

ОАО Severstal and subsidiaries

Consolidated interim condensed financial statements
for the nine months ended September 30, 2013 and 2012

OAO Severstal and subsidiaries

Consolidated interim condensed financial statements Nine months ended September 30, 2013 and 2012

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Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

Board of Directors

ОАО Severstal

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of ОАО Severstal (the "Company") and its subsidiaries (the "Group") as at 30 September 2013, the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and nine-month periods ended 30 September 2013 and 2012, the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month periods ended 30 September 2013 and 2012, 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: ОАО 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 September 2013 and for the three- and nine-month periods ended 30 September 2013 and 2012 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 1 October 2013 No. 65/13

ZAO KPMG

12 November 2013

Moscow, Russian Federation

OAO Severstal and subsidiaries

Consolidated interim condensed income statements Nine months ended September 30, 2013 and 2012

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

	Note	Nine months ended September 30,		Three months ended September 30,	
		2013 (unaudited)	2012 (unaudited)*	2013 (unaudited)	2012 (unaudited)*
Revenue					
Revenue - third parties		9,815,604	10,837,981	3,154,361	3,551,186
Revenue - related parties	6	111,903	150,087	37,503	40,240
	4	9,927,507	10,988,068	3,191,864	3,591,426
Cost of sales		(7,770,936)	(8,309,523)	(2,467,719)	(2,757,319)
Gross profit		2,156,571	2,678,545	724,145	834,107
General and administrative expenses		(489,403)	(527,190)	(132,488)	(188,371)
Distribution expenses		(709,924)	(836,593)	(213,305)	(258,976)
Other taxes and contributions		(108,299)	(99,363)	(31,665)	(33,221)
Share of associates' and joint ventures' (loss)/profit		(12,758)	20,933	(3,640)	11,838
Gain/(loss) on disposal of property, plant and equipment and intangible assets		2,466	(15,996)	5,020	(1,901)
Net other operating income/(expenses)		8,573	22,729	(955)	7,168
Profit from operations		847,226	1,243,065	347,112	370,644
(Impairment)/reversal of impairment of non-current assets		(7,000)	(234)	(2,051)	13,435
Net other non-operating expenses		(56,110)	(52,137)	(13,534)	(12,842)
Profit before financing and taxation		784,116	1,190,694	331,527	371,237
Finance costs	5	(257,746)	(279,403)	(68,297)	(88,056)
Foreign exchange differences		(267,139)	131,240	(25,828)	152,262
Profit before income tax		259,231	1,042,531	237,402	435,443
Income tax expense		(95,215)	(228,010)	(77,589)	(102,925)
Profit from continuing operations		164,016	814,521	159,813	332,518
Profit from discontinued operations	2	-	147,038	-	-
Profit for the period		164,016	961,559	159,813	332,518
Attributable to:					
shareholders of OAO Severstal		157,298	911,613	157,461	329,489
non-controlling interests		6,718	49,946	2,352	3,029
Basic weighted average number of shares outstanding during the period (millions of shares)		810.6	849.7	810.6	810.6
Basic earnings per share (US dollars)		0.19	1.07	0.19	0.41
Basic earnings per share - continuing operations (US dollars)		0.19	0.92	0.19	0.41
Basic earnings per share - discontinued operations (US dollars)		-	0.15	-	-
Diluted weighted average number of shares outstanding during the period (millions of shares)		835.5	850.0	835.5	811.7
Diluted earnings per share (US dollars)		0.19	1.07	0.19	0.41
Diluted earnings per share - continuing operations (US dollars)		0.19	0.92	0.19	0.41
Diluted earnings per share - discontinued operations (US dollars)		-	0.15	-	-

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

These consolidated interim condensed financial statements were approved by the Board of Directors on November 12, 2013.

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of comprehensive income Nine months ended September 30, 2013 and 2012

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

	Nine months ended September 30,		Three months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Profit for the period	164,016	961,559	159,813	332,518
Other comprehensive (loss)/income:				
Items that will not be reclassified to profit or loss				
Actuarial losses	(8,654)	(5,143)	(177)	(39)
Foreign exchange differences	(186,889)	105,785	39,337	173,243
Total items that will not be reclassified to profit or loss	(195,543)	100,642	39,160	173,204
Items that may be reclassified subsequently to profit or loss				
Foreign exchange differences	48,665	76,769	70,751	52,420
Changes in fair value of cash flow hedges	(2,965)	1,455	-	428
Deferred tax on changes in fair value of cash flow hedges	422	-	-	-
Changes in fair value of available-for-sale financial assets	(569)	5,748	-	861
Deferred tax on changes in fair value of available-for-sale financial assets	467	(23)	-	(173)
Total items that may be reclassified subsequently to profit or loss	46,020	83,949	70,751	53,536
Items that were reclassified to profit or loss				
Realised gains on disposal of available-for-sale financial assets	(2,111)	-	(355)	-
Reclassification of the Gold segment's reserves to profit from discontinued operations (Note 2)	-	(76,089)	-	-
Total items that were reclassified to profit or loss	(2,111)	(76,089)	(355)	-
Other comprehensive (loss)/income for the period, net of tax	(151,634)	108,502	109,556	226,740
Total comprehensive income for the period	12,382	1,070,061	269,369	559,258
Attributable to:				
shareholders of OAO Severstal	8,066	1,004,766	267,394	549,900
non-controlling interests	4,316	65,295	1,975	9,358

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of financial position September 30, 2013 and December 31, 2012

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

		September 30, 2013	
	Note	(unaudited)	December 31, 2012
Assets			
Current assets:			
Cash and cash equivalents		1,013,581	1,726,275
Short-term financial investments		42,459	23,778
Trade accounts receivable		1,328,906	1,040,567
Accounts receivable from related parties	7	22,114	15,468
Inventories		2,098,278	2,352,898
VAT recoverable		123,517	214,419
Income tax recoverable		23,399	21,169
Other current assets		322,076	302,120
Total current assets		4,974,330	5,696,694
Non-current assets:			
Long-term financial investments		115,018	108,060
Investments in associates and joint ventures		261,754	316,503
Property, plant and equipment		8,309,581	8,462,711
Intangible assets		855,807	820,935
Restricted financial assets		38,910	32,970
Deferred tax assets		86,140	100,796
Other non-current assets		191,803	168,546
Total non-current assets		9,859,013	10,010,521
Total assets		14,833,343	15,707,215
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		989,560	1,057,621
Accounts payable to related parties	7	35,053	36,234
Short-term debt finance	8	700,882	1,382,128
Income taxes payable		37,032	16,604
Other taxes and social security payable		156,113	152,590
Dividends payable		57,281	86,538
Other current liabilities		507,065	637,947
Total current liabilities		2,482,986	3,369,662
Non-current liabilities:			
Long-term debt finance	8	4,275,693	4,327,412
Deferred tax liabilities		384,623	338,078
Retirement benefit liabilities		198,696	201,552
Other non-current liabilities		376,862	255,268
Total non-current liabilities		5,235,874	5,122,310
Equity:			
Share capital		2,752,728	2,752,728
Treasury shares		(235,657)	(235,657)
Additional capital		315,922	315,922
Foreign exchange differences		(547,480)	(411,658)
Retained earnings		4,811,685	4,767,325
Other reserves		1,044	5,800
Total equity attributable to shareholders of OAO Severstal		7,098,242	7,194,460
Non-controlling interests		16,241	20,783
Total equity		7,114,483	7,215,243
Total equity and liabilities		14,833,343	15,707,215

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of cash flows Nine months ended September 30, 2013 and 2012

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

	Nine months ended September 30,	
	2013 (unaudited)	2012 (unaudited)*
Operating activities:		
Profit before financing and taxation	784,116	1,190,694
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	588,165	523,219
Impairment of non-current assets	7,000	234
Movements in provision for inventories, receivables and other provisions	(11,705)	86,317
(Gain)/loss on disposal of property, plant and equipment and intangible assets	(2,466)	15,996
Loss/(gain) on disposal of subsidiaries and associates	1,003	(7,602)
Share of associates' and joint ventures' results less dividends from associates and joint ventures	16,071	(14,693)
Changes in operating assets and liabilities:		
Trade accounts receivable	(331,267)	44,796
Amounts receivable from related parties	(6,955)	2,265
VAT recoverable	84,705	(50,575)
Inventories	189,694	347,127
Trade accounts payable	(8,008)	(191,559)
Amounts payable to related parties	(2,548)	2,965
Other taxes and social security payable	15,261	28,736
Other non-current liabilities	(26,200)	8,211
Net other changes in operating assets and liabilities	(59,057)	(62,465)
Cash generated from operations	1,237,809	1,923,666
Interest paid	(297,768)	(348,915)
Income tax paid	(9,571)	(143,888)
Net cash from operating activities - continuing operations	930,470	1,430,863
Net cash used in operating activities - discontinued operations	-	(8,253)
Net cash from operating activities	930,470	1,422,610
Investing activities:		
Additions to property, plant and equipment	(776,797)	(899,864)
Additions to intangible assets	(67,359)	(78,825)
Additions to financial investments and associates	(31,120)	(58,160)
Proceeds from disposal of subsidiary	3,628	-
Proceeds from disposal of property, plant and equipment	24,362	7,119
Proceeds from disposal of financial investments	15,437	354,885
Interest received	21,545	90,888
Dividends received	8,805	10,341
Cash used in investing activities - continuing operations	(801,499)	(573,616)
Cash used in investing activities - discontinued operations	-	(42,518)
Cash used in investing activities	(801,499)	(616,134)
Financing activities:		
Proceeds from debt finance	2,033,786	1,738,468
Repayment of debt finance	(2,720,320)	(1,926,292)
Repayments under lease obligations	(2,286)	(3,668)
Dividends paid	(138,448)	(301,735)
Repurchase of issued shares	-	(19,874)
Acquisitions of non-controlling interests	(4,008)	(72,858)
Cash used in financing activities	(831,276)	(585,959)
Effect of exchange rates on cash and cash equivalents	(10,389)	(4,890)
Net (decrease)/increase in cash and cash equivalents	(712,694)	215,627
Less change in cash and cash equivalents of discontinued operations	-	42,168
Cash and cash equivalents at beginning of the period	1,726,275	1,863,538
Cash and cash equivalents at end of the period	1,013,581	2,121,333

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

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of changes in equity Nine months ended September 30, 2013 and 2012

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

	Attributable to shareholders of OAO Severstal						Non- controlling interests	Total	
	Share capital	Treasury shares	Additional capital	Foreign exchange differences	Retained earnings	Other reserves	Total		
Balances at December 31, 2011	3,311,288	(1,586,293)	1,165,530	(642,228)	4,386,461	44,738	6,679,496	387,827	7,067,323
Profit for the period (unaudited)	-	-	-	-	911,613	-	911,613	49,946	961,559
Foreign exchange differences (unaudited)	-	-	-	167,040	-	-	167,040	15,514	182,554
Other comprehensive loss (unaudited)	-	-	-	(31,130)	(4,979)	(37,755)	(73,864)	(165)	(74,029)
Deferred tax on other comprehensive loss (unaudited)	-	-	-	-	-	(23)	(23)	-	(23)
Total comprehensive income/(loss) for the period (unaudited)				135,910	906,634	(37,778)	1,004,766	65,295	1,070,061
Repurchase of issued shares (unaudited)	-	(20,480)	-	-	-	-	(20,480)	-	(20,480)
Dividends (unaudited)	-	-	-	-	(227,828)	-	(227,828)	-	(227,828)
Cancellation of shares (unaudited) (Note 3)	(558,560)	1,474,965	(916,405)	-	-	-	-	-	-
Issue of convertible bonds (unaudited) (Note 8)	-	-	66,797	-	-	-	66,797	-	66,797
Gold segment separation (unaudited) (Note 2)	-	(103,849)	-	-	-	-	(103,849)	(274,892)	(378,741)
Effect of acquisitions without a change in control (unaudited)	-	-	-	-	(87,484)	-	(87,484)	(49,840)	(137,324)
Balances at September 30, 2012 (unaudited)	<u>2,752,728</u>	<u>(235,657)</u>	<u>315,922</u>	<u>(506,318)</u>	<u>4,977,783</u>	<u>6,960</u>	<u>7,311,418</u>	<u>128,390</u>	<u>7,439,808</u>
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
Profit for the period (unaudited)	-	-	-	-	157,298	-	157,298	6,718	164,016
Foreign exchange differences (unaudited)	-	-	-	(135,822)	-	-	(135,822)	(2,402)	(138,224)
Other comprehensive loss (unaudited)	-	-	-	-	(8,654)	(5,645)	(14,299)	-	(14,299)
Deferred tax on other comprehensive loss (unaudited)	-	-	-	-	-	889	889	-	889
Total comprehensive (loss)/income for the period (unaudited)				(135,822)	148,644	(4,756)	8,066	4,316	12,382
Dividends (unaudited)	-	-	-	-	(109,120)	-	(109,120)	-	(109,120)
Effect of acquisitions and disposals without a change in control (unaudited)	-	-	-	-	4,836	-	4,836	(8,858)	(4,022)
Balances at September 30, 2013 (unaudited)	<u>2,752,728</u>	<u>(235,657)</u>	<u>315,922</u>	<u>(547,480)</u>	<u>4,811,685</u>	<u>1,044</u>	<u>7,098,242</u>	<u>16,241</u>	<u>7,114,483</u>

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

OA0 Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2013 and 2012

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

1. Accounting policies and estimates

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

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, 2012, except that the Group has adopted those new and amended standards that are mandatory for financial annual periods beginning on January 1, 2013.

<u>Standards</u>	<u>Effective for annual periods beginning on or after</u>
IAS 1 (Amended) "Presentation of Financial Statements"	July 1, 2012, January 1, 2013
IAS 16 (Amended) "Property, Plant and Equipment"	January 1, 2013
IAS 27 (Amended) "Separate Financial Statements"	January 1, 2013
IAS 28 (Amended) "Investments in Associates and Joint ventures"	January 1, 2013
IAS 32 (Amended) "Financial Instruments: Presentation"	January 1, 2013
IAS 34 (Amended) "Interim Financial Reporting"	January 1, 2013
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	January 1, 2013
IFRS 7 (Amended) "Financial Instruments: Disclosure"	January 1, 2013
IFRS 10 (Amended) "Consolidated Financial Statements"	January 1, 2013
IFRS 11 (Amended) "Joint Arrangements"	January 1, 2013
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	January 1, 2013
IFRS 13 " Fair Value Measurement"	January 1, 2013

Amended IAS 1 *Presentation of Financial Statements* requires a separate presentation of items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Items that will not be reclassified to profit or loss mainly include foreign exchange differences of the Group's entities where functional currency is the Russian ruble. The amendment was applied retrospectively by re-presenting the comparative information.

Amended IAS 16 *Property, Plant and Equipment* clarifies the recognition of spare parts, stand-by equipment and servicing equipment either as property, plant and equipment, when they meet the definition of property, plant and equipment, or as inventory. Amended IAS 16 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IAS 32 *Financial Instruments: Presentation* clarifies that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with IAS 12 *Income Taxes*. Amended IAS 32 did not have a significant effect on the Group's consolidated interim condensed financial statement.

Amended IAS 34 *Interim Financial Reporting* requires a separate presentation of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the Group's management and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The amendment was applied retrospectively by re-presenting the comparative information.

OAo Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2013 and 2012

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

Amended IFRS 1 *First-time Adoption of International Financial Reporting Standards* introduces how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs. The amendments mirror the requirements for existing IFRS preparers in relation to the application of amendments made to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in relation to accounting for government loans. Amended IFRS 1 did not have effect on the Group's consolidated interim condensed financial statements, since the Group is not a first-time adopter of IFRS.

Amended IFRS 7 *Financial Instruments: Disclosures* provides minimum disclosure requirements related to financial assets and financial liabilities, set off in the statement of financial position or a subject to enforceable master netting arrangements or similar agreements. The amendments requires disclosure of tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the statement of financial position. Amended IFRS 7 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IFRS 10 *Consolidated Financial Statements* provides a single control model and replaces the parts of the previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements. IFRS 10 changes the definition of control such that an investor controls an investee if and only if the investor has the power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. Amended IFRS 10 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IFRS 11 *Joint Arrangements* supersedes IAS 31 *Interests in Joint Ventures* and provides the definition of joint arrangements as an arrangement over which there is joint control. IFRS classifies joint arrangements into two types: joint operations whereby the parties with joint control have rights to the assets and obligations for the liabilities relating to the arrangement, and joint ventures whereby the parties with joint control have rights to the net assets of the arrangement. IFRS 11 removes the option to account for joint ventures using proportionate consolidation; the equity method is applied in accordance with IAS 28 *Investments in Associates and Joint Ventures*. Amended IFRS 11 was applied retrospectively.

Amended IFRS 12 *Disclosures of Interests in Other Entities* requires extended disclosures for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Amended IFRS 12 did not have a significant effect on the Group's consolidated interim condensed financial statements.

IFRS 13 *Fair Value Measurement* establishes a single source of guidance under IFRS and provides a revised definition of fair value, sets out a framework for measuring fair value and requires expanded disclosures about fair value measurements. IFRS 13 did not have a significant effect on the Group's consolidated interim condensed financial statements.

New accounting pronouncements

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the nine months ended September 30, 2013, and have not been applied in these consolidated interim condensed financial statements.

OAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2013 and 2012

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

<u>Standards and Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
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 7 (Amended) "Financial Instruments: Disclosure"	January 1, 2015
IFRS 9 (Amended) "Financial Instruments"	January 1, 2015
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

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* becomes effective for annual periods beginning on or after 1 January 2015. The new standard 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.

Restatements

During the current year the Group changed the classification of income and expenses related to finance operations between general and administrative expenses, loss on remeasurement and disposal of financial investments and finance costs 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:

Consolidated interim condensed income statements:

	<u>Nine months ended September 30, 2012 (unaudited)</u>	<u>Three months ended September 30, 2012 (unaudited)</u>
Decrease in general and administrative expenses	3,185	960
Decrease in loss on remeasurement and disposal of financial investments	4,816	437
Increase in finance costs	(8,001)	(1,397)

Consolidated interim condensed statements of cash flows:

	<u>Nine months ended September 30, 2012 (unaudited)</u>
Decrease in loss on remeasurement and disposal of financial investments	(4,816)
Increase in profit before financing and taxation	8,001
Increase in interest paid	(3,185)

OAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2013 and 2012

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

2. Discontinued operations

The Group's discontinued operations represented the Gold segment.

In March 2012, the Group completed the separation of the Gold segment by exchange of 100% shares of Nord Gold N.V., the segment's holding company, for OAO Severstal shares and GDRs resulting in the increase of the Group's treasury stock by 192,900,120 shares.

The effect of the Gold segment separation was recognized in equity as an increase in treasury shares in the amount of US\$ 1,560.0 million as at 31 December, 2011 and in the amount of US\$ 103.8 million in the nine months ended September 30, 2012 as a result of a further increase in the Group's share in the Gold segment's net assets compared to December 31, 2011.

The results of the discontinued operations were as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Revenue	-	161,072	-	-
Expenses	-	(73,252)	-	-
Profit before income tax	-	87,820	-	-
Income tax expense	-	(10,112)	-	-
Profit, net of income tax	-	77,708	-	-
Net gain on disposal	-	69,330	-	-
Profit for the period	-	147,038	-	-
Attributable to:				
shareholders of OAO Severstal	-	130,272	-	-
non-controlling interests	-	16,766	-	-

A summary of assets and liabilities disposed during the nine months ended September 30, 2013 and 2012 is presented below:

	Nine months ended September 30,		Three months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Assets held for sale	-	(2,827,037)	-	-
Liabilities related to assets held for sale	-	536,649	-	-
Net identifiable assets	-	(2,290,388)	-	-
Foreign exchange differences and other reserves	-	76,089	-	-
Consideration:				
Consideration in other financial assets	-	(6,759)	-	-
Net gain on disposal	-	69,330	-	-

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Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2013 and 2012

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

3. Treasury shares

In March 2012, the Group completed the separation of the Gold segment resulting in the increase of the Group's treasury stock by 192,900,120 shares (*Note 2*).

On July 26, 2012 OAO Severstal's share capital was reduced by cancellation of 169,982,695 shares. As a result, the Group's share capital decreased by US\$ 558.6 million, treasury shares decreased by US\$ 1,475.0 million, and additional capital decreased by US\$ 916.4 million.

4. Revenue

Revenue by product was as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	3,339,050	3,576,777	1,060,431	1,109,967
Galvanized and other metallic coated sheet	1,477,136	1,580,493	516,350	517,157
Cold-rolled sheet	966,997	1,084,956	316,579	381,804
Metalware products	691,681	742,369	224,984	253,758
Shipping and handling costs billed to customers	642,412	694,559	211,250	212,639
Pellets and iron ore	466,858	522,401	128,523	186,461
Long products	403,747	401,239	139,642	169,295
Coal and coking coal concentrate	399,029	528,136	115,022	170,769
Other tubes and pipes, formed shapes	380,539	361,012	134,332	125,155
Colour-coated sheet	354,638	338,762	122,073	148,224
Large diameter pipes	338,895	421,251	82,984	131,495
Semi-finished products	156,014	424,831	35,329	80,432
Scrap	6,374	14,332	1,455	4,023
Others	304,137	296,950	102,910	100,247
	<u>9,927,507</u>	<u>10,988,068</u>	<u>3,191,864</u>	<u>3,591,426</u>

Revenue by delivery destination was as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Russian Federation	4,487,119	4,872,523	1,479,654	1,714,041
North America	2,965,936	3,293,001	1,016,358	950,296
Europe	1,390,257	1,480,324	423,799	470,134
China and Central Asia	356,234	484,616	89,950	154,295
The Middle East	256,463	247,846	85,788	103,060
Central and South America	241,930	400,339	55,956	138,089
South-East Asia	165,683	116,442	9,573	29,591
Africa	63,885	92,977	30,786	31,920
	<u>9,927,507</u>	<u>10,988,068</u>	<u>3,191,864</u>	<u>3,591,426</u>

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

5. Finance costs

	Nine months ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest expense	(278,505)	(325,865)	(79,145)	(105,213)
Interest income	25,356	54,463	7,214	18,554
(Loss)/gain on remeasurement and disposal of financial investments	(2,180)	(4,816)	4,254	(437)
Other finance costs	(2,417)	(3,185)	(620)	(960)
	<u>(257,746)</u>	<u>(279,403)</u>	<u>(68,297)</u>	<u>(88,056)</u>

6. Related party transactions

	Nine months ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue - related parties:				
Revenue - associates	36,480	74,955	12,420	15,909
Revenue - joint ventures	43,385	41,660	13,391	13,155
Revenue - other related parties	32,038	33,472	11,692	11,176
Interest income from related parties:				
Interest income from joint ventures	4,591	2,261	1,622	841
Interest income from other related parties	8,166	26,057	2,832	10,003
Dividend income from related parties:				
Dividend income from associates	4,446	-	4,446	-
Dividend income from other related parties	95	-	95	-
	<u>129,201</u>	<u>178,405</u>	<u>46,498</u>	<u>51,084</u>
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	101,878	93,821	35,800	28,014
Purchases from joint ventures:				
Non-capital expenditures	138,123	167,956	43,342	56,531
Purchases from other related parties:				
Non-capital expenditures	22,258	25,594	3,448	10,485
Capital expenditures	81	106	36	78
Interest expense	47	43	-	17
	<u>262,387</u>	<u>287,520</u>	<u>82,626</u>	<u>95,125</u>

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Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2013 and 2012

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

7. Related party balances

	September 30, 2013 (unaudited)	December 31, 2012
Joint ventures' balances		
Short-term trade accounts receivable	7,139	4,557
Short-term loans	25,601	-
Long-term loans	37,901	53,550
Long-term promissory notes	27,185	19,900
Short-term trade accounts payable	10,092	21,886
Associates' balances		
Short-term trade accounts receivable	4,635	5,136
Short-term loans	610	-
Long-term loans	3,347	5,446
Short-term trade accounts payable	18,743	11,392
Other related party balances		
Cash and cash equivalents at related party banks	251,507	561,946
Accounts receivable from other related parties:		
Trade accounts receivable	8,210	4,852
Advances paid	849	625
Other receivables	1,281	298
Short-term loans	233	1,027
Short-term promissory notes	946	2,407
Available-for-sale financial assets	911	812
	12,430	10,021
Short-term trade accounts payable to other related parties:		
Trade accounts payable	1,755	1,909
Advances received	61	433
Other accounts payable	4,402	614
	6,218	2,956
Debt financing includes the following balances with other related parties:		
Long-term debt financing	-	4,391
	-	4,391

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

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Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2013 and 2012

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

8. Debt finance

In September 2012, the Group issued US\$ 475.0 million senior unsecured convertible bonds maturing in 2017. The initial conversion price was set at US\$ 19.08 per share. The conversion rights may be exercised at any time on or after November 5, 2012. The bonds bear an interest rate of 1.0% per annum, which is payable semi-annually in March and September each year, beginning in March 2013, and a yield-to-maturity of 2.0% per annum. Holders of the bonds have an option to require an early redemption of their bonds in September 2015 at the accreted principal amount at such time plus accrued interest. The Group also has an option for early redemption, exercisable starting from October 2015, provided the market value of the Group's GDRs deliverable on conversion of the bonds exceeds 140.0% of the accreted principal amount of the bonds over a period specified in terms and conditions of the bonds. The proceeds from the bonds issuance were mainly used to refinance existing indebtedness and for other general corporate purposes. As a result of this transaction US\$ 66.8 million was recognized in equity, determined based on the market rate of 5.3% per annum.

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 will be used for general corporate purposes, including refinancing of debt maturing in 2013.

As of September 30, 2013 the fair value of the Group's financial liabilities exceeded their carrying amount approximately by US\$ 123.0 million.

9. Acquisitions and disposals

Acquisitions of non-controlling interests

In January 2012, the Group acquired an additional 15.8% stake in JSC Severstallat for a total consideration of EUR 6.0 million (US\$ 7.8 million at the transaction date exchange rate), increasing its ownership interest up to 100%.

In April 2012, the Group acquired an additional 38.5% stake in Severstal Liberia Iron Ore Ltd for a total consideration of US\$ 115.0 million, increasing its ownership interest up to 100%.

Disposals of associates

In January 2012, the Group sold its 21.7% stake in Intex Resources ASA for a total consideration of US\$ 20.0 million.

In September 2013, the Group exercised its put option to sell back a 12.8% stake in SPG Mineracao SA by setting off its US\$ 25.0 million deferred consideration payable. As a result, the Group's ownership interest decreased from 25.0% to 12.2%. Additionally, the Group canceled a call option agreement to purchase an additional 50.0% stake in this company.

Dilution of Group's ownership

On June 15, 2012, ZAO Mine Vorgashorskaya 2 was merged into OAO Vorkutaugol. As a result of this merger, the Group's ownership interest in OAO Vorkutaugol reduced from 88.1% to 84.2%.

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Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2013 and 2012

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

10. Segment information

As at September 30, 2013 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 (the discontinued operations are excluded):

	Nine months ended September 30,		Three months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Revenue				
Severstal Resources	1,994,623	2,332,350	604,401	734,902
Severstal Russian Steel	6,026,621	6,688,402	1,903,548	2,253,828
Severstal International	2,875,664	3,067,711	992,415	909,542
Intersegment transactions	(969,401)	(1,100,395)	(308,500)	(306,846)
	<u>9,927,507</u>	<u>10,988,068</u>	<u>3,191,864</u>	<u>3,591,426</u>
Profit/(loss) before financing and taxation				
Severstal Resources*	387,170	1,215,004	120,622	177,703
Severstal Russian Steel	394,936	458,678	199,995	212,943
Severstal International	5,490	32,917	8,382	(24,315)
Intersegment transactions*	(3,480)	(515,905)	2,528	4,906
	<u>784,116</u>	<u>1,190,694</u>	<u>331,527</u>	<u>371,237</u>

*Profit before financing and taxation of Severstal Resources for the nine months ended September 30, 2012 included a US\$ 537.3 million gain on transfer of OA0 Severstal shares and GDR's, received as a result of the Gold segment separation, to Severstal Russian Steel, subsequently eliminated within Intersegment transactions.

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

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

	September 30, 2013 (unaudited)	December 31, 2012
Total assets		
Severstal Resources*	6,317,009	6,174,092
Severstal Russian Steel	14,075,616	15,201,942
Severstal International	4,005,035	4,086,731
Intersegment balances	<u>(9,564,317)</u>	<u>(9,755,550)</u>
	<u>14,833,343</u>	<u>15,707,215</u>

*Total assets of Severstal Resources at September 30, 2013 and December 31, 2012 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.

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

	September 30, 2013 (unaudited)	December 31, 2012
Total liabilities		
Severstal Resources	1,664,247	1,518,178
Severstal Russian Steel	7,226,197	8,351,997
Severstal International	2,783,983	2,764,393
Intersegment balances	<u>(3,955,567)</u>	<u>(4,142,596)</u>
	<u>7,718,860</u>	<u>8,491,972</u>

11. Capital commitments

As of September 30, 2013 the Group had contractual capital commitments of US\$ 639.0 million (December 31, 2012: US\$ 777.0 million).

12. Dividends

On June 28, 2012 the Meeting of Shareholders approved an annual dividend of RUB 3.56 (US\$ 0.11 at June 28, 2012 exchange rate) per share and per GDR for the year 2011 and an interim dividend of RUB 4.07 (US\$ 0.12 at June 28, 2012 exchange rate) per share and per GDR for the first quarter of 2012.

On September 27, 2012 the Meeting of Shareholders approved an interim dividend of RUB 1.52 (US\$ 0.05 at September 27, 2012 exchange rate) per share and per GDR for the first six months of 2012.

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 September 30, 2013 the Meeting of Shareholders approved an interim dividend of RUB 2.03 (US\$ 0.06 at September 30, 2013 exchange rate) per share and per GDR for the first six months of 2013.