

# **ОАО Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the nine months ended September 30, 2014 and 2013

# OAQ Severstal and subsidiaries

## Consolidated interim condensed financial statements Nine months ended September 30, 2014 and 2013

### Contents

	<u>Page</u>
Auditors' Report	1
Consolidated interim condensed income statements	3
Consolidated interim condensed statements of comprehensive income	4
Consolidated interim condensed statements of financial position	5
Consolidated interim condensed statements of cash flows	6
Consolidated interim condensed statements of changes in equity	7
Notes to the consolidated interim condensed financial statements	8 – 19
1. Accounting policies and estimates	8
2. Discontinued operation	11
3. Revenue	13
4. Finance costs, net	14
5. Foreign exchange (loss)/gain, net	14
6. Related party transactions	14
7. Related party balances	15
8. Debt finance	16
9. Acquisition and disposals	16
10. Segment information	17
11. Contingencies for litigation and other liabilities	18
12. Capital commitments	18
13. Dividends	18



**ZAO KPMG**  
10 Presnenskaya Naberezhnaya  
Moscow, Russia 123317

Telephone +7 (495) 937 4477  
Fax +7 (495) 937 4400/99  
Internet www.kpmg.ru

## **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 September 2014, 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 2014 and 2013, the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month periods ended 30 September 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 member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

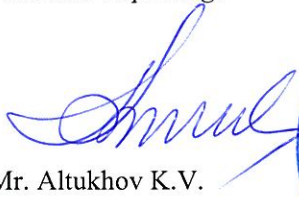
Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

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 2014 and for the three- and nine-month periods ended 30 September 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 1 October 2013 No. 65/13)

ZAO KPMG

30 October 2014

Moscow, Russian Federation



# OAO Severstal and subsidiaries

## Consolidated interim condensed income statements Nine months ended September 30, 2014 and 2013

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

	Note	Nine months ended September 30,		Three months ended September 30,	
		2014 (unaudited)	2013 (unaudited)*	2014 (unaudited)	2013 (unaudited)*
<b>Revenue</b>					
Revenue - third parties		6,323,072	6,947,539	2,212,445	2,165,977
Revenue - related parties	6	95,232	104,304	27,540	33,472
	3	6,418,304	7,051,843	2,239,985	2,199,449
Cost of sales		(4,310,928)	(4,976,532)	(1,446,920)	(1,509,211)
<b>Gross profit</b>		2,107,376	2,075,311	793,065	690,238
General and administrative expenses		(334,553)	(429,345)	(100,736)	(113,624)
Distribution expenses		(558,038)	(705,861)	(196,317)	(212,059)
Other taxes and contributions		(75,232)	(102,202)	(18,273)	(29,831)
Share of associates' and joint ventures' loss		(6,008)	(2,689)	(5,703)	(1,289)
(Loss)/gain on disposal of property, plant and equipment and intangible assets		(5,788)	3,039	(2,576)	5,194
Net other operating income/(expenses)		13,601	252	9,748	(1,076)
<b>Profit from operations</b>		1,141,358	838,505	479,208	337,553
(Impairment)/reversal of impairment of non-current assets	9	(161,090)	(7,000)	16	(2,051)
Net other non-operating expenses	9	(69,029)	(52,879)	(42,066)	(12,357)
<b>Profit before financing and taxation</b>		911,239	778,626	437,158	323,145
Finance costs, net	4	(179,081)	(194,167)	(36,358)	(49,684)
Foreign exchange (loss)/gain, net	5	(592,935)	(247,027)	(453,449)	1,215
<b>Profit/(loss) before income tax</b>		139,223	337,432	(52,649)	274,676
Income tax expense		(130,964)	(97,053)	(62,702)	(77,589)
<b>Profit/(loss) from continuing operations</b>		8,259	240,379	(115,351)	197,087
(Loss)/profit from discontinued operation	2	(816,013)	(76,363)	69,927	(37,274)
<b>(Loss)/profit for the period</b>		(807,754)	164,016	(45,424)	159,813
Attributable to:					
shareholders of OAO Severstal		(806,855)	157,298	(45,479)	157,461
non-controlling interests		(899)	6,718	55	2,352
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)/earnings per share (US dollars)		(1.00)	0.19	(0.06)	0.19
Basic and diluted earnings/(loss) per share - continuing operations (US dollars)		0.01	0.28	(0.15)	0.24
Basic (loss)/earnings per share - discontinued operation (US dollars)		(1.01)	(0.09)	0.09	(0.05)

\*These amounts reflect adjustments made in connection with the presentation of the discontinued operation.

These consolidated interim condensed financial statements were approved by the Board of Directors on October 30, 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 Nine months ended September 30, 2014 and 2013

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

	Nine months ended September 30,		Three months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
<b>(Loss)/profit for the period</b>	(807,754)	164,016	(45,424)	159,813
<b>Other comprehensive (loss)/income:</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial (losses)/gains	(2,573)	(8,654)	266	(177)
Translation to presentation currency	(528,656)	(186,889)	(467,051)	39,337
<b>Total items that will not be reclassified to profit or loss</b>	(531,229)	(195,543)	(466,785)	39,160
<b>Items that may be reclassified subsequently to profit or loss</b>				
Translation to presentation currency - foreign operations	(207,902)	48,665	(166,367)	70,751
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)	-	-
Deferred tax on changes in fair value of available-for-sale financial assets	-	467	-	-
<b>Total items that may be reclassified subsequently to profit or loss</b>	(207,902)	46,020	(166,367)	70,751
<b>Items that were reclassified to profit or loss</b>				
Realised gains on disposal of available-for-sale financial assets	-	(2,111)	-	(355)
Reclassification of foreign operation's reserve	(1,454)	-	(1,454)	-
<b>Total items that were reclassified to profit or loss</b>	(1,454)	(2,111)	(1,454)	(355)
<b>Other comprehensive (loss)/income for the period, net of tax</b>	(740,585)	(151,634)	(634,606)	109,556
<b>Total comprehensive (loss)/income for the period</b>	(1,548,339)	12,382	(680,030)	269,369
Attributable to:				
shareholders of OAO Severstal	(1,545,947)	8,066	(678,471)	267,394
non-controlling interests	(2,392)	4,316	(1,559)	1,975

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, 2014 and December 31, 2013

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

	Note	September 30, 2014 (unaudited)	December 31, 2013
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		2,753,252	1,035,948
Short-term financial investments		51,610	60,016
Trade accounts receivable		820,505	1,356,916
Accounts receivable from related parties	7	15,538	18,620
Restricted financial assets		-	1,114
Inventories		1,026,009	2,018,760
VAT recoverable		97,117	119,151
Income tax recoverable		28,231	19,048
Other current assets		151,040	276,863
<b>Total current assets</b>		<b>4,943,302</b>	<b>4,906,436</b>
<b>Non-current assets:</b>			
Long-term financial investments		80,494	115,481
Investments in associates and joint ventures		111,253	256,671
Property, plant and equipment		4,753,390	8,254,192
Intangible assets		573,216	678,910
Restricted financial assets		-	39,478
Deferred tax assets		25,659	78,118
Other non-current assets		89,024	204,441
<b>Total non-current assets</b>		<b>5,633,036</b>	<b>9,627,291</b>
<b>Total assets</b>		<b>10,576,338</b>	<b>14,533,727</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Trade accounts payable		505,054	1,145,873
Accounts payable to related parties	7	18,518	42,998
Short-term debt finance	8	261,346	627,519
Income taxes payable		13,960	10,660
Other taxes and social security payable		152,130	138,657
Dividends payable		3,260	28,065
Other current liabilities		427,106	555,401
<b>Total current liabilities</b>		<b>1,381,374</b>	<b>2,549,173</b>
<b>Non-current liabilities:</b>			
Long-term debt finance	8	3,266,706	4,126,575
Deferred tax liabilities		332,779	312,736
Retirement benefit liabilities		105,840	189,913
Other non-current liabilities		227,362	355,073
<b>Total non-current liabilities</b>		<b>3,932,687</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		312,645	315,922
Translation reserve		(1,277,926)	(542,186)
Retained earnings		3,689,142	4,692,475
Other reserves		265	1,044
<b>Total equity attributable to shareholders of OAO Severstal</b>		<b>5,241,197</b>	<b>6,984,326</b>
<b>Non-controlling interests</b>		<b>21,080</b>	<b>15,931</b>
<b>Total equity</b>		<b>5,262,277</b>	<b>7,000,257</b>
<b>Total equity and liabilities</b>		<b>10,576,338</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 Nine months ended September 30, 2014 and 2013

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

	Nine months ended September 30,	
	2014 (unaudited)	2013 (unaudited)*
<b>Operating activities:</b>		
Profit before financing and taxation	911,239	778,626
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	440,126	454,408
Impairment of non-current assets	161,090	7,000
Movements in provision for inventories, receivables and other provisions	43,128	(5,046)
Loss/(gain) on disposal of property, plant and equipment and intangible assets	5,788	(3,039)
Loss on disposal of subsidiaries	24,457	1,003
Share of associates' and joint ventures' results less dividends from associates and joint ventures	11,263	2,689
Changes in operating assets and liabilities:		
Trade accounts receivable	16,386	(239,429)
Amounts receivable from related parties	(3,850)	(5,639)
VAT recoverable	(1,137)	84,705
Inventories	13,467	115,014
Trade accounts payable	(43,112)	(46,095)
Amounts payable to related parties	(510)	(351)
Other taxes and social security payable	45,140	12,408
Other non-current liabilities	(25,913)	(21,929)
Net other changes in operating assets and liabilities	20,947	(58,993)
<b>Cash generated from operations</b>	<b>1,618,509</b>	<b>1,075,332</b>
Interest paid	(189,723)	(221,939)
Income tax paid	(45,035)	(9,371)
Net cash from operating activities - continuing operations	1,383,751	844,022
Net cash from operating activities - discontinued operation	123,045	86,448
<b>Net cash from operating activities</b>	<b>1,506,796</b>	<b>930,470</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(575,478)	(716,913)
Additions to intangible assets	(46,910)	(67,359)
Additions to financial investments	(20,192)	(25,120)
Proceeds from disposal of subsidiaries	1,986,878	3,628
Proceeds from disposal of property, plant and equipment	17,738	24,935
Proceeds from disposal of financial investments	7,204	13,081
Interest received	26,747	21,418
Dividends received	1,224	8,805
Net cash from/(used in) investing activities - continuing operations	1,397,211	(737,525)
Net cash used in investing activities - discontinued operation	(94,207)	(63,974)
<b>Cash from/(used in) investing activities</b>	<b>1,303,004</b>	<b>(801,499)</b>
<b>Financing activities:</b>		
Proceeds from debt finance	1,035,114	898,126
Repayments of debt finance	(1,467,839)	(1,318,539)
Repayments under lease obligations	(193)	(1,519)
Dividends paid	(216,405)	(138,448)
Acquisitions of non-controlling interests	-	(4,008)
Net cash used in financing activities - continuing operations	(649,323)	(564,388)
Net cash used in financing activities - discontinued operation	(367,191)	(266,888)
<b>Cash used in financing activities</b>	<b>(1,016,514)</b>	<b>(831,276)</b>
Effect of exchange rates on cash and cash equivalents	(75,982)	(10,389)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,717,304</b>	<b>(712,694)</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>2,753,252</b>	<b>1,013,581</b>

\*These amounts reflect adjustments made in connection with the presentation of the discontinued operation.

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, 2014 and 2013

*(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	Translation reserve	Retained earnings	Other 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
Profit for the period (unaudited)	-	-	-	-	157,298	-	157,298	6,718	164,016
Translation to presentation currency (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>
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)	-	-	-	-	(806,855)	-	(806,855)	(899)	(807,754)
Translation to presentation currency (unaudited)	-	-	-	(735,065)	-	-	(735,065)	(1,493)	(736,558)
Other comprehensive loss (unaudited)	-	-	-	(675)	(2,573)	(779)	(4,027)	-	(4,027)
Total comprehensive loss for the period (unaudited)	-	-	-	(735,740)	(809,428)	(779)	(1,545,947)	(2,392)	(1,548,339)
Dividends (unaudited)	-	-	-	-	(194,544)	-	(194,544)	(49)	(194,593)
Repayment of convertible bonds (unaudited)	-	-	(3,277)	-	-	-	(3,277)	-	(3,277)
Effect of disposals without a change in control (unaudited)	-	-	-	-	639	-	639	7,590	8,229
Balances at September 30, 2014 (unaudited)	<u>2,752,728</u>	<u>(235,657)</u>	<u>312,645</u>	<u>(1,277,926)</u>	<u>3,689,142</u>	<u>265</u>	<u>5,241,197</u>	<u>21,080</u>	<u>5,262,277</u>

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

# OAo Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Nine months ended September 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 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, 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 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 measures 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*.

# OAO Severstal and subsidiaries

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

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

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 nine months ended September 30, 2014 and have not been applied in these consolidated interim condensed financial statements.

<b>Standards</b>	<b>Effective for annual periods 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, January 1, 2016
IAS 24 (Amended) "Related Party Disclosures"	July 1, 2014
IAS 27 (Amended) "Separate Financial Statements"	January 1, 2016
IAS 28 (Amended) "Investments in Associates and Joint Ventures"	January 1, 2016
IAS 34 (Amended) "Interim Financial Reporting"	January 1, 2016
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 5 (Amended) "Non-current Assets Held for Sale and Discontinued Operations"	January 1, 2016
IFRS 7 (Amended) "Financial Instruments: Disclosure"	January 1, 2015, January 1, 2016
IFRS 8 (Amended) "Operating Segments"	July 1, 2014
IFRS 9 (Amended) "Financial Instruments"	July 1, 2014, January 1, 2018
IFRS 10 (Amended) "Consolidated Financial Statements"	January 1, 2016
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.

## OA0 Severstal and subsidiaries

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

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

IFRS 9 *Financial Instruments* 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 standard provides amended guidance on 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 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>Nine months ended September 30, 2013 (unaudited)</b>	<b>Three months ended September 30, 2013 (unaudited)</b>
Metalware products	(100,684)	(33,593)
Cold-rolled sheet	49,450	16,762
Hot-rolled strip and plate	44,271	14,684
Galvanized and other metallic coated sheet	3,988	921
Colour-coated sheet	1,923	781
Other tubes and pipes, formed shapes	1,052	445

## OAO Severstal and subsidiaries

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

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

#### 2. Discontinued operation

The Group's discontinued operation represents the Severstal International reporting segment, following the management's decision to dispose of this business.

The result of discontinued operation was as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Revenue	3,014,442	2,875,664	932,656	992,415
Expenses	(3,861,501)	(2,953,865)	(941,489)	(1,029,689)
<b>Loss before income tax</b>	(847,059)	(78,201)	(8,833)	(37,274)
Income tax (expense)/benefit	(54,272)	1,838	(6,558)	-
<b>Loss, net of tax</b>	(901,331)	(76,363)	(15,391)	(37,274)
Net gain on disposal	85,318	-	85,318	-
<b>(Loss)/profit for the period</b>	<u>(816,013)</u>	<u>(76,363)</u>	<u>69,927</u>	<u>(37,274)</u>
Attributable to:				
shareholders of OAO Severstal	<u>(816,013)</u>	<u>(76,363)</u>	<u>69,927</u>	<u>(37,274)</u>

In September 2014, the Group sold its 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 preliminary cash consideration received by the Group under the respective sale agreements amounted to US\$ 1,998.5 million, after settlement of US\$ 385.3 million external debt. A cumulative net loss on the disposal comprised US\$ 826.6 million, of which the loss of US\$ 911.9 million was primarily recognized as impairment of property, plant and equipment in June, 2014 and included into the expenses of discontinued operation, and net gain on the disposal of US\$ 85.3 million recognized upon the disposal in September, 2014.

## OAO Severstal and subsidiaries

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

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

A summary of assets and liabilities disposed during the nine months ended September 30, 2014 and 2013 is presented below:

	Nine months ended September 30,		Three months ended September 30,	
	2014 <u>(unaudited)</u>	2013 <u>(unaudited)</u>	2014 <u>(unaudited)</u>	2013 <u>(unaudited)</u>
Cash and cash equivalents	(62,998)	-	(62,998)	-
Trade accounts receivable	(328,623)	-	(328,623)	-
Inventories	(682,502)	-	(682,502)	-
Other current assets	(36,443)	-	(36,443)	-
Property, plant and equipment	(1,591,066)	-	(1,591,066)	-
Intangible assets	(8,254)	-	(8,254)	-
Long-term financial investments	(30,085)	-	(30,085)	-
Other non-current assets	(108,967)	-	(108,967)	-
Trade accounts payable	383,975	-	383,975	-
Accounts payable to related parties	27,244	-	27,244	-
Other taxes and social security payable	3,896	-	3,896	-
Other current liabilities	29,064	-	29,064	-
Long-term debt finance	385,323	-	385,323	-
Other non-current liabilities	106,216	-	106,216	-
Net identifiable assets	(1,913,220)	-	(1,913,220)	-
Consideration in cash	1,998,538	-	1,998,538	-
Net gain on disposal	85,318	-	85,318	-
Net change in cash and cash equivalents	1,935,540	-	1,935,540	-

## OAO Severstal and subsidiaries

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

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

### 3. Revenue

Revenue by product was as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013*	2014	2013*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	1,884,664	2,061,014	641,683	623,017
Cold-rolled sheet	632,629	656,328	213,563	207,818
Metalware products	524,756	590,997	175,669	191,391
Shipping and handling costs billed to customers	502,578	569,315	164,537	185,619
Long products	449,119	403,747	176,575	139,642
Pellets and iron ore	404,199	466,858	111,920	128,523
Other tubes and pipes, formed shapes	397,190	381,591	148,348	134,777
Large diameter pipes	376,984	338,895	176,828	82,984
Galvanized and other metallic coated sheet	336,199	384,188	137,013	136,160
Colour-coated sheet	334,012	356,561	143,947	122,854
Coal and coking coal concentrate	173,740	399,029	47,155	115,022
Semi-finished products	126,633	155,817	7,413	35,203
Scrap	10,543	6,374	448	1,455
Others	265,058	281,129	94,886	94,984
	<u>6,418,304</u>	<u>7,051,843</u>	<u>2,239,985</u>	<u>2,199,449</u>

\* 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:

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Russian Federation	4,029,575	4,487,119	1,534,159	1,479,654
Europe	1,416,808	1,390,257	453,059	423,799
North America	309,777	159,227	98,537	48,675
China and Central Asia	221,477	356,234	54,433	89,950
The Middle East	196,992	256,463	70,076	85,788
Central and South America	105,447	172,975	5,347	31,224
Africa	72,337	63,885	12,119	30,786
South-East Asia	65,891	165,683	12,255	9,573
	<u>6,418,304</u>	<u>7,051,843</u>	<u>2,239,985</u>	<u>2,199,449</u>

# OAO Severstal and subsidiaries

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

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

### 4. Finance costs, net

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest expense	(196,167)	(211,933)	(54,451)	(59,523)
Interest income	16,138	22,285	11,787	6,174
Gain/(loss) on remeasurement and disposal of financial investments	4,691	(2,180)	7,616	4,254
Other finance costs	(3,743)	(2,339)	(1,310)	(589)
	<u>(179,081)</u>	<u>(194,167)</u>	<u>(36,358)</u>	<u>(49,684)</u>

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

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Foreign exchange (loss)/gain on cash and cash equivalents and debt finance	(657,600)	(316,484)	(482,742)	13,844
Foreign exchange gain/(loss) on other assets and liabilities	64,665	69,457	29,293	(12,629)
	<u>(592,935)</u>	<u>(247,027)</u>	<u>(453,449)</u>	<u>1,215</u>

### 6. Related party transactions

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue - related parties:				
Revenue - associates	32,759	36,480	10,922	12,420
Revenue - joint ventures	25,173	35,786	5,095	9,360
Revenue - other related parties	37,300	32,038	11,523	11,692
Interest income from related parties:				
Interest income from joint ventures	3,757	3,306	1,239	1,141
Interest income from other related parties	7,487	8,166	2,783	2,832
	<u>106,476</u>	<u>115,776</u>	<u>31,562</u>	<u>37,445</u>
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	67,247	71,077	21,765	23,207
Purchases from joint ventures:				
Non-capital expenditures	4,309	3,706	1,481	785
Purchases from other related parties:				
Non-capital expenditures	24,780	22,258	7,858	3,448
Capital expenditures	58	81	58	36
Interest expense	-	47	-	-
	<u>96,394</u>	<u>97,169</u>	<u>31,162</u>	<u>27,476</u>



# OAO Severstal and subsidiaries

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

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

### 7. Related party balances

	September 30, 2014 (unaudited)	December 31, 2013
<b>Joint ventures' balances</b>		
Short-term trade accounts receivable	1,359	4,804
Short-term loans	27,238	29,383
Long-term loans	39,778	39,026
Long-term promissory notes	-	29,258
Short-term trade accounts payable	476	9,701
	476	9,701
<b>Associates' balances</b>		
Short-term trade accounts receivable	3,653	4,501
Short-term loans	4,490	4,585
Short-term trade accounts payable	7,756	25,642
	7,756	25,642
<b>Other related party balances</b>		
Cash and cash equivalents at related party bank	401,006	373,359
Accounts receivable from other related parties:		
Short-term trade accounts receivable	7,981	6,274
Advances paid	236	856
Short-term other receivables	2,309	2,185
Short-term loans	191	457
Short-term promissory notes	9,960	1,427
Long-term other receivables	2,324	3,441
Available-for-sale financial assets	765	891
	23,766	15,531
Accounts payable to other related parties:		
Short-term trade accounts payable	3,051	1,446
Advances received	103	168
Short-term other accounts payable	7,132	6,041
Long-term other accounts payable	6,400	2,917
	16,686	10,572
Debt financing includes the following balances with other related parties:		
Short-term debt financing	279	92
	279	92

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

# OAO Severstal and subsidiaries

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

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

### 8. 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 September 30, 2014 the fair value of the Group's financial liabilities was less their carrying amount approximately by US\$ 7.6 million.

### 9. Acquisition and disposals

#### *Disposal of associate*

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.

#### *Disposal of subsidiary (other than discontinued operation)*

In August 2014, the Group sold its 100% stake in PBS Coals Ltd for a total consideration of US\$ 53.1 million. A cumulative net loss on the disposal of US\$ 178.4 million was recognized in these consolidated interim condensed financial statements, of which US\$ 153.9 million was recognized as impairment of property, plant and equipment in June, 2014 and US\$ 24.5 million recognized as part of net other non-operating expense upon the disposal.

A summary of assets and liabilities disposed during the nine months ended September 30, 2014 and 2013 is presented below:

	Nine months ended September 30,		Three months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Cash and cash equivalents	(1,780)	-	(1,780)	-
Trade accounts receivable	(11,935)	-	(11,935)	-
Inventories	(21,047)	-	(21,047)	-
Other current assets	(2,644)	-	(2,644)	-
Property, plant and equipment	(25,729)	-	(25,729)	-
Intangible assets	(64,882)	-	(64,882)	-
Other non-current assets	(51,792)	-	(51,792)	-
Trade accounts payable	12,049	-	12,049	-
Other taxes and social security payable	421	-	421	-
Other current liabilities	7,933	-	7,933	-
Deferred tax liabilities	26,348	-	26,348	-
Other non-current liabilities	55,505	-	55,505	-
Net identifiable assets	(77,553)	-	(77,553)	-
Consideration in cash	53,101	-	53,101	-
Net loss on disposal	(24,452)	-	(24,452)	-
Net change in cash and cash equivalents	51,321	-	51,321	-

# OAO Severstal and subsidiaries

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

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

### *Transaction within discontinued operation*

In July 2014, the Group acquired an additional 50% stake in Mountain State Carbon LLC for a total consideration of US\$ 30.0 million, increasing its ownership interest up to 100%. The consideration paid by the Group included also 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.

### **10. Segment information**

As at September 30, 2014 the Group had two reportable segments: Severstal Resources and Severstal Russian Steel.

Severstal Resources has its extraction facilities in the Russian Federation 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.

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

	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenue</b>				
Severstal Resources	1,493,489	1,994,623	440,073	604,401
Severstal Russian Steel	5,788,679	6,026,621	2,084,758	1,903,548
Intersegment transactions	(863,864)	(969,401)	(284,846)	(308,500)
	<u>6,418,304</u>	<u>7,051,843</u>	<u>2,239,985</u>	<u>2,199,449</u>
<b>Profit before financing and taxation</b>				
Severstal Resources	57,243	387,170	32,008	120,622
Severstal Russian Steel	816,297	394,936	399,081	199,995
Intersegment transactions	37,699	(3,480)	6,069	2,528
	<u>911,239</u>	<u>778,626</u>	<u>437,158</u>	<u>323,145</u>

# OA0 Severstal and subsidiaries

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

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

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

	<b>September 30, 2014 (unaudited)</b>	<b>December 31, 2013</b>
<b>Total assets</b>		
Severstal Resources*	5,463,092	6,404,457
Severstal Russian Steel	14,545,609	14,132,206
Severstal International (discontinued)	-	3,873,292
Intersegment balances	(9,432,363)	(9,876,228)
	<u>10,576,338</u>	<u>14,533,727</u>

\*Total assets of Severstal Resources at September 30, 2014 and December 31, 2013 included a US\$ 210.0 million treasury shares of Severstal measured at the Group'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>September 30, 2014 (unaudited)</b>	<b>December 31, 2013</b>
<b>Total liabilities</b>		
Severstal Resources	1,369,295	1,665,467
Severstal Russian Steel*	7,866,577	7,191,125
Severstal International (discontinued)	-	2,745,867
Intersegment balances	(3,921,811)	(4,068,989)
	<u>5,314,061</u>	<u>7,533,470</u>

\*Total liabilities of Severstal Russian Steel at September 30, 2014 include US\$ 54.6 million of derivatives.

### 11. Contingencies for litigation and other liabilities

As of 30 September, 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\$ 63.7 million, US\$ 41.7 million, US\$ 28.7 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.

### 12. Capital commitments

As of September 30, 2014 the Group had contractual capital commitments of US\$ 347.5 million (December 31, 2013: US\$ 488.3 million).

### 13. 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.

## **OA O Severstal and subsidiaries**

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

#### **Nine months ended September 30, 2014 and 2013**

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

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.

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.

On September 10, 2014 the Meeting of Shareholders approved an interim dividend of RUB 2.14 (US\$ 0.06 at September 10, 2014 exchange rate) per share and per GDR for the first six months of 2014.