

# **ОАО Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the six months ended June 30, 2014 and 2013

# **OAO Severstal and subsidiaries**

## **Consolidated interim condensed financial statements Six months ended June 30, 2014 and 2013**

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## **Auditors' Report on Review of Consolidated Interim Condensed Financial Statements**

Board of Directors

OA O Severstal

### *Introduction*

We have reviewed the accompanying consolidated interim condensed statement of financial position of OA O Severstal (the "Company") and its subsidiaries (the "Group") as at 30 June 2014, the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and six-month periods ended 30 June 2014 and 2013, the related consolidated interim condensed statements of changes in equity and cash flows for the six-month periods ended 30 June 2014 and 2013, and notes to the consolidated interim condensed financial statements (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

### *Scope of Review*

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

Audited entity: OA O Severstal

Registered by decree #1150 of Cherepovets' council on 24 September 1993.

Registered in the Unified State Register of Legal Entities on 31 July 2002 by the Vologda regional Tax Inspectorate of Ministry for Taxes and Duties of Russian Federation for Cherepovets, Registration No. 1023501236901, Certificate series 35 No. 000782100.

30, Mira Street, Cherepovets, Vologodskaya oblast, Russia, 162608

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 June 2014 and for the three- and six-month periods ended 30 June 2014 and 2013 are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Mr. Altukhov K.V.

Director, power of attorney dated October 2013 No. 65/13

ZAO KPMG

29 July 2014

Moscow, Russian Federation

# OAO Severstal and subsidiaries

## Consolidated interim condensed income statements Six months ended June 30, 2014 and 2013

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

|  | Note | Six months ended June 30, |                     | Three months ended June 30, |                     |
|--|------|---------------------------|---------------------|-----------------------------|---------------------|
|  |      | 2014<br>(unaudited)       | 2013<br>(unaudited) | 2014<br>(unaudited)         | 2013<br>(unaudited) |
| <b>Revenue</b>   |      |                           |                     |                             |                     |
| Revenue - third parties  |      | 6,191,073                 | 6,661,243           | 3,218,461                   | 3,375,911           |
| Revenue - related parties  | 5    | 69,032                    | 74,400              | 34,941                      | 37,689              |
|  | 2    | 6,260,105                 | 6,735,643           | 3,253,402                   | 3,413,600           |
| Cost of sales  |      | (4,809,120)               | (5,303,217)         | (2,491,282)                 | (2,678,540)         |
| <b>Gross profit</b>  |      | 1,450,985                 | 1,432,426           | 762,120                     | 735,060             |
| General and administrative expenses  |      | (283,561)                 | (356,915)           | (141,500)                   | (173,364)           |
| Distribution expenses  |      | (361,721)                 | (496,619)           | (185,642)                   | (244,867)           |
| Other taxes and contributions  |      | (57,020)                  | (76,634)            | (28,695)                    | (37,179)            |
| Share of associates' and joint ventures' (loss)/profit   |      | (426)                     | (9,118)             | 3,034                       | (6,780)             |
| (Loss)/gain on disposal of property, plant and equipment and intangible assets                         |      | (3,863)                   | (2,554)             | (4,889)                     | 3,900               |
| Net other operating (expenses)/income  |      | (4,165)                   | 9,528               | (307)                       | 1,466               |
| <b>Profit from operations</b>  |      | 740,229                   | 500,114             | 404,121                     | 278,236             |
| Impairment of non-current assets   | 12   | (994,987)                 | (4,949)             | (987,549)                   | (4,830)             |
| Net other non-operating expenses   |      | (39,518)                  | (42,576)            | (22,632)                    | (22,737)            |
| <b>(Loss)/profit before financing and taxation</b>   |      | (294,276)                 | 452,589             | (606,060)                   | 250,669             |
| Finance costs, net   | 3    | (230,683)                 | (189,449)           | (114,035)                   | (96,670)            |
| Foreign exchange (loss)/gain, net  | 4    | (121,395)                 | (241,311)           | 199,411                     | (226,493)           |
| <b>(Loss)/profit before income tax</b>   |      | (646,354)                 | 21,829              | (520,684)                   | (72,494)            |
| Income tax (expense)/benefit   |      | (115,976)                 | (17,626)            | (141,444)                   | 26,970              |
| <b>(Loss)/profit for the period</b>  |      | (762,330)                 | 4,203               | (662,128)                   | (45,524)            |
| Attributable to:   |      |                           |                     |                             |                     |
| shareholders of OAO Severstal  |      | (761,376)                 | (163)               | (661,795)                   | (44,623)            |
| non-controlling interests  |      | (954)                     | 4,366               | (333)                       | (901)               |
| Basic and diluted weighted average number of shares outstanding during the period (millions of shares) |      | 810.6                     | 810.6               | 810.6                       | 810.6               |
| Basic and diluted loss per share (US dollars)  |      | (0.94)                    | -                   | (0.82)                      | (0.06)              |

These consolidated interim condensed financial statements were approved by the Board of Directors on July 29, 2014.

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

## OAO Severstal and subsidiaries

### Consolidated interim condensed statements of comprehensive income Six months ended June 30, 2014 and 2013

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

|  | Six months ended June 30, |                         | Three months ended June 30, |                         |
|--|---------------------------|-------------------------|-----------------------------|-------------------------|
|  | 2014<br>(unaudited)       | 2013<br>(unaudited)     | 2014<br>(unaudited)         | 2013<br>(unaudited)     |
| <b>(Loss)/profit for the period</b>  | (762,330)                 | 4,203                   | (662,128)                   | (45,524)                |
| <b>Other comprehensive (loss)/income:</b>                                    |                           |                         |                             |                         |
| <b>Items that will not be reclassified to profit or loss</b>                 |                           |                         |                             |                         |
| Actuarial losses   | (2,839)                   | (8,477)                 | (44)                        | (47)                    |
| Translation to presentation currency   | (61,605)                  | (226,226)               | 183,938                     | (156,279)               |
| <b>Total items that will not be reclassified to profit or loss</b>           | <u>(64,444)</u>           | <u>(234,703)</u>        | <u>183,894</u>              | <u>(156,326)</u>        |
| <b>Items that may be reclassified subsequently to profit or loss</b>         |                           |                         |                             |                         |
| Translation to presentation currency - foreign operations                    | (41,535)                  | (22,086)                | (22,495)                    | 41,199                  |
| Changes in fair value of cash flow hedges                                    | -                         | (2,965)                 | -                           | -                       |
| Deferred tax on changes in fair value of cash flow hedges                    | -                         | 422                     | -                           | -                       |
| Changes in fair value of available-for-sale financial assets                 | -                         | (569)                   | -                           | 363                     |
| Deferred tax on changes in fair value of available-for-sale financial assets | -                         | 467                     | -                           | (72)                    |
| <b>Total items that may be reclassified subsequently to profit or loss</b>   | <u>(41,535)</u>           | <u>(24,731)</u>         | <u>(22,495)</u>             | <u>41,490</u>           |
| <b>Items that were reclassified to profit or loss</b>                        |                           |                         |                             |                         |
| Realised gains on disposal of available-for-sale financial assets            | -                         | (1,756)                 | -                           | -                       |
| <b>Total items that were reclassified to profit or loss</b>                  | <u>-</u>                  | <u>(1,756)</u>          | <u>-</u>                    | <u>-</u>                |
| <b>Other comprehensive (loss)/income for the period, net of tax</b>          | <u>(105,979)</u>          | <u>(261,190)</u>        | <u>161,399</u>              | <u>(114,836)</u>        |
| <b>Total comprehensive loss for the period</b>                               | <u><u>(868,309)</u></u>   | <u><u>(256,987)</u></u> | <u><u>(500,729)</u></u>     | <u><u>(160,360)</u></u> |
| Attributable to:   |                           |                         |                             |                         |
| shareholders of OAO Severstal  | (867,475)                 | (259,328)               | (501,061)                   | (159,218)               |
| non-controlling interests  | <u>(834)</u>              | <u>2,341</u>            | <u>332</u>                  | <u>(1,142)</u>          |

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

# OAO Severstal and subsidiaries

## Consolidated interim condensed statements of financial position

**June 30, 2014 and December 31, 2013**

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

|   | <b>Note</b> | <b>June 30, 2014<br/>(unaudited)</b> | <b>December 31, 2013</b> |
|---|-------------|--------------------------------------|--------------------------|
| <b>Assets</b>   |             |                                      |                          |
| <b>Current assets:</b>  |             |                                      |                          |
| Cash and cash equivalents   |             | 779,714                              | 1,035,948                |
| Short-term financial investments                                  |             | 67,281                               | 60,016                   |
| Trade accounts receivable   |             | 1,248,491                            | 1,356,916                |
| Accounts receivable from related parties                          | 6           | 30,959                               | 18,620                   |
| Restricted financial assets                                       |             | -                                    | 1,114                    |
| Inventories   |             | 1,802,966                            | 2,018,760                |
| VAT recoverable   |             | 117,809                              | 119,151                  |
| Income tax recoverable  |             | 15,797                               | 19,048                   |
| Other current assets  |             | 178,496                              | 276,863                  |
| <b>Total current assets</b>                                       |             | <b>4,241,513</b>                     | <b>4,906,436</b>         |
| <b>Non-current assets:</b>  |             |                                      |                          |
| Long-term financial investments                                   |             | 87,845                               | 115,481                  |
| Investments in associates and joint ventures                      |             | 249,001                              | 256,671                  |
| Property, plant and equipment                                     | 12          | 7,104,832                            | 8,254,192                |
| Intangible assets   |             | 697,894                              | 678,910                  |
| Restricted financial assets                                       |             | 42,222                               | 39,478                   |
| Deferred tax assets   |             | 27,767                               | 78,118                   |
| Other non-current assets  |             | 210,203                              | 204,441                  |
| <b>Total non-current assets</b>                                   |             | <b>8,419,764</b>                     | <b>9,627,291</b>         |
| <b>Total assets</b>   |             | <b>12,661,277</b>                    | <b>14,533,727</b>        |
| <b>Liabilities and shareholders' equity</b>                       |             |                                      |                          |
| <b>Current liabilities:</b>                                       |             |                                      |                          |
| Trade accounts payable  |             | 1,123,778                            | 1,145,873                |
| Accounts payable to related parties                               | 6           | 37,949                               | 42,998                   |
| Short-term debt finance   | 7           | 151,246                              | 627,519                  |
| Income taxes payable  |             | 40,751                               | 10,660                   |
| Other taxes and social security payable                           |             | 164,956                              | 138,657                  |
| Dividends payable   |             | 119,620                              | 28,065                   |
| Other current liabilities   |             | 443,181                              | 555,401                  |
| <b>Total current liabilities</b>                                  |             | <b>2,081,481</b>                     | <b>2,549,173</b>         |
| <b>Non-current liabilities:</b>                                   |             |                                      |                          |
| Long-term debt finance  | 7           | 3,708,365                            | 4,126,575                |
| Deferred tax liabilities  |             | 334,507                              | 312,736                  |
| Retirement benefit liabilities                                    |             | 191,282                              | 189,913                  |
| Other non-current liabilities                                     |             | 353,113                              | 355,073                  |
| <b>Total non-current liabilities</b>                              |             | <b>4,587,267</b>                     | <b>4,984,297</b>         |
| <b>Equity:</b>  |             |                                      |                          |
| Share capital   |             | 2,752,728                            | 2,752,728                |
| Treasury shares   |             | (235,657)                            | (235,657)                |
| Additional capital  |             | 315,922                              | 315,922                  |
| Translation reserve   |             | (645,446)                            | (542,186)                |
| Retained earnings   |             | 3,780,659                            | 4,692,475                |
| Other reserves  |             | 1,044                                | 1,044                    |
| <b>Total equity attributable to shareholders of OAO Severstal</b> |             | <b>5,969,250</b>                     | <b>6,984,326</b>         |
| <b>Non-controlling interests</b>                                  |             | <b>23,279</b>                        | <b>15,931</b>            |
| <b>Total equity</b>   |             | <b>5,992,529</b>                     | <b>7,000,257</b>         |
| <b>Total equity and liabilities</b>                               |             | <b>12,661,277</b>                    | <b>14,533,727</b>        |

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

# OAO Severstal and subsidiaries

## Consolidated interim condensed statements of cash flows

**Six months ended June 30, 2014 and 2013**

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

|  | <b>Six months ended June 30,</b> |                    |
|--|----------------------------------|--------------------|
|  | <b>2014</b>                      | <b>2013</b>        |
|  | <b>(unaudited)</b>               | <b>(unaudited)</b> |
| <b>Operating activities:</b>   |                                  |                    |
| (Loss)/profit before financing and taxation  | (294,276)                        | 452,589            |
| Adjustments to reconcile (loss)/profit to cash generated from operations:                          |                                  |                    |
| Depreciation and amortization  | 384,670                          | 392,932            |
| Impairment of non-current assets   | 994,987                          | 4,949              |
| Movements in provision for inventories, receivables and other provisions                           | 32,234                           | (2,937)            |
| Loss on disposal of property, plant and equipment and intangible assets                            | 3,863                            | 2,554              |
| Loss on disposal of subsidiaries   | 5                                | 1,451              |
| Share of associates' and joint ventures' results less dividends from associates and joint ventures | 5,112                            | 11,556             |
| Changes in operating assets and liabilities:   |                                  |                    |
| Trade accounts receivable  | 44,996                           | (358,890)          |
| Amounts receivable from related parties  | (11,697)                         | (2,263)            |
| VAT recoverable  | (4,904)                          | 47,994             |
| Inventories  | 166,329                          | 381,312            |
| Trade accounts payable   | 50,253                           | 21,048             |
| Amounts payable to related parties   | (2,024)                          | (7,676)            |
| Other taxes and social security payable  | 32,252                           | 29,137             |
| Other non-current liabilities  | (20,530)                         | (17,316)           |
| Net other changes in operating assets and liabilities  | 5,121                            | (79,113)           |
| <b>Cash generated from operations</b>  | <b>1,386,391</b>                 | <b>877,327</b>     |
| Interest paid  | (207,511)                        | (202,856)          |
| Income tax paid  | (6,641)                          | (9,519)            |
| <b>Net cash from operating activities</b>  | <b>1,172,239</b>                 | <b>664,952</b>     |
| <b>Investing activities:</b>   |                                  |                    |
| Additions to property, plant and equipment   | (437,766)                        | (520,109)          |
| Additions to intangible assets   | (37,542)                         | (41,839)           |
| Additions to financial investments   | (12,083)                         | (24,392)           |
| Proceeds from disposal of subsidiaries   | 17                               | 3,628              |
| Proceeds from disposal of property, plant and equipment  | 10,250                           | 11,803             |
| Proceeds from disposal of financial investments  | 12,574                           | 13,525             |
| Interest received  | 13,646                           | 17,306             |
| Dividends received   | 1,093                            | 720                |
| <b>Cash used in investing activities</b>   | <b>(449,811)</b>                 | <b>(539,358)</b>   |
| <b>Financing activities:</b>   |                                  |                    |
| Proceeds from debt finance   | 2,437,613                        | 1,481,782          |
| Repayments of debt finance   | (3,350,009)                      | (1,684,745)        |
| Repayments under lease obligations   | (530)                            | (1,848)            |
| Dividends paid   | (58,058)                         | (132,662)          |
| Acquisitions of non-controlling interests  | -                                | (1,412)            |
| <b>Cash used in financing activities</b>   | <b>(970,984)</b>                 | <b>(338,885)</b>   |
| Effect of exchange rates on cash and cash equivalents  | (7,678)                          | (18,924)           |
| <b>Net decrease in cash and cash equivalents</b>   | <b>(256,234)</b>                 | <b>(232,215)</b>   |
| <b>Cash and cash equivalents at beginning of the period</b>  | <b>1,035,948</b>                 | <b>1,726,275</b>   |
| <b>Cash and cash equivalents at end of the period</b>  | <b>779,714</b>                   | <b>1,494,060</b>   |

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



## OAO Severstal and subsidiaries

### Consolidated interim condensed statements of changes in equity Six months ended June 30, 2014 and 2013

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

|  | Attributable to shareholders of OAO Severstal |                    |                       |                        |                      |                   | Non-<br>controlling<br>interests | Total   |           |
|--|---|--------------------|-----------------------|------------------------|----------------------|-------------------|----------------------------------|---------|-----------|
|  | Share<br>capital                              | Treasury<br>shares | Additional<br>capital | Translation<br>reserve | Retained<br>earnings | Other<br>reserves | Total                            |         |           |
| Balances at December 31, 2012  | 2,752,728                                     | (235,657)          | 315,922               | (411,658)              | 4,767,325            | 5,800             | 7,194,460                        | 20,783  | 7,215,243 |
| (Loss)/profit for the period (unaudited)                                     | -   | -                  | -                     | -                      | (163)                | -                 | (163)                            | 4,366   | 4,203     |
| Translation to presentation currency (unaudited)                             | -   | -                  | -                     | (246,287)              | -                    | -                 | (246,287)                        | (2,025) | (248,312) |
| Other comprehensive loss (unaudited)   | -   | -                  | -                     | -                      | (8,477)              | (5,290)           | (13,767)                         | -       | (13,767)  |
| Deferred tax on other comprehensive loss (unaudited)                         | -   | -                  | -                     | -                      | -                    | 889               | 889                              | -       | 889       |
| Total comprehensive (loss)/income for the period (unaudited)                 | -   | -                  | -                     | (246,287)              | (8,640)              | (4,401)           | (259,328)                        | 2,341   | (256,987) |
| Dividends (unaudited)  | -   | -                  | -                     | -                      | (58,269)             | -                 | (58,269)                         | -       | (58,269)  |
| Effect of acquisitions and disposals without a change in control (unaudited) | -   | -                  | -                     | -                      | 7,797                | -                 | 7,797                            | (9,242) | (1,445)   |
| Balances at June 30, 2013 (unaudited)  | 2,752,728                                     | (235,657)          | 315,922               | (657,945)              | 4,708,213            | 1,399             | 6,884,660                        | 13,882  | 6,898,542 |
| Balances at December 31, 2013  | 2,752,728                                     | (235,657)          | 315,922               | (542,186)              | 4,692,475            | 1,044             | 6,984,326                        | 15,931  | 7,000,257 |
| Loss for the period (unaudited)  | -   | -                  | -                     | -                      | (761,376)            | -                 | (761,376)                        | (954)   | (762,330) |
| Translation to presentation currency (unaudited)                             | -   | -                  | -                     | (103,260)              | -                    | -                 | (103,260)                        | 120     | (103,140) |
| Other comprehensive loss (unaudited)   | -   | -                  | -                     | -                      | (2,839)              | -                 | (2,839)                          | -       | (2,839)   |
| Total comprehensive loss for the period (unaudited)                          | -   | -                  | -                     | (103,260)              | (764,215)            | -                 | (867,475)                        | (834)   | (868,309) |
| Dividends (unaudited)  | -   | -                  | -                     | -                      | (147,657)            | -                 | (147,657)                        | (49)    | (147,706) |
| Effect of disposal without a change in control (unaudited)                   | -   | -                  | -                     | -                      | 56                   | -                 | 56                               | 8,231   | 8,287     |
| Balances at June 30, 2014 (unaudited)  | 2,752,728                                     | (235,657)          | 315,922               | (645,446)              | 3,780,659            | 1,044             | 5,969,250                        | 23,279  | 5,992,529 |

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

# OA0 Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended June 30, 2014 and 2013

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

### 1. Accounting policies and estimates

These consolidated interim condensed financial statements of OA0 Severstal and subsidiaries ('the Group') have been prepared in accordance with International Financial Reporting Standards ('IFRS'), IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board. The Group additionally prepared IFRS consolidated interim condensed financial statements presented in Russian rubles and in the Russian language in accordance with the Federal Law No. 208-FZ *On consolidated financial reporting*.

#### ***Adoption new and amended IFRS***

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended December 31, 2013, except that the Group has adopted those amended Standards and Interpretation that are mandatory for financial annual periods beginning on January 1, 2014.

| <b>Standards and Interpretation</b>                                   | <b>Effective for annual periods<br/>beginning on or after</b> |
|---|---|
| IAS 27 (Amended) "Separate Financial Statements"                      | January 1, 2014   |
| IAS 32 (Amended) "Financial Instruments: Presentation"                | January 1, 2014   |
| IAS 36 (Amended) "Impairment of Assets"                               | January 1, 2014   |
| IAS 39 (Amended) "Financial Instruments: Recognition and Measurement" | January 1, 2014   |
| IFRS 10 (Amended) "Consolidated Financial Statements"                 | January 1, 2014   |
| IFRS 12 (Amended) "Disclosure of Interests in Other Entities"         | January 1, 2014   |
| IFRIC 21 "Levies"   | January 1, 2014   |

Amended IAS 27 *Separate Financial Statements* requires an investment entity to account for its investment in a relevant subsidiary at fair value through profit or loss in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated). Amended IAS 27 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IAS 32 *Financial Instruments: Presentation* provides clarifications on the application of the offsetting rules of financial instruments. Amended IAS 32 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IAS 36 *Impairment of assets* has been issued to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments to be applied retrospectively. Amended IAS 36 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IAS 39 *Financial Instruments: Recognition and Measurement* provides relief from discontinuing hedge accounting if a hedging derivative is novated, provided certain criteria are met. Amended IAS 39 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IFRS 10 *Consolidated Financial Statements* provides investment entities an exemption from the consolidation of particular subsidiaries and instead requires that an investment entity

# OA0 Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended June 30, 2014 and 2013

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measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*. Amended IFRS 10 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IFRS 12 *Disclosure of Interests in Other Entities* requires additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries. Amended IFRS 12 did not have a significant effect on the Group's consolidated interim condensed financial statements.

IFRIC 21 *Levies* provides guidance on determining the obligation event that gives rise to a liability in connection with a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. IFRIC 21 did not have a significant effect on the Group's consolidated interim condensed financial statements.

### ***New accounting pronouncements***

A number of new and amended Standards were not yet effective for the six months ended June 30, 2014, and have not been applied in these consolidated interim condensed financial statements.

| <b>Standards</b>  | <b>Effective for annual periods<br/>beginning on or after</b> |
|---|---|
| IAS 16 (Amended) "Property, Plant and Equipment"                                      | July 1, 2014, January 1, 2016                                 |
| IAS 19 (Amended) "Employee Benefits"  | July 1, 2014  |
| IAS 24 (Amended) "Related Party Disclosures"  | July 1, 2014  |
| IAS 37 (Amended) "Provisions, Contingent Liabilities and Contingent Assets"           | July 1, 2014  |
| IAS 38 (Amended) "Intangible Assets"  | July 1, 2014, January 1, 2016                                 |
| IAS 39 (Amended) "Financial Instruments: Recognition and Measurement"                 | July 1, 2014  |
| IAS 40 (Amended) "Investment Property"  | July 1, 2014  |
| IAS 41 (Amended) "Agriculture"  | January 1, 2016   |
| IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards" | July 1, 2014, January 1, 2016                                 |
| IFRS 2 (Amended) "Share-based Payment"  | July 1, 2014  |
| IFRS 3 (Amended) "Business Combinations"  | July 1, 2014  |
| IFRS 7 (Amended) "Financial Instruments: Disclosure"                                  | January 1, 2015   |
| IFRS 8 (Amended) "Operating Segments"   | July 1, 2014  |
| IFRS 9 (Amended) "Financial Instruments"  | partially from July 1, 2014                                   |
| IFRS 11 (Amended) "Joint Arrangements"  | January 1, 2016   |
| IFRS 13 (Amended) "Fair Value Measurement"  | July 1, 2014  |
| IFRS 14 "Regulatory Deferral Accounts"  | January 1, 2016   |
| IFRS 15 "Revenue from Contracts with Customers"                                       | January 1, 2017   |

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.

IFRS 9 *Financial Instruments* is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*. Amended IFRS 7 *Financial Instruments: Disclosure* requires additional disclosure on transition from IAS 39 to IFRS 9. The first and second phases of IFRS 9 were finalised in November 2009 and October 2010, respectively, and relate to the recognition and measurement of financial assets and liabilities. 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 the Group's consolidated financial statements.

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements

#### Six months ended June 30, 2014 and 2013

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

#### *Restatements*

During the current year the Group changed the classification of revenue by products to more appropriately reflect their nature.

In order to conform to the current period's presentation the following reclassifications to the prior period were made:

Revenue by product:

|  | <b>Six months ended</b>          | <b>Three months ended</b>        |
|--|----------------------------------|----------------------------------|
|  | <b>June 30, 2013 (unaudited)</b> | <b>June 30, 2013 (unaudited)</b> |
| Metalware products                         | (67,091)                         | (34,460)                         |
| Cold-rolled sheet                          | 32,688                           | 17,267                           |
| Hot-rolled strip and plate                 | 29,587                           | 14,693                           |
| Galvanized and other metallic coated sheet | 3,067                            | 1,914                            |
| Colour-coated sheet                        | 1,142                            | 384                              |
| Other tubes and pipes, formed shapes       | 607                              | 202                              |

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended June 30, 2014 and 2013

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

#### 2. Revenue

Revenue by product was as follows:

|   | Six months ended June 30, |                      | Three months ended June 30, |                      |
|---|---------------------------|----------------------|-----------------------------|----------------------|
|   | 2014<br>(unaudited)       | 2013*<br>(unaudited) | 2014<br>(unaudited)         | 2013*<br>(unaudited) |
| Hot-rolled strip and plate                      | 2,229,257                 | 2,308,206            | 1,150,111                   | 1,160,800            |
| Galvanized and other metallic coated sheet      | 984,043                   | 963,853              | 509,012                     | 496,797              |
| Cold-rolled sheet                               | 667,519                   | 683,106              | 345,112                     | 335,345              |
| Shipping and handling costs billed to customers | 389,516                   | 431,162              | 203,117                     | 211,379              |
| Metalware products                              | 349,087                   | 399,606              | 189,326                     | 205,226              |
| Pellets and iron ore                            | 292,279                   | 338,335              | 118,419                     | 180,872              |
| Long products                                   | 272,544                   | 264,105              | 162,005                     | 148,520              |
| Other tubes and pipes, formed shapes            | 248,842                   | 246,814              | 139,134                     | 129,770              |
| Large diameter pipes                            | 200,156                   | 255,911              | 81,978                      | 124,274              |
| Colour-coated sheet                             | 190,065                   | 233,707              | 119,319                     | 130,818              |
| Coal and coking coal concentrate                | 126,585                   | 284,007              | 56,913                      | 126,591              |
| Semi-finished products                          | 122,426                   | 120,685              | 82,337                      | 61,749               |
| Scrap   | 10,095                    | 4,919                | 5,687                       | 2,133                |
| Others  | 177,691                   | 201,227              | 90,932                      | 99,326               |
|   | 6,260,105                 | 6,735,643            | 3,253,402                   | 3,413,600            |

\* These amounts reflect adjustments made in connection with the change in presentation described in Note 1 of these consolidated interim condensed financial statements.

Revenue by delivery destination was as follows:

|                           | Six months ended June 30, |                     | Three months ended June 30, |                     |
|---------------------------|---------------------------|---------------------|-----------------------------|---------------------|
|                           | 2014<br>(unaudited)       | 2013<br>(unaudited) | 2014<br>(unaudited)         | 2013<br>(unaudited) |
| Russian Federation        | 2,495,416                 | 3,007,465           | 1,358,890                   | 1,594,043           |
| North America             | 2,241,909                 | 1,949,578           | 1,156,738                   | 985,142             |
| Europe                    | 963,749                   | 966,458             | 424,434                     | 462,310             |
| China and Central Asia    | 167,045                   | 266,284             | 82,734                      | 92,242              |
| Central and South America | 151,217                   | 185,974             | 92,273                      | 110,571             |
| The Middle East           | 126,915                   | 170,675             | 58,028                      | 100,997             |
| Africa                    | 60,217                    | 33,099              | 26,681                      | 23,417              |
| South-East Asia           | 53,637                    | 156,110             | 53,624                      | 44,878              |
|                           | 6,260,105                 | 6,735,643           | 3,253,402                   | 3,413,600           |

# OAO Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended June 30, 2014 and 2013

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

### 3. Finance costs, net

|   | Six months ended June 30, |                     | Three months ended June 30, |                     |
|---|---------------------------|---------------------|-----------------------------|---------------------|
|   | 2014<br>(unaudited)       | 2013<br>(unaudited) | 2014<br>(unaudited)         | 2013<br>(unaudited) |
| Interest expense  | (201,762)                 | (199,360)           | (84,475)                    | (99,335)            |
| Interest income   | 6,978                     | 18,142              | 3,562                       | 8,127               |
| Loss on remeasurement and disposal of financial investments | (33,365)                  | (6,434)             | (31,901)                    | (4,693)             |
| Other finance costs   | (2,534)                   | (1,797)             | (1,221)                     | (769)               |
|   | (230,683)                 | (189,449)           | (114,035)                   | (96,670)            |

### 4. Foreign exchange (loss)/gain, net

|  | Six months ended June 30, |                     | Three months ended June 30, |                     |
|--|---------------------------|---------------------|-----------------------------|---------------------|
|  | 2014<br>(unaudited)       | 2013<br>(unaudited) | 2014<br>(unaudited)         | 2013<br>(unaudited) |
| Foreign exchange (loss)/gain on cash and cash equivalents and debt finance | (156,767)                 | (323,398)           | 226,520                     | (267,296)           |
| Foreign exchange gain/(loss) on other assets and liabilities               | 35,372                    | 82,087              | (27,109)                    | 40,803              |
|  | (121,395)                 | (241,311)           | 199,411                     | (226,493)           |

### 5. Related party transactions

|  | Six months ended June 30, |                     | Three months ended June 30, |                     |
|--|---------------------------|---------------------|-----------------------------|---------------------|
|  | 2014<br>(unaudited)       | 2013<br>(unaudited) | 2014<br>(unaudited)         | 2013<br>(unaudited) |
| Revenue - related parties:                 |                           |                     |                             |                     |
| Revenue - associates                       | 21,837                    | 24,060              | 10,814                      | 12,058              |
| Revenue - joint ventures                   | 21,417                    | 29,994              | 9,168                       | 14,833              |
| Revenue - other related parties            | 25,778                    | 20,346              | 14,959                      | 10,798              |
| Interest income from related parties:      |                           |                     |                             |                     |
| Interest income from joint ventures        | 3,699                     | 2,969               | 1,874                       | 1,519               |
| Interest income from other related parties | 4,704                     | 5,334               | 2,436                       | 2,511               |
|  | 77,435                    | 82,703              | 39,251                      | 41,719              |
| Purchases from related parties:            |                           |                     |                             |                     |
| Purchases from associates:                 |                           |                     |                             |                     |
| Non-capital expenditures                   | 71,248                    | 66,078              | 36,292                      | 38,582              |
| Purchases from joint ventures:             |                           |                     |                             |                     |
| Non-capital expenditures                   | 79,026                    | 94,781              | 36,754                      | 39,484              |
| Purchases from other related parties:      |                           |                     |                             |                     |
| Non-capital expenditures                   | 16,923                    | 18,810              | 5,363                       | 10,418              |
| Capital expenditures                       | -                         | 45                  | -                           | 21                  |
| Interest expense                           | -                         | 47                  | -                           | 10                  |
|  | 167,197                   | 179,761             | 78,409                      | 88,515              |

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended June 30, 2014 and 2013

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

#### 6. Related party balances

|  | June 30, 2014<br>(unaudited) | December 31,<br>2013 |
|--|------------------------------|----------------------|
| <b>Joint ventures' balances</b>  |                              |                      |
| Short-term trade accounts receivable                                       | 4,128                        | 4,804                |
| Short-term loans   | 30,103                       | 29,383               |
| Long-term loans  | 43,410                       | 39,026               |
| Long-term promissory notes   | -                            | 29,258               |
| Short-term trade accounts payable  | 9,848                        | 9,701                |
|  | 9,848                        | 9,701                |
| <b>Associates' balances</b>  |                              |                      |
| Short-term trade accounts receivable                                       | 4,420                        | 4,501                |
| Short-term loans   | 4,014                        | 4,585                |
| Short-term trade accounts payable  | 17,052                       | 25,642               |
|  | 17,052                       | 25,642               |
| <b>Other related party balances</b>  |                              |                      |
| Cash and cash equivalents at related party bank                            | 270,003                      | 373,359              |
| Accounts receivable from other related parties:                            |                              |                      |
| Short-term trade accounts receivable                                       | 20,181                       | 6,274                |
| Advances paid  | 262                          | 856                  |
| Short-term other receivables   | 1,968                        | 2,185                |
| Short-term loans   | 350                          | 457                  |
| Short-term promissory notes  | 4,784                        | 1,427                |
| Long-term other receivables  | 2,902                        | 3,441                |
| Available-for-sale financial assets  | 807                          | 891                  |
|  | 31,254                       | 15,531               |
| Accounts payable to other related parties:                                 |                              |                      |
| Short-term trade accounts payable  | 3,308                        | 1,446                |
| Advances received  | 197                          | 168                  |
| Short-term other accounts payable  | 7,544                        | 6,041                |
| Long-term other accounts payable   | 8,163                        | 2,917                |
|  | 19,212                       | 10,572               |
| Debt financing includes the following balances with other related parties: |                              |                      |
| Short-term debt financing  | 327                          | 92                   |
|  | 327                          | 92                   |

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

# OA O Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended June 30, 2014 and 2013

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### 7. Debt finance

In March 2013, the Group issued US\$ 600.0 million bonds denominated in US dollars maturing in 2018. These bonds bear an interest rate of 4.45% per annum, which is payable semi-annually in March and September each year, beginning in September 2013. The proceeds from the bonds issuance were used for general corporate purposes, including refinancing of debt maturing in 2013.

As of June 30, 2014 the fair value of the Group's financial liabilities exceeded their carrying amount approximately by US\$ 60.9 million.

### 8. Segment information

As at June 30, 2014 the Group had three reportable segments: Severstal Resources, Severstal Russian Steel and Severstal International.

Severstal Resources has its extraction facilities in the Russian Federation, the USA and Liberia producing iron ore and coal.

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

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

The following is an analysis of the Group's revenue and profit/(loss) before financing and taxation by segments:

|  | Six months ended June 30, |                     | Three months ended June 30, |                     |
|--|---------------------------|---------------------|-----------------------------|---------------------|
|  | 2014<br>(unaudited)       | 2013<br>(unaudited) | 2014<br>(unaudited)         | 2013<br>(unaudited) |
| <b>Revenue</b>                                     |                           |                     |                             |                     |
| Severstal Resources                                | 1,053,417                 | 1,390,222           | 486,190                     | 706,707             |
| Severstal Russian Steel                            | 3,703,920                 | 4,123,073           | 1,990,143                   | 2,093,055           |
| Severstal International                            | 2,081,786                 | 1,883,249           | 1,065,764                   | 953,448             |
| Intersegment transactions                          | (579,018)                 | (660,901)           | (288,695)                   | (339,610)           |
|  | <u>6,260,105</u>          | <u>6,735,643</u>    | <u>3,253,402</u>            | <u>3,413,600</u>    |
| <b>Profit/(loss) before financing and taxation</b> |                           |                     |                             |                     |
| Severstal Resources                                | 25,235                    | 266,548             | (109,636)                   | 145,914             |
| Severstal Russian Steel                            | 417,216                   | 194,941             | 265,921                     | 111,318             |
| Severstal International                            | (768,357)                 | (2,892)             | (791,064)                   | (5,698)             |
| Intersegment transactions                          | 31,630                    | (6,008)             | 28,719                      | (865)               |
|  | <u>(294,276)</u>          | <u>452,589</u>      | <u>(606,060)</u>            | <u>250,669</u>      |



# OA O Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended June 30, 2014 and 2013

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

|                         | <b>June 30,<br/>2014 (unaudited)</b> | <b>December 31,<br/>2013</b> |
|-------------------------|--------------------------------------|------------------------------|
| <b>Total assets</b>     |                                      |                              |
| Severstal Resources*    | 6,117,278                            | 6,404,457                    |
| Severstal Russian Steel | 13,846,606                           | 14,132,206                   |
| Severstal International | 2,771,001                            | 3,873,292                    |
| Intersegment balances   | (10,073,608)                         | (9,876,228)                  |
|                         | <u>12,661,277</u>                    | <u>14,533,727</u>            |

\*Total assets of Severstal Resources at June 30, 2014 and December 31, 2013 included a US\$ 210.0 million treasury shares of Severstal measured at the Groups's share in the Gold segment's net assets as at the date of its separation in 2012.

The following is an analysis of the Group's total liabilities by segments:

|                          | <b>June 30,<br/>2014 (unaudited)</b> | <b>December 31,<br/>2013</b> |
|--------------------------|--------------------------------------|------------------------------|
| <b>Total liabilities</b> |                                      |                              |
| Severstal Resources      | 1,609,674                            | 1,665,467                    |
| Severstal Russian Steel  | 6,790,355                            | 7,191,125                    |
| Severstal International  | 2,539,976                            | 2,745,867                    |
| Intersegment balances    | (4,271,257)                          | (4,068,989)                  |
|                          | <u>6,668,748</u>                     | <u>7,533,470</u>             |

### 9. Contingencies for litigation and other liabilities

As of 30 June, 2014, the actual contingent claims related to land rent agreements, utilities supply agreements, post-retirement obligation and factoring agreements made by counterparties to certain Group's entities amounted to approximately US\$ 58.9 million, US\$ 50.2 million, US\$ 26.9 million and US\$ 24.9 million, respectively. Management does not agree with these claims and has made all necessary steps to protect its position. Management is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any.

### 10. Capital commitments

As of June 30, 2014 the Group had contractual capital commitments of US\$ 463.8 million (December 31, 2013: US\$ 488.3 million).

### 11. Dividends

On June 13, 2013 the Meeting of Shareholders approved an annual dividend of RUB 1.89 (US\$ 0.06 at June 13, 2013 exchange rate) per share and per GDR for the year 2012 and an interim dividend of RUB 0.43 (US\$ 0.01 at June 13, 2013 exchange rate) per share and per GDR for the first quarter of 2013.

On June 11, 2014 the Meeting of Shareholders approved an annual dividend of RUB 3.83 (US\$ 0.11 at June 11, 2014 exchange rate) per share and per GDR for the year 2013 and an interim dividend of RUB 2.43 (US\$ 0.07 at June 11, 2014 exchange rate) per share and per GDR for the first quarter of 2014.

## **OA0 Severstal and subsidiaries**

### **Notes to the consolidated interim condensed financial statements**

#### **Six months ended June 30, 2014 and 2013**

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

#### **12. Subsequent events**

In July 2014, the Group completed the acquisition of 50% stake in Mountain State Carbon LLC from a third party, increasing its ownership interest up to 100%. The consideration payable by the Group includes cash of US\$ 30.0 million and cancellation of the promissory note receivable from the same third party with the face value of US\$ 100.0 million and the carrying value of nil at June 30, 2014. At the date of the issue of these consolidated interim condensed financial statements, the Group has not finalized the fair market value assessment of the Mountain State Carbon LLC net assets. Mountain State Carbon LLC is included into the Severstal International reporting segment to be disposed, as noted below.

In July 2014, the Group entered into an agreement to sell to a third party 100% stake in PBS Coals Ltd, a U.S. coal mining company, included in the Severstal Resources reporting segment. The cash consideration receivable by the Group under this sale agreement amounts to US\$ 60.0 million, subject to certain adjustments upon the deal closure. The expected loss on the disposal has been preliminary estimated at the amount of US\$ 153.9 million and recognized in these consolidated interim condensed financial statements as impairment of property, plant and equipment. The transaction has not been completed at the date of the issue of these consolidated interim condensed financial statements.

In July 2014, the Group entered into agreements to sell to third parties 100% stakes in Severstal Dearborn LLC and Severstal Columbus LLC, comprising, together with their subsidiaries and investments in joint ventures and associates, the Severstal International reporting segment. The cash consideration receivable by the Group under these sale agreements amounts to US\$ 2,325.0 million, including settlement of certain external and intercompany debt, subject to adjustments upon the deal closure. The expected loss on the disposal has been preliminary estimated at the amount of US\$ 911.9 million and recognized in these consolidated interim condensed financial statements primarily as impairment of property, plant and equipment. The transaction has not been completed at the date of the issue of these consolidated interim condensed financial statements.