

# **OAO Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the nine months ended September 30, 2012 and 2011

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## **Consolidated interim condensed financial statements for the nine months ended September 30, 2012 and 2011**

### **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.....	10
3. Treasury shares.....	13
4. Revenue.....	14
5. Related party transactions.....	15
6. Related party balances.....	16
7. Debt finance.....	17
8. Acquisitions and disposals.....	17
9. Segment information.....	19
10. Capital commitments.....	20
11. Dividends.....	20
12. Subsequent events.....	20



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

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

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

Board of Directors

OAO Severstal

### *Introduction*

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO Severstal (the "Company") and its subsidiaries (the "Group") as at 30 September 2012, 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 2012 and 2011, the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month periods ended 30 September 2012 and 2011, 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 the 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.

### *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 2012 and for the three- and nine-month periods ended 30 September 2012 and 2011 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG

ZAO KPMG

13 November 2012

# OAO Severstal and subsidiaries

## Consolidated interim condensed income statements Nine months ended September 30, 2012 and 2011

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

	Note	Nine months ended September 30,		Three months ended September 30,	
		2012 (unaudited)	2011 (unaudited)*	2012 (unaudited)	2011 (unaudited)*
<b>Revenue</b>					
Revenue - third parties		10,837,981	11,898,999	3,551,186	4,452,774
Revenue - related parties	5	150,087	186,084	40,240	66,215
	4	10,988,068	12,085,083	3,591,426	4,518,989
Cost of sales		(8,309,523)	(8,292,727)	(2,757,319)	(3,165,894)
<b>Gross profit</b>		2,678,545	3,792,356	834,107	1,353,095
General and administrative expenses		(530,375)	(516,491)	(189,331)	(165,889)
Distribution expenses		(836,593)	(841,546)	(258,976)	(303,686)
Other taxes and contributions		(99,363)	(111,761)	(33,221)	(37,287)
Share of associates' and joint ventures' profit		20,933	4,594	11,838	2,550
Loss on remeasurement and disposal of financial investments		(4,816)	(5,598)	(437)	(3,172)
Loss on disposal of property, plant and equipment and intangible assets		(15,996)	(10,152)	(1,901)	(231)
Net other operating income		22,729	7,964	7,168	3,235
<b>Profit from operations</b>		1,235,064	2,319,366	369,247	848,615
(Impairment)/reversal of impairment of non-current assets		(234)	2,076	13,435	(635)
Net other non-operating expenses		(52,137)	(49,430)	(12,842)	(26,582)
<b>Profit before financing and taxation</b>		1,182,693	2,272,012	369,840	821,398
Interest income		54,463	33,086	18,554	10,838
Interest expense		(325,865)	(348,754)	(105,213)	(123,071)
Foreign exchange differences		131,240	11,995	152,262	(199,062)
<b>Profit before income tax</b>		1,042,531	1,968,339	435,443	510,103
Income tax expense		(228,010)	(414,817)	(102,925)	(108,778)
<b>Profit from continuing operations</b>		814,521	1,553,522	332,518	401,325
Profit from discontinued operations	2	147,038	120,403	-	49,202
<b>Profit for the period</b>		961,559	1,673,925	332,518	450,527
Attributable to:					
shareholders of OAO Severstal		911,613	1,571,864	329,489	428,638
non-controlling interests		49,946	102,061	3,029	21,889
Basic weighted average number of shares outstanding during the period (millions of shares)		849.7	1,005.2	810.6	1,005.2
Basic earnings per share (US dollars)		1.07	1.56	0.41	0.43
Basic earnings per share - continuing operations (US dollars)		0.92	1.50	0.41	0.40
Basic earnings per share - discontinued operations (US dollars)		0.15	0.06	-	0.03
Diluted weighted average number of shares outstanding during the period (millions of shares)		850.0	1,005.2	811.7	1,005.2
Diluted earnings per share (US dollars)		1.07	1.56	0.41	0.43
Diluted earnings per share - continuing operations (US dollars)		0.92	1.50	0.41	0.40
Diluted earnings per share - discontinued operations (US dollars)		0.15	0.06	-	0.03

\* These amounts reflect adjustments made in connection with the presentation of the discontinued operations and the early adoption of the revised IAS 19 "Employee benefits".

These consolidated interim condensed financial statements were approved by the Board of Directors on November 13, 2012.

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, 2012 and 2011

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

	Nine months ended September 30,		Three months ended September 30,	
	2012 (unaudited)	2011 (unaudited)*	2012 (unaudited)	2011 (unaudited)*
<b>Profit for the period</b>	961,559	1,673,925	332,518	450,527
<b>Other comprehensive income/(loss)</b>				
Foreign exchange differences	182,554	(402,000)	225,663	(803,253)
Changes in fair value of cash flow hedges	1,455	342	428	61
Changes in fair value of available-for-sale financial assets	5,748	(13,476)	861	(5,091)
Deferred tax on changes in fair value of available-for-sale financial assets	(23)	1,673	(173)	616
Actuarial losses	(5,143)	(21,684)	(39)	(13)
Reclassification of the Gold segment's reserves to net profit from discontinued operations (Note 2)	(76,089)	-	-	-
<b>Other comprehensive income/(loss) for the period, net of tax</b>	108,502	(435,145)	226,740	(807,680)
<b>Total comprehensive income/(loss) for the period</b>	<u>1,070,061</u>	<u>1,238,780</u>	<u>559,258</u>	<u>(357,153)</u>
Attributable to:				
shareholders of OAO Severstal	1,004,766	1,157,978	549,900	(347,025)
non-controlling interests	<u>65,295</u>	<u>80,802</u>	<u>9,358</u>	<u>(10,128)</u>

\* These amounts reflect adjustments made in connection with the early adoption of the revised IAS 19 "Employee benefits".

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, 2012 and December 31, 2011

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

	Note	September 30, 2012 (unaudited)	December 31, 2011
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		2,121,333	1,863,538
Short-term financial investments		28,711	10,500
Trade accounts receivable		1,204,217	1,219,961
Accounts receivable from related parties	6	25,744	27,349
Inventories		2,148,968	2,519,154
VAT recoverable		222,020	193,885
Income tax recoverable		19,112	90,916
Other current assets		354,610	327,163
Assets held for sale	2	-	2,677,310
<b>Total current assets</b>		<b>6,124,715</b>	<b>8,929,776</b>
<b>Non-current assets:</b>			
Long-term financial investments		184,967	182,262
Investments in associates and joint ventures		320,153	301,315
Property, plant and equipment		8,073,451	7,463,394
Intangible assets		840,418	770,454
Restricted financial assets		30,970	22,638
Deferred tax assets		85,165	99,651
Other non-current assets		169,110	140,301
<b>Total non-current assets</b>		<b>9,704,234</b>	<b>8,980,015</b>
<b>Total assets</b>		<b>15,828,949</b>	<b>17,909,791</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Trade accounts payable		975,569	1,115,110
Accounts payable to related parties	6	39,101	1,583,031
Short-term debt finance	7	1,949,150	1,185,467
Income tax payable		50,558	28,086
Other taxes and social security payable		172,850	141,353
Dividends payable		44,203	111,208
Other current liabilities		598,850	655,420
Liabilities related to assets held for sale	2	-	550,123
<b>Total current liabilities</b>		<b>3,830,281</b>	<b>5,369,798</b>
<b>Non-current liabilities:</b>			
Long-term debt finance	7	3,777,002	4,790,631
Deferred tax liabilities		300,785	287,126
Retirement benefit liabilities		169,348	161,734
Other non-current liabilities		311,725	233,179
<b>Total non-current liabilities</b>		<b>4,558,860</b>	<b>5,472,670</b>
<b>Equity:</b>			
Share capital		2,752,728	3,311,288
Treasury shares		(235,657)	(1,586,293)
Additional capital		315,922	1,165,530
Foreign exchange differences		(506,318)	(642,228)
Retained earnings		4,977,783	4,386,461
Other reserves		6,960	44,738
<b>Total equity attributable to shareholders of OAO Severstal</b>		<b>7,311,418</b>	<b>6,679,496</b>
<b>Non-controlling interests</b>		<b>128,390</b>	<b>387,827</b>
<b>Total equity</b>		<b>7,439,808</b>	<b>7,067,323</b>
<b>Total equity and liabilities</b>		<b>15,828,949</b>	<b>17,909,791</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, 2012 and 2011

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

	<b>Nine months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)*</b>
<b>Operating activities:</b>		
Profit before financing and taxation	1,182,693	2,272,012
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	523,219	488,254
Impairment/(reversal of impairment) of non-current assets	234	(2,076)
Movements in provision for inventories, receivables and other provisions	86,317	5,141
Loss on disposal of property, plant and equipment and intangible assets	15,996	10,152
Gain on disposal of subsidiaries and associates	(7,602)	(20,621)
Loss on remeasurement and disposal of financial investments	4,816	5,598
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(14,693)	15,733
Changes in operating assets and liabilities:		
Trade accounts receivable	44,796	(358,727)
Amounts receivable from related parties	2,265	(64,074)
VAT recoverable	(50,575)	37,606
Inventories	347,127	(416,625)
Trade accounts payable	(191,559)	24,768
Amounts payable to related parties	2,965	17,886
Other taxes and social security payables	28,736	70,820
Other non-current liabilities	8,211	(9,052)
Assets held for sale	-	3,503
Net other changes in operating assets and liabilities	(62,465)	121,236
<b>Cash generated from operations</b>	<b>1,920,481</b>	<b>2,201,534</b>
Interest paid	(345,730)	(358,073)
Income tax paid	(143,888)	(398,474)
Net cash from operating activities - continuing operations	1,430,863	1,444,987
Net cash (used in)/from operating activities - discontinued operations	(8,253)	206,625
<b>Net cash from operating activities</b>	<b>1,422,610</b>	<b>1,651,612</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(899,864)	(1,167,239)
Additions to intangible assets	(78,825)	(41,004)
Net decrease in short-term bank deposits	-	14,168
Additions to financial investments and associates	(58,160)	(128,932)
Proceeds from disposals of subsidiaries	-	96,994
Proceeds from disposal of property, plant and equipment	7,119	14,201
Proceeds from disposal of financial investments	354,885	6,471
Interest received	90,888	26,376
Dividends received	10,341	23,600
Net cash used in investing activities - continuing operations	(573,616)	(1,155,365)
Net cash used in investing activities - discontinued operations	(42,518)	(218,727)
<b>Cash used in investing activities</b>	<b>(616,134)</b>	<b>(1,374,092)</b>
<b>Financing activities:</b>		
Proceeds from debt finance	1,738,468	1,656,623
Repayment of debt finance	(1,926,292)	(1,520,589)
Repayments under lease obligations	(3,668)	(6,680)
Dividends paid	(301,735)	(239,853)
Repurchase of issued shares	(19,874)	-
Acquisitions of non-controlling interests	(72,858)	(3,020)
Contributions of non-controlling interests	-	9,846
Cash used in financing activities - continuing operations	(585,959)	(103,673)
Cash used in financing activities - discontinued operations	-	(139,950)
<b>Cash used in financing activities</b>	<b>(585,959)</b>	<b>(243,623)</b>
Effect of exchange rates on cash and cash equivalents	(4,890)	(51,847)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>215,627</b>	<b>(17,950)</b>
Less change in cash and cash equivalents of discontinued operation	42,168	-
<b>Cash and cash equivalents at beginning of the period</b>	<b>1,863,538</b>	<b>2,012,662</b>
<b>Cash and cash equivalents at end of the period</b>	<b>2,121,333</b>	<b>1,994,712</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 Nine months ended September 30, 2012 and 2011

*(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, 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)*	-	-	-	-	1,571,864	-	1,571,864	102,061	1,673,925
Foreign exchange differences (unaudited)	-	-	-	(384,432)	-	-	(384,432)	(17,568)	(402,000)
Other comprehensive loss (unaudited)*	-	-	-	-	(21,684)	(8,930)	(30,614)	(4,204)	(34,818)
Deferred tax on other comprehensive loss (unaudited)	-	-	-	-	-	1,160	1,160	513	1,673
Total comprehensive (loss)/income for the period (unaudited)*	-	-	-	(384,432)	1,550,180	(7,770)	1,157,978	80,802	1,238,780
Dividends (unaudited)	-	-	-	-	(364,270)	-	(364,270)	-	(364,270)
Effect of acquisitions without a change in control (unaudited)	-	-	-	-	(7,359)	-	(7,359)	(46,247)	(53,606)
Effect of disposals with a change in control (unaudited)	-	-	-	42,813	33,719	(21,785)	54,747	-	54,747
Balances at September 30, 2011 (unaudited)*	3,311,288	(26,303)	1,165,530	(638,838)	4,017,502	46,856	7,876,035	349,269	8,225,304
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 exchanges difference (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) (Note 3)	-	(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 7)	-	-	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)	2,752,728	(235,657)	315,922	(506,318)	4,977,783	6,960	7,311,418	128,390	7,439,808

\* These amounts reflect adjustments made in connection with the early adoption of the revised IAS 19 "Employee benefits".

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, 2012 and 2011 (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 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, 2011, except that the Group has adopted those amended standards that are mandatory for financial annual periods beginning on January 1, 2012, or has early adopted standards that become mandatory in later periods.

<u>Standards and Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
IAS 12 (Amended) "Income taxes"	January 1, 2012
IFRS 1 (Amended) "First-time adoption of international financial reporting standards"	July 1, 2011
IFRS 7 (Amended) "Financial instruments: disclosures"	July 1, 2011
IFRIC 20 "Stripping costs in the production phase of a surface mine"	January 1, 2013

Amended IAS 12 *Income taxes* provided an exception to the general principles of IAS 12 for investment property measured using the fair value model. For the purpose of measuring deferred tax, the amendments introduced a rebuttable presumption that the carrying amount of such an asset will be recovered entirely through sale. The amendment also introduced similar guidance for measuring deferred tax on non-depreciable assets measured using the revaluation model in IAS 16. These requirements were previously included into SIC-21 *Income taxes-recovery of revalued non-depreciable assets*. Amended IAS 12 did not have a significant effect on the Group's consolidated interim condensed financial statements.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* replaced references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to reconstruct transactions that occurred before the date of transition to IFRSs. The standard also provided guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when its functional currency was subject to severe hyperinflation. Amended IFRS 1 did not have a significant effect on the Group's consolidated interim condensed financial statements.

IFRS 7 *Financial Instruments: disclosures* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognized in their entirety or where the assets are derecognized in their entirety but a continuing involvement in the transferred assets is retained. The amendments help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and promote transparency in the reporting of transfer transactions, particularly those that involve securitization of financial assets. Amended IFRS 7 did not have a significant effect on the Group's consolidated interim condensed financial statements.

## OA0 Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2012 and 2011

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

In January 2012, the Group early adopted of IFRIC 20 *Stripping costs in the production phase of a surface mine*. IFRIC 20 addresses accounting for stripping costs that are incurred in a surface mining activity during the production phase ('production stripping costs'). Under the interpretation, production stripping costs that provide access to ore to be mined in the future are capitalized as non-current assets if the component of the ore body for which access has been improved can be identified and future benefits arising from the improved access are both probable and reliably measurable. The interpretation also addresses how capitalized production stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset. IFRIC 20 requires prospective application to production stripping costs incurred on or after the beginning of the earliest period presented.

The effect of the early adoption of IFRIC 20 is presented below:

	<b><u>Nine months ended September 30, 2012</u></b>
Increase in property, plant and equipment	31,820
Decrease in cost of sales	31,820

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

A number of new Standards and amendments to Standards were not yet effective for the nine months ended September 30, 2012, and have not been applied in these consolidated interim condensed financial statements.

<b><u>Standards</u></b>	<b><u>Effective for annual periods beginning on or after</u></b>
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, January 1, 2014
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 9 (Amended) "Financial instruments"	January 1, 2015
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 Nine months ended September 30, 2012 and 2011**

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

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. Amended IAS 34 will be effective for annual periods beginning on or after 1 January, 2013 and requires retrospective application.

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*.

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. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

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 12 *Disclosures of interests in other entities* requires extended disclosures for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 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.

## OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements**  
**Nine months ended September 30, 2012 and 2011**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

### 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 collectively an operating segment within the Severstal International (formerly Severstal North America) reporting segment, and the Gold segment, following management's decision to dispose of these businesses.

The results of the discontinued operations were as follows:

	<b>Nine months ended September 30,</b>		<b>Three months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Revenue	161,072	1,564,273	-	253,435
Expenses	(73,252)	(1,471,406)	-	(194,301)
<b>Profit before income tax</b>	87,820	92,867	-	59,134
Income tax expense	(10,112)	(52,419)	-	(8,182)
<b>Profit, net of tax</b>	77,708	40,448	-	50,952
Net gain/(loss) on disposal	69,330	79,955	-	(1,750)
<b>Profit for the period</b>	<b>147,038</b>	<b>120,403</b>	<b>-</b>	<b>49,202</b>
Attributable to:				
shareholders of OAO Severstal	130,272	56,848	-	33,081
non-controlling interests	16,766	63,555	-	16,121

#### *Lucchini segment and North America disposal group*

In June 2010, 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 view of the projected disposal the Group classified the Lucchini segment as assets held for sale and discontinued operations.

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 accounted 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. 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\$ nil and US\$ 116.1 million, respectively, with the difference on re-measuring to fair value recognized within the net profit from discontinued operations.

## OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements**  
**Nine months ended September 30, 2012 and 2011**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

### *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 in 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.

A summary of assets and liabilities disposed during the nine months ended September 30, 2012 and 2011 is presented below:

	<b>Nine months ended September 30,</b>		<b>Three months ended September 30,</b>	
	<b>2012 (unaudited)</b>	<b>2011 (unaudited)</b>	<b>2012 (unaudited)</b>	<b>2011 (unaudited)</b>
Assets held for sale	(2,827,037)	(3,599,109)	-	-
Liabilities related to assets held for sale	536,649	3,495,149	-	-
Net identifiable assets	(2,290,388)	(103,960)	-	-
Foreign exchange differences and other reserves	76,089	(53,872)	-	-
Fair value adjustment for equity accounted investments	-	83,943	-	-
Consideration:				
Consideration in cash	-	84,094	-	-
Consideration in other financial assets	(6,759)	83,500	-	-
Selling costs	-	(13,750)	-	(1,750)
Net gain on disposal	69,330	79,955	-	(1,750)
Net change in cash and cash equivalents	-	84,094	-	-

## OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements**  
**Nine months ended September 30, 2012 and 2011**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

The Group's assets held for sale represent the Gold segment that is classified as held for sale as at December 31, 2011.

The major classes of assets and liabilities of the disposal groups at September 30, 2012 and December 31, 2011 were as follows:

	<b>September 30, 2012</b>	<b>December 31,</b>
	<b>(unaudited)</b>	<b>2011</b>
<b>Current assets:</b>		
Cash and cash equivalents	-	217,133
Short-term financial investments	-	3,596
Trade accounts receivable	-	367
Accounts receivable from related parties	-	594
Inventories	-	387,590
VAT recoverable	-	57,031
Income tax recoverable	-	3,051
Other current assets	-	73,301
<b>Total current assets</b>	-	742,663
<b>Non-current assets:</b>		
Long-term financial investments	-	86,370
Investments in associates and joint ventures	-	4,775
Property, plant and equipment	-	582,709
Intangible assets	-	1,252,227
Deferred tax assets	-	2,812
Other non-current assets	-	5,754
<b>Total non-current assets</b>	-	1,934,647
<b>Total assets</b>	-	2,677,310
<b>Current liabilities:</b>		
Trade accounts payable	-	95,190
Short-term debt finance	-	58,811
Income tax payable	-	18,176
Other taxes and social security payable	-	25,496
Other current liabilities	-	76,961
<b>Total current liabilities</b>	-	274,634
<b>Non-current liabilities:</b>		
Deferred tax liabilities	-	200,930
Other non-current liabilities	-	74,559
<b>Total non-current liabilities</b>	-	275,489
<b>Total liabilities</b>	-	550,123

## OAo Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements  
Nine months ended September 30, 2012 and 2011  
(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.

The movement of the Group's treasury shares is presented below:

	<b>Treasury shares</b>
Balance before Gold segment separation	<u>26,303</u>
Gold segment separation effect:	
Gold segment's net identifiable assets	2,290,388
Net identifiable assets attributable to non-controlling interests	(274,892)
Disposal costs	12,507
Intercompany debts	<u>(364,164)</u>
Repurchase of issued shares	20,480
Cancellation of shares	<u>(1,474,965)</u>
Balance at September 30, 2012	<u><u>235,657</u></u>

## OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements**  
**Nine months ended September 30, 2012 and 2011**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

### 4. Revenue

Revenue by product was as follows:

	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Hot-rolled strip and plate	3,576,777	3,793,396	1,109,967	1,462,129
Galvanized and other metallic coated sheet	1,580,493	1,533,153	517,157	569,097
Cold-rolled sheet	1,084,956	1,250,085	381,804	429,578
Metalware products	742,369	750,914	253,758	249,469
Shipping and handling costs billed to customers	694,559	675,105	212,639	311,210
Coal and coking coal concentrate	528,136	641,147	170,769	200,242
Pellets and iron ore	522,401	509,418	186,461	225,486
Semi-finished products	424,831	593,303	80,432	209,103
Large diameter pipes	421,251	821,237	131,495	270,513
Long products	401,239	465,973	169,295	198,110
Other tubes and pipes, formed shapes	361,012	398,481	125,155	147,487
Colour-coated sheet	338,762	239,384	148,224	98,886
Scrap	14,332	64,328	4,023	7,003
Other	296,950	349,159	100,247	140,676
	<b>10,988,068</b>	<b>12,085,083</b>	<b>3,591,426</b>	<b>4,518,989</b>

Revenue by delivery destination was as follows:

	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Russian Federation	4,872,523	5,817,594	1,714,041	2,147,530
North America	3,293,001	2,886,093	950,296	1,089,374
Europe	1,480,324	2,024,357	470,134	668,992
China and Central Asia	484,616	444,507	154,295	217,864
Central and South America	400,339	239,100	138,089	104,607
The Middle East	247,846	351,148	103,060	189,780
South-East Asia	116,442	223,661	29,591	50,100
Africa	92,977	98,623	31,920	50,742
	<b>10,988,068</b>	<b>12,085,083</b>	<b>3,591,426</b>	<b>4,518,989</b>



## OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements**  
**Nine months ended September 30, 2012 and 2011**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

### 5. Related party transactions

	Nine months ended September 30,		Three months ended September 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Sales to related parties:				
Sales to associates	74,955	122,326	15,909	37,149
Sales to joint ventures	41,660	30,198	13,155	18,058
Sales to other related parties	33,472	33,560	11,176	11,008
Interest income from related parties:				
Interest income from joint ventures	2,261	2,476	841	770
Interest income from other related parties	26,057	17,770	10,003	5,826
	178,405	206,330	51,084	72,811
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	53,705	55,532	17,220	18,771
Purchases from joint ventures:				
Non-capital expenditures	208,072	180,018	67,325	79,367
Purchases from other related parties:				
Non-capital expenditures	25,594	23,437	10,485	7,012
Capital expenditures	106	673	78	121
Interest expense	43	-	17	-
	287,520	259,660	95,125	105,271

## OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements**  
**Nine months ended September 30, 2012 and 2011**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

### 6. Related party balances

	September 30, 2012 (unaudited)	December 31, 2011
<b>Joint ventures' balances</b>		
Short-term trade accounts receivable	2,811	8,048
Short-term loans	716	-
Long-term loans	39,589	35,821
Short-term trade accounts payable	28,887	26,284
<b>Associates' balances</b>		
Short-term trade accounts receivable	11,963	10,040
Long-term loans	5,376	3,965
Long-term trade accounts receivable	8,293	8,859
Short-term trade accounts payable	7,883	8,760
<b>Other related party balances</b>		
Cash and cash equivalents at related party banks and pension fund	832,748	689,388
Accounts receivable from other related parties:		
Trade accounts receivable	6,369	3,040
Advances paid	3,910	5,506
Other receivables	691	715
Short-term loans	992	1,741
Short-term promissory notes	903	207
Long-term loans	-	2,490
Available-for-sale financial assets	785	5,434
	13,650	19,133
Short-term trade accounts payable to other related parties:		
Trade accounts payable	1,540	705
Advances received	517	208
Liability related to Gold segment separation	-	1,546,951
Other accounts payable	274	123
	2,331	1,547,987
Debt financing includes the following balances with other related parties:		
Short-term debt financing	39	19
Long-term debt financing	4,304	4,104
	4,343	4,123

The amounts outstanding are expected to be settled in cash, except for the liability relating to the Gold segment separation (*Note 2*). 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, 2012 and 2011** *(Amounts expressed in thousands of US dollars, except as otherwise stated)*

#### **7. Debt finance**

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 January and July each year, beginning in January 2012. The proceeds from the bonds issuance were partially utilized to refinance short-term loan facilities.

In September 2012, the Group issued US\$ 475.0 million senior unsecured convertible bonds maturing in 2017. The initial conversion price is 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.

#### **8. Acquisitions and disposals**

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

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 March 2011, the Group acquired an additional 49.0% stake in Severstal-Ukraine LLC for a total consideration of US\$ 3.0 million, increasing its ownership interest up to 100%.

In January 2012, the Group acquired an additional 15.8% stake in AS 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\$ 127.9 million, of which US\$ 62.9 million are payable during the next three years, increasing its ownership interest up to 100%.

## OA0 Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements**  
**Nine months ended September 30, 2012 and 2011**  
(Amounts expressed in thousands of US dollars, except as otherwise stated)

### ***Disposal 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.

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

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.

In July 2011, the Group sold its 91.6% stake in OAO Stalmag for a total consideration of RUB 448 thousand (US\$ 14 thousand).

A summary of assets and liabilities disposed during the nine months ended September 30, 2012 and 2011 is presented below:

	Nine months ended September 30,		Three months ended September 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Assets held for sale	-	(14,884)	-	(1,509)
Liabilities related to assets held for sale	-	23,003	-	11,688
Net identifiable assets	-	8,119	-	10,179
Consideration in cash	-	12,914	-	14
Net gain on disposal	-	21,033	-	10,193
Net change in cash and cash equivalents	-	12,914	-	14

### ***Transactions within discontinued operations***

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 August 2011, the Group acquired an additional 2.4% stake in High River Gold Mines Ltd for a total consideration of US\$ 26.5 million, increasing its ownership interest up to 75.1%.

### ***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%.

## OAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements**  
**Nine months ended September 30, 2012 and 2011**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

### 9. Segment information

As at September 30, 2012 the Group had three reportable segments: Severstal Resources (formerly Steel Resources), Severstal Russian Steel (formerly Russian Steel) and Severstal International (formerly Severstal North America).

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, 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 International'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 segments (the discontinued operations are excluded):

	Nine months ended September 30,		Three months ended September 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
<b>Revenue</b>				
Severstal Resources	2,332,350	2,824,942	734,902	1,057,306
Severstal Russian Steel	6,688,402	8,205,531	2,253,828	2,989,209
Severstal International	3,067,711	2,530,590	909,542	962,281
Intersegment transactions	(1,100,395)	(1,475,980)	(306,846)	(489,807)
	10,988,068	12,085,083	3,591,426	4,518,989
<b>Profit before financing and taxation</b>				
Severstal Resources*	1,220,368	1,090,841	178,666	403,797
Severstal Russian Steel	450,912	1,095,591	211,625	387,395
Severstal International	32,849	79,324	(24,332)	12,088
Intersegment transactions*	(521,436)	6,256	3,881	18,118
	1,182,693	2,272,012	369,840	821,398

\*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 OAO Severstal shares and GDR's, received as a result of the Gold segment separation, to Severstal Russian Steel, subsequently eliminated within Intersegment transactions.

# OA0 Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

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

	<u>September 30, 2012 (unaudited)</u>	<u>December 31, 2011</u>
<b>Total assets</b>		
Severstal Resources*	6,570,107	4,782,766
Severstal Russian Steel	14,888,581	15,077,510
Severstal International	4,143,086	4,481,838
Gold (discontinued)	-	2,680,066
Intersegment balances	<u>(9,772,825)</u>	<u>(9,112,389)</u>
	<u>15,828,949</u>	<u>17,909,791</u>

\*Total assets of Severstal Resources at September 30, 2012 included a US\$ 210.0 million of Severstal treasury shares, measured at the Group's share in the Gold segment's net assets as at the date of its separation.

### 10. Capital commitments

As of September 30, 2012 the Group had capital commitments of US\$ 887.5 million (December 31, 2011: US\$ 1,085.9 million).

### 11. Dividends

On June 27, 2011 the Meeting of Shareholders approved an annual dividend of RUB 2.42 (US\$ 0.09 at June 27, 2011 exchange rate) per share and per GDR for the year 2010 and an interim dividend of RUB 3.9 (US\$ 0.14 at June 27, 2011 exchange rate) per share and per GDR for the first quarter of 2011.

On September 30, 2011 the Meeting of Shareholders approved an interim dividend of RUB 4.37 (US\$ 0.14 at September 30, 2011 exchange rate) per share and per GDR for the first six months of 2011.

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.

### 12. Subsequent events

In October 2012, the Group issued US\$ 750.0 million bonds denominated in US dollars maturing in 2022. These bonds bear an interest rate of 5.9% per annum, which is payable semi-annually in April and October each year, beginning in April 2013. The proceeds from the bonds issuance will be used for general corporate purposes, including refinancing of debt maturing in 2013.