

# **OAO Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the six months ended June 30, 2011 and 2010

# OAO Severstal and subsidiaries

## Consolidated interim condensed financial statements for the six months ended June 30, 2011 and 2010

### Contents

	<u>Page</u>
Independent auditors' report.....	1
Consolidated interim condensed income statements.....	2
Consolidated interim condensed statements of comprehensive income.....	3
Consolidated interim condensed statements of financial position.....	4
Consolidated interim condensed statements of cash flows.....	5
Consolidated interim condensed statements of changes in equity.....	6
Notes to the consolidated interim condensed financial statements.....	7 – 20
1. Accounting policies and estimates	7
2. Discontinued operations and assets held for sale	9
3. Revenue	13
4. Related party transactions	14
5. Related party balances	15
6. Debt finance	16
7. Acquisitions and disposals	16
8. Segment information	18
9. Capital commitments	19
10. Dividends	19
11. Subsequent events	20



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## **Independent Auditors' Report on Review**

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 2011, the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and six-months periods ended 30 June 2011 and 2010, and the related consolidated interim condensed statements of changes in equity and cash flows for the six-month periods ended 30 June 2011 and 2010, and selected explanatory notes (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our reviews.

### *Scope of Reviews*

We conducted our reviews 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 information 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.

### *Conclusion*

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2011, and for the three- and six-month periods ended 30 June 2011 and 2010 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG

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24 August 2011

# OAO Severstal and subsidiaries

## Consolidated interim condensed income statements

**Six months ended June 30, 2011 and 2010**

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

	Note	Six months ended June 30,		Three months ended June 30,	
		2011 (unaudited)	2010 (unaudited)*	2011 (unaudited)	2010 (unaudited)*
<b>Revenue</b>					
Revenue - third parties		7,989,658	6,351,121	4,287,855	3,627,727
Revenue - related parties	4	119,869	31,344	94,470	12,907
	3	8,109,527	6,382,465	4,382,325	3,640,634
Cost of sales		(5,461,153)	(4,325,636)	(2,940,416)	(2,379,765)
<b>Gross profit</b>		2,648,374	2,056,829	1,441,909	1,260,869
General and administrative expenses		(358,325)	(290,704)	(192,136)	(143,200)
Distribution expenses		(537,892)	(464,235)	(302,593)	(268,351)
Other taxes and contributions		(109,785)	(78,327)	(54,153)	(41,229)
Share of associates' income		1,758	16,787	3,338	14,963
Loss from securities operations		(11,135)	(60,136)	(1,349)	(56,622)
Loss on disposal of property, plant and equipment and intangible assets		(10,346)	(30,114)	(6,314)	(31,303)
Net other operating income/(expenses)		4,482	(10,161)	1,257	(2,993)
<b>Profit from operations</b>		1,627,131	1,139,939	889,959	732,134
Reversal of impairment/(impairment) of non-current assets		1,873	(60,626)	2,700	3,094
Net other non-operating expenses		(22,881)	(19,404)	(18,018)	(9,162)
<b>Profit before financing and taxation</b>		1,606,123	1,059,909	874,641	726,066
Interest income		25,135	62,364	11,777	28,230
Interest expense		(246,085)	(303,727)	(124,234)	(118,453)
Foreign exchange difference		228,948	(29,622)	54,462	(149,523)
<b>Profit before income tax</b>		1,614,121	788,924	816,646	486,320
Income tax expense		(344,815)	(184,596)	(174,254)	(78,673)
<b>Profit from continuing operations</b>		1,269,306	604,328	642,392	407,647
Loss from discontinued operations	2	(67,579)	(1,170,905)	-	(196,370)
<b>Profit/(loss) for the period</b>		1,201,727	(566,577)	642,392	211,277
Attributable to:					
shareholders of OAO Severstal		1,121,555	(592,593)	601,583	192,759
non-controlling interests		80,172	26,016	40,809	18,518
Weighted average number of shares outstanding during the period (millions of shares)		1,005.2	1,005.2	1,005.2	1,005.2
Basic and diluted profit/(loss) per share (US dollars)		1.12	(0.59)	0.60	0.19
Basic and diluted profit per share - continuing operations (US dollars)		1.18	0.58	0.60	0.39
Basic and diluted loss per share - discontinued operations (US dollars)		(0.07)	(1.16)	-	(0.20)

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

These consolidated interim condensed financial statements were approved by the Board of Directors on August 24, 2011.

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, 2011 and 2010

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

	Six months ended June 30,		Three months ended June 30,	
	2011 (unaudited)	2010 (unaudited)	2011 (unaudited)	2010 (unaudited)
<b>Profit/(loss) for the period</b>	1,201,727	(566,577)	642,392	211,277
<b>Other comprehensive income/(loss)</b>				
Foreign exchange difference	401,253	(337,197)	60,564	(382,560)
Changes in fair value of cash flow hedges	281	(5,770)	(195)	(1,133)
Deferred tax on changes in fair value of cash flow hedges	-	1,776	-	-
Changes in fair value of available-for-sale investments	(8,385)	14,854	(13,696)	12,580
Deferred tax on changes in fair value of available-for-sale investments	1,057	(3,740)	1,871	(3,798)
<b>Other comprehensive income/(loss) for the period, net of tax</b>	394,206	(330,077)	48,544	(374,911)
<b>Total comprehensive income/(loss) for the period</b>	1,595,933	(896,654)	690,936	(163,634)
Attributable to:				
shareholders of OAO Severstal	1,505,003	(915,448)	649,871	(172,125)
non-controlling interests	90,930	18,794	41,065	8,491

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, 2011 and December 31, 2010**

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

	<b>Note</b>	<b>June 30, 2011 (unaudited)</b>	<b>December 31, 2010*</b>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		1,713,995	2,012,662
Short-term bank deposits		-	12,690
Short-term financial investments		38,506	27,463
Trade accounts receivable		1,404,915	967,837
Accounts receivable from related parties	5	69,135	12,359
Restricted cash		36,399	41,313
Inventories		3,107,803	2,369,134
VAT recoverable		347,888	279,626
Income tax recoverable		27,007	39,578
Other current assets		432,878	298,183
Assets held for sale	2	1,509	3,509,882
<b>Total current assets</b>		<b>7,180,035</b>	<b>9,570,727</b>
<b>Non-current assets:</b>			
Long-term financial investments		273,867	204,542
Investments in associates and joint ventures		329,983	158,564
Property, plant and equipment		8,124,574	7,299,849
Intangible assets		1,977,437	1,930,942
Restricted cash		22,453	61,714
Deferred tax assets		91,744	103,777
Other non-current assets		160,975	78,266
<b>Total non-current assets</b>		<b>10,981,033</b>	<b>9,837,654</b>
<b>Total assets</b>		<b>18,161,068</b>	<b>19,408,381</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Trade accounts payable		1,168,546	897,389
Accounts payable to related parties	5	36,974	16,717
Short-term debt finance	6	1,649,064	1,423,551
Income tax payable		67,908	41,230
Other taxes and social security payable		212,420	156,078
Dividends payable		232,993	17,131
Other current liabilities		593,504	554,577
Liabilities related to assets held for sale	2	14,007	3,272,354
<b>Total current liabilities</b>		<b>3,975,416</b>	<b>6,379,027</b>
<b>Non-current liabilities:</b>			
Long-term debt finance	6	4,381,216	4,722,926
Deferred tax liabilities		548,050	515,071
Retirement benefit liabilities		185,115	164,555
Other non-current liabilities		328,475	277,149
<b>Total non-current liabilities</b>		<b>5,442,856</b>	<b>5,679,701</b>
<b>Equity:</b>			
Share capital		3,311,288	3,311,288
Treasury shares		(26,303)	(26,303)
Additional capital		1,165,530	1,165,530
Foreign exchange differences		132,058	(297,219)
Retained earnings		3,734,673	2,805,232
Other reserves		50,735	76,411
<b>Total equity attributable to shareholders of OAO Severstal</b>		<b>8,367,981</b>	<b>7,034,939</b>
<b>Non-controlling interests</b>		<b>374,815</b>	<b>314,714</b>
<b>Total equity</b>		<b>8,742,796</b>	<b>7,349,653</b>
<b>Total equity and liabilities</b>		<b>18,161,068</b>	<b>19,408,381</b>

\* These amounts reflect adjustments made in connection with the completion of purchase price allocation.

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, 2011 and 2010

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

	Six months ended June 30,	
	2011	2010
	(unaudited)	(unaudited)*
<b>Operating activities:</b>		
Profit before financing and taxation	1,606,123	1,059,909
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	406,435	349,555
(Reversal of impairment)/impairment of non-current assets	(1,873)	60,626
Movements in provision for inventories, receivables and other provisions	(6,586)	5,950
Loss on disposal of property, plant and equipment and intangible assets	10,346	30,114
Gain on disposal of subsidiaries	(10,840)	-
Loss on remeasurement and disposal of financial investments	11,135	60,136
Share of associates' results less dividends from associates	3,283	(16,787)
Changes in operating assets and liabilities:		
Trade accounts receivable	(362,897)	(396,867)
Amounts receivable from related parties	(59,498)	(41,173)
VAT recoverable	(46,042)	(20,357)
Inventories	(576,142)	(231,601)
Trade accounts payable	191,187	91,472
Amounts payable to related parties	10,175	45,113
Other taxes and social security payable	42,332	30,591
Other non-current liabilities	24,457	(30,909)
Assets held for sale	3,142	(8,826)
Net other changes in operating assets and liabilities	(61,703)	(75,540)
<b>Cash from operating activities - continuing operations</b>	<b>1,183,034</b>	<b>911,406</b>
Interest paid	(242,558)	(224,995)
Income tax paid	(283,863)	(167,528)
Net cash from operating activities - continuing operations	656,613	518,883
Net cash from/(used in) operating activities - discontinued operations	58,205	(386,616)
<b>Net cash from operating activities</b>	<b>714,818</b>	<b>132,267</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(745,690)	(453,012)
Additions to intangible assets	(61,090)	(29,995)
Net decrease/(increase) in short-term bank deposits	14,213	(125,310)
Additions to financial investments and associates	(1,348,108)	(517,910)
Proceeds from disposals of subsidiaries	96,995	118,647
Proceeds from disposal of property, plant and equipment	8,083	2,696
Proceeds from disposal of financial investments	1,305,330	242,220
Interest received	24,140	53,511
Cash used in investing activities - continuing operations	(706,127)	(709,153)
Cash used in investing activities - discontinued operations	(26,152)	(82,381)
<b>Cash used in investing activities</b>	<b>(732,279)</b>	<b>(791,534)</b>
<b>Financing activities:</b>		
Proceeds from debt finance	692,787	1,729,843
Repayment of debt finance	(989,072)	(1,497,769)
Repayments under lease obligations	(2,972)	(1,408)
Dividends paid	(11,042)	-
Acquisitions of non-controlling interests	(35,929)	(220,622)
Contributions of non-controlling interests	8,036	-
Cash (used in)/from financing activities - continuing operations	(338,192)	10,044
Cash (used in)/from financing activities - discontinued operations	(28,227)	41,928
<b>Cash (used in)/from financing activities</b>	<b>(366,419)</b>	<b>51,972</b>
Effect of exchange rates on cash and cash equivalents	85,213	(143,619)
<b>Net decrease in cash and cash equivalents</b>	<b>(298,667)</b>	<b>(750,914)</b>
Less cash and cash equivalents of discontinued operation and assets held for sale at end of the period	-	(262,620)
<b>Cash and cash equivalents at beginning of the period</b>	<b>2,012,662</b>	<b>2,853,376</b>
<b>Cash and cash equivalents at end of the period</b>	<b>1,713,995</b>	<b>1,839,842</b>

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

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, 2011 and 2010

*(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, 2009	3,311,288	(26,303)	1,165,530	(52,478)	3,436,270	43,600	7,877,907	498,432	8,376,339
(Loss)/profit for the period (unaudited)	-	-	-	-	(592,593)	-	(592,593)	26,016	(566,577)
Foreign exchange difference (unaudited)	-	-	-	(329,975)	-	-	(329,975)	(7,222)	(337,197)
Changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	(5,770)	(5,770)	-	(5,770)
Deferred tax on changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	1,776	1,776	-	1,776
Changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	14,854	14,854	-	14,854
Deferred tax on changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	(3,740)	(3,740)	-	(3,740)
Total comprehensive (loss)/income for the period (unaudited)	-	-	-	(329,975)	(592,593)	7,120	(915,448)	18,794	(896,654)
Effect of acquisitions without a change in control (unaudited)	-	-	-	-	71,594	-	71,594	(296,765)	(225,171)
Balances at June 30, 2010 (unaudited)	<u>3,311,288</u>	<u>(26,303)</u>	<u>1,165,530</u>	<u>(382,453)</u>	<u>2,915,271</u>	<u>50,720</u>	<u>7,034,053</u>	<u>220,461</u>	<u>7,254,514</u>
Balances at December 31, 2010*	3,311,288	(26,303)	1,165,530	(297,219)	2,805,232	76,411	7,034,939	314,714	7,349,653
Profit for the period (unaudited)	-	-	-	-	1,121,555	-	1,121,555	80,172	1,201,727
Foreign exchange difference (unaudited)	-	-	-	387,710	-	-	387,710	13,543	401,253
Changes in fair value of cash flow hedges (unaudited)	-	-	-	-	-	281	281	-	281
Changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	(5,201)	(5,201)	(3,184)	(8,385)
Deferred tax on changes in fair value of available-for-sale investments (unaudited)	-	-	-	-	-	658	658	399	1,057
Total comprehensive income/(loss) for the period (unaudited)	-	-	-	387,710	1,121,555	(4,262)	1,505,003	90,930	1,595,933
Dividends (unaudited)	-	-	-	-	(226,116)	-	(226,116)	-	(226,116)
Effect of acquisitions without a change in control (unaudited)	-	-	-	-	283	-	283	(30,829)	(30,546)
Effect of disposals with a change in control (unaudited)	-	-	-	41,567	33,719	(21,414)	53,872	-	53,872
Balances at June 30, 2011 (unaudited)	<u>3,311,288</u>	<u>(26,303)</u>	<u>1,165,530</u>	<u>132,058</u>	<u>3,734,673</u>	<u>50,735</u>	<u>8,367,981</u>	<u>374,815</u>	<u>8,742,796</u>

\* These amounts reflect adjustments made in connection with the completion of purchase price allocation.

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, 2011 and 2010

(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.

#### *Adoption of amended and revised 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, 2010, except that the Group has adopted those amended/revised standards mandatory for financial annual periods beginning on January 1, 2011.

<u>Standards</u>	<u>Effective for annual periods beginning on or after</u>
IAS 1 (Amended) "Presentation of Financial Statements"	January 1, 2011
IAS 24 (Revised) "Related party disclosure"	January 1, 2011
IAS 27 (Amended) "Consolidated and Separate Financial Statements"	July 1, 2010
IAS 32 (Amended) "Financial instruments: Presentation"	February 1, 2010
IAS 34 (Amended) "Interim financial reporting"	January 1, 2011
IFRS 3 (Amended) "Business Combinations"	July 1, 2010
IFRS 7 (Amended) "Financial instruments: disclosures"	January 1, 2011
IFRIC 13 (Amended) "Customer Loyalty Programmes"	January 1, 2011
IFRIC 14 (Amended) "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"	January 1, 2011
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"	July 1, 2010

Amended IAS 1 *Presentation of Financial Statements* clarified that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is required to be presented, but may be presented either in the statement of changes in equity or in the notes. These amendments did not have a significant effect on the Group's financial statements.

Revised IAS 24 *Related party disclosures* provided a revised definition of a related party which includes new relationships and led to the increased number of related parties of the Group. Revised IAS 24 became effective as at 1 January 2011 and requires retrospective application.

Amended IAS 27 *Consolidated and separate financial statements* clarified consequential amendments to other related international financial reporting standards. These amendments did not have a significant effect on the Group's financial statements.

Amended IAS 32 *Financial instruments: presentation* incorporated changes in respect of the classification of rights issues and their accounting. These amendments did not have a significant effect on the Group's financial statements.

Amended IAS 34 *Interim financial reporting* provided additional examples to the list of events or transactions that require disclosure and removed references to materiality that describes other minimum disclosures. These amendments did not have a significant effect on the Group's financial statements.

# OAQ Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended June 30, 2011 and 2010

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

Amended IFRS 3 *Business Combinations* incorporated transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS 3 and limited the accounting policy choice to measure non-controlling interest. These changes did not have a significant effect on the Group's financial statements.

Amended IFRS 7 *Financial instruments: Presentation* incorporated a number of clarifications to the existing disclosure requirements that did not have a significant effect on the Group's financial statements.

Amended IFRIC 13 *Customer loyalty programmes* provided guidance in respect of measuring the fair value of award credits and did not have a significant effect on the Group's financial statements.

Amended IFRIC 14 *IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction* provided guidance in respect of recognition of prepaid contributions and did not have a significant effect on the Group's financial statements.

Amended IFRIC 19 *Extinguishing financial liabilities with equity instruments* provided guidance on the accounting for debt for equity swaps and did not have a significant effect on the Group's financial statements.

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

A number of new Standards and amendments to Standards were not yet effective for the six months ended June 30, 2011, 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 1 (Amended) "Presentation of financial statements"	July 1, 2012
IAS 12 (Amended) "Income taxes"	January 1, 2012
IAS 19 (Revised) "Employee benefits"	January 1, 2013
IAS 27 (Amended) "Separate financial statements"	January 1, 2013
IAS 28 (Amended) "Investments in associates and joint ventures"	January 1, 2013
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	July 1, 2011
IFRS 7 (Amended) "Financial instruments: disclosures"	July 1, 2011
IFRS 9 "Financial instruments"	January 1, 2013
IFRS 10 "Consolidated financial statements"	January 1, 2013
IFRS 11 "Joint arrangements"	January 1, 2013
IFRS 12 "Disclosure of interests in other entities"	January 1, 2013
IFRS 13 "Fair value measurement"	January 1, 2013

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.

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. Amended IAS 1 will be effective for annual periods beginning on or after 1 July, 2012 and requires retrospective application.

# OA0 Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements

Six months ended June 30, 2011 and 2010

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

Revised IAS 19 *Employee Benefits* incorporates the following changes that are likely to have a significant impact on the Group's consolidated financial statements:

- Actuarial gains and losses will be recognized immediately in other comprehensive income and will not be recycled through profit or loss in subsequent periods;
- Annual expense for a funded benefit plan will include interest expense, calculated by applying the discount rate to the net defined benefit or liability that will replace the finance charge and expected return on plan assets.

Revised IAS 19 will be effective for annual periods beginning on or after 1 January, 2013 and requires retrospective application.

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

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 Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued during 2011.

IFRS 11 *Joint Arrangements* supersedes IAS 31 *Interests in Joint Ventures* and introduces a classification of all joint arrangements either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. IFRS 11 will be effective for annual periods beginning on or after 1 January 2013 and requires retrospective application.

IFRS 13 *Fair value measurement* provides a revised definition of fair value, establishes a framework for measuring fair value and sets out expanded disclosure requirements for fair value measurements. IFRS 13 will be effective for annual periods beginning on or after 1 January 2013 and requires prospective application.

## 2. Discontinued operations and assets held for sale

The Group's discontinued operations represent the Lucchini segment and Severstal Sparrows Point LLC, Severstal Warren LLC, Severstal Wheeling Inc and Mountain State Carbon LLC, which are an operating segment within the North America reporting segment.

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended June 30, 2011 and 2010

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

The results of the discontinued operations were as follows:

	<b>Six months ended June 30,</b>		<b>Three months ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Revenue	767,405	2,239,902	-	1,262,524
Expenses	(911,228)	(2,392,932)	-	(1,239,037)
Loss on remeasurement of the Lucchini disposal group to fair value less costs to sell	-	(1,010,280)	-	(207,945)
<b>Loss before income tax</b>	(143,823)	(1,163,310)	-	(184,458)
Income tax expense	(5,461)	(7,595)	-	(11,912)
<b>Loss net of tax</b>	(149,284)	(1,170,905)	-	(196,370)
Gain on sale of discontinued operations	81,705	-	-	-
<b>Loss for the period</b>	<b>(67,579)</b>	<b>(1,170,905)</b>	<b>-</b>	<b>(196,370)</b>
Attributable to: shareholders of OAO Severstal	(67,579)	(1,170,905)	-	(196,370)

The loss on remeasurement of the Lucchini segment to fair value less costs to sell recognized as of June 30, 2010 in the amount of US\$ 1,010.3 million was allocated to property, plant and equipment and intangible assets on a pro-rata basis.

In March 2010, the Group acquired a 20.2% stake in Lucchini S.p.A. from a Lucchini family company for a total consideration of € 82.5 million (US\$ 113.3 million at the transaction date exchange rate). After the acquisition, the Group's share in the capital of Lucchini S.p.A. became 100%.

Subsequently, the Group sold its 50.8% stake in Lucchini S.p.A. to the Majority Shareholder for a total consideration of € 1 (US\$ 1.2 at the transaction date exchange rate). The Group continued to consolidate the Lucchini segment primarily due to a call option exercisable within the following five years and a contractual entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party.

In February 2011, the Group signed an amendment to Lucchini's share purchase agreement with the Majority Shareholder which cancelled the call option and the entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party. Effective from the date of this amendment the Group accounts for the investment in Lucchini using the equity method.

In March 2011, the Group sold its 100% stake in Severstal Sparrows Point LLC, Severstal Warren LLC, Severstal Wheeling Inc and a 50% stake in Mountain State Carbon LLC. Preliminary, the total consideration is assessed by management in the amount of US\$ 156.4 million. The remaining share in Mountain State Carbon LLC of 50% is accounted for using the equity method.

Upon deconsolidation, the Group's investments in Lucchini and Mountain State Carbon LLC were stated at fair values of US\$ 0 and US\$ 116.1 million, respectively, with the difference on re-measuring to fair value recognized within the net loss from discontinued operations. The fair value of the investment in Mountain State Carbon LLC is measured on a preliminary basis. The final fair value assessment is expected to be completed by the end of 2011.

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended June 30, 2011 and 2010

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

A summary of assets and liabilities disposed during the six months ended June 30, 2011 is presented below:

	Six months ended June 30, 2011 (unaudited)	Three months ended June 30, 2011 (unaudited)
Assets held for sale	(3,599,109)	-
Liabilities related to assets held for sale	3,495,149	-
	(103,960)	-
Net identifiable assets		
Foreign exchange differences and other reserves	(53,872)	-
Fair value adjustment for equity accounted investments	83,943	-
Consideration:		
Consideration in cash	84,094	-
Consideration in other financial assets	83,500	-
Selling costs	(12,000)	-
	81,705	-
Net gain on disposal		
	84,094	-
Net change in cash and cash equivalents		

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended June 30, 2011 and 2010

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

The major classes of assets and liabilities of the disposal groups at June 30, 2011 and December 31, 2010 were as follows:

	<b>June 30, 2011</b> <b>(unaudited)</b>	<b>December 31,</b> <b>2010</b>
<b>Current assets:</b>		
Cash and cash equivalents	27	208,928
Short-term financial investments	-	5,862
Trade accounts receivable	63	711,162
Accounts receivable from related parties	-	3,835
Inventories	-	1,135,314
VAT recoverable	78	8,870
Income tax recoverable	-	13,163
Other current assets	16	65,429
<b>Total current assets</b>	<b>184</b>	<b>2,152,563</b>
<b>Non-current assets:</b>		
Long-term financial investments	-	39,042
Property, plant and equipment	1,130	1,204,978
Intangible assets	12	70,335
Deferred tax assets	158	-
Other non-current assets	25	42,964
<b>Total non-current assets</b>	<b>1,325</b>	<b>1,357,319</b>
<b>Total assets</b>	<b>1,509</b>	<b>3,509,882</b>
<b>Current liabilities:</b>		
Trade accounts payable	126	680,535
Short-term debt finance	-	1,071,286
Income tax payable	-	4,360
Other taxes and social security payable	-	64,433
Other current liabilities	933	223,160
<b>Total current liabilities</b>	<b>1,059</b>	<b>2,043,774</b>
<b>Non-current liabilities:</b>		
Long-term debt finance	12,948	354,820
Deferred tax liabilities	-	53,723
Retirement benefit liabilities	-	592,772
Other non-current liabilities	-	227,265
<b>Total non-current liabilities</b>	<b>12,948</b>	<b>1,228,580</b>
<b>Total liabilities</b>	<b>14,007</b>	<b>3,272,354</b>

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended June 30, 2011 and 2010

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

### 3. Revenue

Revenue by product was as follows:

	Six months ended June 30,		Three months ended June 30,	
	2011 (unaudited)	2010 (unaudited)	2011 (unaudited)	2010 (unaudited)
Hot-rolled strip and plate	2,331,267	1,995,221	1,220,512	1,058,610
Galvanized and other metallic coated sheet	964,056	817,959	509,506	441,544
Cold-rolled sheet	820,507	807,563	411,979	459,638
Large diameter pipes	550,724	466,851	267,017	263,946
Gold	537,741	298,415	295,764	164,039
Metalware products	501,445	387,172	269,804	220,564
Coal and coking coal concentrate	440,905	301,798	218,692	180,785
Semi-finished products	384,200	185,289	246,215	162,476
Shipping and handling costs billed to customers	363,895	316,606	214,816	187,020
Pellets and iron ore	283,932	122,489	191,610	76,209
Long products	267,863	193,832	147,962	131,243
Other tubes and pipes, formed shapes	250,994	158,259	133,322	92,343
Colour-coated sheet	140,498	109,596	87,224	76,674
Scrap	57,325	46,637	35,411	33,801
Other	214,175	174,778	132,491	91,742
	8,109,527	6,382,465	4,382,325	3,640,634

Revenue by delivery destination was as follows:

	Six months ended June 30,		Three months ended June 30,	
	2011 (unaudited)	2010 (unaudited)	2011 (unaudited)	2010 (unaudited)
Russian Federation	3,891,137	2,764,669	2,021,874	1,553,535
North America	1,796,719	1,743,969	950,819	933,530
Europe	1,677,725	1,121,656	943,485	667,672
China and Central Asia	226,643	169,089	119,741	86,465
South-East Asia	173,561	84,284	154,281	77,862
The Middle East	161,368	189,914	58,603	121,255
Central and South America	134,493	268,056	107,804	187,504
Africa	47,881	40,828	25,718	12,811
	8,109,527	6,382,465	4,382,325	3,640,634

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended June 30, 2011 and 2010

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

#### 4. Related party transactions

	Six months ended June 30,		Three months ended June 30,	
	2011 (unaudited)	2010 (unaudited)	2011 (unaudited)	2010 (unaudited)
Revenue from related parties:				
Revenue - associates	85,177	14,626	67,116	6,996
Revenue - joint ventures	12,140	444	12,140	15
Revenue - other related parties	22,552	16,274	15,214	5,896
Interest income from related parties:				
Interest income from joint ventures	1,706	-	1,706	-
Interest income from other related parties	13,087	18,110	5,614	8,342
	134,662	49,454	101,790	21,249
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	37,812	30,309	23,427	6,930
Purchases from joint ventures:				
Non-capital expenditures	100,651	45,030	73,128	45,030
Purchases from other related parties:				
Non-capital expenditures	16,425	17,084	4,753	4,804
Capital expenditures	552	3,005	148	144
Interest expense	-	2,091	-	1,053
	155,440	97,519	101,456	57,961



# OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements**  
**Six months ended June 30, 2011 and 2010**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

## 5. Related party balances

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	<b>(unaudited)</b>	
<b>Joint ventures' balances</b>		
Short-term trade accounts receivable	6,241	-
Long-term loans	37,511	34,792
Short-term trade accounts payable	24,433	7,959
<b>Associates' balances</b>		
Short-term trade accounts receivable	50,619	3,046
Long-term loans	4,324	3,915
Short-term trade accounts payable	11,224	6,510
<b>Other related party balances</b>		
Cash and cash equivalents at related party bank and pension fund	884,051	669,643
Short-term deposits with related party bank	-	12,627
Accounts receivable from other related parties:		
Trade accounts receivable	6,965	2,603
Advances paid	4,808	5,870
Other receivables	502	840
Short-term loans	1,250	487
Short-term promissory notes	1,160	4,146
Long-term loans	3,584	-
Available-for-sale securities	6,808	7,653
	25,077	21,599
Short-term trade accounts payable to other related parties:		
Trade accounts payable	1,179	556
Other accounts payable	138	1,692
	1,317	2,248
Debt finance includes the following balances with other related parties:		
Long-term debt finance	4,684	4,315
	4,684	4,315

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

# OA0 Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended June 30, 2011 and 2010

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

### 6. Debt finance

In February 2010, the Group issued US\$ 525 million bonds denominated in US dollars maturing in 2018. These bonds bear an interest rate of 10.25% per annum, which is payable semi-annually in February and August each year, beginning in August 2010. The proceeds from the bonds issuance were used to refinance outstanding debt obligations originally incurred to finance construction at Severstal Columbus LLC.

In February 2010, the Group issued US\$ 498 million bonds denominated in Russian rubles maturing in 2013. These bonds bear an interest rate of 9.75% per annum, which is payable semi-annually in February and August each year, beginning in August 2010. The proceeds from the bonds issuance are used for optimization of the credit portfolio and refinancing of short-term loan facilities.

### 7. Acquisitions and disposals

#### *Investments in associates and other equity investments*

In February 2010, the Group acquired a 26.6% stake in Crew Gold Corporation (“CGC”) for a total consideration of US\$ 90.3 million. CGC is a mining company based in London, UK which owns and operates a gold mining project in Guinea, West Africa.

In May 2010, the Group acquired a 16.5% stake in Core Mining Limited (“CML”) for a total consideration of US\$ 15 million. CML is a private company registered in the Isle of Man focused on the exploration, development and operation of iron ore projects in Central and Western Africa, mainly in Republic of Congo (Brazzaville) and Republic of Gabon.

In March 2011, the Group acquired a 7.4% stake in Iron Mineral Beneficiation Services (Proprietary) Limited (IMBS) for a total consideration of US\$ 7.4 million, increasing its ownership interest up to 33%. IMBS is a research and development company based in Johannesburg, South Africa. IMBS has developed a coal-based Finesmelt technology capable of processing unusable iron ore fines and thermal coal into valuable metallic products similar to DRI/HBI. Currently IMBS is developing its first commercial project in Phalaborwa, South Africa.

In May 2011, the Group acquired a 25.0% stake in SPG Mineracao S.A. for a total consideration of US\$ 49.0 million, of which US\$ 25.0 million are payable during the next three years. The Group has also entered into a call option agreement to purchase an additional 50% stake in this company, exercisable upon fulfillment of certain future conditions. SPG Mineracao S.A. owns exploration licenses for a number of high prospective iron ore properties in the northern state of Amapa, Brazil.

#### *Acquisitions of non-controlling interests*

In May 2010, the Group acquired an additional 18.8% stake in High River Gold Mines, Ltd. for a total consideration of US\$ 107.3 million, increasing its ownership interest up to 68.9%.

In January 2011, the Group acquired an additional 6.6% stake in Crew Gold Corporation for a total consideration of US\$ 32.9 million, increasing its ownership interest up to 100%.

In March 2011, the Group acquired an additional 49% stake in Severstal-Ukraine LLC for a total consideration of US\$ 3.0 million, increasing its ownership interest up to 100%.

## OAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended June 30, 2011 and 2010

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

#### ***Disposal of subsidiaries (other than discontinued operations)***

In May 2010, the Group sold Northern Steel Group, a group of companies within the Severstal North America segment, for a total consideration of US\$ 124.0 million.

In March 2011, the Group sold its 100% stake in SSM RP Holding B.V. and its wholly owned subsidiary OOO Severstal-metiz: welding consumables for a total consideration of US\$ 12.9 million.

A summary of assets and liabilities disposed during the six months ended June 30, 2011 and 2010 is presented below:

	Six months ended June 30,		Three months ended June 30,	
	2011	2010	2011	2010
Trade accounts receivable	-	(49,723)	-	(49,723)
Inventories	-	(90,841)	-	(90,841)
Assets held for sale	(13,375)	-	-	-
Other assets	-	(1,547)	-	(1,547)
Property, plant and equipment	-	(16,433)	-	(16,433)
Intangible assets	-	(632)	-	(632)
Trade accounts payable	-	35,307	-	35,307
Liabilities related to assets held for sale	11,315	-	-	-
Other liabilities	-	5,222	-	5,222
Net identifiable assets	(2,060)	(118,647)	-	(118,647)
Consideration in cash	12,900	118,647	-	118,647
Net gain on disposal	10,840	-	-	-
Net change in cash and cash equivalents	12,900	118,647	-	118,647

# OA0 Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended June 30, 2011 and 2010

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

### *Final purchase price allocation*

Management has completed the purchase price allocation of Crew Gold Corporation acquired during February – July 2010. The effect of the final purchase price allocation on these consolidated interim condensed financial statements is the following:

	<b>Increase/(decrease) compared to the provisional purchase price allocation at December 31, 2010</b>
	<b>US\$, thousands</b>
Inventories	2,210
VAT recoverable	1,032
Property, plant and equipment	(51,986)
Goodwill	(43,221)
Intangible assets	174,387
Deferred tax assets	2,371
Other assets	(4,931)
Debt finance	4,443
Deferred tax liabilities	21,791
Other liabilities	23,746
Retained earnings	25,042
Non-controlling interests	4,840

The comparative information at December 31, 2010 has been restated as if the accounting for the business combination had been completed at the acquisition date.

### **8. Segment information**

Following the Gold segment's financials reaching certain share of assets and profit within the Group, the presentation and disclosure of segment information has been changed by separating the Gold segment from Severstal Resources. The comparative information has been disclosed as if the separation occurred at the beginning of the earliest comparative period presented.

The Group has four reportable segments: Steel Resources and Gold (the two reportable segments representing together the Group's Severstal Resource division), Russian Steel and Severstal North America.

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

Gold comprises the extraction and refining facilities that are located in the Russian Federation, Burkina Faso, Guinea and Kazakhstan.

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 on 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.

# OA O Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended June 30, 2011 and 2010

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

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

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

	Six months ended June 30,		Three months ended June 30,	
	2011 (unaudited)	2010 (unaudited)	2011 (unaudited)	2010 (unaudited)
<b>Revenue</b>				
Steel Resources	1,767,636	1,163,017	1,003,218	703,971
Gold	543,433	300,670	299,402	165,357
Russian Steel	5,216,322	4,078,827	2,807,473	2,414,805
Severstal North America	1,568,309	1,610,705	810,814	840,887
Intersegment transactions	(986,173)	(770,754)	(538,582)	(484,386)
	<u>8,109,527</u>	<u>6,382,465</u>	<u>4,382,325</u>	<u>3,640,634</u>
<b>Profit before financing and taxation</b>				
Steel Resources	687,044	318,645	417,323	258,052
Gold	176,680	113,383	80,921	66,609
Russian Steel	688,014	761,190	337,121	437,956
Severstal North America	67,236	(70,556)	49,141	15,468
Intersegment transactions	(12,851)	(62,753)	(9,865)	(52,019)
	<u>1,606,123</u>	<u>1,059,909</u>	<u>874,641</u>	<u>726,066</u>

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

	June 30, 2011 (unaudited)	December 31, 2010
<b>Total segment assets</b>		
Steel Resources	4,253,531	3,621,118
Gold	2,716,528	2,479,481
Russian Steel	15,584,838	15,387,042
Severstal North America	3,870,199	4,821,077
Lucchini (discontinued)	-	1,853,849
Intersegment balances	(8,264,028)	(8,754,186)
	<u>18,161,068</u>	<u>19,408,381</u>

### 9. Capital commitments

As of June 30, 2011 the Group had capital commitments of US\$ 1,260.7 million (December 31, 2010: US\$ 1,546.6 million).

### 10. Dividends

On June 27, 2011 the Meeting of Shareholders approved an annual dividend of 2.42 rubles (US\$ 0.08 at June 27, 2011 exchange rate) per share and per GDR for the year 2010.

# **ОАО Severstal and subsidiaries**

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

### **Six months ended June 30, 2011 and 2010**

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

On June 27, 2011 the Meeting of Shareholders approved an interim dividend of 3.9 rubles (US\$ 0.14 at June 27, 2011 exchange rate) per share and per GDR for the first quarter of 2011.

#### **11. Subsequent events**

In July 2011, the Group issued US\$ 500.0 million bonds denominated in US dollars maturing in 2016. These bonds bear an interest rate of 6.25% per annum, which is payable semi-annually in July and January each year, beginning in January 2012. The proceeds from the bonds issuance will be used to refinance the early redemption of ruble-denominated bonds in September 2011.