 million as a result of difficult market conditions, particularly in the first half of the year. Cost reduction measures contained the net loss to US$1,037 million. We achieved a significant improvement in second half performance across all divisions, with net losses reduced to US$91 million versus net loss of US$946 million achieved in the first half of the year.

We generated strong free cash flow of US$751 million, primarily through working capital release, and strengthened the balance sheet by diversifying sources of debt funding and lengthening its maturity.

Despite the difficult market conditions, we continued to focus on our longer-term strategic initiative to be a leader in creating value, by delivering sustainable margins and industry-leading returns. This included the introduction of our 'Mission, Vision and Values' across all our divisions. These are focused on achieving excellence in everything we do, further developing our people and ensuring we operate to shared goals, values and standards.

Strategy

2009 was a turning point to re-emphasize and reconfigure our strategy. Global crisis has reminded about inherent industry cyclicality and demonstrated ultimate importance of business resilience and earnings sustainability. This reinforced our conviction in a low-cost, vertically integrated business model. In line with this principle, we have adopted a new set of financial and industrial targets which will set tough but aspiring goals and will play the role of a powerful disciplinary factor in building our asset structure. This will also send a strong signal to ourselves and a signal to all our customers, shareholders, investors and business partners that we have a clear strategic vision and a streamlined strategic plan.

We know how to achieve our objectives utilizing key industrial growth drivers in the most efficient way via reinforcement and replication of winning business models we operate at Severstal.

Our key financial objective is to become one of the global industry leaders by EBITDA, while retaining one of a leading position by margins and returns on investment. We believe that our integrated business model can deliver industry leading returns over the cycle and we will continue to target at least 70% to 80% self sufficiency in iron ore and coking coal globally.

Out top investment priority is to expand in Russia and other CIS countries and carefully explore business opportunities in other high-growth emerging markets, particularly in mining. Severstal's top priority in North America is to restructure and rationalize our assets and bring them to sustainable profitability in the still difficult market conditions. We will also leverage our mining expertise via selective investment in non-steel related sectors such as gold.

“2009 was a milestone year to emphasize and reconfigure our strategy.”

Investment

Capital expenditure was US$1.0 billion in 2009, in line with our target for the year. In 2010, we will increase our capital expenditure programme to US$1.4 billion, reflecting our improved confidence in the market outlook.

We will spend approximately US$685 million on key projects in the Russian Steel Division, US$356 million in the Resources Division and US$413 million in North America. These investments will support the Company’s organic growth and enhance our competitive position. They will be focused on enhancing our vertically integrated model and mini-mill capacity to target growth in the Russian infrastructure and construction markets and on improving our competitive position in higher-value-added markets in the USA.

Severstal Russian Steel

Severstal Russian Steel is a world-class, low-cost producer of steel which delivered strong results throughout a difficult 2009. Despite a significant decline in revenue to US$6,179 million, the division generated EBITDA of US$1,319 million with an EBITDA margin of 21.3%. The cost per unit of slab production decreased by 42.3% year-on-year to US$269 supporting an increase in exports which increased to 53.1% of total sales by volume.

As part of our capital expenditure programme in 2010, we plan to start construction of a mini-mill in Balakovo (Saratov region). We expect this mini-mill to produce 1 million tonnes of long steel a year by 2013, which will support organic growth. Downstream expansion in Russia, including investments in production of fabricated box sections at Sheksna and in the second polymer coating line at Cherepovets, is aimed at increasing the share of customised products in our portfolio mix.

Severstal Resources

Although our mining division saw revenue decline to US$1,871 million, its achieved EBITDA was US$393 million. Cost-cutting measures and a weaker Russian rouble in 2009 resulted in reductions in the cost per unit of production across our operations. As the majority of our sales are made in the spot markets, we expect to be able to take advantage of rising commodity prices.

Our gold business has grown rapidly over the last two years. In 2009, it contributed US$236 million to the Resources Division’s EBITDA as a result of favourable gold prices and organic growth in production units.

Severstal International

The US

Revenue was US$4,023 million with reported negative EBITDA of US$654 million for 2009. The second half of the year saw an improved performance and we believe that the North American market will continue to improve in 2010, contributing to better utilisation of capacity. We expect ongoing cost-saving measures, including labour and production efficiencies, to deliver stronger results in 2010.

Over the longer term, we expect the cost position of our North American business to improve as a result of further investment in operational efficiencies. In 2010, we will invest US$413 million in projects, including replacing the tandem mill at Dearborn. This will substantially improve processing costs at Dearborn’s cold rolling facilities and pickling lines by 2013. We will also begin Phase II at Columbus and by its completion, expected to be in 2012, this project will add a further 1.5 million tonnes of mini-mill capacity a year to our North American operations.

Europe

For 2009, Lucchini’s revenue was down to US$1,757 million and EBITDA was negative US$203 million. Sales volumes in 2009 were almost half of those in 2008, with a significant negative impact on EBITDA. EBITDA was also affected by a less favourable product mix, as well as higher per-unit costs, which were only partially off set by cost-cutting initiatives.

Outlook

We believe the outlook for 2010 has improved. Growing demand from China for coking coal and iron ore has already led to higher spot prices for these raw materials to date in 2010. We believe this trend will be sustained during the current year giving Severstal a strong competitive cost advantage through our vertically integrated business model. Combined with the benefits of the cost management and debt reduction initiatives implemented during 2009, we believe we are well positioned to benefit from improving steel markets in 2010 and invest in growth and an enhanced product mix.

Alexey Mordashov
Chief Executive Officer

Our Strategy

Andrei Laptev

Head of Corporate Strategy Department, OAO Severstal

Development of Corporate Strategy

Our Strategic Development project involves experts on corporate strategy working at the Corporate Centre and those developing market strategies in business units. Its major goals are to develop long-term, stable business models for the Company, to improve our strategic planning processes and to update our corporate strategy. It will enable us to set up a sustainable and coherent asset structure, meet our strategic financial goals, and accomplish our mission to become one of the leaders in the global steel industry.

In 2009, the project accomplished many critical tasks to help us achieve our goals:

- We developed the basic provisions of our corporate strategy, achieved alignment around these goals by the corporate top management and communicated our new strategy to the TOP-100. Communication to the rest of the employees, and our investors, is scheduled for June-July 2010.
- Our strategic financial and industrial goals were approved, and should be taken into account for all investment decisions. The financial goals include an increase in profit (to be among the world industry's leaders by EBITDA), resilience to the business cycle (EBITDA margin), and in efficiency of capital use (return on capital employed – ROCE and net debt-to-EBITDA ratio), which will help us cope with cyclical volatility. Currently, we are evaluating all M&A and organic growth projects on the basis of our strategic goals.
- Developing the corporate strategy and business unit strategies will take place regularly, resulting in up-to-date advice on attractive investment projects, compliance of the business unit strategies with corporate goals, and communication of our strategy around the Company. As a part of this process, we carry out strategic stress testing of our assets to analyse their resilience to the cycle, and to identify strategic weaknesses and possible remedies.
- We defined our business models and started work on their improvement. Currently, we are exploring the possibilities to create a large vertically integrated complex in emerging markets with local steelmaking raw materials, to develop a mini-mill business model in areas well-supplied with scrap, as well as to build up a global resource asset portfolio.
- We began work to set up a joint team of the Corporate Centre and Severstal Resources to look into increasing our presence in attractive regions for steel and raw materials businesses, such as the rapidly developing markets of Asia, Africa and Latin America.
- In 2010, major work under the Strategic Development project will entail external communication of our corporate strategy, further improvements on the regular process of strategic analysis and development of business strategies, and also widening the opportunities for the practical implementation of the new strategy.

"Our Strategic Development project will enable us to accomplish our mission to become one of the leaders in the global steel industry."

Severstal Strategy

To become one of the global industry leaders by EBITDA, while retaining a leading position in margins and returns on investment

– Severstal is a global steel and mining company with a strong position in emerging markets both in steel and in raw materials.
– There is a number of crucial industrial growth drivers which we believe to be key to our success, and which ultimately will help us achieve our financial objectives.

3 industrial growth engines

to achieve Severstal corporate financial objectives:

High level of market concentration

High level of market concentration secures better production discipline over the industrial cycle, closer relationships with customers and also provides opportunities to target high-potential niche segments.

Vertical integration

Vertical integration is an integral part of our business model. Severstal is one of the few global steel companies with favourable balance in both iron ore and coking coal. We are almost fully self-sufficient in steel-related raw materials in Russia and will target higher self sufficiency in iron ore and coking coal globally.

Cost competitiveness

We believe that cost competitiveness in every region where we produce steel is a vital element to strengthen Severstal position over the cycle and to enjoy industry-leading margins.
Our flagship facility, Cherepovets Steel Mill, is one of the world's largest standalone integrated steelworks by capacity, is also one of the lowest-cost steel producers globally.
We plan to develop our asset structure to bring all our steel assets in line with the regional cost leadership targets.

Strategic priorities

Priority 1

– High-growth, low-cost emerging markets will dominate in our asset portfolio

- To expand in Russia and other CIS countries is a top investment priority

  Our low-cost, vertically-integrated steel production base in the high-potential Russian market is the key element of Severstal business model to provide high margin over the cycle.

  Russia and other CIS countries enjoy a combination of attractive industrial factors:

  - high potential of steel demand growth
  - abundant raw materials with a unique combination of captive iron ore and coking coal
  - cheap energy

  This provides plenty of investment opportunities for Severstal. We will actively explore business development projects in Russia and other CIS, both in steel and in mining.

- To expand our position in other high-growth emerging markets

Priority 2

– Vertical integration of our steel operations globally is also one of the top priorities

- Severstal will continue to pursue interesting opportunities for growth, those with high potential to create value, to increase our presence in globally competitive local raw materials.

Other priorities

- The restructuring of Severstal US integrated mills is a key priority for us this year. Our main goal is to return to sustainable profitability. We will pursue all interesting opportunities both internally and externally to maximise and capture the value of our US assets through participation in further market consolidation in North America.
- We aim to selectively expand our presence in cost-flexible mini-mills in scrap-rich regions (USA and Russia), to utilise their cost flexibility and high returns on investments.
- We will also continue selective investments in gold and other highly attractive non-steel related commodities.

Risk Management

Activities of Severstal are subject to certain risks, the most important of which we describe below.

We are creating an effective risk management system aimed at developing confidence in reaching strategic and operating goals, and at providing reasonable assurance in protection from potential losses. The corporate policy, standards and procedures of our risk management system cover all divisions and entities of Severstal.

Top managers, management and employees at each level are responsible for developing and using the risk management system, and we have a risk management committee to coordinate its implementation, with key managers as members. The Board of Directors and top management control the system's effectiveness.

Strategic risks

Change of political situation

Severstal performs its main activities in the CIS, North America, Europe, Africa and Asia regions and is registered as a taxpayer in various countries. Different countries have different political climates, limitations on business activity, assets expropriation and confiscation rules, monetary systems and their potential negative changes, and potential for other crisis factors due to government policy. There is a possibility that new trade barriers will be established that may have a negative impact on our export or import operations. Political risks also include potential conflicts, terrorist acts, social unrest, and the introduction of a state of emergency, all of which can have an influence on our activities. However, the probability of these events is considered to be quite low in the short-to-mid term.

Mitigation

A significant part of our production facilities and business operations is based in regions and countries with stable political systems and social situations. Additionally, we make operating and investment decisions based on systematic risk assessment and monitoring. In countries with an unstable political situation, we undertake additional risk mitigation measures such as specialised types of insurance against political risks.

Change of economic situation

In 2009, the global economy experienced the most significant downturn since the Great Depression. As IMF pointed out, world GDP decreased by 0.8% compared to 2008.

The second half of 2009 and the beginning of 2010 gave rise to a number of positive developments, both in the global and the Russian economy. The beginning of restocking and the unexpected strength in US consumption contributed to positive developments in countries with developed economies. Key emerging and developing economies demonstrated strong demand, supported by government stimulus measures. Nevertheless, global rebounding is subject to a number of risks: government deficits, premature cancellation of stimulus programmes, unexpected inflation, long-lasting unemployment, effects of stock and commodities market bubbles.

The dependence on the policy-induced demand remains a serious problem for the sustainability of the recovery. New financial shocks are probable but their impact will be restricted by the ability of government and monetary authorities to provide enough liquidity to overcome problems. According to the estimates of Rosstat, Russian GDP fell by 7.9% year-on-year in 2009, investments decreased by 17% year-on-year, industrial production decreased by 10.8% year-on-year. Average annual unemployment was 8.4%.

At the same time, the Russian economy has avoided many serious problems such as an external corporate credit crunch, disruption of the banking system, or an exchange rate crisis. The Russian federal budget deficit in 2009 is estimated at 5.9% of GDP. The federal budget is expected to be stable as the Russian government has enough money in the reserve fund to mitigate potential negative changes in its income. Nevertheless, changes in the tax policy, such as the reforming of the social tax in 2011, may lead to an additional tax burden for the Company. Consumer inflation in Russia was subdued in the second half of 2009.

Annual inflation decreased to 8.8% in 2009 from 13.3% in 2008. In 2010 the growth of world oil prices might lead to a higher than expected risk of inflation. Higher inflation in Russia may lead to growth in production costs which in turn decreases global competitiveness. Being an important exporter of oil, Russia is seriously dependent on the level of oil world prices. Their decline may cause the price of Severstal shares to fall and lead to a decrease in the purchasing ability of Severstal's customers which, in turn, will have substantial negative consequences for the Company.

Mitigation

The geographical diversification of our sales helps to minimise the negative impact of economic risks. The domestic market is the priority, but our ability to change the geography of our deliveries quickly allows us to react flexibly to the challenges of the external environment and insure ourselves against a sudden regional crisis. The majority of experts believe a second wave of the crisis is unlikely to happen in the near future. Nevertheless, we are monitoring a set of the most important advance indicators of the possibility of an economic slowdown. Also we are developing economic scenarios to prepare the management for the majority of negative changes in the external environment.

Market risks

Changes in demand

Due to the slowdown of economic growth and restricted availability of financial resources, the market situation has significantly deteriorated in 2009. Unlike previous years, demand for steel in the world market was approximately 8% below the level of the previous year. A permanent decline in the global steel market may damage our operational results. Though prices for steel improved in the second half of 2009 due to the scarcity of available steel for sale, as a large number of global steelmaking companies reduced output to prevent overproduction, further slowdown is possible.

Mitigation

Despite the decline in steel output at our business units, we benefited from entering international markets as our comparatively low production costs for most products allowed us to offer competitive pricing internationally. CherMK (Cherepovets Steel Mill) revenue breakdown changed from 74.6% domestic sales to 58.5% in 2009 as exports significantly improved. To keep our low cost advantage, we have demolished the outdated open-hearth furnace production and concentrated on low-cost basic oxygen furnace production. Management has also initiated an Early Warning System project to increase our reaction speed for possible market changes.

Risk Management (continued)

Fluctuations in the prices of raw materials, energy and services

Severstal consumes significant volumes of raw materials such as coking coal, iron ore, ferroalloys and base metals, as well as electricity, natural gas and industrial gases.

Since the fourth quarter of 2008, prices of raw materials for steel production decreased because of the world financial crisis, deteriorating demand and market pressure from the steel industry. The prices for ferroalloys, scrap and freight decreased by more than 50% on average from the level of the third quarter of 2008. Nevertheless, there is a high risk that coking coal prices for 2010 will be 50–60% above 2009 contract levels, while iron ore prices may increase by 40–50%. Combined with a sharp increase in scrap prices in the fourth quarter of 2009, this may cause steelmakers' margins to squeeze.

Timing and volumes of raw material deliveries can be significant factors which can easily run out of control, in particular the rapid suspension of production due to lack of steel demand, along with slow changes of the prices and tariffs for raw materials and energy resources, and tariffs for land transport remaining high. Some of our major suppliers in Russia are natural monopolies (suppliers of electric power and natural gas, and also JSC Russian railways) whose tariff policy is regulated by the state authorities. This can lead to an increase in natural gas tariffs and energy resources tariffs due to the low price base, and growth in transportation costs due to long-term rolling stock limitations.

The infrastructure level of development is an important factor influencing both costs and supply risks of doing business in Russia. Electrical power delivery and railway transportation interruptions, other infrastructural crises and accidents can affect our activities, interrupt production and worsen financial results.

Mitigation

We manage the sector risks regarding the provision of raw materials and services by establishing long-term mutually advantageous contracts with key suppliers, optimising purchasing processes and continuous inventory management. Most of our purchasing contracts for primary raw materials (pellets, iron ore, coking coal, and coke) are concluded for a period of at least a year. In these contracts we are not subject to the influence of short-term changes in price, except for ferroalloys (quarterly) and scrap (monthly). High reliance on our own iron ore, coking coal and scrap supplies helps mitigate price rises for raw materials.

Changes in selling prices

One of the specific features of steel and mining industries is their liability to cyclical changes in steel prices. Positive price conditions which existed before the fourth quarter of 2008 were followed by a sharp fall in prices. Results of our activity are particularly dependent on changes in the price for rolled steel and steel products, both in the domestic and foreign markets. In crisis conditions and sharply decreased demand, orders in the domestic market have substantially decreased. Export sales in 2009 accounted for a substantial part of the sales volume of CherMK. Particularly low prices, close to the global average production cost, and the low production cost of CherMK compared to global production costs, were the drivers of export sales in 2009. The overall average price for HRC in 2009 for Russian exports has reduced by approximately 47% year-on-year compared to the 41% year-on-year global average HRC price decline. High spot prices for iron ore and coking coals, along with increasing scrap prices, in the fourth quarter of 2009 and first quarter of 2010 resulted in an increase in steel prices for the same period. It is likely that in the second quarter of 2010, steel prices will continue rising, backed by new iron ore and coking coal contracts.

Mitigation

We have been able to moderate the negative impact of the adverse economic situation and to overcome the consequences of the crisis faster. We made major efforts to manage working capital effectively, to increase operational effectiveness, to use raw materials and energy effectively, increase labour productivity, control costs closely, focus on customers (with quality of production and service), increase production of high-value-added goods whose prices are less sensitive to economic fluctuations, and strengthened our position in most prospective product niches, which have preferable competition conditions and an attractive balance of supply and demand. Our comparatively low production costs are a mitigating factor for the risk of steel price fluctuations. To reduce the influence of sharp market fluctuations on our revenue, the management has initiated the Foresight project, to improve our understanding of our markets, and the Early Warning System to predict short-term price fluctuations three months in advance.

Competition

The current economic situation may cause a serious change in competition conditions in the industry. As domestic markets for a large number of steelmakers have shrunk, there is a threat of a greater presence of imported steel in our traditional markets. Low-cost steelmakers may offer lower prices for their products to increase their market share. Possible mergers or alliances of competitors may cause our competition strategy to change. Consolidation of the producers of niche products may lead to an increase in entrance barriers to these markets, and as a result we may miss certain opportunities to develop our business. Artificial barriers created by local governments may reduce our ability to enter new markets or increase our share in existing markets. The appearance and development of new steel technologies or areas of use create prospective new profitable markets for steel companies to generate revenue. However, competition for entering new markets and winning in them is rising. Moreover, there is a threat of competition from substitute materials (aluminium, concrete, plastic), which may replace steel in auto-making, construction, pipe production, and the production of packing materials.

Mitigation

We have started a 'Clients Development & Retention' project to improve our understanding of customers' needs, to increase our brand recognition and to fight effectively for domestic and international market share. The project is to improve our competition capabilities, assuming continuous efforts to decrease costs and increase effectiveness, search for prospective new niche markets daily and enter them early, and research the needs of customers, including service and technical support.

Risk Management (continued)

Daria Kim

Head of Treasury, OAO Severstal

Transformation of Treasury Function

The significant reduction in prices and capacity utilization at the end of 2008, and the consequent dip in earnings, acted as an alarm bell, awakening us to the fact that 'business as usual' was not an option. I would like to share with you how we used the challenges of 2009 to our advantage, to position Severstal for further strategic growth and prosperity.

Our efforts were focused on maintaining adequate liquidity and managing the risks associated with complying with financial covenants. Our aim was to make sure that the Company is well-positioned to weather a long downturn and, should the markets improve, we would only benefit from this. Therefore, we introduced a more conservative treasury approach, one that contemplates a number of initiatives:

- Reducing debt: As bad as 2009 was, we reduced consolidated gross debt by over US$1 billion, to US$7.2 billion. At the same time net debt decreased by US$0.5 billion, from US$4.8 billion to US$4.3 billion by the year end. As earnings are recovering, we are well on track to meeting our long term target of net debt to EBITDA being below 1.5 times.
- Tight working capital management: This Company-wide initiative yielded impressive results, releasing US$1.7billion to support our liquidity during the challenging times.
- Maintenance of significant cash balances: We finished the year with US$2.95 billion of cash and deposits on hand (more than covering all short term obligations), helping us to retain financial flexibility despite the depth of the crisis. As visibility improves we will be reviewing our policy regarding the size of the cash balance.
- Safeguarding available cash holdings: As volatility persisted and bank defaults were a possibility, we shifted our cash holdings to the most stable and credible banks in the market. Our deposits are well diversified across financial institutions, thus reducing the risks. We review the bank list and reset the limits quarterly.
- Monitoring FX trends: In anticipation of FX volatility, at the end of 2008 we converted the majority of our cash into euro and dollar denominated deposits. This proved to be the correct approach, as we saw ruble devaluation at the beginning of 2009. The stabilization of the rouble later in the year allowed us to increase the share of the ruble holdings.
- Proactive covenant management: It is no secret that 2009 put a lot of pressure on borrowers to comply with financial covenants. We also had our challenges, but I am proud to report that we successfully renegotiated all relevant agreements, increasing our covenant headroom and giving us greater financial flexibility. We achieved this through a proactive approach, and open communications with lenders. I would like to thank all our banks for their partnership and support.

As financial markets started recovering, good quality borrowers like Severstal were able to access the market again. In September 2009 we successfully closed exchange bond placements of 15 billion roubles – a first among our Russian metals and mining peers. We have also significantly improved the quality of our existing credit portfolio, extending the average duration, reducing the security coverage and cost of funding, and harmonising the terms of agreements.

I believe 2009 challenged us to change the status quo and adopt new approaches to efficiency and risk management. This year we started an ambitious new project – cash pooling. Its aim is to create a leaner organisation with more effective use of cash and liquidity. Our treasury team is committed to ensuring adequate liquidity for day-to-day operations and for the Company's strategic growth, while adhering to sustainable financial metrics. We will achieve more together.

"Our aim was to make sure that the company is well-positioned to weather a long downturn."

Financial risks

Credit risk

Counterparties' risks – clients

We have developed and implemented policies and procedures to manage credit risks, including credit committees' approvals. A bank guarantee from the approved bank is normally required or credit insurance if credit terms are granted. The letters of credit may be used as well. After the credit committee's approval, products may be sold to key customers under deferred payment conditions.

Counterparties' risks – financial institutions

To diversify credit risks, we keep financial resources on deposit, in bank accounts and in the form of securities, in accordance with the limits set for financial institutions and holdings.

Mitigation

Our management monitors the financial institutions' ratings and financials to minimise the potential negative impact of counterparty default.

Interest rate fluctuations

The financial crisis led to an inter-bank crisis of trust, so reducing the levels of inter-bank credits and the liquidity of the financial system. Simultaneously, increased volatility and uncertainty led to increased risk premiums included in the cost of external financing. Such factors may limit our access to external sources of financing and financial markets. In this respect we may be unable to refinance existing debt; this, in turn, may cause difficulties in financing our investments. The increased cost of financing may negatively affect our financial results and lead to lower profitability. Fluctuations of interest rates may affect the existing fair value of debt (in the case of fixed interest rates) or future cash flows (floating interest rates). Decision-making about external sources of financing involves analysis and choice between fixed and floating interest rates, favourability of conditions and terms of financing.

Interest rates, either fixed or floating, are normally linked to LIBOR or EURIBOR. We monitor the situation on capital markets continuously and take the measures necessary to be able to respond to changing market conditions. The level of debt financing at December 31, 2009 was US$7.23 billion. Hence, changes of interest rates may have significant impact on our financial results. We had a negative net position in respect of financial instruments with fixed rates at December 31, 2009, when financial liabilities with fixed rates exceeded assets with fixed rates by US$276.2 million. We had a negative net position on the financial instruments with floating interest rates at December 31, 2009, when financial liabilities exceeded assets with floating interest rates by US$3,741 million.

Mitigation

We monitor interest rates and market conditions, and align our position to prevailing market trends. We achieve flexibility by embedding float-to-fix conversion options in major financing agreements.

Exchange rate fluctuations

We may be affected by exchange rates risk if we acquire assets or liabilities nominated in currencies other than our functioning currency.

We engage in transactions and acquire assets and obligations in several currencies: Russian roubles, US dollars, euros, sterling, Swiss francs, Canadian dollars and others.

The Group has assets and liabilities denominated in several foreign currencies. Currency risk (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency, that is, in a currency other than the functioning currency in which they are measured. Currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functioning currency.

At December 31, 2009 our liabilities exceeded corresponding assets in US$ and euros, which is a measure of the significance of the Group's currency risk:
US$ – US$2,899.0 million;
Euros – US$457.0 million.

Contrarily, in other currencies, the Group's assets exceeded its liabilities as follows:
Swiss francs – US$6.8 million;
Pounds sterling – US$2.5 million;
Canadian dollars – US$2.2 million;
Other currencies – US$4.8 million.

The Group is ultimately exposed to the following exchange rate risks. The weakening Russian rouble may negatively affect our ability to serve our debt denominated in foreign currency. The strengthening Russian rouble may cause a decrease in the value of earnings denominated in foreign currency.

Risk Management (continued)

Mitigation

In case of adverse changes in exchange rates, we are expected to correct our net positions within the approved limits. The limits restrict the potential impact of fluctuations in exchange rates on the value of assets and liabilities being subject to such changes. Our obligations denominated in foreign currency are naturally hedged by cash inflows from exports denominated in the same currency. The Group entered into a number of cross-currency swap and forward contracts for the more effective management of these opposite cash streams.

Credit agreement provisions

Credit agreements signed by the Group include provisions triggering default in case of material adverse changes or covenant violations.

Mitigation

The Group monitors possible credit covenant violations on the basis of its business plan and requests that lenders amend such agreement provisions in advance, for preventing defaults and adverse impacts on its financial statements.

Operational risks

Investment effectiveness

The world steel market is characterised by high and growing requirements for the quality and variety of steel products. Severstal continues to follow an investment programme aimed at reducing costs and increasing productivity, as well as improving quality and extending the variety. The programme is financed from both internal and external sources. Changes in the steel market or financial market situation may lead to underfinancing of the programme, which may negatively affect its schedule or scope, and Severstal's financial statements.

Engineering, production, installation and commissioning of metallurgical equipment is a complex task involving the efforts and resources of the organisation, contractors, equipment producers, and spare parts suppliers. Mistakes may lead to delays in reaching planned production levels and use of full capacity, as well as increasing the total project costs and decreasing profitability. Introduction of new production equipment often requires employee training. The initial period of using new production equipment may be characterised by a relatively high level of unintended mistakes due to lack of familiarity with the new equipment. These may lead to breakdowns, idle time, and a higher rate of defective products, which together may affect financial results negatively.

Mitigation

To mitigate technical and technological risks, we choose contractors for construction and installation of equipment carefully. We regularly assess employees and provide necessary training, and have a Company-wide development programme in place. Because of the economic situation, we have reduced investment activity and have concentrated mainly on repair and modernisation processes, and on projects which are at the closing stages of implementation.

Risks related to production and equipment technical conditions

Our production activities may be affected by technical equipment problems which may lead to production stoppage (incidents), idle time, decreasing production volumes and breach of quality standards.

Mitigation

Mitigation actions include an investment programme and running a planned preliminary repair and maintenance programme.

We maintain a level of insurance covering property, plant and equipment, which is in line with that of other international and domestic steel companies. We have 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. We also use insurance for third-party liability in respect of property or environmental damage.

Loss of key skills and knowledge through redundancy of key employees due to the economic situation

The slowdown of economic growth, decreasing foreign investments and liquidity, together with pessimistic forecasts and general uncertainty, seriously affected economic conditions. Deteriorating demand for steel caused by the economic downturn in major steel-consuming industries negatively affects the supply-demand balance and leads to decline in our production. This means we are over-manned. We implemented a programme to optimise our organisational structure and staffing, which means reducing expenses, increasing productivity and improving workforce effectiveness in general.

The necessity for staff reduction led to an increasing risk of losing valuable industry expertise, knowledge and skills, both technical and managerial, in research and development, market expertise and clients and supplier knowledge.

Mitigation

To mitigate these risks, we continue to implement personnel development and retention programmes and talent management, and emphasise our corporate values and ethics, and their role in different situations. Additional measures include establishing of competence centres for certain areas of knowledge and expertise, and placing qualified personnel in subsidiaries and other companies. We maintain constructive dialogue with local authorities and public organisations to address issues related to the economic crisis.

Health, safety and environmental risks

Mining and steel industries present potential hazards to the environment and to people because the production process includes high temperature, aggressive chemicals, and both hard and liquid industrial waste. This leads to strict requirements for occupational health and safety, fire protection and environmental safety. Occupational health, safety and environmental protection is one of our major priorities in all areas and stages of production, starting from coal and iron ore mining, coke production, and iron and steel making, through to the manufacture of finished high-tech steel products. We strive to eliminate any harm to the health and safety of people and the environment.

Mitigation

In 2008, we introduced a unified health, safety and environment protection policy including efficient HS&E management systems and standards, setting objectives and targets, identifying, assessing and managing HS&E hazards and risks. We also introduced into all parts of the Group responsibilities for senior and line management in implementing the HS&E policy and its performance, as well as improved practices, technology and equipment to prevent injuries, ill health and adverse environmental impacts, and employee training programmes. This comprises HS&E management systems at each entity which include risk management, contingency and recovery planning, information and communications, trainings and other relevant elements.

Legislation and regulatory risks

During the last decade the Russian legal system encountered frequent and significant changes in all spheres of regulation, which sometimes led to ambiguous and contradictory practice. This trend has been largely overcome in recent years. New laws became more pragmatic and well-balanced, striving to address the needs of both the private and public sector of the economy. For example, amendments to the Federal Law on Limited Liability Companies, in force from July 1, 2009 provided additional opportunities for joint-ventures. At the end of 2009, comprehensive amendments protecting creditors and increasing transparency of business entities were introduced.

Of course, certain spheres of Russian legislation, such as taxes and customs, are more vulnerable to continuous changes and regulation. And while some changes may have a negative effect, most of them are positive. For example, during 2009 corporate profit tax rates were lowered and consolidated social tax was abolished.

We anticipate regulations toughening in the areas of social security, environmental protection and technical regulations, but their influence on our activities is expected to be not significant. Current legislation of the Russian Federation provides enough instruments to secure Severstal's rights and interests. Our international activities may be subject to the influence of changing laws and regulations in countries where we operate, but we expect such changes to have only a limited influence on our activities.

Mitigation

We base our activities, Russian and international, on strict adherence to all applicable laws and regulations – tax, customs, and currency control. We ensure monitoring and timely, appropriate reaction to changes, and strive to maintain constructive dialogue with regulators on issues of interpreting and implementing laws and regulations. In particular we work with Russian federal and local authorities, and participate in the Russian Union of Industrialists and Entrepreneurs and various ad hoc governmental committees. Our international activities are analysed both by in-house lawyers and respectable local or international law firms. We always hold negotiations with government bodies, such as anti-trust, financial and securities market authorities, in good faith and in strict compliance with their regulations, to maintain long-term constructive dialogue.

Performance Review

Severstal is an international, vertically integrated steel and mining Company that sells high-quality metal and mining products to customers all over the world.

We are a full production cycle Company comprising ore mining enterprises, steel mills and rolled product plants, as well as downstream production businesses. Our production facilities are geographically diversified, with locations in Russia, the United States, Italy, France, Great Britain, Ukraine, Africa, Kazakhstan and elsewhere.

Following a corporate restructuring in April 2008, Severstal now has three divisions: Severstal Russian Steel, Severstal Resources (Mining) and Severstal International. The Severstal Russian Steel division includes Russian Steel, Izhora Pipe Mill, and Metalware. The Resources division comprises Severstal's assets relating to iron ore, coal and gold mining. International includes North American operations and Lucchini.

Key production figures

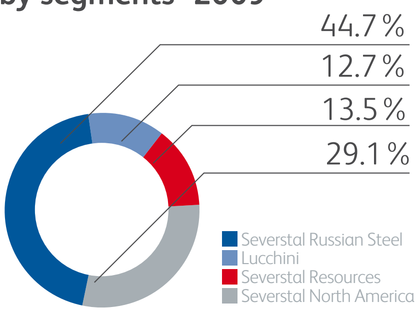
In 2009, Severstal reported revenue of US$13,054 million, 41.7% less than in 2008, as a result of very difficult market conditions, particularly in the first half of 2009, which led to lower sales and lower average prices. Crude steel production decreased by 12.8% compared to 2008, and reached 16.7 million tonnes in 2009. EBITDA was US$844 million, 84.2% less than in the previous year. Performance was affected by the difficult global economic and operating environment throughout the year. There was an exceptional drop in the demand for steel in the first half of 2009, as global economic conditions worsened dramatically, and this affected Severstal's 2009 results negatively. The EBITDA margin decreased from 23.9% to 6.5%.

Severstal Russian Steel is a world-class, low-cost producer of steel which delivered strong results throughout a difficult 2009. In 2009, the division contributed 44.7% of Group revenue, before inter-segment transactions, remaining the most important division by share of revenue, even though this decreased from 50.6% in 2008. Severstal Resources' share of Group revenue, before inter-segment transactions, increased to 13.5% in 2009 compared to 10.3% a year earlier. This increase was due to a lower decline in revenue compared to other divisions. Severstal North America's contribution to Group revenue, before intersegment transactions, increased from 22.3% in 2008 to 29.1% in 2009, but the total revenue of SNA in 2009 decreased 24.4% in comparison with 2008. This was due to a drop in average prices of 25.6%. Lucchini's share was 12.7% in 2009, while in 2008 it was 16.7%.

Compared to 2008 Severstal Resources reduced its EBITDA margin by 14.0% to 21.0%. Nevertheless it is still among our most profitable divisions following an increase in revenue in the first half of 2009 and successful cost-cutting initiatives throughout the year. In 2009, Severstal Russian Steel's EBITDA margin was 21.3%. Lucchini's EBITDA margin decreased to negative 11.6% in 2009 from 10.8% in 2008, mainly due to a decrease in sales prices. Severstal North America's EBITDA margin decreased to negative 16.3% in 2009 from positive 7.1% in 2008, mainly due to the effect of one-off gains in 2008 and very difficult market conditions in the first half of 2009.

In 2009, the principal products we manufactured were hot-rolled strip and plate (23.7%), cold-rolled sheet (10.0%), galvanized and other metallic-coated sheet (6.9%), long products (6.4%), and metalware products (3.0%). In 2009, our sales of long products decreased by 65.7%, metalware products by 38.3%, galvanized and other metallic-coated sheet by 18.3%, Semifinished products by 65.1%, hot-rolled strip and plate by 49.5%, and cold-rolled sheet by 30.6%.

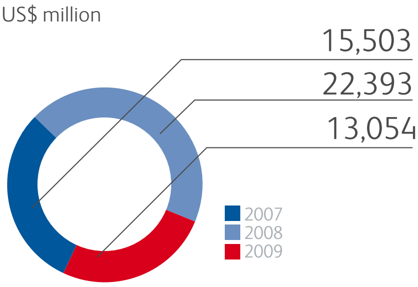
Severstal's revenue by segments* 2009



* Excludes interdivision adjustments of US$775.6 million decrease in revenue.

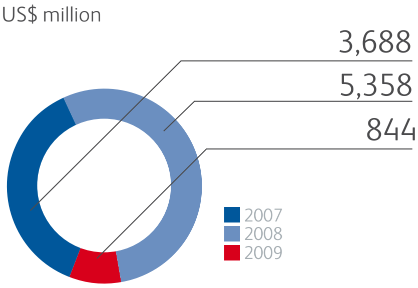
Severstal's Revenue

US$ million



Severstal's EBITDA

US$ million



Performance Review (continued)

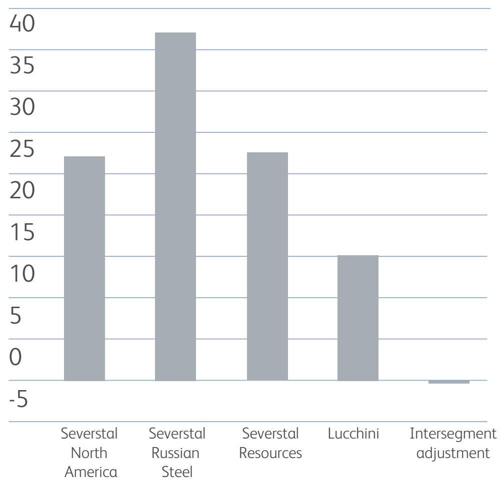
Capital investments

In 2009, we invested US$1 billion, 54.5% less than in the previous year, mainly on crucial maintenance projects. In 2010, we will increase our capital expenditure programmes to US$1.4 billion, reflecting our improved confidence in the market outlook. We will spend approximately US$685 million on key projects in the Russian Steel Division, US$356 million in the Resources Division and US$413 million in North America. These investments will support our organic growth and enhance our competitive position. They will aim to enhance our vertically integrated model and mini-mill capacity to target growth in the Russian infrastructure and construction markets, and aim to improve our competitive position in higher-value-added markets in the USA.

Severstal's capital investments (US$ million)

Segments	2009	2008	Change year-on-year %
Severstal North America	**238**	694	(65.7)
Severstal Russian Steel	**369**	709	(48.0)
Severstal Resources	**242**	413	(41.4)
Lucchini	**133**	338	(60.7)
Intersegment adjustment	**(4)**	(3)	n/a
Total capex	**978**	**2,151**	**(54.5)**

Severstal's capex by segments 2009 (%)



In 2009, capital investment programmes at our main steel production in Russia, as well as our steel production facilities in the United States and Europe, were focused on maintenance and achieving operational efficiencies. In 2009 investing activity at Severstal Resources was to reduce costs, explore deposits and undertake industrial safety projects. We incurred the main share of capital expenses in the coal and gold mining operations.

Investments in new production facilities

In 2009, we spent $74.8 million on an ongoing project – TPZ Sheksna, a mill capable of producing 250,000 tonnes a year of electric-welded pipes and other profiles.

Operational efficiency and cost-saving initiatives

The 2009 global economic downturn caused us to review our overall cost structures and undertake steps to improve operational efficiency. In particular we did a lot of work at CherMK – reducing the Si content in hot metal, increasing the tundish ladle lifetime, excluding desulphurization in the strip production process, optimising the BOF charge (varying hot metal and scrap consumption, using low-price scrap), optimising the consumption of ferroalloys and decreasing the cost of repairs.

In 2009, vertical integration became stronger – Severstal Resources provided more than 90% of our coal requirements, which allowed us to maintain volumes and to control costs. Inter-Company supplies of equipment and repair services resulted in savings in capital and repair expenditure. Moreover, consolidation of some material purchases at divisional level achieved a beneficial effect.

Yuriy Shehovtsov

Business Standard ERP-project Director, OAO Severstal

Severstal Business Standard: people, processes, effectiveness

In November 2009 we launched the Business Standard Programme across our business units, implementing business processes based on a unified ERP system (SAP). The aim is to make it possible to achieve integrity and excellence in our operations, and achieve our major goal of being among the world leaders in the sector.

The project will be a powerful force for changing the entire Company. Mr Mordashev says: “We believe we can achieve not only classical results such as reducing costs, boosting sales and changing business processes, but also bring our business processes in line with our cultural values, which is to a certain degree new for projects like this. And we believe that this system, once introduced, will help us achieve a new quality of performance in Severstal and ensure the cultural transformation we need.”

The project has the following major objectives:

- Changing policy and processes with the help of world best practices and our mission and values.
- Transparency, leading to quality managerial decisions, as well as development of a more efficient managerial model and risk management model.
- Considerable cost savings through unifying and simplifying business processes and eradicating inefficiency.
- Cultural transformation in line with the Company’s values.

We have already run the initial pilot schemes in various parts of the Resources Division, in Vorkutaugol, Olcon and Karelsky Okatish, and we are now expanding the programme. Its scope – both functional and organisational – is fairly large, across the whole Resources Division apart from the gold businesses, and the entire Russian Steel Division. The programme includes two major parts – processes which are Company-wide and those at either the division or business unit level. The Company-wide processes include finance, HR administration and purchase management. We will also consider unifying our processes for timekeeping, remuneration and wage and salary payment.

Management accounting and repairs management are among the processes changing at division and business unit level, as they are specific to each unit because of the difference in operations and product. As for sales, products differ from division to division and even between segments in the same division, so sales will also be specific to each particular segment.

The programme team contains about 120 of our best employees, and three companies with a great experience in projects of this type – IBM, I-teco and BearingPoint. So we have a combination of the best national and international resources available for large-scale ERP projects. The programme is scheduled for completion by mid-2011.

“The aim is to make it possible to achieve integrity and excellence in our operations.”

Excellence Through Mining and Exploration.
Severstal Resources

We forecast that, in spite of the downturn in economic activity, our share of raw materials production for metallurgy on the Russian market will increase in 2010.

Severstal Resources (continued)

Structure

We group Severstal Resources as follows:
– iron ore production
– coal production
– gold production
– corporate centre
– ferroniobium production

Our ferroniobium production business is rather small compared with other Severstal Resources businesses. We plan to increase our production volumes of ferroniobium in 2010.

Iron ore production

Our iron ore business includes two extracting companies: OAO Karelsky Okatysh, producing pellets, and OAO Olkon, producing iron ore concentrate. In 2008, we also acquired African Iron Ore Group Ltd, located in Liberia and involved in the early stages of evaluation and exploration. After acquisition, we renamed the Company to Severstal Liberia Iron Ore Ltd.

OAO Karelsky Okatysh is located in Kostomuksha, a town in the Republic of Karelia in north-west Russia. The estimated life of its reserves is 44 years, based on an analysis of optimal mine development.

OAO Olkon is located in Olenegorsk, a town in the Murmansk region in north-west Russia. The estimated life of its reserves, according to our geological statistics report, is 35 years.

Coal production

Our coal production business includes Vorkutaugol and PBS Coals Ltd (which we acquired in November 2008).

Vorkutaugol comprises five mines (Vorkutinskaya, Severnaya, Zapolyarnaya, Komsomolskaya and Vorgashorskaya), the Yunyaginsky open pit, and several washing plants. It extracts both coking and steam coal, and is located in Russia's European North, in the city of Vorkuta in the Komi Republic. Its estimated economic life is 77 years, based on an analysis of optimal reserves development.

PBS Coals Ltd operates strip mines (Leon Paul, Trent, Rhoads) and deep mines, all using the method of room and pillar, with continuous miners, Quecreek, Miller, Geronimo, Agustus, Roytown and Kimberly Run. The Company is based in Somerset County, Pennsylvania, US. It extracts coking and steam coal, and produces coking coal concentrate. One of the principal benefits of our acquisition of PBS Coals Ltd is the economic hedge of supplying coking coal to Severstal's North American steel operations.

Gold production

Our gold production business includes the following entities:

– OOO Neryungri-Metallik (the Tabornoye field) and ZAO Mine Aprelkovo (the Pogromnoye field) are located in the Republic of Sakha-Yakutia and the Chita region of Russia. Both entities use heap-leaching technology for gold processing.
– Celtic Resources Holdings Plc (the Suzdal and Zherek fields) is located in Kazakhstan and operates the advanced BIOX technology for gold extracting.
– Severnaya Zolotorudnaya Kompaniya acquires and develops gold fields in the Irkutsk region, the Republic of Buryatia, and the Chita region of Russia.

In July 2008, we acquired TOO Semgeo, operating in the Kazakhstan Balazhal mine, which is now in the exploration and evaluation stage.

Alexander Grubman

Severstal Resources, Chief Executive Officer

Going Forward, Overcoming the Challenges

For both our Resources division and the entire Company, 2009 was a fairly difficult year – to cope with an unprecedented price slump on the market, we had to take drastic steps to enhance our operating efficiency. I am pleased to report that we reduced our total costs by more than 30%.

All world mining enterprises had to reduce costs and enhance competitiveness to stay afloat during the economic crisis. Severstal's vertical integration had an important role to play in this, helping us overcome the crisis with fewer losses. There were many elements to our survival strategy. We had to curtail investments, learn how better to save energy and fuel, talk with suppliers about reduced prices for materials and equipment, and reduce administrative costs. Occasionally we had to take unpopular, yet necessary, measures such as restructuring and job cuts. However, we believe we managed to retain the maximum possible number of jobs, and at no time did we have arrears in paying wages and salaries.

At Vorkutaugol, for example, we set up a special task force to prepare a 3-year programme to optimise energy costs. This helped us reduce electricity consumption by 3.5% in 2009 alone, saving 50 million roubles. Heat consumption dropped by approximately 9%, saving another 80 million roubles. At the Severnaya mine we are planning a generator plant that runs on coal mine methane, a double-winner which makes it possible for the mine to create its own electric power, while at the same time reducing greenhouse gas emissions.

Throughout the division we continued with our priority of improving industrial safety, the accident rate dropping by 29%. We will continue to work along those lines until we eradicate occupational injury.

Despite all the problems of the crisis, and maybe owing to them, last year provided the basis for our further growth. We will continue to improve our team, implement modern production technologies, and develop Severstal's mining business toward our common Company goal of leadership in value creation.

In November 2008, we acquired High River Gold Mines Ltd, operating in Russia and Burkina Faso at the following mines:
- Taparko-Bouroum mining camp, located in Burkina Faso, which uses carbon-in-leach (CIL) technology
- Bissa Hill deposit, located in Burkina Faso, which is in the exploration and evaluation stage
- Irokinda mine, located in the northern part of the Republic of Buryatiya, which uses CIL technology
- Zun Kholba, located in the south-western part of the Republic of Buryatiya, which uses CIL technology in its processing plant
- Berezitovy gold mine, located in the Amur region in the Russian Far East, which uses CIL technology.

Corporate centre

Our corporate centre carries out administrative and control functions.

Ferroniobium production

Since January 2008, Severstal Resources has also included ferroniobium production, which is carried out by OAO StalMag, in Krasnoyarsk, East Siberia, Russia. The Company has reserves with an estimated life of 11 years, according to our geological statistics report.

Changes in the structure of Severstal Resources

During 2009, the principal change was a restructuring of our gold production entities, and the aggregation of all gold-related assets into one separate business.

"I am pleased to report that we reduced our total costs by more than 30%."

Severstal Resources (continued)

Key performance indicators

	2009	2008	Change year-on-year %
Revenue (US$ million)	**1,870.8**	2,452.7	(23.7)
Gross profit (US$ million)	**465.2**	1,076.3	(56.8)
Profit from operations (US$ million)	**91.1**	605.7	(85.0)
Operating margin (%)	**4.9**	24.7	n/a
EBITDA (US$ million)	**393.4**	859.0	(54.2)
EBITDA margin (%)	**21.0**	35.0	n/a
Average product prices (FCA) (US$/tonne)			
Coking coal (concentrate)	**88**	144	(38.9)
Steam coal	**40**	36	11.1
Iron ore concentrate	**35**	72	(51.4)
Pellets	**46**	103	(55.3)
Ferroniobium	**25,000**	24,658	1.4
Gold (US$/oz)	**992**	887	11.8
EBITDA margin (%)			
Coal	**5.8**	26.2	n/a
Iron ore concentrate	**19.0**	39.5	n/a
Pellets	**18.6**	40.6	n/a
Ferroniobium	**12.6**	(80.8)	n/a
Gold	**45.5**	41.6	n/a

In 2009, revenue from Severstal Resources decreased by 23.7%, to US$1,870.8 million. This was primarily due to lower sales volumes and prices for products. EBITDA amounted to US$393.4 million, 54.2% lower than in 2008, and the EBITDA margin decreased from 35.0% in 2008 to 21.0% in 2009. Our gold business added US$158 million to the 2009 EBITDA increment, with an EBITDA margin of 45.5%. OAO Karelsky Okatysh made a negative contribution of US$327 million to the 2009 EBITDA increment, with an EBITDA margin of 18.6%. OAO Olkon also made a negative contribution in 2009. This amounted to US$128 million, with an EBITDA margin of 19.0%. The negative contribution from Vorkutaugol in 2009 was US$185 million, with an EBITDA margin of 6.0%. These decreasing numbers were due to lower sales prices during 2009.

The average number of Severstal Resources employees during 2009 was 27,735, which was 3,695 more than in 2008.

Sales and marketing

The Russian raw material market

The coal businesses in Severstal Resources are among Russia's top five coking coal producers (source: Rasmin).

Sales by products, FCA based on discounts/price premium

	2009		2008		Change year-on-year %	
	Thousand tonnes	**US$ million**	Thousand tonnes	US$ million	Thousand tonnes	US$ million
Coking coal	**180**	**3.5**	746	38.7	(75.9)	(91.0)
Coking coal concentrate	**5,083**	**449.3**	4,504	650.5	12.9	(30.9)
Steam coal	**3,885**	**154.7**	1,983	70.9	95.9	118.2
Pellets	**8,763**	**404.7**	9,164	939.3	(4.4)	(56.9)
Iron ore concentrate	**5,107**	**180.5**	4,763	341.6	7.2	(47.2)
Ferroniobium (tonnes)	**296**	**7.4**	146	3.6	102.7	105.6
Gold (ounces)	**516,245**	**512.3**	214,638	190.4	140.5	169.1
Total sales by products	**–**	**1,712.4**	–	2,235.0	n/a	(23.4)
Other and shipping	**–**	**158.4**	–	217.7	n/a	(27.2)
Total sales revenue	**–**	**1,870.8**	–	2,452.7	n/a	(23.7)
Inter-segment transactions	**(13,162)**	**(723.9)**	(13,081)	(1,379.5)	n/a	n/a

Our iron ore businesses, which produce iron ore concentrate and pellets, are among the leaders in terms of extraction volumes in their respective markets. Our share of the overall Russian iron ore concentrate production increased from 9.0% in 2008 to 9.8% in 2009. Our share of Russian pellet production decreased from 33.7% in 2008 to 31.9% in 2009 (source: Rudprom).

We can guarantee our stable market position, because we have the following competitive advantages:

- We are the only mining business in Russia capable of offering the whole range of principal iron components: iron ore pellets, iron ore concentrate, coking coal and ferroniobium.
- We produce unique raw materials for steel plants in the Russian and US markets: fluxed iron ore pellets and high-grade hard coking coal.
- We have a quality resource base in Russia and the US, allowing us to produce valuable grades of coal and high-quality iron ore products.
- We offer a high level of client service, including flexible pricing policies.
- We have a convenient geographical location close to our principal consumers, as well as favourable logistics and a developed infrastructure close to our main assets.
- Our mining businesses are part of our vertically integrated metallurgic holdings, which means we have greater access to financial, intellectual and professional resources.

We forecast that, in spite of the downturn in economic activity, our share of raw materials production for metallurgy (iron ore, coking coal) on the Russian market will increase in 2010. This will be due to our introduction of customer-oriented programmes, and changes in the supply chain of our vertically integrated metallurgical holdings. Our share of steam coal on both the Russian and world markets will grow.

Sales by products

High-value-added products accounted for the largest part of our sales in 2009. Gold accounted for 27.4% of total sales, coking coal concentrate accounted for 24.0%, pellets accounted for 21.6% and iron ore concentrate accounted for 9.6%. Coking and steam coal accounted for 0.2% and 8.3% of revenue respectively.

The negative economic environment affected Q1 2009, leading to a decline in demand for iron ore. However, Q4 2009 was characterized by very strong price performance from October to December. This positive change reflects primarily an improvement in demand in the Russian and North American markets.

Revenue in 2009 was US$1,871 million (financial year 2008: US$2,453 million) as a result of lower year-on-year sales volumes and prices. As the majority of our sales are made in the spot markets, we expect to be able to take advantage of rising commodity prices.

Severstal Resources (continued)

Our gold business has grown rapidly over the last couple of years, making us the second largest Russian gold producer. Our goal is to improve further our operational and financial efficiencies.

Coking coal sales fell by 75.9% in volume and 91.0% in revenue in 2009 compared with 2008, as a result of maximizing sales of coking coal concentrate. Coal concentrate sales increased by 12.9% in volume and decreased by 30.9% in revenue, due to the acquisition of PBS Coals Ltd (volume) and a fall in prices (revenue). Sales of steam coal increased by 95.9% in volume in 2009, compared with the previous period, and grew by 118.2% in revenue due to similar reasons: the acquisition of PBS Coals Ltd (volume) and an increase in prices (revenue). Pellet sales fell by 4.4% in volume and decreased by 56.9% in revenue. Iron ore concentrate sales increased by 7.2% in volume and decreased by 47.2% in revenue. Gold sales increased by 140.5% in volume and 169.1% in revenue, due to the acquisition of High River Gold Mines Ltd late in 2008 (volume) and growth in prices (revenue). Ferroniobium sales increased by 102.9% in volume and 105.6% in revenue, as a result of organic growth.

Principal markets

Russian market

Russia is the principal market for our mining businesses. Our main customer is Severstal's Russian Steel division.

Our share of sales on the Russian market in 2009 was 64.1% of revenue. The largest part of our revenue on the Russian market resulted from sales of coking coal concentrate (26.8%), gold (25.0%), pellets (22.5%) and iron ore concentrate (15.0%).

Domestic sales by products, FCA based on discounts/price premium	2009		2008		Change year-on-year %	
	Thousand tonnes	US$ million	Thousand tonnes	US$ million	Thousand tonnes	US$ million
Coking coal	**37**	**0.9**	673	32.4	(94.5)	(97.2)
Coking coal concentrate	**3,870**	**321.7**	3,933	599.0	(1.6)	(46.3)
Steam coal	**2,147**	**60.8**	1,723	57.1	24.6	6.5
Pellets	**5,734**	**269.6**	7,205	738.4	(20.4)	(63.5)
Iron ore concentrate	**5,107**	**180.5**	4,612	328.7	10.7	(45.1)
Ferroniobium (tonnes)	**296**	**7.4**	146	3.6	102.7	105.6
Gold (ounces)	**303,252**	**299.4**	106,995	94.3	183.4	217.5
Total sales by products	**–**	**1,140.3**	–	1,853.5	n/a	(38.5)
Other and shipping	**–**	**59.4**	–	161.0	n/a	(63.1)
Total domestic sales revenue	**–**	**1,199.7**	–	2,014.5	n/a	(40.4)
Inter-segment transactions	**(12,158)**	**(647.5)**	(12,287)	(1,292.5)	n/a	n/a

Export

Export accounted for 35.9% of our total sales by revenue in 2009. The principal exports were gold (31.7%), pellets (20.1%), coking coal concentrate (19.0%) and steam coal (14.0%). The share of other products was negligible. The main destinations for these products were Europe, the USA and the CIS (Ukraine and Belarus principally).

Export sales by products, FCA based on discounts/price premium

	2009		2008		Change year-on-year %	
	Thousand tonnes	**US$ million**	Thousand tonnes	US$ million	Thousand tonnes	US$ million
Coking coal	**143**	**2.6**	74	6.3	93.2	(58.7)
Coking coal concentrate	**1,212**	**127.6**	572	51.5	111.9	147.8
Steam coal	**1,738**	**93.9**	260	13.8	568.5	580.4
Pellets	**3,029**	**135.1**	1,959	201.0	54.6	(32.8)
Iron ore concentrate	**–**	**–**	151	12.9	n/a	n/a
Ferroniobium	**–**	**–**	–	–	n/a	n/a
Gold (ounces)	**212,993**	**212.9**	107,638	96.2	97.9	121.3
Total sales by products	**–**	**572.1**	–	381.7	n/a	49.9
Other and shipping	**–**	**99.0**	–	56.5	n/a	75.2
Total export sales revenue	**–**	**671.1**	–	438.2	n/a	53.1
Inter-segment transactions	**(1,004)**	**(76.4)**	(794)	(87.0)	n/a	n/a

The main reasons for increasing export sales are:

1. Continuous development of our Gold Division
2. Acquisition of PBS Coals Ltd in November 2008.

Capital expenditure

We invested a total of US$242.3 million in Severstal Resources in 2009, 41.3% less than in 2008. We spent US$94 million of this modernising and developing the Vorkutaugol and PBS Coals Ltd mines, US$21 million on new equipment at OAO Karelsky Okatysh, US$10 million on OAO Olkon, and US$92 million on gold entities.

As part of our development strategy, we made the following investments in 2009:

Investment in coal-producing projects: US$94 million in 2009

Capital expenditure in 2009 on Vorkutaugol related to longwall mines and development (US$26.9 million and US$7.3 million respectively), as well as coal washing plants (US$10.2 million).

Capital expenditure on longwall coking coalmines amounted to US$3.0 million on the Severnaya mine, US$1.5 million on the Zapolyarnaya mine, US$1.6 million on Vorkutinskaya, and US$4.7 million on the Komsomolskaya mine. We also invested US$1.3 million to increase the production capacity of the Yunyaginskiy open pit, and spent US$14.8 million on longwall steam coalmines in the Vorgashorskaya mine. Development projects related mainly to technical re-equipment at the Vorgashorskaya, Vorkutinskaya, Zapolyarnaya and Severnaya mines (US$2.4 million, US$1.9 million, US$2.1 million and US$0.9 million respectively).

We also spent US$6.2 million on re-equipment and US$8.0 million on industrial safety and ecology projects. Capital expenditure on Vorkutaugol also related to the modernisation and re-equipment of its transportation system (US$2.6 million).

Severstal Resources (continued)

"We plan to spend around US$23.8 million on investment projects at OAO Olkon. These include the renovation of production facilities (US$8.3 million), investments in long-term development projects and new technology (US$12.8 million), safety measures (US$1.2 million) and maintaining the current level of production (US$1.4 million)."

The main investment projects at PBS Coals Ltd in 2009 were the completion of the Cambria plant (US$5.0 million) and the acquisition of equipment for the Kimberly Run mine (US$3.0 million). Production will be approximately 250 thousand tonnes per month on average. We also spent US$22.0 million on re-equipment of our mines.

Investment in projects to increase our extraction and refining of iron ore: US$31 million in 2009

We invested in developing open pits and improving railway transport infrastructure (US$6.0 million and US$3.7 million respectively at OAO Karelsky Okatysh, and US$0.9 million and US$2.1 million respectively at OAO Olkon). We spent around US$6.3 million on equipment for beneficiating plants at OAO Karelsky Okatysh (US$2.5 million) and OAO Olkon (US$3.8 million). We also invested US$5.1 million in the pellet plant at OAO Karelsky Okatysh, and US$1.7 million in iron mines at OAO Olkon.

The major investments at OAO Karelsky Okatysh included buying dump cars and loading machinery, construction work on open pits, installation of an ore mill at the beneficiating plants, modernisation of rail roads and other activities.

Capital expenditure at OAO Olkon related to replacing production assets, carrying out construction work on the beneficiating plant, purchasing drilling equipment, increasing the productivity of open pits, and constructing an iron underground mine.

Due to the unfavourable economic environment in 2009, we had to postpone a number of investment projects.

Investment in projects to increase our extraction and refining of gold: US$92 million in 2009

Capital expenditure in 2009 on High River Gold Mines Ltd entities related to developing and modernising mine and metallurgical works (US$20.1 million) and exploration and evaluating works (US$15.6 million).

Capital expenditure on developing and modernising mine and metallurgical works amounted to US$6.5 million on Burkina Faso entities, US$4.1 million on OJSC Buryatzoloto, and US$9.5 on Berezitovy Rudnik. Capital expenditure on exploration and evaluating works amounted to US$6.4 million on Burkina Faso entities, US$8.3 million on OJSC Buryatzoloto and US$1.0 million on OJSC Berezitovy Rudnik.

We invested US$21.0 million in developing and modernising the mine and metallurgical works at Celtic Resources Holdings Plc. This will enable us to increase ore extraction to 500 thousand tonnes per year and ore processing volumes to 600 thousand tonnes per year by 2011. It will also give us the opportunity to process up to 55 thousand tonnes of third-party ore per year. We spent US$4 million on a geological survey of the Suzdal mine, with the aim of increasing proven gold reserves by 8 tonnes.

We also spent US$15.8 million on a geological survey of the Yuzhno-Uguyskaya area at OOO Neryungri-Metallic, where we expect to find gold reserves of around 60 tonnes. Also at OOO Neryungri-Metallic, we invested a further US$10.5 million to increase the existing mines' productivity.

Improving the efficiency of existing mines was also the aim of investment projects at ZAO Mine Aprelkovo (US$3.3 million), along with modernising production facilities (US$0.6 million).

Exploration and evaluating works at the Severnaya Zolotorudnaya Kompaniya field accounted for another US$1.3 million.

Investment in our corporate centre: US$5 million in 2009

In 2009, we invested US$5 million in 'Business Standard', a business process redesign project, based on enterprise resource planning implementation (SAP) and a Shared Service Centre.

Due to worsening economic conditions in 2009, we had to postpone our acquisition of foreign iron ore producing companies and the purchase of licences for new coalfields.

Investment in environmental protection measures

In 2009, we continued to invest in improving industrial safety and reducing the harmful emissions from our production.

Projects for 2010

Coal extraction projects

Capital investment at Vorkutaugol will go mainly towards extraction, development and washing (US$13 million for the long-term perspective and US$29 million for maintenance). We are also investing to improve industrial safety measures (US$2.8 million) and renovate production facilities (US$3.6 million).

At PBS Coals Ltd, further investment projects will require US$24.4 million.

Iron ore production projects

We plan to spend around US$23.8 million on investment projects at OAO Olkon. These include the renovation of production facilities (US$8.3 million), investments in long-term development projects and new technology (US$12.8 million), safety measures (US$1.2 million) and maintaining the current level of production (US$1.4 million).

Pellets production projects

Through our investment programme for OAO Karelsky Okatysh, we aim to maintain 2009 production volumes. This includes renovating production facilities (US$8.6 million), maintaining the existing level of extraction (US$10.2 million) and investing in long-term development projects and new technology (US$25.2 million).

Gold extraction projects

We will spend US$28.2 million on maintaining the existing production facilities at Berezitovy Rudnik LLC (US$3.3 million), OJSC Buryatzoloto (US$11.4 million), Rudnik Aprelkovo LLC (US$6.1 million), OOO Neryungri-Metallic (US$4.6 million), Celtic (US$2.1 million) and Burkina Faso entities (US$0.7 million).

We will spend US$54.8 million on extending the existing production facilities at Celtic (US$22.5 million), OJSC Buryatzoloto (US$2.9 million), Berezitovy Rudnik LLC (US$9.3 million), OOO Neryungri-Metallic (US$11.4 million) and Burkina Faso entities (US$8.7 million).

Severstal Resources (continued)

We will also spend US$54.4 million on geological surveys at OJSC Buryatzoloto (US$21.3 million), Berezitovy Rudnik LLC (US$2.4 million), Burkina Faso entities (US$10.4 million), OOO Neryungri-Metallic (US$8.4 million), Celtic (US$4.4 million) and Severnaya Zolotorudnaya Kompania (US$7.5 million).

Ferroniobium projects

We will spend around US$1.5 million on developing ferroniobium production.

Costs

Cost of sales structure	2009 US$ million	2009 % of total	2008 US$ million	2008 % of total	Change year-on-year %
Materials					
Grinding balls and rods	**28.4**	**2.0**	40.1	2.9	(29.2)
Explosives	**33.7**	**2.4**	36.8	2.7	(8.4)
Metal – roll	**16.5**	**1.2**	21.0	1.5	(21.4)
Technological coals	**27.5**	**2.0**	12.2	0.9	125.4
Other materials	**122.8**	**8.7**	141.6	10.3	(13.3)
Integral implements and spares	**72.8**	**5.2**	50.4	3.7	44.4
Total materials	**301.7**	**21.5**	302.1	22.0	(0.1)
Energy					
Electric power	**132.6**	**9.4**	140.7	10.2	(5.8)
Gasoline	**57.0**	**4.1**	63.2	4.6	(9.8)
Other energy resources	**62.2**	**4.4**	73.6	5.3	(15.5)
Total energy	**251.8**	**17.9**	277.5	20.1	(9.3)
Staff costs	**399.1**	**28.4**	403.0	29.3	(1.0)
Depreciation and amortisation	**267.2**	**19.0**	224.2	16.3	19.2
Services	**198.8**	**14.1**	207.7	15.1	(4.3)
Change in inventories	**14.9**	**1.1**	(54.6)	(4.0)	n/a
Other	**(27.9)**	**(2.0)**	16.5	1.2	n/a
Total	**1,405.6**	**100.0**	1,376.4	100.0	2.1

In 2009, costs in Severstal Resources increased by US$29.2 million, or 2.1%. This was due to a 19.2% increase in depreciation and amortisation charges, relating mainly to the depreciation and amortisation of newly acquired mineral rights and PPE as a result of the acquisition of High River Gold Mines Ltd and PBS Coals Ltd, late in 2008.

Decisive management action

Severstal's management has taken decisive action to mitigate the impact of the global economic downturn on the Company, and to preserve cash. We have taken certain measures to adjust our operations to the new environment:

- **Costs reduction measures –** decreasing the administrative headcount, reducing overheads, and optimising production plans to meet reduced demand. We are also rescheduling beneficiation and pelletisation levels to optimise equipment productivity.
- **Working capital optimisation –** renegotiating contract conditions, daily control of accounts receivable, and decreasing inventory levels.
- **Capital expenditure minimisation –** in 2009, we scheduled only critical maintenance projects, amounting to US$242 million. We postponed other projects.
- **M&A activity minimisation –** we continue to monitor market opportunities. In December 2009, the Group's share in High River Gold Mines Ltd decreased from 61.7% to 50.1% as a result of a private placement to a third party for a total consideration of US$54.3 million.

Excellence Through a Vertically Integrated Model.

Severstal Russian Steel

Our Cherepovets Steel Mill is one of the world's largest standalone integrated steelworks by capacity (9.5 mln. tonnes of crude steel produced in 2009).

Severstal Russian Steel (continued)

Russian Steel benefits from a good geographical location, which gives us favourable access to the raw materials we need, and to our transportation networks and markets.

We produce a wide range of products through this part of our business, including hot-rolled sheets, large-diameter pipes, profiles, and cold-rolled coated sheets – encompassing special-grade sheets for the automotive industry, hot-rolled plates and long products. We sell our steel products mainly in our domestic market, serving the needs of the Russian automotive, construction, oil and gas, shipbuilding, engineering and other industries.

We produced 9.5 million tonnes of crude steel in 2009, compared with 11.1 million in 2008. Revenue was US$6.18 billion, a decrease of 48.8% compared with 2008. EBITDA was US$1.32 billion, down 64.1% on the previous year.

Dmitry Goroshkov

Sales Director, Cherepovets Steel Mill OAO Severstal

Customer Care

We defined customer focus as one of the key values of the Company and have been working on this. By customer focus we mean our ability to derive additional profit through a deeper understanding of customer requirements, and thus being able to satisfy them.

We conduct our customer care project based on world best practice and through our staff's interaction with customers. We believe this activity will help us significantly increase our competitiveness, improve customer satisfaction and expand our market share.

Russian Steel comprises

Steel production

Cherepovets Steel Mill, located in Cherepovets, is an integrated mill specialising in steel production (with a total steelmaking capacity of 11.1 million tonnes a year). Its capacity has decreased since an open-hearth furnace closed on 1 November 2008. The mill also produces a wide assortment of flat and long-rolled products, including hot and cold-rolled flat products, galvanized and colour-coated products and long-steel applications. Rolling Mill 5000, located in Kolpino, produces hot-rolled plates and strips.

Pipes production

Izhora Pipe Mill produces pipes with a diameter of 610–1,420 mm, and a thickness of 14–40 mm. These are covered with a three-layer polymer coating on the outside, and a smooth or anti-corrosion coating on the inside. The mill is capable of producing pipes of up to 18.3 metres in length, which are unique by Russian standards (the standard length is 12 metres).

The mill is located in Kolpino, the industrial zone of St. Petersburg. Slabs are manufactured at Severstal's Cherepovets Steel Mill, and then rolled into plate at Rolling Mill 5000. The plate is then delivered to the Pipe Mill (located on the same site), to be made into large-diameter pipes.

Metalware production

Our companies have an annual production capacity of 1.5 million tonnes of wire and wire products. This includes over 55,000 different product types, manufactured in Russia, Ukraine, Italy and the UK.

Our diverse portfolio of suppliers includes almost all the large manufacturers of raw materials in the CIS and Europe – such as Cherepovets Steel Mill, OEMK, MMK, MMZ, ArcelorMittal, Lucchini and OVAKO.

Around 40% of the volume of materials we use in our metalware production comes from the Cherepovets Steel Mill.

Scrap collection and processing

Our ferrous scrap metal recycling business supplies scrap metal to Cherepovets Steel Mill and other companies. It includes companies in several Russian regions.

Trading and service companies

Segment comprises trading companies both in Russian Federation and abroad.

The main purpose of service companies is to maintain production processes of Cherepovets Steel Mill by providing equipment repairing services.

Key performance indicators

In 2009, Russian Steel's revenue decreased by US$5.88 billion. This was a decrease of 48.8%, due to a 39.7% drop in sales prices compared with the previous year: the average price for steel products fell by US$397 per tonne. Sales volumes of steel products decreased by 19.2% (or 2.23 million tonnes) in comparison with 2008. Due to a decrease in demand, especially in the first half of 2009, our production volume was only 75.5% of the normal level. Production costs fell significantly in 2009, mainly due to the decrease in production volume. As a result, our 2009 operating margin decreased to 16.8%.

Our 2009 EBITDA dropped by 64.1%, and EBITDA per tonne fell by 56.7% to US$146.9. Our EBITDA margin decreased from 30.5% to 21.4%.

	2009	2008	Change year-on-year %
Revenue (US$ million)	**6,179.1**	12,063.8	(48.8)
Gross profit (US$ million)	**2,097.7**	4,675.7	(55.1)
Profit from operations (US$ million)	**1,035.7**	3,178.1	(67.4)
Operating margin (%)	**16.8**	26.3	n/a
EBITDA (US$ million)	**1,319.4**	3,675.2	(64.1)
EBITDA per tonne (US$/tonne)*	**146.9**	339.5	(56.7)
EBITDA margin (%)	**21.4**	30.5	n/a
Average steel product price (US$/tonne)*	**604**	1,001	(39.7)
Hot-rolled strip and plate (US$/tonne)	**474**	908	(47.8)
Large-diameter pipes (US$/tonne)	**1,995**	2,789	(28.5)
Cold-rolled flat products (US$/tonne)	**538**	880	(38.9)
Galvanized and other metallic coated sheet (US$/tonne)	**757**	1,153	(34.3)
Colour-coated sheet (US$/tonne)	**1,053**	1,472	(28.5)
Metalware products (US$/tonne)	**918**	1,342	(31.6)
Long products (US$/tonne)	**456**	866	(47.3)
Semifinished products (US$/tonne)	**342**	681	(49.8)
Other tubes and pipes, formed shapes (US$/tonne)	**586**	1,049	(44.1)
Average scrap price (US$/tonne)	**202**	385	(47.5)

* Excludes scrap.

The average number of Russian Steel employees in 2009 was 50,848 (full-time equivalent), a decrease of 16.9% compared with 2008.

Cherepovets Steel Mill reduced its workforce by 17.5% due to a deliberate downsizing policy. The majority of entities in the Russian Steel

Severstal Russian Steel (continued)

Division were affected by a reduction in the number of employees.

The main actions were:
- matching the number of employees to our production capacity
- closing technologically retired shops (such as the open-hearth furnace)
- transferring sport, health, cultural and other social units to the town administration
- restructuring our repair service, with some employees transferring to service subsidiaries.

Production results

In 2009, Russian Steel produced 7.2 million tonnes of hot metal (11.1% less than in 2008), and 9.5 million tonnes of crude steel (14.0% less than in 2008).

The main reason for the significant decrease in demand was the recession, especially in the first half of 2009.

Production volumes, thousand tonnes	2009	2008	Change year-on-year %
Total output			
Hot metal	**7,223**	8,125	(11.1)
Crude steel			
Basic oxygen furnaces	**8,002**	8,141	(1.7)
Electric arc furnaces	**1,546**	1,895	(18.4)
Open-hearth furnaces	**–**	1,061	(100.0)
Total crude steel	**9,548**	11,097	(14.0)

Average production volumes of crude steel for the first half of 2009 were 27.6% less than in the second half of 2009.

Sales and marketing

In 2009, total revenues declined considerably, by 48.8% compared with 2008, whereas revenue from sale of steel products decreased by 19.2%. This decrease is explained by overall weak economic conditions, resulting in a widespread decline in steel consumption in all industries. Also, all steel producers followed a price reduction policy to stimulate maximum capacity utilisation. In the case of Russian Steel, reductions were by 38.2% on average.

Russian Steel's sales by products

In 2009, sales of hot-rolled strip and plate accounted for 42.1% of overall sales volume (30.3% of revenue), cold-rolled flat products accounted for 13.5% of volume (11.0% of revenue), Semifinished products accounted for 8.9% of volume (4.6% of revenue), long products accounted for 8.4% of volume (5.8% of revenue), metalware products accounted for 7.3% of volume (10.1% of revenue), and galvanised and other metallic coated sheet accounted for 5.4% of volume (6.2% of revenue). Other steel products (tubes, pipes, colour-coated sheet and scrap) accounted for 14.4% of volume and 21.7% of revenue. Other revenues and shipping reached 10.3% of total revenues.

Sales by products	2009		2008		Change year-on-year %	
	Thousand tonnes	US$ million	Thousand tonnes	US$ million	Thousand tonnes	US$ million
Hot-rolled strip and plate	**3,948**	**1,872.2**	4,350	3,949.1	(9.2)	(52.6)
Large diameter pipes	**390**	**778.0**	294	819.9	32.7	(5.1)
Cold-rolled flat products	**1,265**	**680.8**	1,419	1,249.1	(10.9)	(45.5)
Metalware products	**683**	**626.7**	899	1,206.6	(24.0)	(48.1)
Galvanized and other metallic-coated sheet	**508**	**384.3**	695	801.3	(26.9)	(52.0)
Long products	**788**	**359.0**	1,466	1,269.8	(46.2)	(71.7)
Semifinished products	**839**	**287.2**	942	641.0	(10.9)	(55.2)
Other tubes and pipes, formed shapes	**436**	**255.4**	463	485.6	(5.8)	(47.4)
Colour-coated sheet	**234**	**246.4**	244	359.1	(4.1)	(31.4)
Scrap	**289**	**58.3**	834	321.3	(65.3)	(81.9)
Total steel products	**9,380**	**5,548.3**	11,606	11,102.8	(19.2)	(50.0)
Other and shipping	**–**	**630.8**	–	961.0	–	(34.4)
Total sales by products	**9,380**	**6,179.1**	11,606	12,063.8	(19.2)	(48.8)
Inter-segment transactions	**49**	**44.6**	87	39.5	(43.7)	12.9

Principal markets

As a whole, the domestic market in 2009 dropped much more sharply than the export market. Therefore exports supplemented Russian sales in hot-rolled strip and plate and in cold-rolled and galvanised products. In scrap, there was the opposite trend: domestic sales compensated for lower exports, due to higher demand from Russian steelmakers (mostly from section mini-mills). Sales of large-diameter pipes grew in both Russian and export markets.

Severstal Russian Steel (continued)

Russian market

Sales by products – domestic market

	2009		2008		Change year-on-year %	
	Thousand tonnes	US$ million	Thousand tonnes	US$ million	Thousand tonnes	US$ million
Hot-rolled strip and plate	**1,420**	**781.1**	2,681	2,539.3	(47.0)	(69.2)
Large-diameter pipes	**297**	**626.8**	292	815.6	1.7	(23.1)
Cold-rolled flat products	**609**	**345.1**	930	854.3	(34.5)	(59.6)
Metalware products	**425**	**351.4**	577	776.4	(26.3)	(54.7)
Galvanized and other metallic-coated sheet	**336**	**273.6**	563	670.9	(40.3)	(59.2)
Long products	**649**	**298.4**	1,309	1,142.8	(50.4)	(73.9)
Semifinished products	**4**	**2.5**	37	24.8	(89.2)	(89.9)
Others tubes and pipes, formed shapes	**350**	**201.8**	354	372.2	(1.1)	(45.8)
Colour-coated sheet	**214**	**225.2**	216	317.9	(0.9)	(29.2)
Scrap	**95**	**19.4**	70	26.0	35.7	(25.4)
Total steel products	**4,399**	**3,125.3**	**7,029**	**7,540.2**	**(37.4)**	**(58.6)**
Other and shipping	**–**	**312.2**	–	644.0	–	(51.5)
Total sales by products	**4,399**	**3,437.5**	**7,029**	**8,184.2**	**(37.4)**	**(58.0)**
Inter-segment transactions	**21**	**33.8**	4	27.3	425.0	23.8

The Russian market is the most important for Russian Steel. Our main domestic customers include pipe mills, the automotive and machinery industries, construction and shipbuilding companies. Our share of the Russian market in revenue terms changed significantly (55.6% in 2009 compared with 67.8% in 2008). In addition to low logistics costs, the Russian market has considerable potential, and allows for long-term relationships with customers based on cultural and other grounds.

In 2009, sales to the Russian market went down by 37.4% in volume terms, while revenues decreased by 58.0%, as a result of the major price decrease (by 33.8%). Hot-rolled strip and plate accounted for 32.3% of sales volume, long products accounted for 14.8%, cold-rolled flat products accounted for 13.8%, and galvanized and other metallic-coated sheet accounted for 7.6% of sales volume.

Russian Steel sold 47.0% less hot-rolled strip and plate by volume and 69.2% less by revenue in 2009 than in 2008. For long products, there was a 50.4% decrease in sales by volume and a 73.9% decrease in revenue. Revenues from galvanized and other metallic-coated sheet decreased by 40.3% in tonnes and by 59.2% in US dollars. For cold-rolled flat products, the decrease was 34.5% in tonnes and 59.6% in US dollars.

As a whole, the difficult market conditions, particularly in the first half of 2009, resulted in lower sales volumes and reduced average prices during 2009 compared with 2008.

Export markets

Sales by products – export market

	2009		2008		Change year-on-year %	
	Thousand tonnes	**US$ million**	Thousand tonnes	US$ million	Thousand tonnes	US$ million
Hot-rolled strip and plate	**2,528**	**1,091.1**	1,669	1,409.8	51.5	(22.6)
Large diameter pipes	**93**	**151.2**	2	4.3	n/a	n/a
Cold-rolled flat products	**656**	**335.7**	489	394.8	34.2	(15.0)
Metalware products	**258**	**275.3**	322	430.2	(19.9)	(36.0)
Galvanized and other metallic coated sheet	**172**	**110.7**	132	130.4	30.3	(15.1)
Long products	**139**	**60.6**	157	127.0	(11.5)	(52.3)
Semifinished products	**835**	**284.7**	905	616.2	(7.7)	(53.8)
Others tubes and pipes, formed shapes	**86**	**53.6**	109	113.4	(21.1)	(52.7)
Colour-coated sheet	**20**	**21.2**	28	41.2	(28.6)	(48.5)
Scrap	**194**	**38.9**	764	295.3	(74.6)	(86.8)
Total steel products	**4,981**	**2,423.0**	**4,577**	**3,562.6**	**8.8**	**(32.0)**
Other and shipping	**–**	**318.6**	–	317.0	–	0.5
Total sales by products	**4,981**	**2,741.6**	**4,577**	**3,879.6**	**8.8**	**(29.3)**
Inter-segment transactions	**28**	**10.8**	83	12.2	(66.3)	(11.5)

In 2009, as compared to 2008, export sales volumes increased by 8.8% while revenues from steel products decreased significantly (by 32.0%) due to the major drop in prices (by 37.5%). The main contributors to export revenues in volume terms were hot-rolled strip and plate (50.8%), Semifinished products (16.8%) and cold-rolled flat products (13.2%).

In 2009, prices in the export market decreased for every product, ranging from 20.1% (metalware products) to 49.9% (Semifinished products).

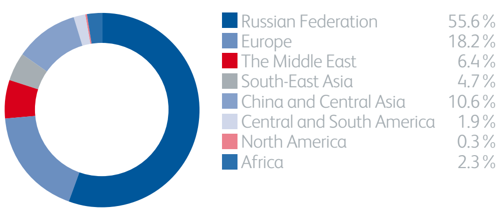
In volume terms, sales of hot-rolled products increased by 51.5%, cold-rolled flat products by 34.2%, and galvanized and other metallic coated products by 30.3%. Sales of large-diameter pipes in 2009 were 47 times higher than in 2008 and comprised 92 thousand tonnes.

Sales by region

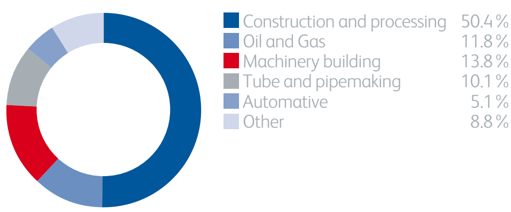
Strategically, Russian Steel is building long-term relationships with customers in the CIS and the EU. Deliveries to other regions are carried out primarily on a spot basis, with the exception of sales to tube and pipe makers and automotive producers. Sales to customers in Russia are strategically important for future sales of Russian Steel.

In 2009, the main export regions were Europe (41.0% of export revenue), Asia excluding the Middle East (34.3% of export revenue) and the Middle East (14.5% of export revenue). Sales to other regions amounted to 10.2% of exports. The main trend is the growth of sales to Asian customers, mainly to China in Q1 2009. In the second half of the year, the share of China in export sales decreased as we were selling more to Europe and the Middle East.

Revenues by region
2009



Revenues by industry
2009



Severstal Russian Steel (continued)

Sales by industry

In the domestic market, Russian Steel focuses on selling its products to the construction industries and steel service centres, pipe production, oil and gas, automotive producers and machinery builders, among others. In export markets, sales are primarily to processing and construction industries, including re-rollers of slabs, hot-rolled and cold-rolled coils. In 2009, construction and processing sales in revenue terms accounted for 50.4% of all sales worldwide, while sales to the oil and gas sector accounted for 11.8%, machinery building accounted for 13.8%, and pipe production accounted for 10.1%.

The structure of sales in 2009 did not change significantly from 2008.

Costs

	2009		2008		
Cost of sales structure	US$ million	% of total	US$ million	% of total	Change year-on-year %
Materials					
Scrap metal	**561.0**	**13.7**	1,397.0	18.9	(59.8)
Coal	**502.6**	**12.3**	976.6	13.2	(48.5)
Iron ore	**323.0**	**7.9**	626.2	8.5	(48.4)
Ferroalloys and nonferrous metals	**269.7**	**6.6**	616.9	8.4	(56.3)
Pellets	**206.6**	**5.1**	538.5	7.3	(61.6)
Coke	**46.3**	**1.1**	106.8	1.4	(56.6)
Other materials	**687.3**	**16.8**	1,009.9	13.7	(31.9)
Total materials	**2,596.5**	**63.6**	5,271.9	71.4	(50.7)
Energy					
Electric power	**142.4**	**3.5**	213.0	2.9	(33.1)
Gas	**141.3**	**3.5**	192.2	2.6	(26.5)
Other energy resources	**78.5**	**1.9**	120.7	1.6	(35.0)
Total energy	**362.2**	**8.9**	525.9	7.1	(31.1)
Staff costs	**485.6**	**11.9**	737.7	10.0	(34.2)
Depreciation and amortisation	**257.2**	**6.3**	441.9	6.0	(41.8)
Services	**140.0**	**3.4**	298.7	4.0	(53.1)
Other	**239.9**	**5.9**	111.9	1.5	114.4
Total	**4,081.4**	**100.0**	7,388.0	100.0	(44.8)

Alexey Soldatenkov

Continuous Improvement Project Director, OAO Severstal

Ambitious Improvement Targets

Severstal's Continuous Improvement Program was launched in October 2009. The goal of the project is to strengthen the Company's competitive advantage by implementing a unified production model ensuring constant operational improvement. Specific objectives include:

- Increase net profits by improving labor and equipment efficiency and product quality; and reducing operational losses, working assets and other costs.
- Realize continuous on-site improvements through staff development and improved individual and collective results based on a top quality performance management system.
- Development of a competitive advantage by ensuring the implementation of a performance culture throughout the organization that would be difficult for competitors to replicate.

The Program consists of 3 focus areas: the operating system, management system and underlying behaviors and mentalities.

In the operating system, major emphasis is placed on introducing lean production tools and standardized production processes. Work in the management system includes improving performance management and motivational systems, as well as developing a continuous improvement infrastructure. On the behavioral change side, emphasis is being placed on developing the ability of managers to increasingly take on coaching roles, and the efficiency and quality of problem solving.

Three production areas at the Cherepovets Steel Mill – continuous casting, the slab warehouse, and the hot rolling mill – were chosen to pilot the Program. They all play key rolls in the plant's production process. A diagnostic phase identified significant potential to increase overall equipment effectiveness, reduce unnecessary losses and improve product quality. The results were formulated into ambitious improvement targets to be realized over the next 18 months. Specific targets include: a 40% increase in the overall equipment effectiveness (OEE) for the continuous casting machines, a 20% OEE increase for the hot rolling mill and a 25% increase in the turnover rate of the slab processing racks.

With these goals in mind, specific operational improvements are being implemented. For example, concrete measures are being taken to increase casting speed and reduce scheduled downtime in order to produce the same amount of output on four casters that is currently being produced on five. Similarly in the hot rolling mill, rolling speed is being standardized and increased, changeover times reduced and quality losses decreased. Effective management is ensured via a new system for visualizing operating performance and evaluation of results.

The Program invests heavily in improving managers' skills by training them to use a wide range of lean production and problem solving tools to facilitate constant improvement on the shop floor. At the same time, a culture of increased trust is being fostered among the staff, with an emphasis on the open discussion of problems, teamwork and respect for others.

Based on the results in the pilot areas, the Program will be rolled out across all production areas and service companies of the Cherepovets Steel Mill by 2013, as well as throughout all divisions of Severstal.

"Work in the management system includes improving performance management and motivational systems, as well as developing a continuous improvement infrastructure."

Severstal Russian Steel (continued)

The cost of sales decreased by US$3,306.6 million in 2009 compared with 2008. The main factor in this decrease was the fall in sales volume from 11.6 million tonnes to 9.4 million tonnes, resulting in a drop in the cost of sales of US$1,354 million.

Other factors contributing to the total decrease in the cost of sales included:

- Changes in the structure of used raw materials and production, which caused the cost of sales to decrease by US$130 million.
- Changes in labour costs, excluding foreign exchange rate movements, which resulted in a cost of sales decrease of US$118 million.
- The decrease in depreciation and amortisation of assets, excluding foreign exchange rate movements, which caused the cost of sales to fall by US$114 million.
- Losses from exchange rate movements, which resulted in a cost of sales decrease of US$1,043 million.
- Falling raw materials consumption rates, which had a decreasing effect of US$119 million on the cost of sales.
- The decrease in the price of materials and energy, which caused the cost of sales to drop by US$139 million.
- The reduction of services such as repair and insurance, which caused the cost of sales to fall by US$120 million.

The decrease in labour costs was due mainly to the fall in the average number of Russian Steel employees, by 16.9% in 2009 compared with 2008.

Capital investments

We invested US$368.7 million in our steel business in 2009. Of this, we spent US$94.1 million on new projects and US$259.6 million on repairing and modernising projects.

Main ongoing projects

Hot metal cranes №8 and №10 at steel-making operations

We invested US$11.5 million in this project in 2009, out of a total planned investment of US$26.2 million. The project's purpose is to maintain fixed assets: to replace two hot metal cranes at a blast oxygen furnace shop. We started this in the first quarter of 2007 and finished in the fourth quarter of 2009.

Replacement of stove №3 with BF №5 at blast furnace operations

We invested US$8.2 million in this project in 2009, out of a total planned investment of US$18.7 million. The aim of the project is to maintain fixed assets: to replace a stove with a new one of Kalugin design. We started this in the first quarter of 2009.

Revamp of turbogenerator №6 at thermal power plant – thermal blower station (TPP-TBS)

We invested US$5.9 million in this project in 2009, out of a total planned investment of US$5.9 million. The project's aim is to increase power generation and reduce costs. We implemented this during 2009.

Revamp of main step-down substation №1 at electric power supply shop

We invested US$4.2 million in this project in 2009, out of a total planned investment of US$26.8 million. The purpose of the project is to maintain fixed assets. We started this in the fourth quarter of 2007.

Hot dip galvanizing line

We invested US$15.9 million in this project in 2009, out of a total planned investment of US$80.6 million. At the end of the project, we expect to increase production of colour-coated products to 400,000 tonnes per year. We started this in the first quarter of 2007.

Revamp of joint gas cleaning system of shaft furnace №2 and ladle furnace №2

We invested US$1.8 million in this project in 2009, out of a total planned investment of US$4.0 million. The project is focused on de-dusting the point source and reducing emissions from shaft furnace №2 and ladle furnace №2. We started this in the first quarter of 2008 and finished in the fourth quarter of 2009.

Pipe welding mill at TPZ Sheksna

We invested US$72.9 million in this project in 2009, out of a total planned investment of US$116.2 million. The rolling mill is expected to produce up to 250,000 tonnes of pipes per year. It will primarily produce electric-welded pipes of various diameters, thickness and length, as well as square and rectangular sections with different cross-sections.

ZAO Severstal Long Product Mill Balakovo (mini-mill in the Saratov region)

We invested US$17.3 million in this project in 2009, out of a total planned investment of US$785.5 million. The mill will produce long products for the construction industry, and will have the capacity to make up to 1 million tonnes of rolled products per year.

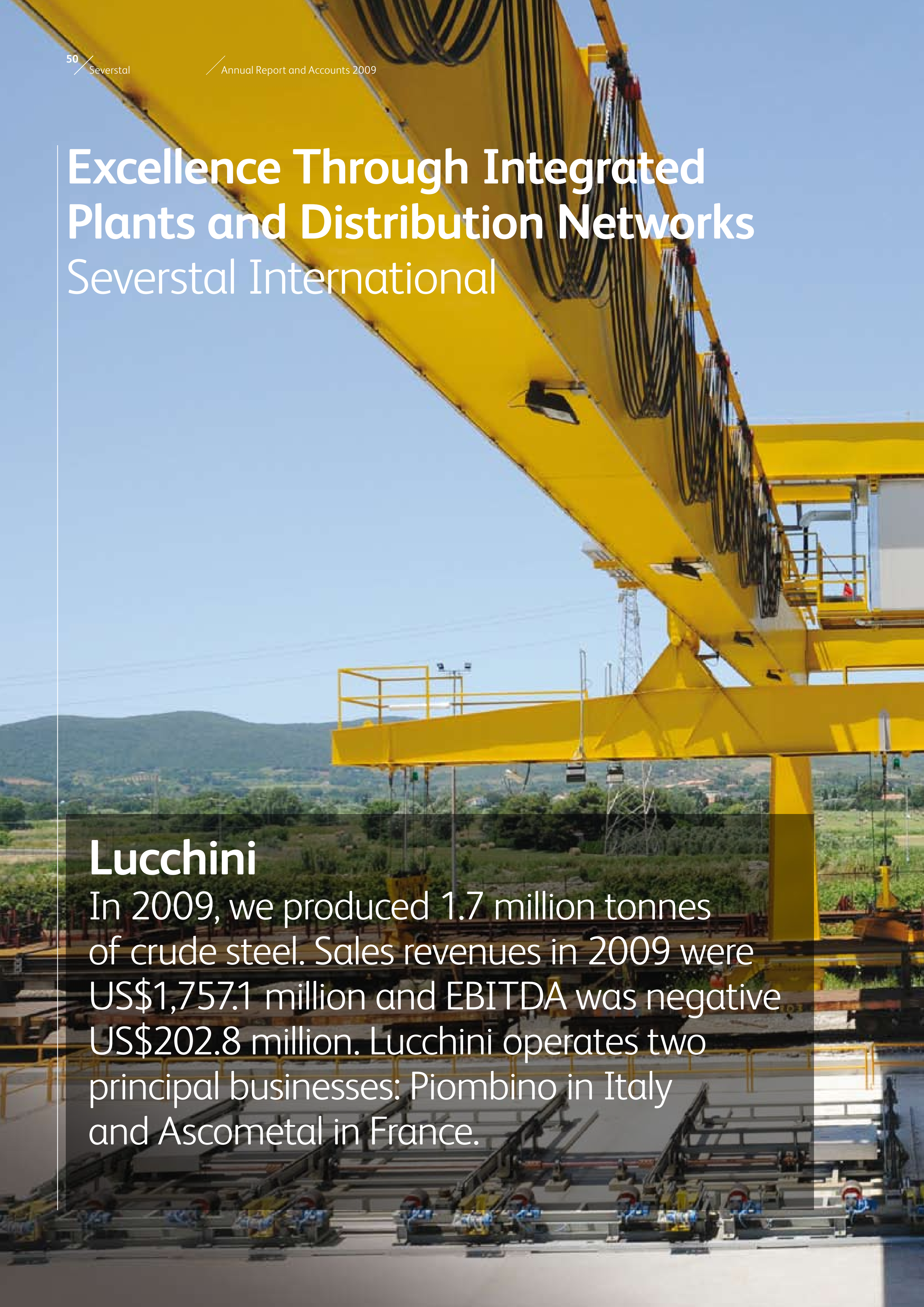
Metalware production

We invested US$25.7 million in this segment in 2009, out of a total planned investment of US$36.3 million. The purpose of this investment is to optimise drawing capacity, reduce costs, improve product quality and develop new product types, including large-diameter cable ropes.

We have taken decisive action under crisis pressure to cut our capital expenditure programme for 2009, and focused mostly on repairing and modernising projects, as well as on projects in the final stages of completion.

Our decisive management action includes:

- using modern technological materials and decisions
- improving industrial efficiency through energy and materials
- optimising purchasing costs
- decreasing functional and operating budgets
- optimising the number of employees and staff expenses
- decreasing capital expenditure by focusing only on repairing and modernising projects
- implementing a strong policy to reduce net working capital.



Excellence Through Integrated Plants and Distribution Networks

Severstal International

Lucchini

In 2009, we produced 1.7 million tonnes of crude steel. Sales revenues in 2009 were US$1,757.1 million and EBITDA was negative US$202.8 million. Lucchini operates two principal businesses: Piombino in Italy and Ascometal in France.

Severstal North America

In 2009, we produced 5,455 thousand tonnes of slabs, and shipped 5,315 thousand tonnes of steel products. Our sales revenue in 2009 amounted to US$4,023 million, with EBITDA of US$(654) million.

Severstal International:
Severstal North America (continued)

Severstal North America (SNA) is comprised of:

Severstal Dearborn Inc. (Dearborn), Severstal Columbus LLC (Columbus), Severstal Sparrows Point LLC (Sparrows Point), Severstal Warren Inc. (Warren), Severstal Wheeling Inc. (Wheeling), Mountain State Carbon LLC, Northern Steel Group Inc. (NSG) and holding companies – Severstal US Holdings LLC, Severstal Wheeling Holding, LLC and Baracom Limited. Excluding NSG, a service centre, these companies comprise the 3rd largest steelmaking company in the United States. SNA produces high-quality flat-rolled products.

SNA has 12.0 million tonnes of annual crude steel making capacity, 11.9 million tonnes of hot-rolled sheet, 4.9 million tonnes of cold-rolled sheet, 2.9 million tonnes of galvanized sheet and 0.7 million tonnes of tin plate capacity. Our corporate headquarters are located in Dearborn, Michigan and our manufacturing facilities are located in Dearborn, Michigan (Dearborn), Columbus, Mississippi (Columbus), Sparrows Point, Maryland (Sparrows Point) and Mingo Junction, Ohio, Martins Ferry, Ohio, Yorkville, Ohio and Beech Bottom, West Virginia.

SNA produces high-quality flat-rolled products, including hot-rolled, cold-rolled, electrogalvanized, hot-dip galvanized and tin plated steel, for customers in the automotive, converter, container, pipe and tube, building and construction, service centre and other markets. SNA also produces high-strength steel and other specialized products primarily used in the automotive industry, and we concentrate on manufacturing high-value-added products to maximize profitability.

In 2009, SNA produced 5,455 thousand tonnes of slabs, and shipped 5,315 thousand tonnes of steel products. Sales revenue in 2009 amounted to US$4,023 million, with EBITDA of US$(654) million.

Joint Ventures and associates

SNA holds interests in four joint ventures and one associate, established together with other US companies in order to expand our product line and provide services. The joint ventures produce metallurgical coke and galvanized steel, and provide steel processing and roll grinding services.

Double Eagle

Dearborn owns 50% of Double Eagle Steel Coating Company, a joint venture with United States Steel Corporation. Double Eagle is the world's largest electrogalvanizing line, and produces premium quality galvanized sheet steel – primarily for automotive customers. The plant, located in Dearborn, Michigan, has a production capacity of 789,000 tonnes per year, approximately one half of which is dedicated to Dearborn.

Spartan Steel

Dearborn owns 48% of Spartan Steel Coating LLC – a joint venture with Worthington Steel of Michigan. Spartan Steel produces hot dip galvanized sheet steel primarily for automotive and service centre customers. The plant is located in Monroe, Michigan, and has a production capacity of 544,000 tonnes per year, about 80% of which is dedicated to Dearborn. Dearborn supplies nearly 100% of the steel sheet used as substrate for Spartan Steel.

Delaco Processing

Dearborn owns 49% of Delaco Processing LLC, located in Dearborn, Michigan. Delaco Supreme Tool and Gear Co. owns 51% of Delaco Processing LLC. Delaco Processing specializes in slitting steel strip and sheet up to 1,829 mm in width.

Bethlehem Roll Technologies

Sparrows Point owns 50% of Bethlehem Roll Technologies (BRT) LLC located in Sparrows Point, Maryland. Court Industries owns the remaining 50% of BRT. BRT provides roll grinding services to Sparrows Point.

Ohio Coatings Company

Wheeling owns a 50% voting interest and an approximately 44% equity interest in Ohio Coatings Company, which is a joint venture among Wheeling, TCC Steel and Nittetsu Shoji America, Inc. Ohio Coatings Company produces tin plate steel. The plant, located in Yorkville, Ohio, has a production capacity of 300,000 tonnes per year.

Steelmaking Facilities

Columbus

Columbus is a 'greenfield' steel company with next generation technology located in town Columbus, Mississippi – the heart of America's new southern industrial region. Columbus broke ground for construction of the steel plant in October 2005, which was commissioned operationally in October 2007. The facility is a unique combination of mini-mill steelmaking and integrated finishing technology. It features a scrap-based electric arc furnace, feeding a thin-slab caster coupled with a high-powered hot-strip mill. Thin-slab output is further processed in a highly sophisticated cold-rolling mill and galvanizing line.

Columbus focuses on the production of high-quality flat-rolled steel with an initial annual production capacity of 1.5 million tonnes. The facility provides products for use in the automotive, building, agricultural, pipe and tube, and appliance industries. Columbus is the first EAF-based steel mill in the world positioned to produce exposed automotive steel. Severstal's investment plans include a second phase of construction to increase its capacity to 3.0 million tonnes of high-quality steel.

The plant is located near a number of large steel customers, making the distribution channels more efficient. With its 1,400-acre site under development as an industrial park to accommodate production partners and related manufacturers onsite, Columbus complements SNA's midwestern US business: its major market is the southeastern US, within 400 miles of the manufacturing location. Columbus's objective is to become a leading supplier of a wide-range, high quality flat-rolled steel products, including exposed automotive applications, for the southern US customers.

Dearborn

Severstal acquired Dearborn – located in Dearborn, Michigan – in January 2004. The company produces and sells flat-rolled steel products, primarily to domestic automotive manufacturers and their suppliers, and has an annual capacity of 3.3 million tonnes. In addition to its steel operations, as noted above, Dearborn owns a 50% interest in Double Eagle, a 48% interest in Spartan Steel, and a 49% interest in Delaco Processing. All these activities are based in south-eastern Michigan.

Sparrows Point

Severstal acquired Sparrows Point – located in Baltimore, Maryland – in May 2008. The company has a capacity of 3.4 million tonnes of crude steel, and is the only integrated producer of flat-rolled steel on the US East Coast. It is also a major North American supplier of tin mill products.

Warren

Severstal acquired Warren – located in Warren, Ohio – in July 2008. The company produces value-added steel products, and has a total annual steelmaking capacity of 1.4 million tonnes. It focuses on high-quality, custom flat-rolled steel for use in demanding applications in the automotive, appliance, furniture, construction and energy markets. In February 2009, the Group announced the temporary shut down of operations at the facility due to negative economic conditions and a lack of demand for steel. The Group restarted the plant in April 2010.

Wheeling

Severstal acquired Wheeling in August 2008. The company is one of North America's leading producers of flat-rolled steel, with an annual capacity of 2.5 million tonnes.

Tom Marchak

Vice President, Commercial, Severstal North America

The Power of "ONE".

In 2010, steel buyers demand more than ever before: more innovation, more flexibility, and more speed to help them succeed while they reinvent their own businesses. To be successful in our marketplace, our customers and prospective customers must view Severstal as a single steel producer with world class flat-roll product capabilities.

With our history as five separate companies, we needed to change our customers' perceptions and create visibility as "ONE SEVERSTAL". So, in mid 2009, we prepared to launch the Severstal "ONE" campaign.

To set the foundation, the Commercial organization was reoriented and organized into a single, national sales force capable of selling all the products of all our production facilities in a single sales call.

As a result, our Account Managers now guide customers and prospects to the best product solution no matter where the product is produced: Columbus, Dearborn, Sparrows Point, Warren or Wheeling.

With the sales force in place, the ONE SEVERSTAL campaign was launched. The campaign has many dimensions including:

- Print and On-Line Ads in leading trade publications and Print Ads in local community publications to enhance our reputation with our customers and the communities in which we work.
- Web site messaging
- And, a unique and innovative "Ask The Mill" monthly video series, sponsored with American Metal Market.

ONE SEVERSTAL is more than a theme. It is a way of life for us and a roadmap for how we interact with our customers. We have an incredible team supporting our vision to become the leader in value creation for our customers.

Severstal International:
Severstal North America (continued)

Mountain State Carbon

Dearborn and Wheeling each own 50% of Mountain State Carbon LLC, located in Follansbee, West Virginia. Mountain State Carbon is a metallurgical coke-making joint venture. Mountain State Carbon was formed to provide its owners with a reliable supply of high-quality, competitively-priced domestic coke. The annual production of Mountain State Carbon is 1 million tonnes. Our ownership in Mountain State Carbon allows us to receive coke every year at a substantially lower cost than delivered imported coke.

Northern Steel Group (NSG)

Severstal acquired NSG – a service centre, closely connected with Wheeling – in August 2008. Ownership of the company allows us to expand our product offering to direct customers.

Key performance indicators

	2009	2008	Change year-on-year %
Production of crude steel (thousand tonnes)	**5,455**	5,100	7.0
Sales of steel products (thousand tonnes)	**5,315**	5,184	2.5
Revenue (US$ million)	**4,023**	5,319	(24.3)
Gross loss (US$ million)	**(674)**	(522)	29.1
(Loss)/profit from operations (US$ million)	**(900)**	145	n/a
Operating margin (%)	**(22.4)**	2.7	n/a
EBITDA (US$ million)	**(654)**	377	n/a
EBITDA per tonne (US$/tonne)	**(123)**	73	n/a
EBITDA margin (%)	**(16.3)**	7.1	n/a
Average steel product price (US$/tonne) *	**728**	978	(25.6)
Hot-rolled strip and plate (US$/tonne)	**558**	905	(38.3)
Cold-rolled sheet (US$/tonne)	**693**	979	(29.2)
Galvanized and other metallic-coated sheet (US$/tonne)	**893**	1,040	(14.1)
Colour-coated sheet (US$/tonne)	**1,167**	1,706	(31.6)
Metalware products (US$/tonne)	**1,496**	1,829	(18.2)
Semifinished products (US$/tonne)	**447**	967	(53.8)

* Steel products include semifinished, rolled and downstream products.

As a part of labor costs reduction initiatives SNA decreased headcount (employees and contractors) by the end of the year 2009 to 5,827, compared to 6,453 in 2008.

Sales revenue in 2009 amounted to US$4,023 million compared to US$5,319 million in 2008, which is 24.4% lower than in 2008. EBITDA in 2009 amounted to US$(654) million compared to US$377 million in 2008.

Main factors resulted in EBITDA decline:

US$ (1,234) million – deteriorating sales prices;

US$ (423) million – effect of one-off gains, recognized in 2008 (includes buyout of a long-term electricity supply contract at Dearborn and an award from A.T. Massey Coal Co. in connection with a breach of a contract with Wheeling).

US$ (430) million – effect of insurance proceeds recognized in 2008 (Blast furnace B eruption).

US$ 1,068 million – effect of cost decrease due to volume decrease and cost-cutting initiatives.

US$ (12) million – other factors.

Sales by products

	2009		2008		Change year-on-year %	
	Thousand tonnes	**US$ million**	Thousand tonnes	US$ million	Thousand tonnes	US$ million
Hot-rolled strip and plate	**2,029**	**1,132**	2,215	2,004	(8.4)	(43.5)
Cold-rolled sheet	**1,334**	**925**	1,088	1,065	22.6	(13.1)
Galvanized and other metallic coated sheet	**1,720**	**1,536**	1,490	1,549	15.4	(0.8)
Color coated sheet	**60**	**70**	17	29	252.9	141.4
Total rolled products	**5,143**	**3,663**	4,810	4,647	6.9	(21.2)
Metalware products	**125**	**187**	70	128	78.6	46.1
Slabs	**47**	**21**	294	294	(84.0)	(92.8)
Pig iron	**–**	**–**	10	2	n/a	n/a
Total semifinished products	**47**	**21**	304	294	(84.5)	(92.9)
Total steel products	**5,315**	**3,871**	5,184	5,069	2.5	(23.6)
Other and shipping	**–**	**152**	–	250	–	(39.2)
Total	**5,315**	**4,023**	5,184	5,319	2.5	(24.4)
US sales						
Hot-rolled strip and plate	**1,949**	**1,082**	1,913	1,729	1.9	(37.4)
Cold-rolled sheet	**1,309**	**905**	1,040	1,021	25.9	(11.4)
Galvanized and other metallic coated sheet	**1,658**	**1,483**	1,450	1,511	14.3	(1.9)
Color coated sheet	**60**	**70**	17	29	252.9	141.4
Total rolled products	**4,976**	**3,540**	4,420	4,290	12.6	(17.5)
Metalware products	**125**	**187**	70	128	78.6	46.1
Slabs	**47**	**21**	290	290	(83.8)	(92.8)
Pig iron	**–**	**–**	10	2	n/a	n/a
Total semifinished products	**47**	**21**	300	292	(84.3)	(92.8)
Total steel products	**5,148**	**3,748**	4,790	4,710	7.5	(20.4)
Other and shipping	**–**	**149**	–	250	–	(40.4)
Total US sales	**5,148**	**3,897**	4,790	4,960	7.5	(21.4)
Export sales						
Hot-rolled strip and plate	**80**	**50**	302	275	(73.5)	(81.8)
Cold-rolled sheet	**25**	**20**	48	44	(47.9)	(54.5)
Galvanized and other metallic coated sheet	**62**	**53**	40	38	55.0	39.5
Color coated sheet	**–**	**–**	–	–	n/a	n/a
Total rolled products	**167**	**123**	390	357	(57.2)	(65.5)
Metalware products	**–**	**–**	–	–	n/a	n/a
Slabs	**–**	**–**	4	2	n/a	n/a
Pig iron	**–**	**–**	–	–	n/a	n/a
Total semifinished products	**–**	**–**	4	2	n/a	n/a
Total steel products	**167**	**123**	394	359	(57.6)	(65.7)
Other and shipping	**–**	**3**	–	–	n/a	n/a
Total export sales	**167**	**126**	394	359	(57.6)	(64.9)

Severstal International:
Severstal North America (continued)

Production results

	2009	2008	Change year-on-year %
Production volumes (thousand tonnes)			
Total output			
Hot metal	**3,456**	3,201	8.0
Crude steel	**5,455**	5,100	7.0
Hot-rolled strip and plate	**5,236**	4,772	9.7
Cold-rolled sheet	**2,937**	2,387	23.0
Galvanized and other metallic coated sheet	**1,600**	1,400	14.3
Metalware products	**156**	92	69.6

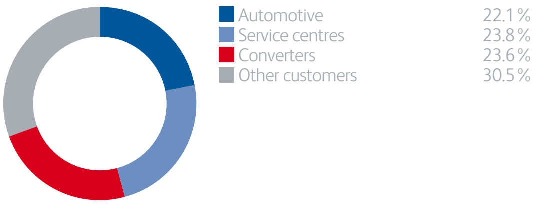
Sales and marketing

From 2008 to 2009, total sales volume increased by 2.5%. Direct sales to automotive manufacturers in 2009 accounted for 22.1% of total revenue, which is slightly less 24.2% in 2008. Decrease of automotive industry share in total sales relates to the fact, that US automakers were significantly impacted by negative economic conditions in North America.

Capital expenditure

Total capital expenditures in 2009 were US$238 million, which is 34.4% of what was spent in 2008. This is the effect of major investment projects at Dearborn and Columbus being postponed as a part of anti-crisis measures.

SNA revenues by industries



Chris Kristock

Vice President, Advanced Engineering, Severstal North America

Electrical Steels at Severstal Columbus

Severstal has been working to develop high quality motor lamination, or electrical steels, for the appliance, automotive and consumer product industries.

A specific product development effort for these steels began at our Columbus facility in 2009 with customer input and process trials to assure capabilities.

Columbus has, so far, produced and successfully shipped several mid-grade motor lamination steels for our customer's use in various appliance motors.

In developing these products, we found that the Compact Strip Production process in place at Columbus, has many advantages over conventional steel manufacturing processes when producing this specialty steel.

Further development, to extend Severstal's capabilities into the higher grades of electrical steels is being planned.

Electrical steel products are an increasingly important part of the US market for steel with the advent of hybrid automobiles and more efficient electrical motors.

Severstal continues to develop these and other products to create value with both technology (technologically capable equipment) and favorable geographic locations.

Costs

Total cost of sales in 2009 was US$4,697 million, which is 19.6% less than in 2008. Cost decrease is a result of volume decrease and cost-cutting initiatives.

Decisive management action

In 2009, SNA undertook initiatives to mitigate the effect of deteriorating general economic conditions in North America. These include a selective reduction in melt and finishing operations, optimisation of production schedules across North American facilities, efforts to align SNA's supply base more consistently with downscaled production requirements, and labour and overhead cost reductions. We have also taken steps to improve liquidity – including curtailing all discretionary capital expenditure, and other measures to promote greater working capital efficiency, such as trade credit extension and inventory optimisation.

2009 achievements in this context include:

- an increase in blast furnace productivity (Dearborn and Sparrows Point)
- a shift from sinter to iron ore pellets consumption in blast furnaces at Sparrows Point
- optimisation of the basic oxygen furnace charge (by varying hot metal and scrap consumption, and using low-price scrap)
- optimisation of ferroalloys consumption and a decrease in repair expenses
- a decrease in idle time across our operating mills.

We have also used Total Operating Performance (TOP) and Total Cost of Ownership (TCO) systems, to help eliminate waste and inefficiencies in sales, purchasing, production, and staff departments – and we expect these to continue to have a beneficial effect on costs.

Severstal International:
European operations: Lucchini (continued)

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.

Lucchini has 4.0 million tonnes of annual crude steelmaking capacity, serving more than 1,000 customers in niche markets such as automotive, rails, bearings, springs and wire rod.

In 2009, we produced 1.7 million tonnes of crude steel. Sales revenues in 2009 were US$1,757.1 million and EBITDA was negative US$202.8 million. Lucchini operates two principal businesses: Piombino in Italy and Ascometal in France.

Lucchini Piombino, Italy

Piombino is a European leader in long specialty steel products, including round bars, rolled blooms, billets and slabs. It is also a leading Italian producer of high-quality wire rod (including drawing wire rod, cold heading steel and welding steel) and rails.

Piombino has approximately 20% of European market share and 80% of domestic market share for rails and rail stocks, based on Eurofer data.

The Company's main production facilities include plants in Piombino, Trieste, Bari, Condove and Lecco (all in Italy) with headquarters in Brescia, Italy. At the end of 2009, Piombino had 2,925 employees (full-time equivalent).

Lucchini Ascometal, France

Ascometal is a European leader in long special steels. It operates four integrated EAF-based mills, two cold finishing centres and a distribution centre in France. Its facilities are strategically located near scrap collection and processing centres. Its headquarters are in Paris, France. At the end of 2009, the Company employed 2,481 people (full-time equivalent).

Key performance indicators

	2009	2008	Change year-on-year %
Revenue (US$ million)	**1,757.1**	3,989.5	(56.0)
Gross (loss)/profit (US$ million)	**(190.9)**	617.0	n/a
(Loss)/profit from operations (US$ million)	**(361.9)**	268.3	n/a
Operating margin (%)	**(20.6)**	6.7	n/a
EBITDA (US$ million)	**(202.8)**	429.8	n/a
EBITDA per tonne (US$/tonne)	**(105)**	130	n/a
EBITDA margin (%)	**(11.6)**	10.8	n/a
Average steel product price (US$/tonne)	**863**	1,195	(27.8)
Pig iron and hot metal (US$/tonne)	**309**	507	(39.1)
Semifinished products (US$/tonne)	**531**	854	(37.8)
Long products (US$/tonne)	**953**	1,342	(29.0)
Rails (US$/tonne)	**976**	936	4.3
Metalware products (US$/tonne)	**1,024**	1,268	(19.2)

Production results

In 2009, Lucchini produced:

- 1,746 thousand tonnes of crude steel
- 1,419 thousand tonnes of hot metal

Production volumes, thousand tonnes	2009	2008	Change year-on-year %
Total output			
Hot metal	**1,419**	2,189	(35.2)
Crude steel	**1,746**	3,021	(42.2)

Sales and marketing

Economic environment

The decline in global markets had a major impact on the Italian and European economic climate throughout 2009, leading to a deep economic recession. In 2009, Italian GDP fell by 4.6% and private consumption decreased by 1.2%. Capital investments were significantly reduced by 11% while industrial production literally collapsed, falling by 14.7%.

At the end of 2009, the persistent negative trend seemed to be stabilising. The sharp decline in industrial activity has frozen inflationary pressures, giving a rise of 0.7% in 2009 compared with 3.3% in 2008. At the same time, unemployment rose to 9.2% in the European Union.

Trends in the steel market

The impact of the negative economic climate was exacerbated by all companies, as they preserved liquidity by reducing drastically the level of inventories throughout the supply chain. This trend caused the virtual disappearance of apparent consumption in the first months of 2009, during which the steel sector experienced serious difficulties in managing the continuity of industrial production processes, even at levels of minimal activity.

From summer 2009, once inventory levels were reduced, apparent consumption gradually realigned to actual consumption, leading to an improvement in orders and a more balanced industrial set-up. In the European Union, apparent consumption fell by 33.4% compared with the previous year.

The wire rod trend for Lucchini was in line with general trends in the steel sector. After the first half of 2009, with low volumes and falling prices, the second half saw a slight and gradual recovery in volumes, with prices becoming basically stable.

Bars suffered most of all, and have not yet shown signs of recovery. This product is linked mainly to the automotive industry, and tied to some other segments, such as earth-moving equipment and mechanical engineering. So it was severely affected by the recession, the recovery of which remains strictly tied to the dynamics of recovery in capital goods.

The rail sector remained at optimal levels throughout the first half of the year due to:

- The demand for new infrastructure in emerging economies.
- The backlog that had been contracted before the market decrease.

Severstal International:
European operations: Lucchini (continued)

Sales by products

	2009		2008		Change year-on-year %	
	Thousand tonnes	US$ million	Thousand tonnes	US$ million	thousand tonnes	US$ million
Pig iron and hot metal (PI&HM)	**265**	**82**	475	241	(44.2)	(66.0)
Steel products						
Semifinished products (excl. PI&HM)	**377**	**200**	597	510	(36.9)	(60.8)
Long products	**1,005**	**958**	1,884	2,529	(46.7)	(62.1)
Rails	**250**	**244**	298	279	(16.1)	(12.5)
Metalware products	**41**	**42**	41	52	0	(19.2)
Total steel products	**1,673**	**1,444**	2,820	3,370	(40.7)	(57.2)
Total sales by products	**1,938**	**1,526**	3,295	3,611	(41.2)	(57.7)
Other and shipping	**–**	**231**	–	378	n/a	(38.9)
Total sales	**1,938**	**1,757**	3,295	3,989	(41.2)	(56.0)

Lucchini's total sales volume of 1,938 thousand tonnes was 41.2% lower than in 2008. Revenues decreased by 56.0%, mainly as a result of the global economic downturn.

Sales revenues of long products decreased by 62.1%, and volumes fell by 46.7%. These revenues accounted for 54.5% of Lucchini's total revenue in 2009 (compared with 63.4% in 2008).

Sales volumes of Semifinished products (excluding hot metal and pig iron) were 36.9% lower in 2009 than in 2008. At the same time, sales revenues of Semifinished products decreased by 60.8% and currently account for 11.4% of Lucchini's total 2009 revenue. Sales volumes of rails decreased by 16.1%, while revenues fell by 12.5%. Rails accounted for 13.9% of Lucchini's total 2009 revenue (compared with 7.0% in 2008).

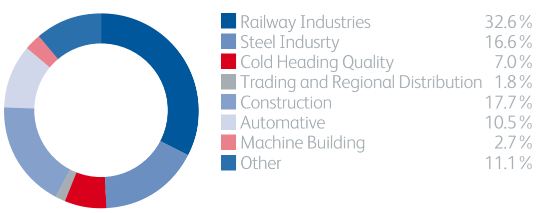
The majority of Piombino's deliveries in the year were to the railway, construction and steel processing industries. Other important customers were automotive and machine building companies.

In Europe, demand for special steel bars decreased by 50% with a severe downturn starting in the second half of 2008. Ascometal's global sales fell by 50% in volume and 57% in revenue.

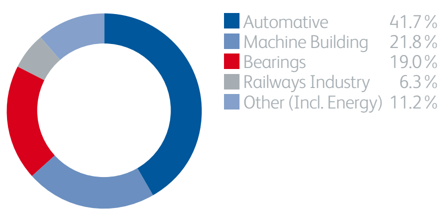
New car registrations in Europe shrank by 1.6%, and car production decreased by 18%, leading to unprecedented destocking and reduced production throughout the industrial chain. Original equipment manufacturers, forging, bearings and spring subcontractors were all affected by the situation. Because of this, Ascometal's tonnage sales to the automotive industry fell by 40% compared with 2008.

Sales by industry

Piombino



Ascometal



Sales of bearings fell by 50%, due to the negative impact of bad conditions for non-automotive applications.

Sales to the mechanical and machine building industries fell by 63% in volume, as end markets faced sales decreases of 20% to 80%.

Sales to the railway segment fell by 25% in volume – a relatively good performance in view of the general crisis situation, thanks to an only mildly affected end market.

In the oil drilling segment (other), market conditions deteriorated throughout the year, almost until the last months of 2009. Our sales fell by 60% in volume and 11.2% in revenue, as a result of the combined effect of destocking throughout the industrial chain, low final demand and adverse USD/EUR exchange rates.

Key markets

Lucchini has more than 1,000 customers in its main markets in Italy, France and Germany. It sells its Piombino products primarily in the Italian domestic market, and nearly half of its Ascometal products in the French domestic market.

Lucchini's main objectives are to maintain and strengthen its cost leadership position in Italy and Western Europe, and to pursue new, high-growth markets such as Eastern Europe and the Far East.

With commercial offices in Zurich, Barcelona, New York, Singapore, Dusseldorf and Manchester (UK), Lucchini exports its products to more than 60 countries.

Sales by market, Lucchini

	2009		2008		
	Thousand US$ million	**% of total**	Thousand US$ million	% of total	Change year-on-year %
Market					
Europe	**1,331**	**75.8**	3,549	89.0	(62.5)
Americas	**115**	**6.5**	130	3.3	(11.5)
Asia	**197**	**11.2**	304	7.6	(35.2)
Africa	**114**	**6.5**	6	0.1	n/a
Total	**1,757**	**100.0**	3,989	100.0	(56.0)

Capital expenditure

Neither Piombino nor Ascometal implemented any big capital projects in 2009.

Lucchini's total 2009 capital expenditure of US$133.2 million was 60.6% lower than in 2008 (when it was US$337.8 million). Taking into account the global economic decline in 2009, we suspended or rescheduled most projects, and continued with only a small number of initiatives, relating mainly to environmental impact and compulsory maintenance activities.

Board of Directors

1. Alexey Mordashov

CEO, Severstal, Member of the Nomination and Remuneration Committee. Year of birth: 1965

Alexey Mordashov has worked for Severstal since 1988. He started his career as a senior shop economist, becoming Chief Financial Officer in 1992 before being appointed in December 1996 as Severstal's Chief Executive Officer. In June 2002, he was elected Chairman of Severstal's Board of Directors and served as Chief Executive Officer of Severstal Group. Since December 2006, he has been Chief Executive Officer of Severstal. Alexey serves on the Entrepreneurs Council of the Government of the Russian Federation. In addition, he is a member of the Russian-German workgroup responsible for strategic economic and finance issues, and head of the Russian Union of Industrialists and Entrepreneurs' (RSPP) Committee of Trade Policy. Since March 2006 he has been a member of the EU-Russia Business Cooperation Council. He is also a member of the Atlantic Council President's International Advisory Board. Alexey earned his undergraduate degree from the Leningrad Institute of Engineering and Economics. He also holds an MBA degree from Newcastle Business School of Northumbria University (Newcastle UK). Alexey was granted honorary doctorates from the Saint-Petersburg State University of Engineering and Economics in 2001 and from the University of Northumbria in 2003.

2. Anatoly Kruchinin

CEO Severstal Russian Steel, CEO Cherepovets Steel Mill. Year of birth: 1960

Anatoly Kruchinin joined Severstal in 1982. In 1993 he became Chief Power Engineer and in March 1999 he was appointed Commercial Director. From January 2002 Anatoly worked as Executive Director of Severstal and in July 2002 he became CEO of the Company. Following the new system of corporate management adopted at the Company, since December 2006 he has been Chief Executive Officer of Cherepovets Steel Mill. In April 2008 he was appointed CEO of Severstal Russian Steel Division. Anatoly is a graduate of the Ivanovo Power Engineering Institute and holds an MBA degree from the National Economic Academy under the Government of the Russian Federation.

3. Sergey Kuznetsov

CEO Severstal International, CEO Severstal North America. Year of birth: 1971

Sergey Kuznetsov started his career in 1994 as an expert in trade operations for steel and steel products at the State Owned Foreign Trade Association, Promsyrioimport (Industrial Materials Import/Export). From 1995 to 2001 he worked as a commercial representative at the Steel Trading Section of Moscow Representative Office of Cargill Enterprises, Inc. He joined Severstal in 2002 to head the Business Planning Group, responsible for acquisitions of foreign assets and the development of international projects. In 2004 he was appointed as Chief Financial Officer of Severstal North America. In 2008 he became Chief Financial Officer of JSC Severstal. In July 2009 Sergey became CEO of Severstal International and CEO of Severstal North America. Sergey graduated from Bauman Moscow State Technical University in 1994, where he majored in Engineering. In 1998 he received his Finance MBA from California State University, Hayward.

4. Alexey Kulichenko

CFO, Severstal. Year of birth: 1974

Alexey Kulichenko graduated from the Omsk Institute of World Economy with a degree in economics. From 1996 to 2003 he worked in Sun Interbrew, starting his career as cash flow economist of Omsk plant, Pocap, and ending as Efficiency Planning and Managing Director of Sun Interbrew. From 2003 till 2005 Alexey worked as CFO at Unimilk – the second largest milk producer in Russia, which combines 20 plants in Russia and Ukraine. From December 19, 2005 to July 2009 he served as CFO of CJSC Severstal Resources. Since May 2006 Alexey has been a member of the Board of Directors of JSC Vorkutaugol. In July 2009 he was appointed CFO of JSC Severstal.

5. Mikhail Noskov

Non-Executive Director. Year of birth: 1963

Mikhail Noskov worked at the International Moscow Bank between 1989 and 1993. From 1994, he was Trade Finance Director of Credit Suisse (Moscow). He has worked for Severstal since February 1997 as Head of Corporate Finance and from 1998 as Finance and Economics Director. In June 2002, he was made Deputy CEO for Finance and Economics of the Severstal Group, and from 2007 till 2008 he was Deputy CEO for Finance and Economics of Severstal. Mikhail graduated from the Moscow Institute of Finance.

6. Christopher Clark

Independent Chairman of the Board of Directors, Member of the Nomination and Remuneration Committee. Year of birth: 1942

Chris Clark is a leading industrialist and brings extensive business knowledge to the Board. Chris's career spans 40 years at Johnson Matthey plc, the specialty chemicals and precious metals group, where he became Chief Executive Officer in 1998. He led the group into the FTSE 100 in 2002. Since his retirement in 2004, Chris has taken a number of non-executive positions. He currently chairs Associated British Ports and Urenco Limited, the leading international supplier of enriched uranium to the power generating industry. Chris is a graduate in metallurgy; he studied at Trinity College, Cambridge and Brunel University, London.

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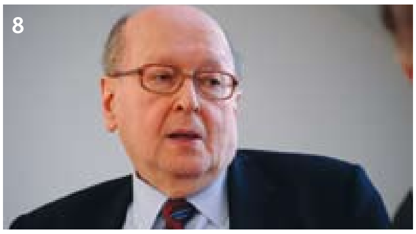

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7. Martin Angle

Independent Director, Chairman of the Audit Committee.
Year of birth: 1950

Martin Angle holds a number of non-executive directorships in addition to JSC Severstal, including, in the UK, Pennon Group plc, Savills plc and the Chairmanship of the National Exhibition Centre Group Ltd. Until December 2009 he also sat on the Board of Dubai International Capital LLC. During his career, Martin has held senior executive positions in investment banking, industry and more recently private equity, where he was an Operational Managing Director of Terra Firma Capital Partners and held various senior positions in its portfolio companies including the Waste Recycling Group Ltd, where he was Executive Chairman, and Le Meridien Hotel Group, where he was Deputy Chairman. Prior to that, Martin was for a number of years the Group Finance Director of TI Group plc, a specialised engineering Company in the UK FTSE 100 with activities in over 50 countries. Before that, he spent 20 years in investment banking, where he held a number of senior positions with SG Warburg & Co Ltd, Morgan Stanley and Dresdner Kleinwort Benson. Martin is a graduate in physics, a Chartered Accountant, a Member of the Securities Institute and a Fellow of the Royal Society of Arts. He also sits on the Advisory Board of the Warwick Business School.

8. Ronald Freeman

Independent Director, Member of the Audit Committee.
Year of birth: 1939

Ronald Freeman is a member of the Board of Directors, an Advisory Partner and stockholder of the Moscow-based Troika Dialog investment bank. He is also a non-executive member of the Board of Directors of Volga Gas and of Polish Telecom; and a member of the Executive Committee of the Atlantic Council. He is a member of the International Advisory Committee of Columbia Law School and the Development Committee of Mansfield College (Oxford, UK). Between 1991 and 1997, Ronald was Head of the Banking Department of the European Bank for Reconstruction and Development (EBRD). He was responsible for debt and equity financing in the private sector in 23 countries of the former Soviet Union, with a total annual funds commitment of 2 billion Euros. Prior to that, Ronald was vice-chairman of Citigroup European investment banking and a general partner of Salomon Brothers. Ronald holds a BA degree from Lehigh University, and an LLB from the Law School of Columbia University. He was admitted to the New York Bar.

9. Rolf Stomberg

Senior Independent Director, Chairman of the Nomination and Remuneration Committee. Year of birth: 1940

Rolf Stomberg is Chairman of the Supervisory Board of LANXESS AG, Leverkusen, a global chemical Company, which was formed after reorganisation of Bayer AG. He is Senior Independent Director of medical device producer Smith and Nephew plc, London, and advises a number of German family-owned companies. After his executive career of nearly 30 years with BP (British Petroleum Co plc), where he last held the position of CEO of BP's downstream business and Managing Director on the main board of the Company, he held a number of directorships in internationally operating companies in Europe such as Reed Elsevier Group, TNT NV, Scania AB, John Mowlem plc and Management Consulting Group plc, as well as on the boards of private-equity-owned companies. Rolf is an economics graduate holding a Doctorate of Hamburg University, where he also served as a lecturer. He was an Honorary professor at the business school of Imperial College, London, and the Institut Francais de Petrol, Paris.

10. Peter Kraljic

Independent Director, Member of the Audit Committee.
Year of birth: 1939

Peter Kraljic is a Director Emeritus at McKinsey, where he spent 32 years and held a number of senior positions until his retirement in 2002. Focused mainly on industrial clients in the chemicals, pharmaceuticals, automotive assembly, and steel and aluminium sectors, he was also a member of McKinsey's Shareholders and Personnel Development Committee and has managed the Company's activities in France as a General Director. Peter has also written a number of scientific and business articles for publications such as the Harvard Business Review and Le Figaro Economic. He has also recently led special projects aimed at economic growth and job creation in Germany and Brazil. Peter graduated from the University of Ljubljana, Slovenia (Faculty of Metallurgy), and holds a PhD degree from Polytechnic University in Hannover, Germany. He also holds a Masters degree in business management from the INSEAD business school, France.

Board of Directors' Report

Introduction

Severstal remains strongly committed to the best practice in corporate governance. We believe we have already seen the benefit of a strong and independent Board and we believe that in the current economic environment it becomes ever more important to maintain the high level of corporate governance already achieved and to make further progress.

Severstal first published its Corporate Governance Code in October 2006. This was approved by the Board and the Board continues to be at the centre of the corporate governance of the Company. This report has been prepared following the recommendations of the Code of Best Practice set out in section 1 of the Financial Reporting Council's Code on Corporate Governance.

The Company complies fully with Russian corporate governance law requirements and also fully meets the corporate governance mandatory requirements of MICEX and RTS (Russia) for the Russian listed 'B' companies, which in turn follow the recommendations of the Russian Corporate Behaviour Code issued by the Russian Federal Securities Commission.

The Board

Severstal's Board comprises five Independent Directors including the Independent Chairman, Christopher Clark, plus Ronald Freeman, Dr Peter Kraljic, Martin Angle, and Dr Rolf Stomberg. There is also one Non-Executive Director, Mikhail Noskov, and four Executive Directors; Alexey Mordashov, Anatoly Kruchinin, Sergei Kuznetsov and Alexey Kulichenko. This 10-strong Board offers a balance, which is an important requirement for good decision-making and good governance.

The proportion of Independent Directors on the Board – unprecedented for a Russian Company – guarantees equal regard for the interests of all shareholders. This is reinforced by special voting rules on strategically important issues. The Board considers all of its Independent Directors to be independent for the purposes of the Combined Code.

Board meetings and attendance

Attendance by individual directors at the meetings of the Board and its Committees in 2009 was as follows:

Members of the Board of Directors JSC 'Severstal'	Number of Board meetings possible[2]	Number of Board meetings attended	Audit Committee (4 meetings)	Remuneration and Nomination Committee (4 meetings)	Strategy Committee (1 meeting)
Christopher Clark	5	5	4[1]	4	–
Ronald Freeman	5	5	4	4[1]	–
Peter Kraljic	5	5	4	4[1]	1
Martin Angle	5	5	4	4[1]	–
Rolf Stomberg	5	5	4[1]	4	1[1]
Alexey Mordashov	5	5	–	4	–
Mikhail Noskov	5	5	1[1]	–	–
Vadim Makhov	2	2[3]	–	–	1
Anatoly Kruchinin	5	5	–	–	–
Gregory Mason	2[4]	2	1[1]	–	1
Sergei Kuznetsov	3[5]	3	2[1]	–	–
Alexey Kulichenko	2[6]	1	1[1]	–	–

1 Means that the specified Director is not a member of that Committee, although he attended the meetings at the invitation of the Chairman of the Committee;
2 One of the meetings was held via conference call;
3 Mr. Makhov left his office as a member of the Board of Directors by decision of the General Annual Shareholders Meeting held on June 15, 2009;
4 Mr. Mason left his office as a member of the Board of Directors on the basis of his voluntary resignation letter;
5 Mr. Kuznetsov was elected member of the Board of Directors by decision of the General Annual Shareholders Meeting held on June 15, 2009;
6 Mr. Kulichenko was elected member of the Board of Directors by decision of the Extraordinary General Shareholders Meeting held on October 19, 2009.

Board and Committee members now have direct and constant access to Board and Committee materials through an electronic system, which also serves as an electronic archive of Board and Committee materials for convenient reference by Board members, and an electronic voting engine for Board meetings conducted by correspondence.

Role of the Severstal Board

Severstal's Board of Directors is responsible for the general management and performance of the Company's operations, including discussion, review and approval of its strategy and business model, as well as closely monitoring its financial and business operations both by segments and as a whole. The Board's principal objective is to run the Company in such a manner as to increase shareholder value in the medium and long term. Short-term financial and operational issues such as debt levels and costs also receive close attention.

The Board bases its decisions on the need to act in the best interests of all stakeholders. This often includes taking decisive and difficult decisions in complex situations. The Board is also responsible for the proper functioning of the system for disclosure and dissemination of information about the Company's operations, and for implementing the Company's information policy.

The Board is authorised to take decisions concerning every aspect of Severstal's activity, with the exception of matters within the jurisdiction of the General Shareholders' Meeting.

Key duties:

1. Responsibility for the strategic direction of the Company.
2. Review of the consolidated budget and the provision of appropriate recommendations.
3. Reviewing the appointment and compensation policy applying to the Company's senior executives, and making recommendations regarding such a policy.
4. Dividend policy.
5. Approving transactions with interested parties (as this term is defined in accordance with Russian Law) with the value for each such transaction not to exceed 2% of the book value of Severstal's assets at the date of the decision to enter into such a transaction.
6. Approval of a transaction if its value exceeds 10% of the book value of Severstal's assets at the date to enter into such a transaction.
7. Approval of a transaction to acquire (i) shares or participation interests or rights to manage such shares or participation interests or (ii) fixed or intangible assets if the amount of the transaction specified in sub-clauses (i) or (ii) above exceeds the equivalent of US$500 million.

A resolution on the matters set out in clauses 2 and 7 requires a two-thirds majority vote of all members of the Board of Directors.

Board effectiveness

The roles of Chairman and Chief Executive Officer are separate and their responsibilities are clearly defined in the Company's statutory documents and regulated by Russian law. The role of the Chairman is to organise, lead and manage the Board and to convene and preside over Board meetings.

Directors new to the Board are given background information on the Company when they join. This includes details of its operations and procedures, as well as information on what is required from them in their role according to the Company's statutory documents. This includes Severstal's Corporate Governance Code, and applicable corporate governance law, which is best practice to help ensure their early effective contribution to the Company.

The Chief Executive Officer carries out the day-to-day management of the Company and ensures its efficient operation by discharging the tasks set by the Board of Directors. The Chief Executive is responsible for the organisation, status and accuracy of the Company's accounting practices, timely provision of financial reports to appropriate authorities, and timely provision of information regarding the Company's operations to shareholders, creditors and the media. The Chief Executive also cooperates with trade unions to protect the interests of Company employees and communicates with government and municipal authorities.

Board of Directors' Report (continued)

In 2009 OAO Severstal developed a new mission, vision and values. The Board of Directors believes that it is a very important step in the Company development. It will set the path for the Company to become one of the world leaders in the steel industry. Severstal mission is "to become a leader in value creation" through a focus on People, Unity and Excellence. The following values are the foundation of Severstal new corporate culture: Safety, Customer care, Efficiency and Agility, Respect to employees, Teamwork. The findings of the Board's first independent audit of its effectiveness conducted by the respected international executive search firm Heidrick & Struggles, and completed in the beginning of 2009, were presented to the Board. Along with this independent audit an internal evaluation of the Chairman's performance was performed by the Senior Independent director. These demonstrated, amongst other things, the wealth of experience available to the Company from the Independent Directors and the fact that the Company is keen to benefit from their experience and commitment to the Company to promote and sustain best corporate governance standards.

Severstal is monitoring the proposed changes to the rules of the United Kingdom Listing Authority, as well as the proposed new governance framework outlined by the Financial Reporting Council. The UKLA is essentially proposing the re-classification of overseas companies with depositary receipts listed on the London Stock Exchange as 'standard' listings and certain other changes with regard to the disclosure of conformation with governance standards. Severstal believes it already exceeds these requirements.

The FRC proposals may not apply to companies with standard listings but propose a more active dialogue between institutional investors and board members, including independent directors. The Board already encourages the involvement of independent directors in investor meetings and will consider how best to approach the FRC proposals.

Company Secretary

Oleg Tsvetkov (PhD, MBA) became Company Secretary of Severstal in 2006 after the listing in London. The scope of activities of the Company Secretary's office includes: Board of Directors activities, preparation and holding of the General Meetings and meetings of the Board of Directors, disclosure of information, corporate governance advice, communications with shareholders and GDR holders, as well as relations with Russian and foreign stock market regulators. The Company Secretary is responsible for ensuring that the Company, its management and officers comply with the corporate applicable law, the Company's charter and internal documents.

Non-executive Directors

The Board reviews the independence of all Independent and Non-Executive Directors annually and has determined that all such directors are independent and have no cross-directorships or significant links, which could materially interfere with them exercising their independent judgment. The Independent and Non-Executive Directors play a leading role in corporate accountability and governance through their membership of the Remuneration and Nomination and Audit Committees.

Senior Independent Director

Rolf Stomberg is Severstal's Senior Independent Director and is also Chairman of the Remuneration and Nomination Committee. His responsibilities include meeting major shareholders and chairing meetings of the Independent and Non-Executive Directors when the Chairman is not present.

In 2009 Mr. Stomberg conducted the first internal evaluation of the Chairman's performance and reported its results to the Chairman of the Board of Directors and the Chief Executive Officer of the Company.

Terms of appointment

Members of the Company's Board of Directors are elected by the shareholders at their General Meeting and remain members for the period until the next annual General Meeting. If a Board Member elects to terminate his office the whole body of the Board of Directors shall be re-elected at a General Shareholders Meeting. Those elected to the Company's Board of Directors may be re-elected an unlimited number of times.

Meetings of Non-executive Directors

The Independent and Non-executive Directors meet separately during the year. There were four such meetings in 2009.

Key Committees

The key Committees of the Board are consultative and advisory bodies intended for dealing with issues raised by the Board. Committees may not act on behalf of the Board of Directors; neither are they management bodies of the Company, having no powers in relation to managing the Company.

Committee meetings are held as and when necessary but in any case are held at least three times a year. Committee decisions are made by a majority vote of all Committee members taking part in the meeting. Each member has one vote and the Committee Chairman has no casting vote in the event of a tie. In 2009 the Board resolved not to establish Strategy Committee. With the growing importance of forming and implementing the Company's strategy, the relevant questions of strategy development and discussion are referred to the activities of the full Board.

The Audit Committee

The Audit Committee has an important role in monitoring and reviewing risk management process and supervising the financial performance and business operations of the Company. The objective of the Audit Committee is to assist the Board of Directors in

– Monitoring the timeliness, completeness and reliability of financial and other reporting, its preparation and submission process;
– The operation of risk management, internal control and corporate governance systems.

The Audit Committee consists of three Independent Directors and currently comprises Martin Angle, Chairman of the Audit Committee, Ronald Freeman and Dr. Peter Kraljic. In accordance with its terms, the Committee has sufficient recent relevant financial experience, and the overall skills required for financial statements, business risk analysis and financial management skills. No senior executive of the Company is a member of the Audit Committee. During 2009 the Audit Committee met four times. Moreover the Chairman of the Audit Committee keep in touch regularly with the Chairman, external audit lead partner, Company CFO and Head of Internal Audit.

The Audit Committee carries out the following functions:

– Evaluating candidates proposed as the Company's external auditors, developing recommendations for the Board regarding the selection of the external auditors;
– Developing recommendations for the Board of Directors regarding the amount of the external auditors' fees;
– Supervising the scope and results of the auditors' work (including the evaluation of the auditors' opinion) and its efficiency and objectivity; monitoring the independence of the external auditors, taking into account the applicable requirements of professional and regulatory bodies in Russia and the UK;
– Reviewing the Company's regular financial statements and analysing the changes in accounting policies and practices, as well as material adjustments made on the basis of the audit findings;
– Analysing the Company's annual report and any other published financial information prior to its submission for approval to the Board of Directors and its publication;
– Analysing any official statements relating to the Company's financial performance; reviewing any opinions concerning significant aspects of financial reporting;
– Monitoring the effectiveness and efficiency of risk management, internal control and corporate governance systems;
– Monitoring and exercising control over the efficiency of the internal audit function;
– Developing and implementing an ethical compliance policy for auditors supplying non-audit services, taking into account relevant ethical restrictions applicable to such activities; operating risk management, internal control and corporate governance systems;
– Analysing any material changes in the existing legislation affecting the Company's financial statements and any findings of supervisory authorities and court proceedings.

The Audit Committee prepares its own evaluation of the auditors' opinion on financial statements and provides this evaluation to the Board of Directors and to the Annual Shareholders' General Meeting.

In order that the Company's financial and business operations are monitored efficiently, the Company employs external auditors, that have no interests in the Company, for annual verification and approval of the accounts. The KPMG external auditor lead partner always

Board of Directors' Report (continued)

participates in meetings of the Audit Committee, reviewing the Company quarterly and annual results. The Audit Committee members regularly meet the external auditors without management, to discuss matters arising from the audit and review process. There were four such meetings in 2009.

The Company's books and records are audited in compliance with the requirements of statutory law and International Standards on Auditing issued by the International Federation of Accountants (IFAC) with respect to financial statements prepared under the International Financial Reporting Standards (IFRS). Such an audit takes place annually and, as of the first quarter of 2007, the Company's quarterly reports are also reviewed IFRS in accordance with the International Standard on Review Engagements 2410.

The Remuneration and Nomination Committee

The Remuneration and Nomination Committee seeks to assist the Company in engaging qualified professionals to manage the Company, and in creating the incentives necessary to ensure their successful work for the Company. It also reviews the remuneration and compensation level for senior managers of the Company and the Independent Board members.

The Remuneration and Nomination Committee consists of three members. At least two members, including the Chairman, are Independent Directors who are not senior executives of the Company.

The Remuneration and Nomination Committee performs the following functions:

- Developing general recommendations for the Board of Directors on selecting nominees to the Board of Directors, proposed by the Board of Directors;
- Conducting preliminary evaluations of potential nominees to the Board of Directors and provides the Board of Directors with recommendations regarding such nominees;
- Informing the Board of Directors of any potential nominees to the Board of Directors it is aware of and recommends individual persons for nomination or election to the Board of Directors;
- Issuing an opinion as to whether a person nominated to the Board of Directors qualifies as an Independent Director;
- Developing the system of remuneration and other payments made by the Company or at the Company's expense (including life and health insurance, pension plans) for Board members of the Company based on personal contributions of its members to the achievement of the Company's strategic objectives;
- Preparing and submitting for approval by the Board of Directors the appointment and remuneration policy for senior executives of the Company including its Chief Executive, as well as providing recommendations on the terms of the contract signed with the Chief Executive;
- Reviewing the performance of Board members including the advisability of nominating respective Board members for another term in office;
- Providing recommendations to the Board of Directors regarding material terms of the General Director's contract;
- Reviewing the information furnished by Board members, which shall be disclosed in accordance with the existing legislation or the Charter, with a view to establishing whether such Board members have an interest in any decisions of the Company, as well as information related to the circumstances preventing the aforementioned officers from efficiently discharging their duties as members of the Board and circumstances entailing their loss of independence as a member of the Board of Directors.

The Remuneration and Nomination Committee comprises Dr Rolf Stomberg (Chairman of the Committee), Christopher Clark and Alexey Mordashov.

The Remuneration and Nomination Committee met four times in 2009. Moreover the Chairman of the Remuneration and Nomination Committee keeps in touch regularly with the Company CEO and Head of Human Relations.

Corporate Social Responsibility

Being one of the largest international mining and metallurgical companies, Severstal largely defines the economic growth, and social and environmental conditions, in regions where it operates.

We believe constructive and systematic interaction with individuals and organisations whose interests are associated with our operations, to be important to our Company's growth. Also important to our reputation as a leader of the international business community, and one that makes an ever greater contribution to stable social development in the places we operate.

In 2009, we continued our work based on major principles of social responsibility:
- Industrial safety and environmental protection.
- Development and social support of employees.
- Sustainability of social and economic growth in regions where we operate.

Our corporate social responsibility activities in 2009 were highly commended by experts.

We were nominated for the Development of Local Communities award of People Investor 2009, which evaluates corporate investment in people.

Based on corporate charity research conducted by the newspaper Vedomosti in cooperation with PricewaterhouseCoopers and non-profit partnership Donors Forum, we were ranked fifth most efficient charitable Company, five places higher than 2008.

Under the same research, our social project Urban Development Agency was awarded the Diploma of the laureate.

We also won the nomination of the Ministry of Economic Development and Trade of Russian Federation as the best Programme Promoting the Development of Local Communities and Improvement of the Social Climate in regions where the Company operates.

The total amount of our social and charitable investments in 2009 was US$32 million.

Health, safety and environment (HS&E)

At Severstal we believe high HS&E standards provide the basis for the Company's stable development and its long-term success. The HS&E policy is implemented by all companies, affiliates and business units.

Health & Safety

Since 2005 the consolidated Severstal Lost Time Incident Frequency Rate (LTIFR)[1] decreased by more than two times.

The most significant contribution to preventing incidents was by the Severstal Resources division. In 2009 alone, LTIFR1 went down 27% compared to 2008 and more than five times compared to 2005. They achieved this through a large programme named Safety for All, costing $27.5 million. This envisages developing a culture of safe behaviour at workplaces and implementing global best practice for labour safety management.

Over the last five years the Russian Steel division LTIFR1 has reduced 1.8 times. In 2009, we audited the health and industrial safety management system in the Cherepovets Steel Mill and decided upon a plan of action plan was worked out. The total cost for this Health and Safety programme in 2009 was $4.4 million.

Compared to 2005, the Severstal International division LTIFR1 has reduced 1.6 times. We took measures at the division's business units in France and Italy in 2009 to further lower the occurrence of industrial injuries. This involved the personal leadership of the managers in labour safety, improving the system for exchanging internal safety information, and intense training of employees in safe labour techniques.

1. Calculated per 1 million man hours worked.

Corporate Social Responsibility (continued)

During 2009 the safety performance of the steelmaking facilities in North America improved in all categories over the 2008 performance, particularly in reducing all recordable and lost time injuries.

Environment

The most important ecological programmes of Severstal Resources division in 2009 included the construction of an industrial waste disposal site in one of the gold-mining businesses, improved waste water treatment facilities and the lowering of atmospheric emissions of pollutants. Last year Severstal Resources division spent more than US$2.2 million on environmental measures.

In the Russian Steel division, a comprehensive energy conservation programme started at the Cherepovets Steel Mill. The programme calls not only for conservation of resources, but also for a considerable reduction in CO_2 emissions to the atmosphere (c 1 million tonnes a year). Since the start of the energy saving programme the rate of power consumption at the plant has reduced more than 20%. In 2009, environmental measures at the Cherepovets Steel Mill cost $8.7 million.

The efforts of the Severstal International division were focused mainly on implementing the following programmes:

- Energy saving and reduction of greenhouse gas emissions.
- Decreasing air pollution.
- Recycling metal scrap and managing slag by-products.
- Water supply and waste water treatment.
- Solid waste management.

Development and social support of personnel

Our activities in the social sphere cover improving employees' health, protecting mothers and children, organising employees' rest and meal breaks, social assistance to pensioners and veterans, developing and training people, and social encouragement of best employees.

We paid employees of the Cherepovets Steel Mill over $10 million in social benefits and guarantees in 2009.

We spent over $15 million on the Severstal Health programme whose main task is to promote the health of metallurgists. This made it possible to decrease the incidence rate at the Cherepovets Steel Mill by 3.4% compared to 2008. Work is underway to develop the material and technical resources of the Severstal Medical Unit, and we introduced a magnetic resonance imager worth $2.8 million in 2009.

We allocated $6 million to improving the health of employees of the Cherepovets facility division in 2009, which enabled about 9,000 employees of the Cherepovets Steel Mill, the service segment and the Cherepovets facility of the hardware segment, to have a rest and take treatment in sanatoria.

We have discharged our responsibilities in favour of our former employees in full. Specifically, the amount of occupational pension payments in 2009 was about $15.7 million.

Last year the Cherepovets Steel Mill completed the construction of residential buildings under the Corporate Housing Programme, with a total 2,345 apartments in 24 buildings commissioned since 2006.

We continued to implement a package of programmes aimed at training highly qualified experts for our Severstal Resources division. Named Young Resources, it enables 40–90% of corporate class graduates to enter higher educational institutions on majors courses, and offers favourable employment prospects with Severstal.

Development of local communities

We cooperate on a regional basis in programmes relating to employment and career guidance, youth policy, sport, health service, support of social infrastructure facilities and assistance to vulnerable segments of the population. Usually we do this through agreements with regional authorities, cooperating with them to ensure a stable economy and society in regions where we operate.

For example, we opened a Civic Service Centre in cooperation with the regional government and city administration in Cherepovets, Vologda Region, in February 2009.

Natalia Poppel

Head of Corporate Social Responsibility Department, OAO Severstal

Committed and Responsible

In 2009, we continued to work in support of our basic principles of social responsibility:

- Development and social support of our employees.
- Industrial safety and environmental protection.
- Social and economic development in the regions where we operate.

The efficiency of this work was highly commended by several experts. The People Investor 2009 awards for assessing corporate investments in human capital gave us the Development of Local Communities nomination. The newspaper Vedomosti, together with PricewaterhouseCoopers and the Donors Forum, named us fifth most efficient charitable Company, up five places from 2008. We also won the Russian Union of Industrialists and Entrepreneurs nomination for Social Investments and Projects.

In 2006, we began our unique Road to Home programme, which focuses on the preventing child neglect, and working with orphans in Cherepovets. Child neglect is one of the most acute social problems in Russia, and the number of orphans in Russia grows yearly, and is now nearing 740,000, 3% of the total child population of the country. The Road to Home programme provides foster care for orphaned children and aims for early prevention of child neglect. It focuses on finding a solution to the underlying problems which cause neglect of children and crisis in family relationships. For example, the Foster Parents School supports those who would like to take a child into foster care, or experience problems with foster children. The School also focuses on preventing foster children being abandoned.

A Childhood telephone hotline is available, as well as the Psychological Advice Service, where anyone can get access to professional psychological help or information on the available social services. Additionally, a whole range of other initiatives are underway.

The Road to Home started as a joint project between Severstal, local authorities and social and psychological workers from a non-profit organisation in Cherepovets. Having proven its efficiency, in June 2009, it was given the status of a regional programme in the Vologda Region.

The programme also received a grant from the federal Russian Children In Need Fund. Therefore, the sum available for working with families in crisis in the Vologda Region now comes from three sources, and in 2009 exceeds $6.8 m:

- $780,000 from Severstal.
- $740,000 from the Russian Children In Need Fund.
- $5.3 mn from the Government of the Vologda Region.

Experts acknowledge that currently Cherepovets and the Vologda Region are among the best examples of a successful state-private partnership in resolving social orphanhood issues in Russia. The programme is unique in as much as it offers radically new approaches to social work and ensures that business, the authorities and society have pooled their efforts.

In 2009, the Road to Home programme brought:

- more than 800 instances where a threat to the health and life of a child was prevented.
- children taken into families (patronage, adoption, foster care) dropping by 67%.
- more than 5,000 calls to the Childhood hotline.
- about 14,000 calls to the Anti-Crisis Hotline.
- more than 1,000 emergency visits from the Social Ambulance.
- about 400 people taking training in the Foster Parents School.
- 250 people taking individual psychological consulting.
- about 100 people attending the support group for parents who lost their jobs.
- 11 cases of pre-birth child abandonment prevented.
- 19 children returned to their biological families.
- about 400 risk group teenagers taking training on the Socially Developing Course since 2006.
- three of nine orphanages closed, with an improved social climate in Cherepovets.

Corporate Social Responsibility (continued)

During 2009, we were deeply involved in employment programmes at regional and city level. Vocational rehabilitation programmes covered 1,299 employees at the Cherepovets Steel Mill. They involved retraining workers, working on their versatility and upgrading their skills. These employees were paid average wages and salaries in compliance with the collective bargaining agreement, and have all found employment. We signed 593 people up for civic service, about 2,000 people for temporary work, and 171 people for internship.

Our business unit, Vorkutaugol, in the Severstal Resources division, provided employment for 260 people, and about 60 people took advanced retraining courses in the division's training centre. At the Olcon, 15 people found employment with other business units in the Murmansk region, and 8 were transferred to the Kola Mining and Metallurgical Company. Redundant employees of OAO Karelsky Okatysh (Karelian Pellet) were offered additional retraining to find needed jobs.

The non-profit partnership, Urban Development Agency, set up jointly with the Mayor's Office in 1999 to encourage small and medium-sized businesses, continued its work. The results of the its activities in 2009 included 661 new business units, 3,200 new jobs, 1,429 individual entrepreneurs, plus a total of 1,170 start-up entrepreneurs were trained and 536 business promotion events held.

July 2009 saw the launch of a joint project dubbed Cherepovets Foresight up to 2020, run by the Cherepovets municipal administration and Severstal The project is scheduled for completion in 2020. It targets promising niches in the development of the city's economy, which will ensure a more balanced budget, and employment that takes into account industry's cyclic pattern and long-term trends, as well as federal (regional) policy and available resources, and so helps formulate the necessary steps to be taken.

Last year our business units directed considerable efforts toward developing sports and holding cultural events in regions where we operates.

Karelsky Okatysh (Karelian Pellet) annually finances the upkeep of the Cultural and Sport Centre, Friendship, with more than 90,000 people attending various events in 2009, and a total of 56 sports events with over 4,000 participants were held there. One of the highlights was the 21st International Festival of Chamber Art.

Last year Vorkutaugol conducted a programme of social partnership with the city. The Company backed the 11th Spartakiada (sport games) of Northern Nations, and also continued to fund the sports complex, Olimp, and the miners' Palace of Culture, two principal social facilities in the city. The Company earmarks $1.3 million for these facilities.

In 2009, Lucchini financially supported the young team Piombino Football club.

Charity work performed by Severstal North America primarily involves cooperation with local communities and municipal organisations. They support the non-profit organisation, Junior Auxiliary, which helps needy school-age children, and allocated funds to the charity, United Way. They also backed the Michigan Economic Development Foundation, a non-profit organisation for the development of small businesses.

2009 became the start year for three projects that won our grant competition Museums of the Russian North. We organised a total grant fund of $280,000, with the help of the Russian branch of UK charity CAF Russia. Six projects from Russia's North West, a strategic region where most of our Russian business units are located, won the contest.

As for support of historical and cultural heritage, we continue to cooperate with the Russian Museum, the Tretyakov Gallery and the Bolshoi Theatre. Among joint projects with the Russian Museum is major exhibition project, American Artists from the Russian Empire, which was introduced in Moscow and St. Petersburg, as well as the exhibition styled Diaghilev – The Beginning. Other projects undertaken in cooperation with the Tretyakov Gallery are Natalia Goncharova in Germany and Russian Artists-Travellers in Moscow. A premier of ballet Esmeralda was held in the Bolshoi Theatre with our support, and Riga saw a theatrical festival named the Gold Mask in Latvia.

In 2009, we continued to implement our programme, Road to Home, for comprehensive prevention of child neglect and social orphanhood in Cherepovets. Launched as a joint project with municipal authorities, and social and psychological experts from a non-profit organisation in Cherepovets, the programme proved to be efficient. It was awarded the status of a regional programme of the Vologda Region in June 2009. Competing for the best regional programme, Road to Home was awarded a grant from the Russian Children In Need Fund. The amount allocated to dealing with families in crisis to prevent child neglect and social orphanhood in the Vologda Region, therefore, comes today from three sources, namely: the regional budget, Severstal's own money and the Children Support Fund's.

OAO Severstal and Subsidiaries

OAO Severstal and Subsidiaries

Consolidated financial statements for the years ended December 31, 2009, 2008 and 2007

OAO Severstal and Subsidiaries

Consolidated financial statements for the years ended December 31, 2009, 2008 and 2007

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Board of Directors
OAO Severstal

We have audited the accompanying consolidated financial statements of OAO Severstal (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated statements of financial position as at 31 December 2009, 2008 and 2007, and the related consolidated income statements and consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audits to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, 2008 and 2007, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
1 March 2010

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

Consolidated income statements

Years ended December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars, except as otherwise stated)

	Note	Year ended December 31, 2009	2008*	2007
Sales				
Sales – external		**12,951,669**	22,138,418	15,352,404
Sales – to related parties	11	**102,830**	254,299	150,984
	4	**13,054,499**	22,392,717	15,503,388
Cost of sales		**(11,356,293)**	(16,499,914)	(10,821,582)
Gross profit		**1,698,206**	5,892,803	4,681,806
General and administrative expenses		**(735,561)**	(1,026,790)	(766,890)
Distribution expenses		**(864,225)**	(1,117,776)	(942,533)
Other taxes and contributions		**(171,601)**	(178,886)	(154,070)
Share of associates' profit/(loss)		**11,488**	(3,400)	6,240
Net (loss)/gain from securities operations	6	**(15,304)**	(96,812)	25,564
Loss on disposal of property, plant and equipment		**(32,001)**	(43,278)	(35,525)
Net other operating (expenses)/income	7	**(36,329)**	790,580	(7,266)
(Loss)/profit from operations		**(145,327)**	4,216,441	2,807,326
Impairment of non-current assets	8	**(219,019)**	(1,540,263)	(28,895)
Negative goodwill	29	**–**	292,326	12,223
Net other non-operating (expenses)/income	9	**(34,441)**	238,945	(58,676)
(Loss)/profit before financing and taxation		**(398,787)**	3,207,449	2,731,978
Interest income		**103,822**	155,232	166,639
Interest expense		**(601,244)**	(508,369)	(325,580)
Foreign exchange difference		**(205,028)**	(274,920)	3,206
(Loss)/profit before income tax		**(1,101,237)**	2,579,392	2,576,243
Income tax expense	10	**(17,858)**	(517,466)	(700,153)
(Loss)/profit from continuing operations		**(1,119,095)**	2,061,926	1,876,090
Profit from discontinued operations	28	**–**	–	433
(Loss)/profit for the year		**(1,119,095)**	2,061,926	1,876,523
Attributable to:				
shareholders of OAO Severstal		**(1,037,240)**	2,028,972	1,849,531
non-controlling interests		**(81,855)**	32,954	26,992
Weighted average number of shares outstanding during the period (millions of shares)		**1,005.2**	1,007.2	1,007.7
Basic and diluted (loss)/earnings per share (US dollars)		**(1.03)**	2.01	1.84

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29).

These consolidated financial statements were approved by the Board of Directors on March 1, 2010.

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

Consolidated statements of comprehensive income

Years ended December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars)

	Year ended December 31,		
	2009	2008*	2007
(Loss)/profit for the year	**(1,119,095)**	2,061,926	1,876,523
Other comprehensive (loss)/income			
Foreign exchange difference	**(114,714)**	(1,097,365)	665,133
Changes in fair value of cash flow hedges	**(2,860)**	(13,428)	–
Deferred tax on changes in fair value of cash flow hedges	**809**	3,691	–
Revaluation of available-for-sale investments	**40,466**	4,864	–
Deferred tax on revaluation of available-for-sale investments	**(4,398)**	(2,511)	–
Fair value adjustment upon acquisition of subsidiary to previously held interest	**–**	33,020	–
Other comprehensive (loss)/income for the year, net of tax	**(80,697)**	(1,071,729)	665,133
Total comprehensive (loss)/income for the year	**(1,199,792)**	990,197	2,541,656
Attributable to:			
shareholders of OAO Severstal	**(1,158,706)**	996,061	2,457,955
non-controlling interests	**(41,086)**	(5,864)	83,701

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29).

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

Consolidated statements of financial position

December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars)

	Note	December 31, 2009	December 31, 2008*	December 31, 2007
Assets				
Current assets:				
Cash and cash equivalents	13	**2,853,376**	2,652,888	1,622,542
Short-term bank deposits	14	**95,533**	818,545	666,327
Short-term financial investments	15	**73,129**	112,782	215,494
Trade accounts receivable	16	**1,457,651**	1,941,876	1,769,038
Accounts receivable from related parties	12	**26,716**	63,831	47,193
Inventories	17	**2,974,227**	4,271,886	2,720,634
VAT recoverable		**288,032**	361,542	284,122
Income tax recoverable		**106,019**	172,947	81,963
Other current assets	18	**285,453**	279,707	318,961
Assets held for sale	28	**24,415**	8,872	465,341
Total current assets		**8,184,551**	10,684,876	8,191,615
Non-current assets:				
Long-term financial investments	19	**128,616**	70,342	112,959
Investments in associates and joint ventures	20	**143,857**	110,907	202,987
Property, plant and equipment	21	**9,485,480**	9,827,392	8,289,116
Intangible assets	22	**1,369,204**	1,510,658	687,067
Restricted cash		**17,541**	21,703	13,810
Deferred tax assets	10	**239,835**	246,541	64,185
Other non-current assets		**74,802**	41,507	39,084
Total non-current assets		**11,459,335**	11,829,050	9,409,208
Total assets		**19,643,886**	22,513,926	17,600,823
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		**1,378,300**	1,528,453	1,211,373
Accounts payable to related parties	12	**16,656**	71,960	91,547
Short-term debt finance	23	**1,478,301**	2,038,693	1,129,216
Income taxes payable		**34,150**	46,131	41,323
Other taxes and social security payable		**209,084**	213,315	199,349
Dividends payable		**5,704**	128,715	107,485
Other current liabilities	24	**693,844**	811,178	620,369
Liabilities related to assets held for sale	28	**11,979**	4	91,750
Total current liabilities		**3,828,018**	4,838,449	3,492,412
Non-current liabilities:				
Long-term debt finance	23	**5,748,559**	6,227,225	2,813,166
Deferred tax liabilities	10	**394,990**	496,379	509,409
Retirement benefit liabilities	25	**787,714**	779,296	387,398
Other non-current liabilities	26	**508,266**	619,961	324,652
Total non-current liabilities		**7,439,529**	8,122,861	4,034,625
Equity:				
Share capital	27	**3,311,288**	3,311,288	3,311,288
Treasury shares		**(26,303)**	(26,303)	–
Additional capital		**1,165,530**	1,165,530	1,165,530
Foreign exchange differences		**(52,478)**	84,987	1,145,499
Retained earnings		**3,436,270**	4,488,396	3,951,116
Other reserves		**43,600**	27,601	–
Total equity attributable to shareholders of parent		**7,877,907**	9,051,499	9,573,433
Non-controlling interests		**498,432**	501,117	500,353
Total equity		**8,376,339**	9,552,616	10,073,786
Total equity and liabilities		**19,643,886**	22,513,926	17,600,823

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29).

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

Consolidated statement of cash flows

Years ended December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars)

	Year ended December 31,		
	2009	**2008***	**2007**
Operating activities:			
(Loss)/profit before financing and taxation	**(398,787)**	3,207,449	2,731,978
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization (Notes 21 and 22)	**957,164**	1,087,421	846,262
Impairment of non-current assets (Note 8)	**219,019**	1,540,263	28,895
Movements in provision for inventories, receivables and other provisions	**(319,940)**	537,466	53,603
Negative goodwill	**–**	(292,326)	(12,223)
Loss on disposal of property, plant and equipment	**32,001**	43,278	35,525
Gain on disposal of subsidiaries and associates (Note 29)	**–**	(314,435)	(31,507)
Loss/(gain) on remeasurement and disposal of financial investments	**15,304**	96,812	(25,564)
Share of associates' results less dividends from associates	**(11,488)**	3,400	(6,240)
Changes in operating assets and liabilities:			
Trade accounts receivable	**472,283**	79,654	(357,090)
Amounts receivable from related parties	**32,708**	(39,695)	2,110
VAT recoverable	**80,076**	(109,020)	110,677
Inventories	**1,588,070**	(945,707)	(235,891)
Trade accounts payable	**(93,496)**	(157,717)	107,116
Amounts payable to related parties	**(37,446)**	11,781	79,656
Other taxes and social security payables	**(6,926)**	7,673	(63,422)
Other non-current liabilities	**(192,941)**	(34,919)	(101,158)
Assets held for sale	**(422)**	38,609	(1,856)
Net other changes in operating assets and liabilities	**(119,819)**	131,140	123,815
Cash generated from operations	**2,215,360**	4,891,127	3,284,686
Interest paid (excluding banking operations)	**(551,826)**	(362,789)	(244,324)
Income tax paid	**(52,345)**	(1,094,472)	(804,223)
Net cash from operating activities	**1,611,189**	3,433,866	2,236,139
Investing activities:			
Additions to property, plant and equipment	**(945,898)**	(2,030,531)	(1,997,285)
Additions to intangible assets	**(69,363)**	(83,939)	(27,194)
Net decrease/(increase) in short-term bank deposits	**668,121**	(259,880)	580,706
Additions to financial investments and associates	**(267,637)**	(878,472)	(889,595)
Acquisition of non-controlling interests and entities under common control	**(23,387)**	(219,588)	(316,862)
Net cash outflow on acquisitions of subsidiaries (Note 29)	**–**	(3,068,693)	(643,279)
Net cash inflow on disposals of subsidiaries (Notes 29)	**5,010**	671,717	235,978
Proceeds from disposal of property, plant and equipment	**34,151**	42,853	34,150
Proceeds from disposal of financial investments	**224,374**	860,549	773,090
Interest received (excluding banking operations)	**120,606**	155,233	150,583
Cash from investing activities	**(254,023)**	(4,810,751)	(2,099,708)
Financing activities:			
Proceeds from debt finance	**4,354,767**	7,542,083	3,677,480
Proceeds from grants	**–**	–	72
Repurchase of issued shares	**–**	(26,303)	–
Repayment of debt finance	**(5,420,782)**	(3,685,787)	(3,277,251)
Repayments under lease obligations	**(30,652)**	(24,994)	(3,915)
Dividends paid	**(116,106)**	(1,346,535)	(736,156)
Contributions of non-controlling interests	**54,319**	–	–
Dividend to the Majority shareholder paid by acquired entity under common control	**–**	(34,036)	–
Cash from financing activities	**(1,158,454)**	2,424,428	(339,770)
Effect of exchange rates on cash and cash equivalents	**1,776**	(17,197)	82,486
Net increase/(decrease) in cash and cash equivalents	**200,488**	1,030,346	(120,853)
Cash and cash equivalents at beginning of the year	**2,652,888**	1,622,542	1,743,395
Cash and cash equivalents at end of the year (Note 13)	**2,853,376**	2,652,888	1,622,542

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29).

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

Consolidated statements of changes in equity

Years ended December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars)

	Share capital	Treasury shares
Balances at December 31, 2006	3,311,288	–
Dividends	–	–
Effect of acquisitions and disposals	–	–
Total comprehensive income for the period	–	–
Balances at December 31, 2007	3,311,288	–
Dividends	–	–
Dividend to the Majority Shareholder paid by acquired entity under common control	–	–
Repurchase of issued shares	–	(26,303)
Effect of acquisitions and disposals*	–	–
Total comprehensive income for the period*	–	–
Balances at December 31, 2008*	3,311,288	(26,303)
Dividends	–	–
Effect of acquisitions and disposals	–	–
Total comprehensive income for the period	–	–
Balances at December 31, 2009	**3,311,288**	**(26,303)**

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29).

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

	Attributable to the shareholders of OAO Severstal						
	Additional capital	Foreign exchange differences	Retained earnings	Other reserves	Total	Non-controlling interests	Total
	1,165,530	537,075	2,939,334	–	7,953,227	573,083	8,526,310
	–	–	(801,462)	–	(801,462)	(12,028)	(813,490)
	–	–	(36,287)	–	(36,287)	(144,403)	(180,690)
	–	608,424	1,849,531	–	2,457,955	83,701	2,541,656
	1,165,530	1,145,499	3,951,116	–	9,573,433	500,353	10,073,786
	–	–	(1,378,510)	–	(1,378,510)	(8,126)	(1,386,636)
	–	–	(34,036)	–	(34,036)	–	(34,036)
	–	–	–	–	(26,303)	–	(26,303)
	–	–	(79,146)	–	(79,146)	14,754	(64,392)
	–	(1,060,512)	2,028,972	27,601	996,061	(5,864)	990,197
	1,165,530	84,987	4,488,396	27,601	9,051,499	501,117	9,552,616
	–	–	–	–	–	(3,501)	(3,501)
	–	–	(14,886)	–	(14,886)	41,902	27,016
	–	(137,465)	(1,037,240)	15,999	(1,158,706)	(41,086)	(1,199,792)
	1,165,530	**(52,478)**	**3,436,270**	**43,600**	**7,877,907**	**498,432**	**8,376,339**

Notes to the consolidated financial statements

for the years ended December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars, except as stated otherwise)

1. Operations

These consolidated financial statements of OAO Severstal and subsidiaries comprise the parent company, OAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in Note 29.

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 a part of the Russian privatization program, Severstal was registered as a Joint Stock Company ('OAO') and privatized. Through participating in Severstal's privatization auctions and other purchases, Alexey Mordashov (the 'Majority Shareholder') has purchased shares in Severstal such that as at December 31, 2009, 2008 and 2007 he controlled, directly or indirectly, 82.37% of Severstal's share capital.

Severstal's global depositary receipts (GDRs) have been quoted on the London Stock Exchange since November 2006. Severstal's shares are quoted on the Russian Trading System ('RTS') and on the Moscow Interbank Currency Exchange ('MICEX'). Severstal's registered office is located at Ul Mira 30, Cherepovets, Russia.

The Group comprises the following segments:

– Severstal Resource (formerly the Mining segment) – this segment comprises two iron ore complexes, Karelsky Okatysh and Olkon in northwest Russia, and two coal mining complexes, Vorkutaugol in northwest Russia and PBS Coals Ltd., located in the USA, as well as gold mining assets in the eastern part of Russia, in Africa and in Kazakhstan.
– Russian Steel – this segment consists primarily of the Group's steel production and high-grade automotive galvanizing facilities in Cherepovets, rolling mill 5000 in Kolpino, a large-diameter pipe mill in Izhora (previously reported within the former IPM segment), all in northwest Russia, metalware plants located in Russia, Ukraine, the United Kingdom and Italy (previously reported within the former Metalware segment), a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various worldwide supporting functions for trading, maintenance and transportation.
– Lucchini – this segment comprises two integrated steel producers in Italy, four electric furnace based steel plants in France and several processing plants and joint ventures in Italy. All Lucchini segment assets are combined into Piombino and Ascometal business units based on geographical location (Italy and France respectively). Products of the segment include rails, wire rod, special and high quality bars and commercial slabs. The segment also includes a distribution network serving both business units from locations primarily in Western Europe and the engineering research center located in France.
– Severstal North America – this segment consists of four integrated iron and steel mills: Severstal Dearborn in the Midwest region, Sparrows Point in the South Atlantic located on the East Coast of the USA, Severstal Wheeling (formerly the Esmark group of companies) in the Midwest region of the USA, Severstal Warren Inc. (formerly WCI Steel Inc.) in the Midwest region of the USA, a mini-mill, Severstal Columbus LLC in the southeast of the USA and a coking coal production facility, Mountain State Carbon LLC, located on the border of the South and Midwest regions of the USA.
– Financing segment – this segment operated a retail bank until November 2007 when the bank was disposed of. This transaction was accounted for as a discontinued operation. The transaction is further discussed in Note 28 to these consolidated financial statements.

A segmental analysis of the consolidated statements of financial position and consolidated income statements is given in Note 30.

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 subject to the minimum prices issued quarterly by the US Department of Commerce and annual quotas.
– Exports of hot-rolled plates from Russia to the USA are subject to the minimum prices established based on the producer's actual cost and profit on the domestic market. Severstal is the first and currently only Russian company, for which since September 2005 the hot-rolled plates market is open.
– The European Union ('EU') market is protected by quotas. During the last few years quotas have been raised consistently after adjusting for the effects of EU enlargements, equaling 3.107 million tons in 2009. 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 the Group.

2. Basis for preparation of the consolidated 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.

Basis of measurement

The consolidated financial statements are prepared on the historic cost basis except for financial instruments at fair value through profit and loss and available-for-sale financial assets 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.

Critical accounting judgments, estimates and assumptions

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

– useful lives of property, plant and equipment;
– impairment of assets;
– allowances for doubtful debts, obsolete and slow-moving inventories;
– decommissioning liability;
– retirement benefit liabilities;
– litigations;
– deferred income tax assets.

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Notes to the consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007 (continued)
(Amounts expressed in thousands of US dollars, except as stated otherwise)

2. Basis for preparation of the consolidated financial statements (continued)

Impairment of assets
The Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowance for doubtful debts
The Group makes allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Allowance for obsolete and slow-moving inventories
The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realizable value. Estimates of net realizable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

Decommissioning liability
The Group reviews its decommissioning liability, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities'. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

Retirement benefit liabilities
The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, expected rate of return on plan assets, etc.).

Litigations
The Group exercises judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

Deferred income tax assets
Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual

results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the income statement.

Functional and presentation currency

The presentation currency of these consolidated financial statements is the US dollar.

The functional currency is determined separately for each of the Group's entities. For all Russian entities the functional currency is the Russian ruble. The functional currency of the Group's entities located in North America is the US dollar. The functional currency of the majority of the Group's entities located in Western Europe is the Euro.

The translation into the presentation currency is made as follows:

– all assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rates at the dates of each statement of financial position presented;
– all income and expenses in each income statement are translated at the average exchange rates for the periods presented;
– all resulting exchange differences are recognized as a separate component in other comprehensive income.

Any conversion of amounts 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.

Adoption of new and revised IFRS

A number of new Standards, amendments to Standards and Interpretations were adopted for the year ended December 31, 2009, and have been applied in these consolidated financial statements.

The adoption of the pronouncements did not have a significant impact on the Group's consolidated financial statements except for those discussed below.

The Group implemented IFRS 8 'Operating segments' which requires segment disclosure based on the internal reporting system.
The comparative information has been presented as if the implementation was adopted at the beginning of the earliest comparative period presented.

The Group applied revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

Notes to the consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007 (continued)
(Amounts expressed in thousands of US dollars, except as stated otherwise)

2. Basis for preparation of the consolidated financial statements (continued)

New accounting pronouncements

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the year ended December 31, 2009, and have not been applied in these consolidated financial statements.

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 1 (Amended) 'Presentation of Financial Statements'	July 1, 2009 and January 1, 2010
IAS 7 (Amended) 'Statement of cash flows'	July 1, 2009 and January 1, 2010
IAS 12 (Amended) 'Income taxes'	July 1, 2009
IAS 16 (Amended) 'Property, Plant and Equipment'	July 1, 2009
IAS 17 (Amended) 'Leases'	January 1, 2010
IAS 21 (Amended) 'The effects of changes in foreign exchange rates'	July 1, 2009
IAS 24 (Revised) 'Related party disclosure'	January 1, 2011
IAS 27 (Amended) 'Consolidated and Separate Financial Statements'	July 1, 2009
IAS 28 (Amended) 'Investments in Associates'	July 1, 2009
IAS 31 (Amended) 'Interests in Joint Ventures'	July 1, 2009
IAS 32 (Amended) 'Financial instruments: Presentation'	July 1, 2009 and February 1, 2010
IAS 34 (Amended) 'Interim financial reporting'	July 1, 2009
IAS 36 (Amended) 'Impairment of Assets'	July 1, 2009 and January 1, 2010
IAS 38 (Amended) 'Intangible Assets'	July 1, 2009
IAS 39 (Amended) 'Financial Instruments: Recognition and Measurement'	July 1, 2009 and January 1, 2010
IFRS 1 (Revised, amended) 'First-time Adoption of International Financial Reporting Standards'	July 1, 2009, January 1, 2010 and July 1, 2010
IFRS 2 (Amended) 'Share-based Payment'	July 1, 2009 and January 1, 2010
IFRS 3 (Revised) 'Business Combinations'	July 1, 2009
IFRS 5 (Amended) 'Non-current Assets Held for Sale and Discontinued Operations'	July 1, 2009 and January 1, 2010
IFRS 7 (Amended) 'Financial instruments: disclosures'	July 1, 2009
IFRS 8 (Amended) 'Operating Segments'	January 1, 2010
IFRS 9 'Financial instruments'	January 1, 2013
IFRIC 9 'Reassessment of Embedded Derivatives'	July 1, 2009
IFRIC 14 'Prepayments of a Minimum Funding Requirement'	January 1, 2011
IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'	July 1, 2009
IFRIC 17 'Distributions of Non-cash Assets to Owners'	July 1, 2009
IFRIC 18 'Transfers of assets from customers'	July 1, 2009
IFRIC 19 'Extinguishing financial liabilities with equity'	July 1, 2010

The adoption of the pronouncements listed above is not expected to have a significant impact on the Group's consolidated financial statements in future periods except for those discussed below.

Revised IFRS 3 *Business Combinations* incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
- Any non-controlling interest will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3 becomes mandatory for the Group's 2010 annual consolidated financial statements and will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010.

The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

Revised IAS 24 *Related party disclosure* provides a revised definition of a related party which includes new relationships and will likely lead to the increased number of related parties of the Group.

Revised IAS 24 becomes mandatory for the Group's 2011 annual consolidated financial statements and requires retrospective application. Management has not yet decided on the initial application date.

Restatement

As discussed in Note 29, these consolidated financial statements have been adjusted on the effects of the final purchase price allocation.

Change in an accounting estimate

During 2009 the Group revised the useful lives of its property, plant and equipment. The effect of the change in accounting estimate was a decrease in depreciation expense of US$55 million.

3. Summary of the principal accounting policies

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements throughout the Group.

a. Basis of consolidation

Subsidiaries

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 non-controlling interests represent the non-controlling shareholders' proportion of the net identifiable assets of the subsidiaries, including the non-controlling shareholders' share of fair value adjustments on acquisitions. The non-controlling interests are presented in the statement of financial position within equity, separately from the parent's shareholders' equity.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements; unrealized losses are also eliminated unless the transaction provides an evidence of impairment of the asset transferred.

Notes to the consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007 (continued)
(Amounts expressed in thousands of US dollars, except as stated otherwise)

3. Summary of the principal accounting policies (continued)

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of acquisition. If the initial accounting for a business combination is incomplete by the end of the period in which the combination is effected, the Group accounts for the combination using the provisional values for the items for which the accounting is incomplete. The Group recognizes any adjustments to those provisional values as a result of completing the initial accounting within twelve months from the acquisition date. As a result goodwill or negative goodwill is adjusted accordingly.

Comparative information for the periods before the completion of the initial accounting for the acquisition is presented as if the initial accounting had been completed at the acquisition date.

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 Majority Shareholder 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 Majority Shareholder. The assets and liabilities acquired are recognized at their book values. 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 a part of additional capital. The cash consideration for such acquisitions is recognized as a liability to or a reduction of receivables from related parties, with a corresponding reduction in equity, from the date the acquired company is included in these consolidated 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 statements.

No goodwill is recognized where the Group acquires additional interests in the acquired companies from the Majority shareholder. The difference between the share of net assets acquired and the cost of investment is recognized directly in equity.

Investments in associates

Associates are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies.

Investments in associates are accounted for under the equity method and are initially recognized at cost, from the date that significant influence commences until the date that significant influence ceases. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any, after adjustments to align the accounting policies with those of the Group. 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.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in its financial statements and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on the accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of the joint venture. The income statement reflects the Group's share of the results of operations of the joint venture.

Unrealized gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the joint venture; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Goodwill

Goodwill arising on the acquisition of a subsidiary, associate or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill in respect of subsidiaries is disclosed as an intangible asset and goodwill relating to associates and jointly controlled entities is included within the carrying value of the investments in these entities.

Where goodwill forms a part of a cash generating unit and the part of the operations within that unit is disposed of, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Negative goodwill represents the excess of the Group's share in the fair value of acquired identifiable assets, liabilities and contingent liabilities over the cost of an acquisition. It is recognized in the income statement at the date of the acquisition.

b. 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 reporting 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 are translated to the functional currency of the entity at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses arising on the translation are recognized in the income statement.

c. Exploration for and evaluation of mineral resources

Expenditures associated with the search for specific mineral resources are recognized as exploration and evaluation assets. The following expenditures comprise the cost of exploration and evaluation assets:

- acquisition of rights to explore;
- researching and analyzing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling prefeasibility and feasibility studies.

If a project does not prove viable, all irrecoverable exploration and evaluation expenditure associated with the project net of any related impairment allowances is written off to the income statement.

Notes to the consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007 (continued)
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3. Summary of the principal accounting policies (continued)

The Group measures its exploration and evaluation assets at cost and classifies them as tangible or intangible according to the nature of the assets acquired and applies the classification consistently. Exploration and evaluation assets considered to be tangible are recorded as a component of property, plant and equipment at cost less impairment charges. Otherwise, they are recorded as intangible assets, such as licenses. To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is capitalized as a part of the cost of the intangible asset. As the asset is not available for use, it is not depreciated. All exploration and evaluation assets are monitored for indications of impairment.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the development of the deposit is sanctioned by management. The carrying amount of such exploration and evaluation asset is reclassified into development asset.

d. Development expenditure

Development expenditure includes costs directly attributable to the construction of a mine and the related infrastructure and is accumulated separately for each area of interest. Development expenditure is capitalized and is recorded as a component of property, plant and equipment or intangible assets, as appropriate. No depreciation is charged on the development expenditure before the start of commercial production.

To the extent that revenue arises from test production during the development stage, an amount is charged from development expenditure to the cost of sales so as to reflect a zero net gross margin.

e. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalized. In the case of assets constructed by the Group, related works and direct project overheads are included in cost. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. 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
Infrastructure assets	5 – 50 years

f. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement as a part of interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

g. Intangible assets (excluding goodwill)

Intangible assets acquired by the Group are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized over their estimated useful lives using the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The table below presents the useful lives of intangible assets:

Mineral rights	12 – 25 years
Software	3 – 10 years
Other intangible assets	3 – 50 years

The major components of the other intangible assets include capitalized favorable contracts and land lease rights. Amortization of intangible assets is included in the caption 'Cost of sales' in the consolidated income statement.

h. Impairment of assets

The carrying amount of goodwill is tested for impairment annually. At each reporting date the Group assesses whether there is any indication of impairment of the Group's other assets. 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.

Calculation of recoverable amount

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and its recoverable amount that is the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For other assets the recoverable amount is the greater of the fair value less cost to sale 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 recognized. 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 amortization, if no impairment loss had been recognized.

Notes to the consolidated financial statements

for the years ended December 31, 2009, 2008 and 2007 (continued)
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3. Summary of the principal accounting policies (continued)

i. 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. Allowances are recorded against slow-moving and obsolete inventories.

j. Financial assets

Financial assets include cash and cash equivalents, investments, and loans and receivables.

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the carrying value of a financial asset held at amortized cost and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial instruments, which are managed and performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

AFS financial assets

Available for sale financial assets are those non-derivative financial assets that are not classified as financial assets at FVTPL, held-to-maturity or loans and receivables and are stated at fair value. Listed shares that are traded in an active market are stated at their market value. Investments in unlisted shares that do not have a quoted market price in an active market are measured at management's estimate of fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income with the exception of impairment losses, which are recognized directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the equity is included in the income statement for the period.

Dividends on AFS equity instruments are recognized in the income statement when the Group's right to receive the dividends is established.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

k. Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms a part of a group of financial instruments, which are managed and where performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Borrowing costs on loans specifically for the purchase or construction of a qualifying asset are capitalized as a part of the cost of the asset they are financing.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized in the income statement.

Notes to the consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007 (continued)
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3. Summary of the principal accounting policies (continued)

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

l. Hedging instruments

The Group holds cash flow hedging instruments in order to hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and which could affect profit or loss.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss that has been previously recognized in other comprehensive income remains in equity until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount that has been recognized in other comprehensive income is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

m. Dividends payable

Dividends are recognized as a liability in the period in which they are authorized by the shareholders.

n. Other taxes and contributions

Other 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 general and administrative expenses in accordance with the nature of related wages and salaries expenses.

o. 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 in other comprehensive income, in which case it is recognized in other comprehensive income.

Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of the country, in which the entity is incorporated, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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 reviewed at each reporting date and 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 is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss,
– initial recognition of goodwill.

p. Provisions

Employee benefits

The Group pays retirement, healthcare and other long-term benefits to its employees.

The Group has two types of retirement benefits: defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts in respect of those benefits. The Group's only obligation is to pay contributions as they fall due, including contributions to the Russian Federation State pension fund. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans are post-employment benefits plans other than defined contribution plans. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually by management using the projected unit credit method. In accordance with this method, the Group's net obligation 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 reporting date on high quality corporate bonds for a respective country that have maturity dates approximating the terms of the Group's obligations. 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 long-term employee benefits include various compensations, non-monetary benefits and long-term incentive program.

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. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate. Future decommissioning costs, discounted to net present value, are capitalized and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future decommissioning costs are capitalized in property, plant and equipment and are depreciated over the life of the related asset. The unwinding of the decommissioning liability is included in the consolidated income statement as interest expense. Ongoing rehabilitation costs are expensed when incurred.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

Other provisions

Other provisions are recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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3. Summary of the principal accounting policies (continued)

q. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of issued shares

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

r. Operating income and expenses

The Group presents profit or loss from operations, which includes various types of income and expenses arising in the course of production and sale of the Group's products, disposal of property, plant and equipment, participation in joint ventures and associates, securities operations and other Group's regular activities.

Certain items are presented separately from profit or loss from operations by virtue of their size, incidence or nature to enable a full understanding of the Group's financial performance. Such items, which are included in profit or loss before financing and taxation, primarily include impairment of non-current assets, negative goodwill and other non-operating income and expenses, as, for example, gain or loss from disposal of subsidiaries and associates and charitable donations.

s. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Sale of goods

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; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

t. Interest income

Interest income is recognized in the income statement on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

u. Interest expense

Interest expense is recognized in the income statement as it accrues, taking into account the effective yield on the liability.

v. Net income from securities operations

Net income from securities operations comprises dividend 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.

w. 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 financial statements.

x. Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale at the reporting date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

The comparative income statement is presented as if the operation had been discontinued from the beginning of the comparative period.

Assets and liabilities of a disposal group are presented in the statement of financial position separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the balance sheet.

y. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The reportable segments' amounts in the disclosure are stated before the intersegment elimination and are measured on the same basis as those in the consolidated financial statements, except for non-monetary investments in subsidiaries reported within long-term financial investments, which are translated into the presentation currency at the historic exchange rate.

Inter-segment pricing is determined on an arm's length basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

z. Government grants

Government grants are recognized when there is a reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Government grants related to assets are presented as a deduction from the cost of the asset.

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

4. Sales

Sales by product were as follows:

	Year ended December 31,		
	2009	2008	2007
Hot -rolled strip and plate	**3,003,808**	5,952,558	3,797,586
Galvanized and other metallic coated sheet	**1,920,051**	2,350,259	1,323,406
Cold-rolled sheet	**1,606,311**	2,314,440	1,285,218
Long products	**1,301,247**	3,793,931	3,150,114
Metalware products	**853,777**	1,384,637	1,009,999
Large diameter pipes	**777,303**	819,727	530,726
Shipping and handling costs billed to customers	**613,710**	808,695	662,447
Semi-finished products	**582,094**	1,667,294	1,101,800
Gold	**512,335**	190,415	–
Color coated sheet	**316,300**	388,160	289,687
Coal and coking coal concentrate	**272,176**	257,463	264,753
Others tubes and pipes, formed shapes	**255,103**	485,467	411,690
Pellets and iron ore	**217,194**	453,069	304,825
Scrap	**58,303**	321,317	290,752
Others	**764,787**	1,205,285	1,080,385
	13,054,499	22,392,717	15,503,388

Sales by delivery destination were as follows:

	Year ended December 31,		
	2009	2008	2007
North America	**4,254,246**	5,410,115	2,002,852
Russian Federation	**3,955,953**	8,878,900	6,879,437
Europe	**2,834,052**	6,336,431	5,317,895
China and Central Asia	**698,635**	399,029	353,916
The Middle East	**554,478**	556,413	450,360
South-East Asia	**330,513**	381,929	291,052
Africa	**254,252**	109,411	56,595
Central and South America	**172,370**	320,489	151,281
	13,054,499	22,392,717	15,503,388

5. Staff costs

Employment costs were as follows:

	Year ended December 31,		
	2009	2008	2007
Wages and salaries	**(1,803,163)**	(2,078,521)	(1,534,443)
Social security costs	**(331,416)**	(450,812)	(418,031)
Retirement benefit costs (Note 25)	**(19,869)**	(28,647)	(7,719)
	(2,154,448)	(2,557,980)	(1,960,193)
Actuarial (losses)/gains recognized (Note 25)	**(18,888)**	(33,141)	37,056
Staff costs	**(2,173,336)**	(2,591,121)	(1,923,137)

For the year ended December 31, 2009, key management's remuneration totalled US$20.8 million (2008: US$43.9 million; 2007: US$57.2 million).

6. Net (loss)/gain from securities operations

	Year ended December 31,		
	2009	2008	2007
Held-for-trading securities			
Profit on disposal	**742**	3,037	–
Remeasurement to fair value	**(8,842)**	(106,058)	3,864
Held-to-maturity securities and loans			
Remeasurement to fair value (discounting)	**(3,782)**	(2,308)	19,438
Available -for-sale securities			
Net gain on disposal transferred from equity	**(5,565)**	3,997	–
Dividends received	**2,143**	4,520	2,262
	(15,304)	(96,812)	25,564

7. Net other operating (expenses)/income

	Year ended December 31,		
	2009	2008	2007
Insurance proceeds	**–**	430,000	–
Compensation for damages	**–**	267,000	–
Gain on termination of a supply contract	**–**	177,000	–
Other	**(36,329)**	(83,420)	(7,266)
	(36,329)	790,580	(7,266)

In January 2008, an explosion occurred on one of Severstal Dearborn's furnaces, blast furnace 'B'. Following the accident, Severstal Dearborn ceased blast furnace 'B' operation. Severstal Dearborn is insured against property damage and business interruption with a combined gross coverage of US$500.0 million, subject to customary deductibles. The business interruption insurance covers fixed costs and loss of profits. The entire amount of the insurance coverage of US$430.0 million was received in 2008.

In February 2008, a long term electricity supply contract between Severstal Dearborn and Dearborn Industrial Generation ('DIG') was terminated with a lump sum payment from DIG to compensate Severstal Dearborn for the differential between the contract price and the price Severstal Dearborn will have to pay another electricity supplier for the duration of the original contract. This lump sum payment amounted to US$177.0 million.

In December 2008, a court decision was announced to award the Group the compensation of damages of US$267.0 million from A.T. Massey Coal Co. in connection with a breach of a contract for coal supply during the years 2004 – 2006.

Insurance proceeds, compensation for damages and gain on termination of supply contract relate to Severstal North America segment.

8. Impairment of non-current assets

	Year ended December 31,		
	2009	2008	2007
Impairment of property, plant and equipment (Note 21)	**(176,243)**	(1,079,124)	(28,895)
Impairment of intangible assets (Note 22)	**(42,776)**	–	–
Impairment of goodwill (Note 25)	**–**	(461,139)	–
	(219,019)	(1,540,263)	(28,895)

Notes to the consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007 (continued)
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8. Impairment of non-current assets (continued)

For the purpose of impairment testing, the recoverable amount of each cash-generating unit has been determined based on value in use calculations, except for Severstal Warren Inc. where the recoverable amount has been determined based on fair market value less costs to sell. The value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and a corresponding discount rate which reflects the time value of money and risks associated with each individual cash generating unit. Key assumptions management used in their value in use calculations are as follows:

– For all cash generating units apart from the Severstal Resource segment cash flow projections cover a period of five years. Cash flows beyond the five-year period have been extrapolated taking into account business cycles. Cash flow projections for cash generating units of Severstal Resource segment cover a period which corresponds to the contractual time of the respective mining licenses.
– Cash flow projections were prepared in nominal terms.
– Cash flow projections during the forecast period are based on long-term price trends for both sales prices and material costs specific for each segment and geographic region and operating cost inflation in line with consumer price inflation for each country. Consumer price inflation expectations (in local currency) during the forecast period are as follows in percentage terms:

	Year ended December 31,	
	2009	2008
Russia	**6.2 – 8.2**	12
USA	**1.4 – 2.8**	1.8 – 2.0
Italy	**0.9 – 1.6**	1.9 – 2.0
France	**0.7 – 1.9**	1.6 – 2.0
Kazakhstan	**6.5 – 8.3**	12
UK	**n/a**	2.3 – 2.0

– Discount rates for each cash-generating unit were estimated in nominal terms based on the weighted average cost of capital. These rates, presented by segment, are as follows in percentage terms:

	Year ended December 31,	
	2009	2008
Severstal Resource:		
Russia*	**16.4**	18.5 – 21.4
Kazakhstan*	**17.0**	23.6
USA	**16.5**	16.4
Russian Steel:		
Russia*	**15.6**	20.1 – 22.5
Italy*	**17.0**	10.5
Lucchini	**11.0**	12.6 – 13.1
Severstal North America	**18.5 – 23.7**	17.7 – 18.9

* US$ rate.

Values assigned to key assumptions and estimates used to measure the unit's recoverable amount are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

Impairment

For the following cash generating units an impairment loss was identified:

Severstal Resource segment

Vorkutaugol

2008

An impairment loss was recognised in 2008 in the amount of US$128.8 million and was allocated to property, plant and equipment.

The following specific assumptions were used in the impairment test:

- the forecast extraction volumes grow on average at 5% p.a. during the five year period ending 2013 and remain constant thereafter;
- the forecast has the following growth rates for coking coal prices: an average decline of 16% p.a. in 2009 to 2011; an average growth of 29% p.a. during the next two years and constant at 80% of 2013 prices thereafter;
- the forecast has the following growth rates for steam coal prices: an average decline of 16% p.a. in 2009 to 2010; an average growth of 10% p.a. during the next three years and constant at 89% of 2013 prices thereafter;
- operating costs are forecast to decrease by 27% in 2009 compared to 2008 and then increase on average by 9% p.a. during the next four years; thereafter costs remain constant at the 2013 level;
- pre-tax discount rate of 18.5% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$21.3 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$341.8 million.

2009

An impairment loss was recognised in 2009 in the amount of US$3.7 million in relation to specific items of property, plant and equipment.

PBS Coals Limited

2008

An impairment loss was recognised in 2008 in the amount of US$361.1 million and was allocated fully to goodwill.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US$477.2 million as of December 31, 2008.

The following specific assumptions were used in the impairment test:

- the forecast extraction volumes increase by 22% in 2009, then increase by 10% in 2010 and remain constant at the 2010 level thereafter;
- the forecast coking coal prices increase by 1.1% p.a. during the five year forecast period and remain constant thereafter;
- the forecast steam coal prices increase on average by 2.5% p.a. during the five year forecast period and remain constant at the 2013 level thereafter;
- operating costs are forecast to increase by 9% in 2009 and then increase on average by 1% p.a. during the next four years; thereafter costs are assumed to be constant at the 2013 level;
- pre-tax discount rate of 16.4%.

Notes to the consolidated financial statements

for the years ended December 31, 2009, 2008 and 2007 (continued)
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8. Impairment of non-current assets (continued)

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$44.7 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$222.8 million.

2009

As a result of value in use calculation no impairment loss was recognised in 2009.

The carrying amount of goodwill allocated to the cash generating unit was US$111 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase by 30% p.a. in 2010, decrease on average by 2% in 2011 to 2012, increase on average by 26% in 2013 to 2014 and remain constant at the 2014 level thereafter;
- the forecast coking coal concentrate prices increase on average by 4% p.a. in 2010 to 2014 and remain constant at the 2014 level thereafter;
- the forecast steam coal prices increase on average by 2% p.a. during the five year forecast period and remain constant at the 2014 level thereafter;
- operating costs are forecast to increase by 23% in 2010, decrease on average by 2% p.a. in 2011 to 2012, increase on average by 22% p.a. in 2013 to 2014; thereafter costs are assumed to be constant at the 2014 level;
- pre-tax discount rate of 16.5% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$34.5 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$258.7 million.

Specific impairment loss in the amount of US$35 million was recognized in 2009 and was allocated to intangible assets.

Other units

2009

The impairment loss was recognised in 2009 in the amount of US$1.2 million in relation to specific items of property, plant and equipment.

Russian Steel segment

Neva-Metall

2008

An impairment loss was recognized in 2008 in the amount of US$29 million and was allocated fully to goodwill.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US$40 million as of December 31, 2008.

The following specific assumptions were used in the impairment test:

- cash flow projections are based on financial forecasts approved by management covering a four year period;
- volumes are assumed to be constant during the forecast period and thereafter;
- the forecast sales prices increase by 1% in 2009, increase by 7% p.a. in 2010 to 2012 and remain constant at the 2012 level thereafter;
- operating costs are forecast to increase on average by 11% p.a. in 2009 to 2012 and remain constant at the 2012 level thereafter;
- pre-tax discount rate of 22.1% (US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$3.0 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$17.0 million.

2009
No impairment loss was recognized in 2009.

Scrap processing companies

2008
No impairment loss was recognized in 2008.

2009
An impairment loss was recognized in 2009 in the amount of US$33.8 million and was allocated to property, plant and equipment in the amount of US$26 million and to intangible assets in the amount of US$7.8 million.

The following specific assumptions were used in the impairment test:

- the forecast sales volumes increase by 53% in 2010, increase on average by 5% p.a. in 2011 to 2014 and remain constant at the average level of the forecast period thereafter;
- the forecast scrap prices increase by 30% in 2010, increase on average by 2% p.a. in 2011 to 2014 and remain constant at the average level of the forecast period thereafter as above;
- operating costs are forecast to increase by 76% in 2010, increase on average by 8% p.a. in 2011 to 2014 and remain constant at the average level of the forecast period thereafter as above;
- pre-tax discount rate of 15.6% (US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$3.5 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$31.7 million.

Other units

2008
An impairment loss related to other cash generating units within the segment was recognized in the amount of US$13.1 million in 2008 and was allocated to specific items of property, plant and equipment.

2009
An impairment loss related to other cash generating units within the segment was recognized in the amount of US$5.7 million in 2009 and was allocated to specific items of property, plant and equipment.

Lucchini segment
Ascometal

2008
No impairment loss was recognized in 2008.

Notes to the consolidated financial statements
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8. Impairment of non-current assets (continued)

2009

An impairment loss was recognised in 2009 in the amount of US$86.5 million and was allocated to property, plant and equipment.

The following specific assumptions were used in impairment test:

- the forecast sales volumes increase on average by 20% in 2010 to 2012, increase by 6% p.a. in 2013 and remain constant at the 2013 level thereafter;
- the forecast sales prices remain stable in 2010 to 2014 and thereafter;
- operating costs are forecast to increase on average by 14% in 2010 to 2012, decrease by 2% p.a. in 2013 and remain constant at the 2013 level thereafter;
- pre-tax discount rate of 11%.

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$91.2 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$547.2 million.

Additionally an impairment loss was recognised in 2009 in the amount of US$18.1 million in relation to specific items of property, plant and equipment.

Other units

2008

An impairment loss was recognised in 2008 in the amount of US$3.8 million in relation to specific items of property, plant and equipment.

2009

No impairment loss was recognised in 2009.

Severstal North America segment

Severstal Wheeling Holding Company

2008

An impairment loss was recognised in 2008 of US$621.8 million and was allocated to property, plant and equipment in the amount of US$557.4 million and to goodwill in the amount of US$64.4 million.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US$64.4 million as of December 31, 2008.

The following specific assumptions were used in impairment test:

- the forecast sales volumes decline by 49% in 2009, increase by 54% in 2010 and increase on average by 5% p.a. in 2011 to 2013; thereafter sales volumes remain constant at the average level of the forecast period;
- the forecast steel prices increase by 8% in 2009; decline by 2% in 2010 and remain stable till 2013; thereafter sales prices remain constant at the weighted average level of the forecast period;
- operating costs are forecast to decrease by 33% in 2009, increase by 32% in 2010 and then increase on average by 5% p.a. during the next three years; thereafter operating costs remain constant at the average level of the forecast period;
- pre-tax discount rate of 18.9%.

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$21.1 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$113.4 million.

2009
No impairment loss was recognised in 2009.

Severstal Warren Inc.

2008
The recoverable amount was determined as fair market value less costs to sell as of December 31, 2008.

An impairment loss was recognised in 2008 of US$382.6 million and was allocated to property, plant and equipment in the amount of US$376 million and to goodwill in the amount of US$6.6 million.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US$6.6 million as of December 31, 2008.

The following assumptions were used for the calculation of fair market value less cost to sell:

- the market value of the major production equipment is determined based on the most recent valuation performed by an independent appraiser when finalising the purchase price allocation (Note 29);
- the value of other items of property, plant and equipment is determined on current prices for scrap, adjusted for decommissioning costs;
- the fair value calculation includes site restoration and other related environmental expenditures based on the requirements of applicable regulation.

Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

2009
The recoverable amount was determined as fair market value less costs to sell as of December 31, 2009.

An additional impairment loss was recognized in 2009 in the amount of US$26.5 million and was allocated to property, plant and equipment.

Management believes that any reasonable possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

Results of Goodwill impairment testing

The goodwill allocated to the following cash generating units has been tested for impairment and no impairment loss was recognised as the result of those tests:

Severstal Resource segment

Neryungri Metallik and Mine Aprelkovo

Notes to the consolidated financial statements
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8. Impairment of non-current assets (continued)

2008

The carrying amount of goodwill allocated to the cash generating unit was US$54.5 million as of December 31, 2008.

The following assumptions were used in the impairment test:

- the forecast extraction volumes grow on average at 22% p.a. during 2009 to 2012 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: decline of 16% in 2009; average growth of 12% p.a. in 2010 to 2013; average decline of 4% p.a. during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase on average by 9% p.a. in 2009 to 2013 and to grow on average by 1% p.a. during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 21% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US$52.2 million.

2009

The carrying amount of goodwill allocated to the cash generating unit was US$52.3 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast extraction volumes grow on average by 43% p.a. during 2010 to 2012, increase by 2% in 2013 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: average growth of 2% p.a. in 2010 to 2014; average decline of 5% p.a. during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase on average by 29% p.a. in 2010 to 2012, increase on average by 8% p.a. in 2013 to 2014 and remain constant during the remaining contractual term of the respective licenses;
- pre-tax discount rates of 16.4%.

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US$62.4 million;

Celtic Resources Holdings Plc.

2008

The carrying amount of goodwill allocated to the cash generating unit was US$37.8 million as of December 31, 2008.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase on average by 54% p.a. in 2009 to 2010, decline on average by 10% in 2011 to 2012 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: decline of 17% in 2009; average growth of 12% p.a. in 2010 to 2013; average decline of 5% p.a. during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase on average by 39% p.a. in 2009 to 2010, further grow on average by 5% p.a. in 2011 to 2012 and remain constant during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 23.6% (in US$ terms).

Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

2009

The carrying amount of goodwill allocated to the cash generating unit was US$30.4 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase by 21% in 2010, increase on average by 2% p.a. in 2011 to 2014 and remain constant at the 2014 level thereafter;
- the forecast has the following growth rates for gold prices: remain stable in 2010; average growth of 5% p.a. in 2011 to 2013; average decline of 4% p.a. in 2014 to 2016 and remain constant during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase by 44% in 2010, grow on average by 8% p.a. in 2011 to 2014, further increase on average by 4% in 2015 and during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 17.0% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate gives an impairment loss of US$3.6 million;
- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US$70.6 million.

An impairment loss was recognised in 2009 in the amount of US$8.5 million in relation to specific items of property, plant and equipment.

Russian Steel segment

Redaeli Techna S.p.A.

2008

The carrying amount of goodwill allocated to the cash generating unit was US$36.6 million.

The following specific assumptions were used in the impairment test:

- sales volumes are assumed to be stable during the forecast period and thereafter, except for 2010 where an increase of 3% is assumed;
- forecasted sales prices decrease by 22% in 2009 and then increase by 5% p.a. in 2009 to 2013; thereafter prices remain constant at the 2013 level;
- operating costs are forecast to increase on average by 7% p.a. in the forecast period and remain constant at the 2013 level thereafter;
- pre-tax discount rate of 10.5%.

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US$16.7 million.

2009

The carrying amount of goodwill allocated to the cash generating unit was US$33.9 million as of December 31, 2009.

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8. Impairment of non-current assets (continued)
The following assumptions were used in the impairment test:

- the forecast sales volumes increase on average by 19% p.a. in 2010 to 2011 and remain constant thereafter;
- forecasted sales prices increase on average by 4% p.a. in 2010 to 2014 and remain constant at the 2014 level thereafter;
- operating costs are forecast to increase by 23% p.a. in 2010, increase on average by 7% p.a. in 2011 to 2014 and remain constant thereafter;
- pre-tax discount rate of 17.0% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US$77.9 million.

9. Net other non-operating (expenses)/income

	Year ended December 31,		
	2009	2008	2007
Social expenditure	**(17,803)**	(43,664)	(42,566)
Charitable donations	**(14,239)**	(32,277)	(41,276)
Depreciation of infrastructure assets	**(2,496)**	(4,293)	(6,341)
Gain on disposal of subsidiaries and associates (Note 29)	**–**	314,435	31,507
Other	**97**	4,744	–
	(34,441)	238,945	(58,676)

10. Taxation
The following is an analysis of the income tax expense:

	Year ended December 31,		
	2009	2008	2007
Current tax charge	**(111,025)**	(1,010,253)	(784,658)
Corrections to prior year's current tax charge	**14,544**	21,892	15,416
Deferred tax benefit	**78,623**	424,618	69,089
Effect of change in statutory tax rate	**–**	46,277	–
Income tax expense	**(17,858)**	(517,466)	(700,153)

In 2008, the Russian Government enacted a change in the Russian statutory tax rate from 24% to 20%. The new rate became effective beginning January 1, 2009.

The following table is a reconciliation of the reported net income tax expense and the amount calculated by applying the Russian statutory tax rate of 20% (24%: 2008 and 2007) to reported profit before income tax.

	Year ended December 31,		
	2009	2008	2007
(Loss)/profit before income tax	**(1,101,237)**	2,579,392	2,576,243
Tax charge at Russian statutory rate	**220,247**	(619,054)	(618,298)
Profits taxed at different rates	**298,850**	88,567	(19,305)
Corrections to prior years's current tax charge	**14,544**	21,892	15,416
Non-tax deductible expenses, net	**(28,272)**	(58,447)	(39,216)
Tax-loss carry forwards expired	**(10,662)**	(12,901)	(18,494)
Changes in non-recognized deferred tax assets	**(522,456)**	28,939	(20,256)
Reassessment of deferred tax liabilities	**9,891**	(12,739)	–
Effect of change in statutory tax rate	**–**	46,277	–
Income tax expense	**(17,858)**	(517,466)	(700,153)

The income tax charge for the year ended December 31, 2009 includes tax expense of nil (2008: nil, 2007: US$1.3 million) related to profits from discontinued operations (Note 28) and tax expense of nil related to gains on disposals of discontinued operations (2008: nil, 2007: US$9.0 million).

The composition of 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:

	Year ended December 31,		
	2009	2008	2007
Deferred tax assets:			
Tax-loss carry forwards	**426,618**	317,872	33,587
Property, plant and equipment	**23,368**	55,284	30,406
Intangible assets	**12,401**	15,515	3,867
Inventory	**54,268**	82,644	81,360
Accounts receivable	**26,306**	28,271	14,911
Provisions	**372,907**	349,782	128,493
Financial investments	**28,292**	53,387	5,173
Other	**165,234**	88,907	22,748
Gross deferred tax assets	**1,109,394**	991,662	320,545
Less offsetting with deferred tax liabilities	**(869,559)**	(745,121)	(256,360)
Recognised deferred tax assets	**239,835**	246,541	64,185

Notes to the consolidated financial statements

for the years ended December 31, 2009, 2008 and 2007 (continued)
(Amounts expressed in thousands of US dollars, except as stated otherwise)

10. Taxation (continued)

	Year ended December 31,		
	2009	2008	2007
Deferred tax liabilities:			
Property, plant and equipment	**(756,112)**	(680,148)	(544,628)
Provisions	**(4,635)**	(1,560)	(5,868)
Intangible assets	**(239,353)**	(288,120)	(112,655)
Inventory	**(97,032)**	(103,213)	(43,510)
Investments in joint ventures	**(75,096)**	(79,714)	(25,012)
Accounts receivable	**–**	(275)	(2,949)
Financial liabilities	**(19,050)**	(43,669)	–
Other	**(73,271)**	(44,801)	(31,147)
Gross deferred tax liabilities	**(1,264,549)**	(1,241,500)	(765,769)
Less offsetting with deferred tax assets	**869,559**	745,121	256,360
Recognised deferred tax liabilities	**(394,990)**	(496,379)	(509,409)
Net deferred tax liability	**(155,155)**	(249,838)	(445,224)

The movement in the net deferred tax liability is as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance	**(249,838)**	(445,224)	(363,953)
Recognized in income statement	**78,623**	470,895	69,089
Recognized in other comprehensive income	**(3,589)**	1,180	–
Business combinations	**–**	(350,816)	(111,276)
Business de-combinations	**–**	27	8,491
Reclassified to assets held for sale	**–**	–	(24,913)
Foreign exchange difference	**19,649**	74,100	(22,662)
Closing balance	**(155,155)**	(249,838)	(445,224)

The Group has recognized US$161 million of deferred tax assets at December 31, 2009 related to certain Group entities in the Severstal North America and Lucchini segments, which have a history of recent losses. Management believes that it is probable that these entities will have sufficient taxable profits against which deferred tax assets can be utilized.

The Group has not recognized cumulative tax-loss carry forwards in the following amounts and with the following expiry dates (stated in millions of US dollars):

	Year ended December 31,		
	2009	2008	2007
In the following year	**2.1**	–	44.4
Between one and five years	**125.5**	–	–
Between five and ten years	**30.5**	24.2	–
Between ten and twenty years	**1,177.0**	–	–
No expiry	**109.6**	105.1	84.2
	1,444.8	129.3	128.6

Taxable 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$825.2 million at December 31, 2009 (December 31, 2008: US$897 million; December 31, 2007: US$1,689.2 million).

11. Related party transactions

	Year ended December 31,		
	2009	2008	2007
Sales to related parties:			
Sales to associates	**3,866**	10,420	3,473
Sales to joint ventures	**50,084**	77,517	–
Sales to other related parties	**48,880**	166,362	147,511
Interest income	**17,909**	18,082	13,931
	120,739	272,381	164,915

	2009	2008	2007
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	**54,550**	71,206	1,810
Purchases from joint ventures:			
Non-capital expenditures	**57,529**	149,151	218,912
Purchases from other related parties:			
Non-capital expenditures	**60,443**	145,956	666,137
Capital expenditures	**20,782**	5,215	8,572
Interest expense	**1,775**	5,019	3,370
	195,079	376,547	898,801

Notes to the consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007 (continued)
(Amounts expressed in thousands of US dollars, except as stated otherwise)

12. Related party balances

	December 31,		
	2009	2008	2007
Joint ventures' balances			
Short-term trade accounts payable	**6,136**	5,267	16,353
Associates' balances			
Long-term loans to associates	**21,804**	3,886	3,740
Other related party balances			
Cash and cash equivalents at related party bank and pension fund	**335,539**	322,865	239,909
Short-term deposits with related party bank and pension fund	**26,803**	115,488	18,985
Accounts receivable from other related parties:			
Trade accounts receivable	**12,560**	27,796	12,659
Advances paid	**10,606**	4,812	6,546
Other receivables	**3,550**	31,223	27,988
Short-term loans	**12,697**	2,952	20,322
Short-term promissory notes	**4,940**	18,951	7,457
Long-term loans	**3,563**	15,269	13,707
Held-to-maturity securities and deposits	**–**	1,485	62,759
	47,916	102,488	151,438
Short-term trade accounts payable to other related parties:			
Trade accounts payable	**7,972**	38,644	36,886
Advances received	**600**	1,353	3,843
Short-term payables for acquisition of subsidiaries	**–**	10,211	32,592
Other accounts payable	**1,948**	16,485	1,873
	10,520	66,693	75,194
Debt financing includes the following balances with other related parties:			
Short-term debt financing	**1,324**	32,186	57,956
Long-term debt financing	**20**	1,675	21,685
	1,344	33,861	79,641

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

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.

13. Cash and cash equivalents

	December 31,		
	2009	2008	2007
Petty cash	**386**	552	780
Cash at bank	**1,810,790**	2,044,048	1,251,782
Restricted cash accounts	**30,065**	119,487	82
Short-term deposits with maturity of less than 3 months	**1,012,135**	488,801	369,898
	2,853,376	2,652,888	1,622,542

14. Short-term bank deposits

Short-term bank deposits totaled US$95.5 million at December 31, 2009 (December 31, 2008: US$818.5 million, December 31, 2007: US$666.3 million) and consisted 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 have 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 can be withdrawn, in case of necessity, prior to the maturity date with no loss in principal but reduced interest income.

15. Short-term financial investments

	December 31,		
	2009	2008	2007
Held-for-trading securities:			
Promissory notes and bonds	**25,505**	27,982	44,035
Quoted equity securities	**–**	44,489	56,003
Other securities	**–**	–	56,270
Loans	**30,893**	24,712	58,368
Available -for-sale securities	**567**	6,254	818
Held-to-maturity securities	**16,164**	9,345	–
	73,129	112,782	215,494

16. Trade accounts receivable

	December 31,		
	2009	2008	2007
Customers	**1,540,787**	2,032,399	1,806,775
Allowance for doubtful debts	**(83,136)**	(90,523)	(37,737)
	1,457,651	1,941,876	1,769,038

17. Inventories

	December 31,		
	2009	2008	2007
Raw materials and supplies	**1,472,724**	2,377,183	1,382,607
Work-in-progress	**540,942**	731,591	479,358
Finished goods	**960,561**	1,163,112	858,669
	2,974,227	4,271,886	2,720,634

Of the above amounts US$434.3 million (December 31, 2008: US$1,987.4 million, December 31, 2007: US$264.4 million) are stated at net realizable value.

Notes to the consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007 (continued)
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17. Inventories (continued)

During the year ended December 31, 2009, the Group recognized a US$383.6 million release and a US$19.6 million allowance to reduce the carrying amount to a net realizable value (December 31, 2008: US$25.0 million and US$432.8 million respectively; December 31, 2007: US$24.9 million and US$$ 25.5 million respectively).

18. Other current assets

	December 31,		
	2009	2008	2007
Advances paid and prepayments	**193,564**	188,484	236,778
Other taxes and social security prepaid	**23,774**	17,346	16,414
Other assets	**68,115**	73,877	65,769
	285,453	279,707	318,961

19. Long-term financial investments

	December 31,		
	2009	2008	2007
Available-for-sale securities	**88,778**	48,958	22,448
Loans	**26,184**	19,545	27,752
Held-to-maturity securities and deposits	**13,654**	1,839	62,759
	128,616	70,342	112,959

20. Investments in associates and joint ventures

The Group's investments in associated and joint ventures companies are described in the tables below. The Group structure and certain additional information on investments in associated and joint ventures, including ownership percentages, is presented in Note 29.

	December 31,		
	2009	2008	2007
Associates			
OOO Gestamp -Severstal-Kaluga	**16,267**	–	–
Stadco OOO	**14,015**	–	–
Air Liquide Severstal	**6,117**	6,297	7,537
Todlem S.L.	**2,773**	–	–
Others	**11,730**	6,018	1,276
Joint ventures			
Spartan Steel Coating LLC	**49,082**	51,552	53,978
Ohio Coatings Company	**17,762**	16,595	–
Double Eagle Steel Coating Company	**15,623**	19,354	22,936
Prognoz Serebro LLC	**6,572**	6,765	–
Bethlehem Roll Technologies, LLC	**3,916**	4,326	–
Mountain State Carbon LLC	**–**	–	117,260
	143,857	110,907	202,987

The following is summarized financial information in respect of associates and joint ventures:

	December 31,		
	2009	2008	2007
Current assets	**136,432**	87,144	171,647
Non-current assets	**463,945**	312,282	428,917
Short-term liabilities	**89,184**	70,658	87,477
Long-term liabilities	**163,050**	99,852	93,167
Equity	**348,143**	228,916	419,920

	Year ended December 31,		
	2009	2008	2007
Revenues	**274,673**	305,991	326,700
Net income	**20,982**	21,512	16,211

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21. Property, plant and equipment
The movements in property, plant and equipment are as follows:

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total assets
Cost:						
December 31, 2006	2,137,374	5,684,772	267,619	82,005	1,200,673	9,372,443
Reclassifications	9,840	(25,979)	6,669	9,470	–	–
Additions	–	–	–	–	2,096,695	2,096,695
Business combinations	83,389	83,429	6,053	711	21,412	194,994
Disposals	(11,418)	(186,230)	(12,028)	(14,613)	(6,618)	(230,907)
Business de-combinations	(53,885)	(154,917)	(4,262)	(2,277)	(4,981)	(220,322)
Reclassified to assets held for sale	(182,171)	(166,972)	(13,863)	(152)	(56,508)	(419,666)
Transfer to other assets	–	(7,793)	–	–	(23,729)	(31,522)
Transfers	347,794	1,806,315	75,453	26,683	(2,256,245)	–
Foreign exchange difference	168,957	452,825	25,021	7,584	61,088	715,475
December 31, 2007	2,499,880	7,485,450	350,662	109,411	1,031,787	11,477,190
Reclassifications	(3,513)	(27,901)	23,677	7,737	–	–
Additions	–	–	–	–	2,057,876	2,057,876
Business combinations	449,623	2,064,508	75,259	141	78,561	2,668,092
Disposals	(14,207)	(156,022)	(9,353)	(1,355)	(28,490)	(209,427)
Business de-combinations	(3,827)	(5,056)	(344)	(336)	(2,178)	(11,741)
Reclassified to assets held for sale	–	(2,976)	(9)	–	(15)	(3,000)
Transfer to other assets	–	–	–	–	(22,343)	(22,343)
Transfers	228,441	965,953	95,916	7,766	(1,298,076)	–
Foreign exchange difference	(345,503)	(913,674)	(67,424)	(19,553)	(157,064)	(1,503,218)
December 31, 2008	2,810,894	9,410,282	468,384	103,811	1,660,058	14,453,429
Reclassifications	(1,902)	(41,591)	17,917	742	24,834	–
Additions	–	–	–	–	904,775	904,775
Offsetting with government grant	(29,717)	–	–	–	–	(29,717)
Disposals	(37,954)	(125,201)	(16,137)	(12,880)	(17,865)	(210,037)
Reclassified to assets held for sale	(20,566)	(8,592)	–	–	–	(29,158)
Reclassified from assets held for sale	–	2,976	–	–	–	2,976
Transfer to other assets	–	–	–	–	(16,401)	(16,401)
Transfers	164,600	571,352	57,128	17,295	(810,375)	–
Foreign exchange difference	(43,523)	(100,916)	(8,314)	(2,184)	(7,234)	(162,171)
December 31, 2009	**2,841,832**	**9,708,310**	**518,978**	**106,784**	**1,737,792**	**14,913,696**

Of the above amounts of additions to construction-in-progress US$23.6 million (2008: US$11.6 million, 2007: US$18.7 million) is interest capitalized.

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total assets
Depreciation and impairment:						
December 31, 2006	402,164	1,741,534	114,142	55,530	88,208	2,401,578
Reclassifications	1,583	(4,650)	565	2,502	–	–
Depreciation expense	143,124	652,555	34,132	6,341	–	836,152
Business combinations	1,938	7,191	803	8	–	9,940
Disposals	(2,689)	(147,110)	(9,280)	(1,309)	(1,186)	(161,574)
Business de-combinations	(6,806)	(51,376)	(1,312)	(1,869)	(69)	(61,432)
Reclassified to assets held for sale	(22,223)	(63,321)	(5,190)	(17)	(6,043)	(96,794)
Transfers	3,215	304	58	4,956	(8,533)	–
Impairment of assets	2,112	15,012	(36)	2,441	9,366	28,895
Foreign exchange difference	40,517	167,105	11,081	4,751	7,855	231,309
December 31, 2007	562,935	2,317,244	144,963	73,334	89,598	3,188,074
Reclassifications	8,411	(20,891)	10,163	2,317	–	–
Depreciation expense	163,024	805,799	62,193	4,293	–	1,035,309
Disposals	(21)	(95,570)	(5,866)	(570)	(15,997)	(118,024)
Business de-combinations	(1,497)	(1,768)	(341)	(436)	–	(4,042)
Reclassified to assets held for sale	–	(1,096)	(9)	–	–	(1,105)
Transfers	–	(10)	(1)	1,941	(1,930)	–
Impairment of assets	146,625	876,020	11,914	3,702	40,863	1,079,124
Foreign exchange difference	(110,021)	(389,958)	(28,062)	(13,710)	(11,548)	(553,299)
December 31, 2008	769,456	3,489,770	194,954	70,871	100,986	4,626,037
Reclassifications	50	(7,435)	7,117	268	–	–
Depreciation expense	108,753	657,139	73,352	2,496	–	841,740
Disposals	(18,050)	(87,905)	(12,476)	(8,516)	(11,585)	(138,532)
Reclassified to assets held for sale	(14,150)	(5,678)	–	–	–	(19,828)
Transfers	1,510	7,495	199	119	(9,323)	–
Impairment of assets	89,019	57,356	837	469	28,562	176,243
Foreign exchange difference	(16,404)	(33,665)	(2,103)	(2,395)	(2,877)	(57,444)
December 31, 2009	**920,184**	**4,077,077**	**261,880**	**63,312**	**105,763**	**5,428,216**
Net book values:						
December 31, 2007	1,936,945	5,168,206	205,699	36,077	942,189	8,289,116
December 31, 2008	2,041,438	5,920,512	273,430	32,940	1,559,072	9,827,392
December 31, 2009	**1,921,648**	**5,631,233**	**257,098**	**43,472**	**1,632,029**	**9,485,480**

Other productive assets include transmission equipment, transportation equipment and tools.

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22. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation and exploration assets	Other intangible assets	Total
Cost:						
December 31, 2006	1,440	36,885	32,504	–	9,297	80,126
Additions	–	916	13,927	11,202	5,391	31,436
Business combinations	150,702	245,653	–	156,582	72,274	625,211
Disposals	–	–	(6,161)	–	(966)	(7,127)
Reclassified to assets held for sale	–	(34,254)	–	–	–	(34,254)
Business de-combinations	–	–	(6,224)	–	(4,728)	(10,952)
Foreign exchange difference	4,804	3,280	2,701	1,137	3,157	15,079
December 31, 2007	156,946	252,480	36,747	168,921	84,425	699,519
Additions	–	3,005	28,058	33,650	28,149	92,862
Business combinations	588,351	418,935	604	113,853	206,844	1,328,587
Disposals	–	(168)	(1,014)	(121)	(13,270)	(14,573)
Business de-combinations	(3,621)	–	–	–	–	(3,621)
Foreign exchange difference	(20,747)	(4,809)	(1,580)	(30,502)	(12,754)	(70,392)
December 31, 2008	720,929	669,443	62,815	285,801	293,394	2,032,382
Additions	–	4,326	28,530	36,485	3,567	72,908
Disposals	–	(407)	–	(3,630)	(979)	(5,016)
Foreign exchange difference	(17,790)	(30,936)	312	(9,712)	2,936	(55,190)
December 31, 2009	**703,139**	**642,426**	**91,657**	**308,944**	**298,918**	**2,045,084**
Amortization and impairment:						
December 31, 2006	22	1,763	10,426	–	6,249	18,460
Amortization expense	–	3,046	3,756	–	3,308	10,110
Disposals	–	–	(6,161)	–	(396)	(6,557)
Reclassified to assets held for sale	–	(3,602)	–	–	–	(3,602)
Business de-combinations	–	–	(3,924)	–	(3,923)	(7,847)
Foreign exchange difference	2	215	844	–	827	1,888
December 31, 2007	24	1,422	4,941	–	6,065	12,452
Amortization expense	–	28,864	5,905	–	17,343	52,112
Impairment	461,139	–	–	–	–	461,139
Disposals	–	(172)	(367)	–	(981)	(1,520)
Foreign exchange difference	(4)	(1,165)	(489)	–	(801)	(2,459)
December 31, 2008	461,159	28,949	9,990	–	21,626	521,724
Amortization expense	–	44,165	8,849	–	62,410	115,424
Impairment	–	–	–	–	42,776	42,776
Disposals	–	–	–	–	(113)	(113)
Foreign exchange difference	(848)	(3,316)	228	–	5	(3,931)
December 31, 2009	**460,311**	**69,798**	**19,067**	**–**	**126,704**	**675,880**
Net book values:						
December 31, 2007	156,922	251,058	31,806	168,921	78,360	687,067
December 31, 2008	259,770	640,494	52,825	285,801	271,768	1,510,658
December 31, 2009	**242,828**	**572,628**	**72,590**	**308,944**	**172,214**	**1,369,204**

23. Debt finance

	December 31,		
	2009	2008	2007
Eurobonds 2009	**–**	325,000	325,000
Eurobonds 2013	**1,250,000**	1,250,000	–
Eurobonds 2014	**375,000**	375,000	375,000
Ruble bonds	**495,963**	–	–
Other issued notes and bonds	**31,780**	14,150	–
Bank financing	**4,960,512**	5,957,041	2,932,570
Factoring of receivables	**71,592**	191,623	201,909
Other financing	**53,549**	144,912	119,361
Accrued interest	**102,232**	104,449	41,807
Unamortized balance of transaction costs	**(113,768)**	(96,257)	(53,265)
	7,226,860	8,265,918	3,942,382
Total debt is denominated in the following currencies:			
US Dollars	**4,389,704**	4,967,699	1,960,275
Euro	**2,152,251**	2,616,523	1,432,490
Rubles	**669,616**	653,339	547,866
Other currencies	**15,289**	28,357	1,751
	7,226,860	8,265,918	3,942,382
Total debt is contractually repayable after the balance sheet date as follows:			
Less than one year	**1,478,301**	2,038,693	1,129,216
Between one and five years	**5,602,895**	5,342,449	1,923,336
After more than five years	**145,664**	884,776	889,830
	7,226,860	8,265,918	3,942,382

Debt finance arising from banks and unused long term credit lines are secured by the following charges:

- US$2,081 million (December 31, 2008: US$2,837 million; December 31, 2007: US$1,142 million) of the net book value of plant and equipment;
- US$1,267 million (December 31, 2008: US$2,303.6 million; December 31, 2007: US$679.1 million) of current assets and revenues from export contracts;
- all Group's ownership in Berezitovy Rudnik LLC, Societe Des Mines de Taparko, 99.56% of Group's ownership in OJSC Buryatzoloto, 50% of Group's ownership in Mountain State Carbon, the Group's subsidiaries, and investments in Spartan Steel Coating LLC and Double Eagle Steel Coating Company, the Group's joint ventures, at December 31, 2009;
- all Group's ownership in Berezitovy Rudnik LLC, Societe Des Mines de Taparko, 99.56% of Group's ownership in OJSC Buryatzoloto, 50% of Group's ownership in Mountain State Carbon and 50% ownership in IPM, the Group's subsidiaries, and investments in other associates and joint ventures in the Severstal North America segment at December 31, 2008 and December 31, 2007.

A part of the Group's debt financing is subject to certain covenants. The Group complied with all debt covenants, including equity ratios, during the years ended December 31, 2008 and 2007. During the year ended December 31, 2009, the Group had no instances of non-compliance with debt covenants, which had not been duly rectified before the reporting date.

At the reporting date the Group had US$537 million (December 31, 2008: US$950.6 million; December 31, 2007: US$1,082.7 million) of unused long term credit lines available to it.

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24. Other current liabilities

	December 31,		
	2009	2008	2007
Amounts payable to employees	**273,832**	396,578	248,231
Advances received	**172,855**	105,611	221,612
Provisions (Note 26)	**101,919**	80,918	43,974
Accrued expenses	**31,778**	63,718	34,166
Derivative financial liabilities	**22,448**	19,110	–
Onerous contracts	**20,415**	71,509	–
Decommissioning liability (Note 26)	**17,123**	5,308	–
Lease liabilities	**12,896**	23,280	9,753
Deferred income	**5,227**	3,321	–
Payable for acquisition of subsidiaries	**–**	7,320	–
Other liabilities	**35,351**	34,505	62,633
	693,844	811,178	620,369

25. Retirement benefit liabilities

The Group provides for its employees the following retirement benefits, which are actuarially calculated as defined benefit obligations: lump sums payable to employees on retirement, monthly pensions, jubilee benefits, invalidity and death lump sums, burial expenses compensations, healthcare benefits, life insurance and other benefits.

The following assumptions have been used to calculate the retirement benefit liability:

	December 31,		
	2009	2008	2007
Discount rates:			
Russia	**8.5% to 8.7%**	8.5% to 10.6%	6.5%
USA	**5.3% to 6.1%**	5.3% to 6.5%	5.3%
UK	**5.7%**	6.7%	3.1%
Italy and France	**4.7%**	4.4% to 5.3%	5.1% to 5.6%
Future rates of benefit increase:			
Russia	**6.6% to 7.4%**	6.3% to 8.2%	5.8% to 6.2%
USA	**Fixed at 0% or 3.5% to 10.0%**	Fixed at 0% or 4.0% to 10.0%	Fixed at 0% or 9.0%
UK	**2.7%**	2.7%	3.4%
Italy and France	**2.5%**	3.0% to 6.0%	2.0% to 3.0%

The present value of the defined benefit obligation less the fair value of plan assets is recognized as a retirement benefit liability in the statement of financial position.

	December 31,				
	2009	2008	2007	2006	2005
Present value of the defined benefit obligation	**1,008,654**	987,418	495,713	549,009	387,657
Fair value of the plan assets	**(220,940)**	(208,122)	(108,315)	(106,055)	(49,171)
Retirement benefit liability	**787,714**	779,296	387,398	442,954	338,486

The movements in the defined benefit obligation are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance	**987,418**	495,713	549,009
Business combinations/(de-combinations)	**–**	526,630	(33,612)
Reclassified to assets held for sale	**–**	–	(9,260)
Benefits paid	**(69,282)**	(60,698)	(55,238)
Interest cost	**56,496**	33,065	27,589
Service cost (Note 5)	**35,867**	27,602	18,640
Curtailment	**(12,010)**	–	–
Actuarial loss/(gain) (Note 5)	**13,701**	25,889	(37,497)
Foreign exchange (gain)/loss	**(3,536)**	(60,783)	36,082
Closing balance	**1,008,654**	987,418	495,713

The movements in the plan assets are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance	**208,122**	108,315	106,055
Business combinations/(de-combinations)	**–**	117,215	(10,122)
Contributions made during the year	**40,711**	38,637	11,534
Benefits paid	**(39,053)**	(28,232)	(14,852)
Return on assets (Note 5)	**15,998**	(1,045)	10,921
Actuarial loss (Note 5)	**(5,187)**	(7,252)	(441)
Foreign exchange (loss)/gain	**349**	(19,516)	5,220
Closing balance	**220,940**	208,122	108,315

The defined benefit obligation analysis is as follows:

	December 31,		
	2009	2008	2007
Wholly unfunded	**361,101**	497,129	258,926
Partly funded	**647,553**	490,289	236,787
Total	**1,008,654**	987,418	495,713

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25. Retirement benefit liabilities (continued)

The plan assets analysis is as follows:

	December 31,		
	2009	2008	2007
Equity instruments	**55,160**	38,161	44,448
Deposits	**8,953**	14,946	3,037
Shares in mutual funds	**14,760**	34,531	–
Cash	**54,260**	75,565	1,170
Government bonds	**30,264**	11,557	28,548
Corporate bonds	**55,607**	14,335	14,964
Other investments	**1,936**	19,027	16,148
Total	**220,940**	208,122	108,315

The Group's best estimate of contributions expected to be paid to the plan in 2010 is US$70 million.

The overall expected rate of return on pension plan assets is calculated based on the expected long-term investment returns for each category of assets that forms the portfolio. The assessment of expected returns is based on historical returns and predictions of the market for each category of assets in the portfolio in the next twelve months. Expected and actual rates of return on plan assets is presented in the table below:

	2009		2008		2007	
	Actual	**Expected**	Actual	Expected	Actual	Expected
Russia	**3.7% to 5.5%**	**4.0% to 9.6%**	4.0%	16.0%	16.1%	17.0%
USA	**7.5% to 13.1%**	**7.5% to 7.8%**	(10.0)% to 0%	0% to 3.0%	n/a	n/a
UK	**3.6%**	**3.6%**	(15.0)%	3.6%	5.0%	5.0%

The retirement benefit expenses recognized in the income statement are contained in the caption: 'Cost of sales', 'General and administrative expenses' allocated proportionally to related salary expenses, except for the interest cost, which is recognized in the caption 'Interest expense'.

26. Other non-current liabilities

	December 31,		
	2009	2008	2007
Decommissioning liability	**262,303**	254,740	108,961
Provisions	**101,119**	139,445	66,902
Amounts payable to employees	**45,755**	66,479	–
Lease liabilities	**38,211**	53,174	14,515
Other liabilities	**28,651**	62,591	79,636
Derivative financial liabilities	**26,508**	11,183	–
Deferred income	**3,908**	31,591	29,660
Restructured tax liabilities	**1,811**	758	24,978
	508,266	619,961	324,652

Decommissioning liability

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2010 – 2050. The present value of expected cash outflows were estimated using existing technology, and discounted using a real discount rate. These rates, presented by segment, are as follows:

	Discount rates, %		
	2009	2008	2007
Severstal Resource:			
Russia	**0.1 – 2.4**	2.0 – 2.8	2.0
Kazakhstan	**0.2 – 0.4**	1.0	n/a
USA	**1.7 – 2.9**	2.4 – 6.8	n/a
Severstal North America	**1.7 – 2.9**	1.8	n/a

The movements in decommissioning liabilities are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance	**260,048**	108,961	128,209
Additional accrual	**25,666**	–	–
Change in assumptions	**–**	(3,841)	–
Interest cost	**9,998**	18,173	19,062
Business combinations	**–**	160,775	14,927
Usage of decommissioning liability	**(12,157)**	(4,709)	–
Reclassified to assets held for sale	**–**	–	(63,314)
Foreign exchange difference	**(4,129)**	(19,311)	10,077
Closing balance	**279,426**	260,048	108,961

	December 31,		
	2009	2008	2007
Current portion	**17,123**	5,308	–
Non-current portion	**262,303**	254,740	108,961
	279,426	260,048	108,961

Provisions

The current portion of provisions is included in the caption 'Other current liabilities'. The total amount of the provisions is presented in the table below:

	December 31,		
	2009	2008	2007
Environmental claims	**36,708**	42,730	24,459
Restructuring	**43,671**	12,664	8,284
Social security claims	**36,713**	32,421	30,259
Other employee related	**28,013**	22,089	16,075
Legal claims	**18,633**	40,034	27,423
Other	**39,300**	70,425	4,376
	203,038	220,363	110,876

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26. Other non-current liabilities (continued)

	December 31,		
	2009	2008	2007
Current portion	**101,919**	80,918	43,974
Non-current portion	**101,119**	139,445	66,902
	203,038	220,363	110,876

These provisions represent management's best estimate of the potential losses arising in these cases, calculated based on available information and appropriate assumptions used. The actual outcome of those cases is currently uncertain and might differ from the recorded provisions.

The movements in the provisions are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance	**220,363**	110,876	79,150
Charge to the income statement	**58,764**	95,875	32,907
Business combinations	**–**	49,114	781
Usage of provisions	**(72,705)**	(27,648)	(5,821)
Business de-combinations	**–**	–	(6,321)
Foreign exchange difference	**(3,384)**	(7,854)	10,180
Closing balance	**203,038**	220,363	110,876

27. Share capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUR 0.01 each. Authorized share capital of Severstal at December 31, 2009, 2008 and 2007 comprised 1,007,701,355 issued and fully paid 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 total value of issued share capital presented in these consolidated financial statements comprises:

	Number of shares, thsd.	US$'000
Share capital at December 31, 2007	1,007,701	3,311,288
Share capital at December 31, 2008	1,007,701	3,311,288
Share capital at December 31, 2009	**1,007,701**	**3,311,288**

All shares carry equal voting and distribution rights.

During 2008, the Parent Company repurchased 2,499 thousand of issued shares for a total consideration of US$26.3 million.

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This policy includes compliance with certain externally imposed minimum capital requirements. The Group's management constantly monitors profitability and leverage ratios and compliance with the minimum capital requirements. The Group uses the return on assets ratio which is defined as profit from operations divided by total assets (averaged over the measurement period) and the leverage ratio calculated as net debt, comprising of long-term and short-term indebtedness less cash, cash equivalents and short-term bank deposits, divided by shareholder's equity. The level of dividends is also monitored by the Board of Directors of the Group.

There were no changes in the Group's approach to capital management during the year.

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 reporting date, reserves available for distribution of US$5,443.9 million, were not yet approved by the Board of Directors (December 31, 2008: US$6,744.0 million; December 31, 2007: US$5,894.9 million).

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

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

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

On December 20, 2007 a Meeting of Shareholders approved an interim dividend of 2.5 rubles (US$0.1 at December 20, 2007 exchange rate) per share and per GDR for the third quarter of 2007.

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

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

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

On December 26, 2008 a Meeting of Shareholders approved an interim dividend of 7.17 rubles (US$0.2 at December 26, 2008 exchange rate) per share and per GDR for the third quarter of 2008.

On June 15, 2009, a Meeting of Shareholders approved the decision not to pay the annual dividend in respect of 2008.

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28. Discontinued operations and assets held for sale

The Group's discontinued operations consisted of OAO Metallurgical Commercial Bank (representing the Group's Financing segment) which was disposed of in November 2007, and Lucchini companies which were classified as held for sale as at December 31, 2007. The post-tax loss on the disposal of OAO Metallurgical Commercial Bank amounted to US$10.2 million.

The results of discontinued operations and net cash flows were as follows:

	Year ended December 31,		
	2009	2008	2007
Revenue	**–**	–	831
Expenses	**–**	–	(2,914)
Other income	**–**	–	3,821
Profit before income tax	**–**	–	1,738
Income tax expense	**–**	–	(1,305)
Profit for the year	**–**	–	433
Net cash from operating activities	**–**	–	(64,446)
Net cash from financing activities	**–**	–	–

The Group's assets held for sale as at December 31, 2007 were primarily the Kuzbass coal mines, a group of subsidiaries, which the Group disposed of in the first half of 2008, and the Lucchini and Metalware segments' companies.

The major classes of assets and liabilities of the disposal groups measured at the lower of carrying amount and fair value less costs to sell at December 31, 2009, 2008 and 2007 were as follows:

	December 31,		
	2009	2008	2007
Current assets:			
Cash and cash equivalents	**1,267**	46	6,199
Short-term financial investments	**–**	–	18,550
Trade accounts receivable	**5,868**	–	2,365
Accounts receivable from related parties	**–**	–	2,732
Inventories	**1,617**	5,525	9,182
VAT recoverable	**263**	1,406	1,808
Income tax recoverable	**–**	–	422
Other current assets	**1,627**	–	5,160
Total current assets	**10,642**	6,977	46,418
Non-current assets:			
Long-term financial investments	**–**	–	2,540
Investments in associates	**–**	–	1
Property, plant and equipment	**13,773**	1,895	332,632
Intangible assets	**–**	–	30,710
Deferred tax assets	**–**	–	24,913
Other non-current assets	**–**	–	28,127
Total non-current assets	**13,773**	1,895	418,923
Total assets	**24,415**	8,872	465,341
Current liabilities:			
Trade accounts payable	**2,870**	–	7,938
Other taxes and social security payable	**111**	4	3,862
Other current liabilities	**8,360**	–	6,980
Total current liabilities	**11,341**	4	18,780
Non-current liabilities:			
Retirement benefit liabilities	**–**	–	9,260
Other non-current liabilities	**638**	–	63,710
Total non-current liabilities	**638**	–	72,970
Total liabilities	**11,979**	4	91,750

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29. Subsidiary and associated companies

The following is a list of the Group's significant subsidiaries, associates and joint ventures and the effective ownership holdings therein:

Company	December 31, 2009	2008	2007	Location	Activity
Russian Steel segment:					
Subsidiaries:					
ZAO Severgal	**100.0%**	100.0%	100.0%	Russia	Hot dip galvanizing
ZAO Severstal SMZ-Kolpino	**100.0%**	100.0%	100.0%	Russia	Steel constructions
ZAO Severstal TPZ-Sheksna	**100.0%**	100.0%	100.0%	Russia	Steel constructions
ZAO Severstal Steel Solutions	**100.0%**	100.0%	100.0%	Russia	Steel constructions
OOO SSM-Tyazhmash	**100.0%**	100.0%	100.0%	Russia	Repairs and construction
OAO Domnaremont	**82.7%**	82.7%	82.7%	Russia	Repairs and construction
ZAO Firma Stoik	**99.9%**	99.9%	100.0%	Russia	Repairs and construction
OAO Metallurgremont	**n/a**	n/a	79.8%	Russia	Repairs and construction
OOO Energoremont	**100.0%**	100.0%	100.0%	Russia	Repairs and construction
OOO Electroremont	**100.0%**	100.0%	93.3%	Russia	Repairs and construction
Victory Industries, Inc.	**99.9%**	100.0%	100.0%	USA	Repairs and construction
OOO AviaCompany Severstal	**100.0%**	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	**99.8%**	100.0%	100.0%	Switzerland*	Steel sales
AS Severstallat	**84.2%**	50.5%	50.5%	Latvia*	Steel sales
Latvijas Metals	**84.2%**	50.5%	50.5%	Latvia*	Steel sales
ZAO SeverStalBel	**100.0%**	100.0%	80.6%	Belarus*	Steel sales
Severstal-Ukraine LLC.	**51.0%**	51.0%	51.0%	Ukraine*	Steel sales
Armaturu Servisa Centrs SIA	**84.2%**	50.5%	25.2%	Latvia*	Steel service center
ZAO Neva-Metall Trans	**n/a**	n/a	100.0%	Russia	Shipping operations
ZAO Neva-Metall	**100.0%**	100.0%	100.0%	Russia	Shipping operations
Upcroft Limited	**100.0%**	100.0%	100.0%	Cyprus*	Holding company**
Varndell Limited	**100.0%**	100.0%	100.0%	Cyprus*	Holding company**
ZAO Vtorchermet	**71.2%**	85.6%	84.8%	Russia	Processing scrap
ZAO Rospromresursy	**100.0%**	100.0%	100.0%	Russia	Processing scrap
OAO Murmanskvtormet	**50.9%**	75.1%	75.1%	Russia	Processing scrap
OAO Arhangelskii vtormet	**50.0%**	75.0%	75.0%	Russia	Processing scrap
ZAO Trade House Severstal-Invest	**100.0%**	100.0%	100.0%	Russia	Metal sales
ZAO North Steel Company	**99.9%**	99.0%	99.0%	Russia	Leasing
OAO Rostovmetall	**94.6%**	87.0%	87.0%	Russia	Leasing
ZAO PPTK-1	**100.0%**	99.0%	99.0%	Russia	Leasing
ZAO Izhora Pipe Mill	**100.0%**	100.0%	100.0%	Russia	Wide pipes
OAO Severstal-Metiz	**100.0%**	100.0%	97.0%	Russia	Steel machining
OAO Dneprometiz	**98.7%**	96.8%	58.2%	Ukraine	Steel machining
Carrington Wire Ltd.	**n/a**	100.0%	97.0%	UK	Steel machining
Redaelli Tecna S.p.A.	**100.0%**	100.0%	n/a	Italy	Steel machining
OOO UniFence	**100.0%**	100.0%	97.0%	Russia	Steel machining
OOO ChSPZ MKR (UniSpring)	**100.0%**	100.0%	97.0%	Russia	Mattress springs
OOO 'Severstal-metiz: welding consumables'	**100.0%**	n/a	n/a	Russia	Welding consumables

Company	December 31, 2009	2008	2007	Location	Activity
Associates:					
Air Liquide Severstal	**25.0%**	25.0%	25.0%	Russia	Production liquid oxygen
Todlem S.L.	**25.0%**	n/a	n/a	Spain	Holding company
OOO Gestamp -Severstal-Kaluga	**25.0%**	n/a	n/a	Russia	Production car body Components
Stadco OOO	**22.5%**	n/a	n/a	Russia	Production car body Components
Companies classified as held for sale:					
OOO 'Severstal-metiz: welding consumables'	**n/a**	100.0%	n/a	Russia	Welding consumables
Carrington Wire Ltd.	**100.0%**	n/a	n/a	UK	Steel machining

(*) – Russian Steel segment 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.

(**) – Upcroft is holding 29.0% of Lucchini S.p.A. and Varndell is holding 50.8% of Lucchini S.p.A..

Company	December 31, 2009	2008	2007	Location	Activity
Severstal North America segment:					
Subsidiaries:					
Severstal US Holdings LLC	**100.0%**	100.0%	100.0%	USA	Holding company
Baracom Limited	**100.0%**	100.0%	100.0%	Cyprus	Holding company
Severstal Dearborn, Inc.	**100.0%**	100.0%	100.0%	USA	Iron and steel mill
Severstal Columbus LLC	**100.0%**	91.8%	74.2%	USA	Steel mill
Severstal Warren Inc.	**100.0%**	100.0%	n/a	USA	Steel mill
Severstal Wheeling Holding Company	**100.0%**	100.0%	n/a	USA	Steel mill
Severstal Sparrows Point LLC	**100.0%**	100.0%	n/a	USA	Steel mill
Mountain State Carbon LLC	**100.0%**	100.0%	50.0%	USA	Coking coal
Northern Steel Group Inc.	**100.0%**	100.0%	n/a	USA	Steel service center
Associates:					
Delaco Processing LLC	**49.0%**	49.0%	49.0%	USA	Steel slitting
Joint ventures:					
Spartan Steel Coating LLC	**48.0%**	48.0%	48.0%	USA	Hot dip galvanizing
Double Eagle Steel Coating company	**50.0%**	50.0%	50.0%	USA	Electro-galvanizing
Bethlehem Roll Technologies LLC	**50.0%**	50.0%	n/a	USA	Grinding steel mill rolls
Ohio Coatings Company	**50.0%**	50.0%	n/a	USA	Tin plate steel
Lucchini segment:					
Subsidiaries:					
Lucchini S.p.A.	**79.8%**	79.8%	79.8%	France	Holding company
Ascometal SAS	**79.8%**	79.8%	79.8%	France	Steel manufacturing
Ascometal GmbH	**79.8%**	79.8%	79.8%	Germany	Sales
Bari Fonderie Meridionali S.p.A.	**79.8%**	79.8%	79.8%	Italy	Forgings
Bi-Mec Srl	**n/a**	n/a	79.8%	Italy	Maintenance
GSI Lucchini S.p.A.	**55.3%**	55.3%	55.3%	Italy	Steel spheres
Lucchini Asia Pacific Pte Ltd.	**79.8%**	79.8%	79.8%	Singapore	Sales
Lucchini Holland B.V.	**79.8%**	79.8%	79.8%	The Netherlands	Investment holding

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29. Subsidiary and associated companies (continued)

Company	December 31, 2009	2008	2007	Location	Activity
Lucchini Iberia SI	**79.8%**	79.8%	79.8%	Spain	Sales
Lucchini Servizi Srl	**79.8%**	79.8%	79.8%	Italy	Dormant
Lucchini Siderprodukte AG	**n/a**	51.9%	51.9%	Switzerland	Sales
Luchini USA Inc.	**79.8%**	79.8%	79.8%	USA	Sales
Servola S.p.A.	**79.8%**	79.8%	79.8%	Italy	Asset holding
Sideris Steel SAS	**79.8%**	79.8%	79.8%	France	Investment holding
Simmofos Sarl	**n/a**	n/a	79.8%	France	Asset holding
Vertek Srl	**n/a**	n/a	79.8%	Italy	Steel finishing
Siderco S.p.A.	**n/a**	n/a	79.8%	Italy	Slag processor
Associates:					
ESPRA SAS	**27.9%**	27.9%	27.9%	France	Steel scrap
Logistica Servola Srl	**39.9%**	39.9%	39.9%	Italy	Dormant
Tecnologie Ambientali Pulite Srl	**19.9%**	19.9%	19.9%	Italy	Environmental services
GICA SA	**19.9%**	19.9%	19.9%	Switzerland	Carbon dioxide trading
Companies classified as held for sale:					
Relco Spzoo	**n/a**	n/a	79.8%	Poland	Land holding
Coimpex Spzoo	**n/a**	n/a	31.9%	Poland	Land holding
Severstal Resource segment:					
Subsidiaries:					
OAO Karelsky Okatysh	**100.0%**	100.0%	94.8%	Russia	Iron ore pellets
OAO Olkon	**100.0%**	100.0%	92.7%	Russia	Iron ore concentrate
Severstal Liberia Iron Ore Ltd.	**61.5%**	61.5%	n/a	Liberia	Iron ore
OAO Vorkutaugol	**94.0%**	94.0%	93.1%	Russia	Coking coal concentrate
OAO Mine Vorgashorskaya	**75.0%**	75.0%	75.0%	Russia	Coking coal concentrate
PBS Coals Limited	**100.0%**	100.0%	n/a	Canada	Coking coal concentrate
OAO Mine Pervomaiskaya	**n/a**	n/a	99.4%	Russia	Coking coal concentrate
OAO Mine Berezovskaya	**n/a**	n/a	97.5%	Russia	Coking coal concentrate
OAO SShEMK	**n/a**	n/a	75.6%	Russia	Engineering
OAO Severokuzbasskoe PTU	**n/a**	n/a	87.3%	Russia	Transportation
OAO Anzhero-Sudzhenskoe PTU	**n/a**	n/a	94.4%	Russia	Transportation
OOO Neryungri Metallic	**100.0%**	100.0%	100.0%	Russia	Gold mining
ZAO Mine Aprelkovo	**100.0%**	100.0%	100.0%	Russia	Gold mining
Celtic Resources Holdings Ltd.	**100.0%**	100.0%	86.3%	Ireland	Holding company
JSC FIC Alel	**100.0%**	100.0%	86.3%	Kazakhstan	Gold mining
Zherek LLP	**100.0%**	100.0%	86.3%	Kazakhstan	Gold mining
High River Gold Mines Ltd.	**50.1%**	53.8%	n/a	Canada	Holding company
OJSC Buryatzoloto	**42.6%**	45.7%	n/a	Russia	Gold mining
Berezitovy Rudnik LLC	**49.6%**	53.3%	n/a	Russia	Gold mining
Societe Des Mines de Taparko	**45.1%**	48.4%	n/a	Burkina Faso	Gold mining
Semgeo LLP	**100.0%**	100.0%	n/a	Kazakhstan	Gold mining
OOO SPB-Giproshakht	**100.0%**	100.0%	100.0%	Russia	Engineering
Mining Holding Company LLC	**100.0%**	100.0%	100.0%	Russia	Holding company
Lybica Holding B.V.	**100.0%**	100.0%	n/a	The Netherlands	Holding company

Company	December 31, 2009	2008	2007	Location	Activity
7029740 Canada Limited	**100.0%**	100.0%	n/a	Canada	Holding company
Severstal Gold N.V.	**100.0%**	n/a	n/a	The Netherlands	Holding company
Altcom Limited	**100.0%**	n/a	n/a	The Netherlands	Holding company
Joint ventures:					
Prognoz Serebro LLC	**50.0%**	50.0%	n/a	Russia	Silver project

In addition, at the reporting date, a further 45 (December 31, 2008: 42; December 31, 2007: 46) subsidiaries and associates, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

Information on carrying amounts of associated companies is disclosed in Note 20 of these consolidated financial statements.

Acquisitions from Majority Shareholder

During 2008 and 2007, Severstal completed acquisitions of controlling stakes in a number of companies previously controlled by Severstal's Majority Shareholder. These 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.

In July 2007, the Group acquired a 100.0% stake in each of the companies OOO Petrovtormet and OOO Severstalskrap-Komi, for a total consideration of US$0.02 million and US$0.2 million, respectively, and a 75.01% and a 75.1% stake in OAO Arhangelskii vtormet and in OAO Murmanskvtormet, for a total consideration of US$2.2 million and US$2.9 million, respectively.

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

In December 2008, the Group completed the acquisition of a 100.0% stake of a trading company, ZAO Trade House Severstal-Invest, for a total consideration of US$27.4 million. ZAO Trade House Severstal-Invest owns a 99.0% stake in OOO North Steel Company, a 87.0% stake in OAO Rostovmetall, and a 99.0% in ZAO PPTK-1.

Acquisitions of subsidiaries from third and other related parties

Acquisitions in 2007

In January 2007, the Group completed the acquisition of 84.8% of the share capital of ZAO Vtorchermet and its wholly-owned subsidiaries and certain related companies for a total consideration of US$45.4 million. ZAO Vtorchermet is a scrap processing and wholesale company, and the majority of its operations are located in Saint Petersburg.

In March 2007, the Group purchased 100.0% of the share capital of Siderco S.p.A. from the Lucchini family for €1.4 million (US$1.8 million at the transaction date exchange rate).

In May 2007, the Group completed the acquisition of a 100.0% stake in a stevedore company, ZAO Neva-Metall, for US$98.7 million and 100.0% of the shipping agency ZAO Neva-Metall Trans for US$1.3 million from a related party. The majority of their operations are located in Saint Petersburg.

In July 2007, the Group acquired a 100.0% stake in each of the companies OOO Georesurs, OOO Severstal-Vtormet, and OOO SPB-Giproshakht for a total consideration of US$2.1 million, US$24.9 million, and US$6.3 million, respectively.

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29. Subsidiary and associated companies (continued)

In October 2007, the Group acquired a 100.0% stake in OOO Nerengri-Metallik and a 100.0% stake in ZAO Mine Aprelkovo for a total consideration of US$105.0 million and US$153.0 million, respectively. OOO Nerengri-Metallik mines gold from the Tabornoye deposit in the Sakha-Yakutiya Republic, ZAO Mine Aprelkovo mines from the Pogromnoye gold deposit in the Chita Region. Both deposits are operated as open-pit mines with gold extracted utilizing heap leaching technology.

The acquirees' profits since the acquisition dates included in the Group's profit for 2007, as well as the revenue and profit of the acquired entities from the beginning of the period to the dates of acquisition, individually and in the aggregate, are insignificant to the Group's revenue and profit for 2007.

During August – December 2007, the Group acquired an 86.3% stake in Celtic Resources Holdings Plc. for a total consideration of US$264.6 million. Celtic Resources Holdings is a mining company based in Dublin, Ireland. CRH owns and operates gold mines, including the Suzdal Mine (JSC FIK Alel) and Zherek Mine (Zherek LLP) in Kazakhstan.

The acquirees' profit since the acquisition dates included in the Group's profit for 2007, is insignificant to the Group's profit for the period. The acquirees' revenue and profit from the beginning of the period to the dates of acquisition comprised US$62.0 million and US$7.0 million respectively.

Acquisitions in 2008

In January 2008, the Group acquired a 91.6% stake in OAO StalMag for a total consideration of US$17.6 million. OAO StalMag is a ferroniobium producer whose production will be used by the Group's entities.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit of the acquired entity from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

In May 2008, the Group acquired a 100% stake in Severstal Sparrows Point, LLC ('Sparrows Point'), for a total consideration of US$818 million, subject to certain adjustments of US$48 million, resulting in a final consideration paid of US$770 million. Sparrows Point is an integrated steel plant on the East Coast of USA with its own deep water port and rail connection to the main East Coast rail networks.

The acquiree's loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for 2008. The loss since the acquisition date included in the Group's profit for 2008 amounted to US$130.8 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$766.1 million.

In July 2008, the Group acquired a 100% stake in WCI Steel Inc. (re-named to Severstal Warren Inc.) for a total consideration of US$443.1 million. WCI Steel Inc. operates a steel mill in Warren, Ohio, and is an integrated producer of flat-rolled steel products, including high carbon, alloy, ultra high strength, and heavy-gauge galvanized steel.

The acquiree's loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for 2008. The loss since the acquisition date included in the Group's profit for 2008 amounted to US$41.7 million. In addition an impairment loss of US$382.6 million has been recognized and was allocated to property, plant and equipment in the amount of US$376.0 million and to goodwill in the amount of US$6.6 million, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$498 million.

In July 2008, the Group acquired a 100% stake in Redaelli Tecna S.p.A. for an approximate total consideration of €35 million (US$54.8 million at the transaction date exchange rate). Redaelli Tecna S.p.A. is a manufacturer of high performance wire ropes for industrial hoisting, mining, cableways, material transportation, etc.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

In August 2008, the Group acquired a 100% stake in Esmark (re-named to Severstal Wheeling Inc.) for a total consideration of US$977.8 million. Esmark was a manufacturer and distributor of flat rolled and other steel products in the United States. The Group acquired all of Esmark's business, including the remaining 50% stake in Mountain State Carbon LLC previously accounted for under the equity method.

The acquiree's profit from the beginning of the period to the date of acquisition comprised US$29.6 million. The profit since the acquisition date included in the Group's profit for 2008 amounted to US$166.9 million. In addition an impairment loss of US$621.8 million has been recognized and was allocated to property, plant and equipment in the amount of US$557.4 million and to goodwill in the amount of US$64.4 million, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$1,629.0 million.

In August 2008, the Group acquired a 100% stake in Semgeo LLP, operating a gold mine Balazhal in East Kazakhstan for a total consideration of US$38.9 million. Management determined that the fair value of the net identifiable assets and liabilities acquired was substantially the same as the book value.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

In November 2008, the Group acquired a 100.0% stake in PBS Coals Ltd., a US coal mining company, for a total cash consideration of US$876.8 million.

The acquiree's profit from the beginning of the period to the date of acquisition comprised US$8.4 million. The loss since the acquisition date included in the Group's profit for 2008 amounted to US$4.1 million. In addition an impairment loss of US$361.1 million has been recognized and was allocated fully to goodwill, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$184.9 million.

In November 2008, the Group acquired a 53.8% stake in High River Gold Mines Ltd.. for a total cash consideration of US$62.5 million. High River is a gold company with interests in producing mines, mines under development and advanced exploration projects in Burkina Faso and Russia. Two producing mines, Zun-Holba and Irokinda (OJSC 'Buryatzoloto'), are situated in the Lake Baikal region of Russia. Two new open pit gold mines, Taparko-Bouroum (Societe Des Mines de Taparko) in Burkina Faso, and Berezitovy (Berezitovy Rudnik LLC) in Russia, were put into full production in 2008.

The acquiree's loss from the beginning of the period to the date of acquisition comprised US$38.9 million. The loss since the acquisition date included in the Group's profit for 2008 amounted to US$5.8 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$177.0 million.

In December 2008, the Group acquired a 61.5% stake in African Iron Ore Group Ltd. (re-named to Severstal Liberia Iron Ore Ltd.) for a total cash consideration of US$32.0 million. Severstal Liberia Iron Ore Ltd. is performing geological survey and exploration of the iron ore deposits in Putu Range, Liberia. Management determined that the fair value of the net identifiable assets and liabilities acquired was substantially the same as the book value.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

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29. Subsidiary and associated companies (continued)

A summary of assets and liabilities acquired from third and other related parties excluding acquisitions from the Majority Shareholder during 2008 and 2007 is presented below:

	Year ended December 31,	
	2008	2007
Cash and cash equivalents	180,048	26,480
Trade accounts receivable	579,804	19,772
Inventories	1,397,780	64,296
Deferred tax assets	33,364	11,208
Property, plant and equipment	2,668,092	185,054
Intangible assets	740,236	474,509
Assets held for sale	–	18,789
Other current assets	147,887	76,162
Other non-current assets	60,521	–
Trade accounts payable	(585,642)	(16,213)
Other taxes and social security payable	(2,929)	(5,466)
Deferred tax liabilities	(384,180)	(122,484)
Retirement benefit liability	(410,532)	–
Debt finance	(579,822)	(63,223)
Other current liabilities	(296,792)	(41,906)
Other non-current liabilities	(271,639)	(16,715)
Net identifiable assets and liabilities acquired	3,276,196	610,263
Non-controlling interests	(152,821)	(45,662)
Severstal's share of net identifiable assets and liabilities acquired	3,123,375	564,601
Investments in Mountain State Carbon at equity	(112,809)	–
Fair value adjustment upon acquisition of subsidiary to previously held interest	(33,020)	–
Consideration:		
Consideration in cash	(3,255,971)	(669,759)
Consideration of other financial assets	(17,600)	(33,321)
Consideration payable	7,230	–
Positive goodwill on acquisition of subsidiaries	(588,351)	(150,702)
Negative goodwill on acquisition of subsidiaries	292,326	12,223
Net change in cash and cash equivalents	(3,068,693)	(643,279)

Included in negative goodwill is US$197 million which is the difference between the purchase price and fair market value of the acquired net assets of Sparrows Point LLC. This difference arose primarily due to Severstal's competitive position in negotiations based on exclusive USW's (United Steelworkers of America) support in bidding and time restrictions in the administered sales process.

Also included in negative goodwill is US$78 million which is the difference between the purchase price and fair value of the acquired consolidated net assets of High River Gold Mines Ltd. This difference arose primarily due to a lack of High River`s and its prior shareholders' ability to service its debt.

Final purchase price allocation

During the year ended December 31, 2009, management completed the purchase price allocation of PBS Coals Limited, Redaelli Tecna S.p.A., High River Gold Mines Ltd. acquired during July – December 2008. The effect of the final purchase price allocation on these consolidated financial statements is the following:

	Increase/(decrease) compared to the provisional purchase price allocation at December 31, 2008 US$, thousand
Cash and cash equivalents	(854)
Trade accounts receivable	(392)
Inventories	(6,668)
VAT recoverable	703
Other current assets	(375)
Long-term financial investments	360
Investment in associates and joint ventures	6,765
Property, plant and equipment	(40,913)
Intangible assets	56,172
Deferred tax assets	19,049
Other non-current assets	(108)
Trade accounts payable	1,635
Short-term debt finance	61,180
Income taxes payable	(827)
Other taxes and social security payable	2,323
Other current liabilities	5,559
Long-term debt finance	(50,779)
Deferred tax liabilities	(12,948)
Other non-current liabilities	28,671
Foreign exchange differences	1,175
Retained earnings	(7,063)
Other reserves	9,104
Non-controlling interests	(4,291)

The comparative information at December 31, 2008, has been restated as if the accounting for the business combination had been completed at the acquisition date.

Acquisitions of non-controlling interests

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

In May 2007, the Group acquired an additional 9.0% stake in Lucchini S.p.A. from a Lucchini family company for a total consideration of €85.2 million (US$114.8 million at the transaction date exchange rate). After the acquisition, the Group's share in the capital of Lucchini S.p.A. was 79.8%.

In May 2007, the Group completed the acquisition of a 100.0% stake in ZAO Severgal by acquiring the remaining 25.01% stake for a total consideration of US$20 million.

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29. Subsidiary and associated companies (continued)

In June 2007, the Group acquired a 1.9%, a 0.6%, a 3.6%, a 1.2%, and a 1.0% stake in OAO Karelsky Okatysh, OAO Olkon, OAO Vorkutaugol, OAO Mine Vorgashorskaya, and in OAO Mine Berezovskaya for a total consideration of US$23.5 million, US$1.9 million, US$29.3 million, US$0.6 million, and US$0.7 million, respectively.

In January 2008, the Group completed the acquisition of a 100% stake in Celtic Resources Holdings Plc. by acquiring the remaining 13.7% stake in the company for a total consideration of US$44 million. Celtic Resources Holdings is a mining company based in Dublin, Ireland, which owns and operates gold mines, including the Suzdal Mine (JSC FIC Alel) and Zherek Mine (Zherek LLP) in Kazakhstan.

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

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

In August – September 2008, the Group acquired a 0.9% stake in OAO Vorkutaugol for a total consideration of US$5.3 million.

In August – October 2008, the Group completed the acquisition of 100% stakes in OAO Karelsky Okatysh, OAO Olkon and in OAO Severstal-Metiz by acquiring the remaining 5.2%, 7.3% and 3.0% stakes in entities for a total consideration of US$70.6 million, US$32.7 million and US$9.7 million, respectively.

In June 2009, the Group acquired all newly issued shares in High River Gold Mines, Ltd. resulting in a 3.5% stake increase. Furthermore, in August 2009, the Group acquired an additional 4.5% stake in High River Gold Mines, Ltd. from non-controlling shareholders for a total consideration of US$8 million.

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

Disposals of subsidiaries

In June 2007, the Group sold 100.0% (effective ownership was 79.8%) of Lucchini Sidermeccanica S.p.A. and its wholly owned subsidiaries (Lucchini UK Ltd., Lucchini Sweden AB and Lucchini Poland Spzoo) to members of the founding Lucchini family for a total consideration of €127.8 million (US$172.5 million at the transaction date exchange rate).

In July 2007, the Group sold 100.0% (effective ownership was 79.8%) of Nitruvid SAS to a third party for a total consideration of €6.5 million (US$8.9 million at the transaction date exchange rate).

In October 2007, the Group sold 100.0% (effective ownership was 79.8%) participation in Ascoforge Safe SAS to a third party for a total consideration of one Euro (US$1.3 at the transaction date exchange rate).

In November 2007, the Group sold its 73.1% participation in OAO Metallurgical Commercial Bank to a company controlled by Severstal's Majority Shareholder for a total consideration of US$43.0 million.

In December 2007, the Group sold 100.0% of OOO URALMASH-Metallurgicheskoe Oborudovanie to a third party for a total consideration of US$14.9 million.

As part of the realization of the disposal plan identified in 2003, in August, 2005 the Group sold its interest in Huta LW Spzoo and its subsidiaries to Arcelor. The proceeds comprised an immediate cash payment and a deferred consideration of €61.4 million (US$73.0 million at December 31, 2005 exchange rate). In August 2007, the Group received a payment in the amount of US$83.8 million.

In February 2008, the Group sold 100.0% of OOO Georesurs to a third party for a total consideration of RUR 100,000 (US$4 thousands at the transaction date exchange rate).

In April 2008, the Group sold its 97.9%, 99.5% and 100.0% participation in OAO Mine Berezovskaya, OAO Mine Pervomaiskaya and ZAO Zhernovskaya-3 respectively to ArcelorMittal for a total consideration of US$652 million.

In June 2008, the Group sold its 100% and 40.0% participation in Relco Spzoo and Coimpex Spzoo respectively for a total consideration of €12 million (US$18 million at the transaction date exchange rate).

In December 2008, the Group sold its 59.4% participation in OAO Metallurgremont to a company controlled by Severstal's Majority Shareholder for a total consideration of RUR 75.9 million (US$2.7 million at the transaction date exchange rate).

A summary of assets and liabilities disposed during 2008 and 2009 is presented below:

	Year ended December 31,	
	2008	2007
Cash and cash equivalents	(1,498)	(235,220)
Trade accounts receivable	(3,885)	(151,658)
Inventories	(7,725)	(108,238)
Financial investments	(551)	(237,408)
Other assets	(13,470)	(30,537)
Property, plant and equipment	(7,699)	(158,890)
Intangible assets	(3,621)	(3,105)
Deferred tax assets	–	(759)
Assets held for sale	(443,021)	–
Trade accounts payable	4,833	205,171
Bank customer accounts	–	345,753
Income tax payable	–	9,375
Other taxes and social security payable	945	13,369
Deferred tax liabilities	27	9,250
Retirement benefit liability	1,117	23,490
Debt finance	3,150	66,108
Liabilities held for sale	88,942	–
Other liabilities	21,634	30,743
Net identifiable assets	(360,822)	(222,556)
Non-controlling interests	2,042	16,315
Sub-total	(358,780)	(206,241)
Consideration in cash	673,215	239,308
Selling costs	–	(1,560)
Net gain on disposal	314,435	31,507
Deferred consideration received	–	83,842
Group's cash and cash equivalents in Metcombank	–	149,608
Net change in cash and cash equivalents	671,717	235,978

Dilution of Group ownership

In December 2009, Group's share in High River Gold Mines Ltd. decreased from 61.7% to 50.1% as a result of a private placement of 150 million common shares to a third party for a total consideration of US$54.3 million.

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30. Segment information

Segmental statements of financial position as at December 31, 2009

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Inter segment balances	Conso-lidated
Assets						
Current assets:						
Cash and cash equivalents	126,550	2,063,808	473,765	189,253	–	2,853,376
Short-term bank deposits	136	89,597	–	5,800	–	95,533
Short-term financial investments	19,318	315,927	567	–	(262,683)	73,129
Trade accounts receivable	80,993	670,978	411,831	293,849	–	1,457,651
Amounts receivable from related parties	84,284	28,875	3,726	3,063	(93,232)	26,716
Inventories	258,952	1,129,755	600,883	996,344	(11,707)	2,974,227
VAT recoverable	52,179	172,336	63,517	–	–	288,032
Income tax recoverable	9,491	18,440	5,594	72,494	–	106,019
Other current assets	57,588	127,102	18,180	82,583	–	285,453
Assets held for sale	–	23,115	–	1,300	–	24,415
Total current assets	689,491	4,639,933	1,578,063	1,644,686	(367,622)	8,184,551
Non-current assets:						
Long-term financial investments	70,830	5,942,956	8,438	11,752	(5,905,360)	128,616
Investment in associates and joint ventures	6,572	48,738	2,164	86,383	–	143,857
Property, plant and equipment	1,379,835	3,391,735	1,481,522	3,262,165	(29,777)	9,485,480
Intangible assets	1,109,294	113,576	37,197	109,137	–	1,369,204
Restricted cash	17,541	–	–	–	–	17,541
Deferred tax assets	30,321	45,563	73,951	90,000	–	239,835
Other non-current assets	1,272	24,072	3,932	45,526	–	74,802
Total non-current assets	2,615,665	9,566,640	1,607,204	3,604,963	(5,935,137)	11,459,335
Total assets	3,305,156	14,206,573	3,185,267	5,249,649	(6,302,759)	19,643,886
Liabilities						
Current liabilities:						
Trade accounts payable	116,088	326,088	423,598	512,526	–	1,378,300
Amounts payable to related parties	7,355	92,792	233	9,756	(93,480)	16,656
Short-term debt finance	240,224	648,419	156,672	560,015	(127,029)	1,478,301
Income taxes payable	2,603	25,454	4,786	1,307	–	34,150
Other taxes and social security payable	56,116	75,490	57,004	20,474	–	209,084
Dividends payable	32	5,672	–	–	–	5,704
Other current liabilities	106,984	258,123	126,880	201,857	–	693,844
Liabilities related to assets held for sale	–	11,979	–	–	–	11,979
Total current liabilities	529,402	1,444,017	769,173	1,305,935	(220,509)	3,828,018
Non-current liabilities:						
Long-term debt finance	674,419	4,198,250	1,009,304	1,097,674	(1,231,088)	5,748,559
Deferred tax liabilities	251,004	143,053	3,143	–	(2,210)	394,990
Retirement benefit liabilities	24,572	122,679	127,165	513,298	–	787,714
Other non-current liabilities	187,625	25,242	75,910	219,489	–	508,266
Total non-current liabilities	1,137,620	4,489,224	1,215,522	1,830,461	(1,233,298)	7,439,529
Equity	1,638,134	8,273,332	1,200,572	2,113,253	(4,848,952)	8,376,339
Total equity and liabilities	3,305,156	14,206,573	3,185,267	5,249,649	(6,302,759)	19,643,886

Segmental statements of financial position as at December 31, 2008

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Inter segment balances	Conso-lidated
Assets						
Current assets:						
Cash and cash equivalents	151,122	1,543,215	663,171	295,380	–	2,652,888
Short-term bank deposits	147	812,598	–	5,800	–	818,545
Short-term financial investments	4,476	260,303	6,163	–	(158,160)	112,782
Trade accounts receivable	89,221	809,718	695,522	347,415	–	1,941,876
Amounts receivable from related parties	62,978	70,190	8,286	7,041	(84,664)	63,831
Inventories	261,145	1,436,198	893,736	1,696,077	(15,270)	4,271,886
VAT recoverable	51,336	233,164	77,042	–	–	361,542
Income tax recoverable	16,489	137,558	7,508	11,392	–	172,947
Other current assets	45,154	132,463	19,099	82,991	–	279,707
Assets held for sale	–	8,872	–	–	–	8,872
Total current assets	682,068	5,444,279	2,370,527	2,446,096	(258,094)	10,684,876
Non-current assets:						
Long-term financial investments	27,401	5,010,356	10,993	–	(4,978,408)	70,342
Investment in associates and joint ventures	6,765	10,223	2,112	91,807	–	110,907
Property, plant and equipment	1,467,180	3,475,931	1,597,947	3,313,302	(26,968)	9,827,392
Intangible assets	1,237,963	114,121	25,744	132,830	–	1,510,658
Restricted cash	12,734	–	–	8,969	–	21,703
Deferred tax assets	44,802	25,837	29,369	146,533	–	246,541
Other non-current assets	(41)	18,444	3,521	19,583	–	41,507
Total non-current assets	2,796,804	8,654,912	1,669,686	3,713,024	(5,005,376)	11,829,050
Total assets	3,478,872	14,099,191	4,040,213	6,159,120	(5,263,470)	22,513,926
Liabilities						
Current liabilities:						
Trade accounts payable	126,672	365,282	529,653	506,846	–	1,528,453
Amounts payable to related parties	3,921	132,194	4,875	16,120	(85,150)	71,960
Short-term debt finance	288,693	1,221,740	247,014	438,663	(157,417)	2,038,693
Income taxes payable	12,121	9,656	24,354	–	–	46,131
Other taxes and social security payable	58,272	63,838	74,890	16,315	–	213,315
Dividends payable	33	128,682	–	–	–	128,715
Other current liabilities	96,856	279,925	141,279	293,118	–	811,178
Liabilities related to assets held for sale	–	4	–	–	–	4
Total current liabilities	586,568	2,201,321	1,022,065	1,271,062	(242,567)	4,838,449
Non-current liabilities:						
Long-term debt finance	801,189	3,900,255	1,069,548	1,452,437	(996,204)	6,227,225
Deferred tax liabilities	320,404	103,856	75,514	–	(3,395)	496,379
Retirement benefit liabilities	50,504	122,959	132,246	473,587	–	779,296
Other non-current liabilities	182,436	8,029	125,543	303,953	–	619,961
Total non-current liabilities	1,354,533	4,135,099	1,402,851	2,229,977	(999,599)	8,122,861
Equity	1,537,771	7,762,771	1,615,297	2,658,081	(4,021,304)	9,552,616
Total equity and liabilities	3,478,872	14,099,191	4,040,213	6,159,120	(5,263,470)	22,513,926

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

30. Segment information (continued)

Segmental statements of financial position as at December 31, 2007

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Inter segment balances	Conso-lidated
Assets						
Current assets:						
Cash and cash equivalents	142,063	899,774	507,714	72,991	–	1,622,542
Short-term bank deposits	350	665,977	–	–	–	666,327
Short-term financial investments	126,403	689,422	23,127	–	(623,458)	215,494
Trade accounts receivable	57,383	745,196	813,534	152,925	–	1,769,038
Amounts receivable from related parties	91,523	53,136	2,836	2,831	(103,133)	47,193
Inventories	162,682	1,393,250	694,939	530,016	(60,253)	2,720,634
VAT recoverable	36,643	215,095	32,384	–	–	284,122
Income tax recoverable	17,066	40,148	12,245	12,504	–	81,963
Other current assets	57,958	202,441	35,169	23,393	–	318,961
Assets held for sale	440,686	6,937	17,718	–	–	465,341
Total current assets	1,132,757	4,911,376	2,139,666	794,660	(786,844)	8,191,615
Non-current assets:						
Long-term financial investments	2,772	2,167,879	21,656	–	(2,079,348)	112,959
Investment in associates and joint ventures	–	7,530	1,278	194,179	–	202,987
Property, plant and equipment	1,319,991	3,946,484	1,495,614	1,551,552	(24,525)	8,289,116
Intangible assets	526,378	135,159	19,045	6,485	–	687,067
Restricted cash	–	–	–	13,810	–	13,810
Deferred tax assets	16,048	10,194	37,943	–	–	64,185
Other non-current assets	1,008	17,418	2,948	17,710	–	39,084
Total non-current assets	1,866,197	6,284,664	1,578,484	1,783,736	(2,103,873)	9,409,208
Total assets	2,998,954	11,196,040	3,718,150	2,578,396	(2,890,717)	17,600,823
Liabilities						
Current liabilities:						
Trade accounts payable	52,242	246,018	610,982	302,131	–	1,211,373
Amounts payable to related parties	2,788	172,935	5,766	18,395	(108,337)	91,547
Short-term debt finance	707,900	645,518	328,391	16,293	(568,886)	1,129,216
Income taxes payable	8,729	17,529	15,065	–	–	41,323
Other taxes and social security payable	57,798	52,818	87,071	1,662	–	199,349
Dividends payable	–	107,485	–	–	–	107,485
Other current liabilities	79,440	379,901	130,020	30,379	629	620,369
Liabilities related to assets held for sale	91,599	–	151	–	–	91,750
Total current liabilities	1,000,496	1,622,204	1,177,446	368,860	(676,594)	3,492,412
Non-current liabilities:						
Long-term debt finance	391,878	1,139,557	650,105	843,495	(211,869)	2,813,166
Deferred tax liabilities	160,629	215,459	85,194	60,843	(12,716)	509,409
Retirement benefit liabilities	71,821	128,472	138,504	48,601	–	387,398
Other non-current liabilities	140,319	1,674	79,471	103,188	–	324,652
Total non-current liabilities	764,647	1,485,162	953,274	1,056,127	(224,585)	4,034,625
Equity	1,233,811	8,088,674	1,587,430	1,153,409	(1,989,538)	10,073,786
Total equity and liabilities	2,998,954	11,196,040	3,718,150	2,578,396	(2,890,717)	17,600,823

Segmental income statements for the year ended December 31, 2009

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Inter segment transactions	Conso-lidated
Sales						
Sales – external	1,146,856	6,081,434	1,750,029	3,973,350	–	12,951,669
Sales – to related parties	723,931	97,706	7,105	49,712	(775,624)	102,830
	1,870,787	6,179,140	1,757,134	4,023,062	(775,624)	13,054,499
Cost of sales	(1,405,604)	(4,081,420)	(1,948,050)	(4,697,487)	776,268	(11,356,293)
Gross profit/(loss)	465,183	2,097,720	(190,916)	(674,425)	644	1,698,206
General and administrative expenses	(107,560)	(340,902)	(128,195)	(162,106)	3,202	(735,561)
Distribution expenses	(141,936)	(638,735)	(72,720)	(13,470)	2,636	(864,225)
Other taxes and contributions	(85,827)	(64,011)	(13,573)	(8,190)	–	(171,601)
Share of associates' (loss)/profit	(2)	5,084	(372)	6,778	–	11,488
Net (loss)/gain from securities operations	(2,045)	3,592	(3,144)	–	(13,707)	(15,304)
(Loss)/gain on disposal of property, plant and equipment	(19,955)	(10,906)	(1,159)	40	(21)	(32,001)
Net other operating (expenses)/income	(16,755)	(16,114)	48,136	(48,929)	(2,667)	(36,329)
Profit/(loss) from operations	91,103	1,035,728	(361,943)	(900,302)	(9,913)	(145,327)
Impairment of non-current assets	(48,691)	(39,364)	(104,489)	(26,475)	–	(219,019)
Net other non-operating expenses	(7,978)	(26,591)	(2,651)	–	2,779	(34,441)
Profit/(loss) before financing and taxation	34,434	969,773	(469,083)	(926,777)	(7,134)	(398,787)
Interest income	1,259	303,507	8,342	4,547	(213,833)	103,822
Interest expense	(226,492)	(346,705)	(61,710)	(177,592)	211,255	(601,244)
Foreign exchange difference	(52,047)	(152,324)	(657)	–	–	(205,028)
(Loss)/profit before income tax	(242,846)	774,251	(523,108)	(1,099,822)	(9,712)	(1,101,237)
Income tax benefit/(expense)	25,896	(169,672)	111,603	15,501	(1,186)	(17,858)
(Loss)/profit from continuing operations	(216,950)	604,579	(411,505)	(1,084,321)	(10,898)	(1,119,095)
(Loss)/profit for the year	(216,950)	604,579	(411,505)	(1,084,321)	(10,898)	(1,119,095)
Additional information:						
depreciation and amortization expense	282,506	272,726	158,002	246,113	(2,183)	957,164
capital expenditures	242,325	368,627	133,247	238,476	(4,992)	977,683
intersegment sales (incl. in sales to related parties)	723,925	44,595	7,105	(1)	(775,624)	–

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for the years ended December 31, 2009, 2008 and 2007 (continued)
(Amounts expressed in thousands of US dollars, except as stated otherwise)

30. Segment information (continued)

Segmental income statements for the year ended December 31, 2008

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Inter segment transactions	Consolidated
Sales						
Sales – external	1,069,261	11,850,733	3,975,893	5,242,531	–	22,138,418
Sales – to related parties	1,383,443	213,051	13,599	76,912	(1,432,706)	254,299
	2,452,704	12,063,784	3,989,492	5,319,443	(1,432,706)	22,392,717
Cost of sales	(1,376,371)	(7,388,040)	(3,372,444)	(5,841,559)	1,478,500	(16,499,914)
Gross profit/(loss)	1,076,333	4,675,744	617,048	(522,116)	45,794	5,892,803
General and administrative expenses	(173,906)	(506,222)	(176,477)	(173,810)	3,625	(1,026,790)
Distribution expenses	(180,911)	(798,564)	(122,044)	(16,401)	144	(1,117,776)
Other taxes and contributions	(78,850)	(74,221)	(25,815)	–	–	(178,886)
Share of associates' profit/(loss)	–	3,632	(713)	(6,319)	–	(3,400)
Net gain/(loss) from securities operations	2,548	(82,223)	3,064	–	(20,201)	(96,812)
(Loss)/gain on disposal of property, plant and equipment	(7,608)	(29,836)	484	(6,453)	135	(43,278)
Net other operating (expenses)/income	(31,906)	(10,165)	(27,283)	870,443	(10,509)	790,580
Profit from operations	605,700	3,178,145	268,264	145,344	18,988	4,216,441
Impairment of non-current assets	(489,874)	(42,101)	(3,870)	(1,004,418)	–	(1,540,263)
Negative goodwill	79,862	–	–	212,464	–	292,326
Net other non-operating income/(expenses)	293,797	(59,504)	–	–	4,652	238,945
Profit/(loss) before financing and taxation	489,485	3,076,540	264,394	(646,610)	23,640	3,207,449
Interest income	16,318	187,104	25,244	6,287	(79,721)	155,232
Interest expense	(105,084)	(282,058)	(73,046)	(122,900)	74,719	(508,369)
Foreign exchange difference	97,073	(359,847)	(12,151)	5	–	(274,920)
Profit/(loss) before income tax	497,792	2,621,739	204,441	(763,218)	18,638	2,579,392
Income tax (expense)/benefit	(183,557)	(642,141)	(72,634)	390,211	(9,345)	(517,466)
Profit/(loss) from continuing operations	314,235	1,979,598	131,807	(373,007)	9,293	2,061,926
Profit from discontinued operations	–	–	4,652	–	(4,652)	–
Profit/(loss) for the year	314,235	1,979,598	136,459	(373,007)	4,641	2,061,926
Additional information:						
depreciation and amortization expense	232,943	467,129	162,056	225,293	–	1,087,421
capital expenditures	413,074	709,199	337,828	693,926	(3,289)	2,150,738
intersegment sales (incl. in sales to related parties)	1,379,629	39,478	13,599	–	(1,432,706)	–

Segmental income statements for the year ended December 31, 2007

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Financing segment	Inter segment transactions	Conso-lidated
Sales							
Sales – external	732,620	9,189,481	3,624,913	1,805,390	–	–	15,352,404
Sales – to related parties	1,116,448	155,100	131,595	53	–	(1,252,212)	150,984
	1,849,068	9,344,581	3,756,508	1,805,443	–	(1,252,212)	15,503,388
Cost of sales	(1,182,055)	(5,781,511)	(3,194,377)	(1,848,282)	–	1,184,643	(10,821,582)
Gross profit/(loss)	667,013	3,563,070	562,131	(42,839)	–	(67,569)	4,681,806
General and administrative expenses	(136,810)	(373,590)	(188,016)	(70,808)	–	2,334	(766,890)
Distribution expenses	(163,673)	(662,175)	(117,998)	(2,152)	–	3,465	(942,533)
Other taxes and contributions	(64,617)	(57,265)	(32,188)	–	–	–	(154,070)
Share of associates' profit/(loss)	–	1,450	(548)	5,338	–	–	6,240
Net gain from securities operations	33	21,186	10,827	–	–	(6,482)	25,564
Loss on disposal of property, plant and equipment	(12,118)	(19,928)	(508)	(3,485)	–	514	(35,525)
Net other operating (expenses)/income	(7,833)	14,786	(17,343)	2,556	–	568	(7,266)
Profit/(loss) from operations	281,995	2,487,534	216,357	(111,390)	–	(67,170)	2,807,326
Impairment of non-current assets	(3,059)	(9,941)	(15,895)	–	–	–	(28,895)
Negative goodwill	–	117	507	–	–	11,599	12,223
Net other non-operating (expenses)/income	(20,492)	(42,240)	24,374	–	–	(20,318)	(58,676)
Profit/(loss) before financing and taxation	258,444	2,435,470	225,343	(111,390)	–	(75,889)	2,731,978
Interest income	14,530	170,041	21,978	4,811	–	(44,721)	166,639
Interest expense	(69,026)	(163,720)	(72,793)	(37,500)	–	17,459	(325,580)
Foreign exchange difference	(3,089)	6,551	(535)	(5)	–	284	3,206
Profit/(loss) before income tax	200,859	2,448,342	173,993	(144,084)	–	(102,867)	2,576,243
Income tax (expense)/benefit	(47,050)	(610,480)	(64,808)	9,470	–	12,715	(700,153)
Profit/(loss) from continuing operations	153,809	1,837,862	109,185	(134,614)	–	(90,152)	1,876,090
(Loss)/profit from discontinued operations	–	–	(15,660)	–	16,093	–	433
Profit/(loss) for the year	153,809	1,837,862	93,525	(134,614)	16,093	(90,152)	1,876,523
Additional information:							
depreciation and amortization expense	207,093	382,473	199,155	57,541	–	–	846,262
capital expenditures	384,281	566,635	199,267	977,948	–	–	2,128,131
intersegment sales (incl. in sales to related parties)	1,098,011	22,606	131,595	–	–	(1,252,212)	–

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30. Segment information (continued)

The following is a summary of non-current assets other than financial instruments and deferred tax assets by location:

	December 31,		
	2009	2008	2007
Russian Federation	**4,830,744**	4,960,427	5,545,850
North America	**3,978,452**	4,139,364	1,565,702
Europe	**1,618,873**	1,775,158	1,637,308
Africa	**262,206**	246,720	–
The Middle East	**256,752**	279,591	280,217
	10,947,027	11,401,260	9,029,077

The locations are primarily represented by the following countries: Italy and France in Europe, the USA in North America, Burkina Faso in Africa, and Kazakhstan in the Middle East.

31. Financial instruments

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The Severstal Resource segment of the Group has not used derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. The use in the Russian Steel, Severstal North America and Lucchini segments of derivatives to hedge their interest rates, commodity inputs and foreign exchange rate exposures were not material to these consolidated financial statements.

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for the following borrowings:

	December 31, 2009		
	Market value	**Book value**	**Difference**
Ruble bonds	**518,331**	**495,963**	**22,368**
Eurobonds 2013	**1,265,663**	**1,250,000**	**15,663**
Eurobonds 2014	**377,858**	**375,000**	**2,858**
	2,161,852	**2,120,963**	**40,889**

	December 31, 2008		
	Market value	Book value	Difference
Eurobonds 2009	325,858	325,000	858
Eurobonds 2013	689,584	1,250,000	(560,416)
Eurobonds 2014	197,048	375,000	(177,952)
Bank financing	5,448,072	5,809,349	(361,277)
	6,660,562	7,759,349	(1,098,787)

	December 31, 2007		
	Market value	Book value	Difference
Eurobonds 2009	330,513	325,000	5,513
Eurobonds 2014	398,781	375,000	23,781
	729,294	700,000	29,294

The above amounts exclude accrued interest.

The market value of the Group's Eurobonds was determined based on London Stock Exchange quotations. The market value of the Group's Ruble bonds was determined based on Moscow Interbank Currency Exchange.

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position and guarantees (see note 32e). The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitors credit risk.

The maximum exposure to credit risk for financial instruments including accounts receivable from related parties was:

	December 31,		
	2009	2008	2007
Cash and cash equivalents	**2,853,376**	2,652,888	1,622,542
Loans and receivables	**1,653,386**	2,158,186	1,982,931
Held-to-maturity securities and deposits	**125,351**	829,729	729,086
Available-for-sale financial assets	**89,345**	55,212	23,266
Held-for-trading securities	**25,505**	72,471	156,308
Restricted cash	**17,541**	21,703	13,810
	4,764,504	5,790,189	4,527,943

The maximum exposure to credit risk for trade receivables including trade receivables from related parties by geographic region was:

	December 31,		
	2009	2008	2007
Europe	**568,448**	878,778	981,178
Russian Federation	**404,500**	601,362	520,922
North America	**324,492**	395,736	173,021
China and Central Asia	**99,159**	32,564	19,018
Africa	**28,062**	24,178	34,343
The Middle East	**25,943**	27,040	38,397
Central and South America	**16,065**	7,879	1,604
South-East Asia	**9,245**	3,353	13,214
	1,475,914	1,970,890	1,781,697

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31. Financial instruments (continued)

The maximum exposure to credit risk for trade receivables including trade receivables from related parties by type of customer was:

	December 31,		
	2009	2008	2007
Industrial consumers	**1,253,325**	1,633,117	1,442,890
Wholesale customers	**159,040**	296,016	294,720
Retail customers	**39,956**	5,813	1,289
Other customers	**23,593**	35,944	42,798
	1,475,914	1,970,890	1,781,697

The Group holds bank and other guarantees provided as collateral for financial assets. Amount of collateral held does not fully cover Group's exposure to credit risk.

Impairment losses

The aging of trade receivables including trade receivables from related parties was:

	December 31,					
	2009		2008		2007	
	Gross	**Impairment**	Gross	Impairment	Gross	Impairment
Not past due	**1,178,117**	**(6,432)**	1,302,128	(2,238)	1,070,031	(2,731)
Past due 0-30 days	**143,154**	**(484)**	376,301	(2,854)	549,362	(4,758)
Past due 31-90 days	**55,568**	**(3,023)**	247,305	(36,976)	131,164	(3,507)
Past due 91-180 days	**89,670**	**(3,118)**	84,930	(12,650)	34,701	(20,908)
Past due 180-365 days	**30,394**	**(19,284)**	11,310	(2,275)	13,844	(1,811)
More than one year	**64,660**	**(53,308)**	50,280	(44,371)	29,565	(13,255)
	1,561,563	**(85,649)**	2,072,254	(101,364)	1,828,667	(46,970)

The impairment allowance at December 31, 2009 included the impairment allowance in respect of trade receivables from related parties for the total amount of US$2 million (December 31, 2008: US$10.8 million; December 31, 2007: US$9.2 million).

At December 31, 2009 trade receivables included accounts in the amount of US$4.5 million (December 31, 2008: US$170.2 million; December 31, 2007: nil) whose terms of settlements were renegotiated during 2009. Management of the Group believes that receivables will be repaid in full, thus no impairment loss was recognized as at December 31, 2009.

The movement in the allowance for impairment in respect of trade receivables including trade receivables from related parties during the years was as follows:

	Year ended December 31,		
	2009	2008	2007
Balance at 1 January	**(101,364)**	(46,970)	(35,222)
Impairment loss recognised	**(36,333)**	(72,802)	(15,033)
Impairment loss reversed	**51,023**	23,654	1,352
Foreign exchange difference	**1,025**	(5,246)	1,933
Balance at 31 December	**(85,649)**	(101,364)	(46,970)

The allowance account in respect of trade receivables including trade receivables from related parties is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

The allowance for doubtful debts contains primarily individually impaired trade receivables from debtors placed under liquidation or companies which are in breach of contract terms.

No impairment allowance was recognized by the Group in respect of other financial assets.

Concentration of credit risk

The Group has a concentration of cash and short-term bank deposits with a related party commercial bank that at December 31, 2009 represented US$306.9 million (December 31, 2008: US$384.0 million, December 31, 2007: US$258.9 million) of total cash and bank deposit balance. The Group has a concentration of cash and short-term bank deposits with bank AB Russia and OAO Bank VTB that at December 31, 2009 represented US$363 million and US$454.7 million accordingly. The Group has a concentration of cash and short-term bank deposits with bank AB Russia that at December 31, 2008 represented US$449 million.

The Group has a concentration of short-term loans with a related party commercial bank that at December 31, 2009 represented US$10.6 million and with Titan Service Limited that at December 31, 2009 represented US$10 million. The Group has a concentration of held-for-trading securities with OAO MVC Severstal that at December 31, 2009 represented US$35.1 million.

The Group has a concentration of long-term financial investments with OOO Gestamp-Severstal-Kaluga and with OOO Stadco that at December 31, 2009 represented US$10.6 million and US$7 million accordingly. The Group has a concentration of long-term bank deposits with a related party non-state pension fund that at December 31, 2007 represented US$62.4 million of total long-term financial investments.

Liquidity risk

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due by preparing an annual budgets, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following are the contractual maturities of financial liabilities, excluding estimated interest payments and excluding the impact of netting agreements:

December 31, 2009

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	**7,124,628**	**(7,128,681)**	**(1,385,105)**	**(1,060,172)**	**(4,537,740)**	**(145,664)**
Lease liabilities	**51,107**	**(51,107)**	**(12,896)**	**(16,687)**	**(15,160)**	**(6,364)**
Trade and other payables	**1,454,830**	**(1,454,830)**	**(1,435,411)**	**(18,635)**	**(741)**	**(43)**
Derivative financial liabilities	**48,956**	**(48,956)**	**(22,448)**	**(6,262)**	**(20,246)**	**–**
	8,679,521	**(8,683,574)**	**(2,855,860)**	**(1,101,756)**	**(4,573,887)**	**(152,071)**

Notes to the consolidated financial statements

for the years ended December 31, 2009, 2008 and 2007 (continued)
(Amounts expressed in thousands of US dollars, except as stated otherwise)

31. Financial instruments (continued)

December 31, 2008

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	8,161,469	(8,174,018)	(1,899,434)	(1,004,455)	(4,385,353)	(884,776)
Lease liabilities	76,454	(76,454)	(23,280)	(11,893)	(40,086)	(1,195)
Trade and other payables	1,813,473	(1,813,473)	(1,771,444)	(5,156)	(34,999)	(1,874)
Derivative financial liabilities	30,293	(30,293)	(19,110)	(4,473)	(6,710)	–
	10,081,689	(10,094,238)	(3,713,268)	(1,025,977)	(4,467,148)	(887,845)

December 31, 2007

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	3,900,575	(3,900,575)	(1,093,511)	(815,776)	(1,102,844)	(888,444)
Lease liabilities	24,268	(24,268)	(9,753)	(8,765)	(4,042)	(1,708)
Trade and other payables	1,548,831	(1,548,831)	(1,469,195)	(79,636)	–	–
	5,473,674	(5,473,674)	(2,572,459)	(904,177)	(1,106,886)	(890,152)

* The above amounts exclude accrued interest.

At December 31, 2009, the Group has a concentration of bank financing with Deutsche Bank AG of US$1,201.2 million and with European Bank for Reconstruction and Development of US$803.8 million. In 2008 the Group had a concentration of bank financing with Deutsche Bank AG of US$1,201.5 million and with European Bank for Reconstruction and Development of US$848.5 million. There was no significant concentration of risk in relation to bank financing in 2007.

Currency risk

Currency risk arises when a Group 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.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	December 31, 2009					
	Euro	USD	GBP	CHF	CAD	Other
Available-for-sale financial assets	22	–	–	–	–	–
Held-to-maturity securities and deposits	57,898	9,356	–	–	–	–
Loans and receivables	158,922	148,275	1,926	2,858	2,300	4,879
Cash and cash equivalents	325,831	519,778	1,170	4,083	–	259
Debt finance	(958,450)	(3,468,221)	–	–	–	–
Finance lease liabilities	(774)	(2,185)	–	–	–	–
Trade and other payables	(40,498)	(66,050)	(562)	(140)	(68)	(326)
Derivative financial liabilities	–	(39,949)	–	–	–	–
Net exposure	(457,049)	(2,898,996)	2,534	6,801	2,232	4,812

	December 31, 2008					
	Euro	USD	GBP	CHF	CAD	Other
Available-for-sale financial assets	–	3,994	350	–	284	–
Held-to-maturity securities and deposits	275,898	259,678	–	–	–	147
Loans and receivables	177,151	64,066	7,005	–	4,223	8,721
Cash and cash equivalents	367,549	713,667	353	16,795	895	1,075
Debt finance	(1,263,411)	(3,646,206)	–	–	–	(19)
Finance lease liabilities	(1,870)	(5,888)	–	–	–	–
Trade and other payables	(39,497)	(65,297)	(260)	(10)	(2,567)	(687)
Derivative financial liabilities	–	(11,490)	–	–	–	–
Net exposure	(484,180)	(2,687,476)	7,448	16,785	2,835	9,237

	December 31, 2007					
	Euro	USD	GBP	CHF	CAD	Other
Available-for-sale financial assets	–	530	–	–	–	–
Held-to-maturity securities and deposits	373,225	104,316	–	–	–	–
Held-for-trading securities	–	210	–	–	–	–
Loans and receivables	108,018	150,063	14,265	1,326	5,192	14
Cash and cash equivalents	185,692	348,020	115	734	2,045	2,680
Debt finance	(453,993)	(1,318,029)	–	–	–	–
Finance lease liabilities	(1,396)	(7,080)	–	–	–	–
Trade and other payables	(17,879)	(97,717)	(13,001)	(4,249)	(5,829)	(346)
Net exposure	193,667	(819,687)	1,379	(2,189)	1,408	2,348

Sensitivity analysis

A 10% strengthening of the following currencies against the functional currency at December 31, 2009 would have increased/(decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and no translation difference into the presentation currency is included. The analysis is performed on the same basis for 2008 and 2007.

	Year ended December 31,		
	2009	2008	2007
Net profit			
Euro	**(36,564)**	(36,798)	14,331
USD	**(231,920)**	(204,248)	(65,482)
GBP	**203**	566	22
CHF	**544**	1,276	(166)
CAD	**179**	215	94
Other	**385**	702	178

A 10% weakening of these currencies against the functional currency at December 31, 2009 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Notes to the consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007 (continued)
(Amounts expressed in thousands of US dollars, except as stated otherwise)

31. Financial instruments (continued)

Interest rate risk

Interest rates on the 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 favorable to the Group over the expected period until maturity.

The Group's interest-bearing financial instruments at variable rates were:

	December 31,		
	2009	2008	2007
Financial assets	**539,818**	414,398	434,600
Financial liabilities	**(4,280,828)**	(4,915,822)	(2,357,826)
	(3,741,010)	(4,501,424)	(1,923,226)

Other Group's interest-bearing financial assets and liabilities are at fixed rate.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased/(decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008 and 2007.

	Net profit	
	100 bp increase	100 bp decrease
December 31, 2009		
Financial assets	**4,319**	**(4,319)**
Financial liabilities	**(34,249)**	**34,249**
Cash flow sensitivity (net)	**(29,930)**	**29,930**
December 31, 2008		
Financial assets	3,149	(3,149)
Financial liabilities	(37,360)	37,360
Cash flow sensitivity (net)	(34,211)	34,211
December 31, 2007		
Financial assets	2,912	(2,912)
Financial liabilities	(13,636)	13,636
Cash flow sensitivity (net)	(10,724)	10,724

32. 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 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. Management believes that it has complied in all material respects with all relevant legislation.

At the reporting date, the Russian tax authorities had made claims for taxes, fines and penalties in the amount of approximately US$6.3 million (December 31, 2008: US$4 million, December 31, 2007: US$32 million), mostly related to income tax by certain of the Group's entities in the Severstal Resource segment. Management does not agree with the tax authorities' claims and believes that the Group has complied with existing legislation in all material respects. Management is unable to assess the ultimate outcome of the claims and the outflow of financial sources to settle such claims, if any. Management believes that it has made adequate provisions for other possible tax claims.

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 reporting date the Group had contractual capital commitments of US$1,142 million (December 31, 2008: US$1,275.3 million; December 31, 2007: US$472.7 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 certain fixed costs. The Group has also insured third party liability in respect of property or environmental damage. However, the Group does not have full insurance coverage.

e. Guarantees

At the reporting date the Group had US$43.5 million (December 31, 2008: US$42.3 million; December 31, 2007: US$143.2 million) of guarantees issued, including guarantees issued for associates in amount of US$26.8 million (December 31, 2008: US$18.5 million; December 31, 2007: US$23.5 million).

33. Subsequent events

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

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

In February 2010, the Group acquired a 26.59% stake in Crew Gold Corporation for a total consideration of US$90.3 million. Crew Gold Corporation is a mining company based in London, UK. CGC owns and operates a gold mining project in Guinea, West Africa.

Shareholder information and financial calendar

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Expiry date: no expiry date
Issued by: FSFM of Russia

2010-2011 IR calendar

Date		Event
9 March 2010	–	Full year 2009 IFRS financial statements
14 May 2010	–	Q1 2010 IFRS financial statements
11 June 2010	–	Shareholders' Annual General Meeting
7 September 2010	–	H1 2009 IFRS financial statements
16 November 2010	–	Q3 2009 IFRS financial statements
3 March 2011	–	Full year 2010 IFRS financial statements
24 May 2011	–	Q1 2011 IFRS financial statements
June 2011	–	Shareholders' Annual General Meeting
6 September 2011	–	H1 2011 IFRS financial statements
17 November 2011	–	Q3 2011 IFRS financial statements

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