

# **OAO Severstal and subsidiaries**

Consolidated financial statements  
for the years ended December 31, 2013, 2012 and 2011

**OA0 Severstal and subsidiaries**  
**Consolidated financial statements**  
**Years ended December 31, 2013, 2012 and 2011**

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## Auditors' Report

To the Shareholders and Board of Directors

ОАО Severstal

We have audited the accompanying consolidated financial statements of ОАО Severstal (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2013, 2012 and 2011, and the consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for 2013, 2012 and 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audits. We conducted our audits in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Audited entity: ОАО Severstal

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

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

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

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

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, 2012 and 2011, and its financial performance and its cash flows for 2013, 2012 and 2011 in accordance with International Financial Reporting Standards.



Mr. Altukhov K.V.

Director (power of attorney dated 1 October 2013 No. 65/13)

ZAO KPMG

25 February 2014

Moscow, Russian Federation

# OAO Severstal and subsidiaries

## Consolidated income statements

**Years ended December 31, 2013, 2012 and 2011**

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

	Note	Year ended December 31,		
		2013	2012*	2011*
<b>Revenue</b>				
Revenue - third parties		13,165,732	13,915,605	15,573,090
Revenue - related parties	10	145,870	188,101	239,310
	4	13,311,602	14,103,706	15,812,400
Cost of sales		(10,339,416)	(10,785,292)	(10,903,222)
<b>Gross profit</b>		2,972,186	3,318,414	4,909,178
General and administrative expenses		(638,996)	(749,337)	(718,533)
Distribution expenses		(940,229)	(1,048,395)	(1,101,191)
Other taxes and contributions		(139,122)	(134,266)	(145,854)
Share of associates' and joint ventures' (loss)/profit		(14,760)	1,993	7,319
Gain/(loss) on disposal of property, plant and equipment and intangible assets		11,961	(25,962)	(20,939)
Net other operating income/(expenses)		7,307	20,283	(547)
<b>Profit from operations</b>		1,258,347	1,382,730	2,929,433
(Impairment)/reversal of impairment of non-current assets	7	(355,697)	(54,117)	438
Net other non-operating expenses	8	(50,278)	(70,536)	(65,381)
<b>Profit before financing and taxation</b>		852,372	1,258,077	2,864,490
Finance costs, net	6	(346,598)	(384,666)	(398,536)
Foreign exchange (loss)/gain, net		(349,984)	163,510	(36,980)
<b>Profit before income tax</b>		155,790	1,036,921	2,428,974
Income tax expense	9	(66,587)	(263,485)	(466,012)
<b>Profit from continuing operations</b>		89,203	773,436	1,962,962
Profit from discontinued operations	26	-	46,363	210,773
<b>Profit for the period</b>		89,203	819,799	2,173,735
Attributable to:				
shareholders of OAO Severstal		82,728	761,962	2,034,833
non-controlling interests		6,475	57,837	138,902
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)	25	810.6	839.8	1,005.2
Basic and diluted earnings per share (US dollars)		0.10	0.91	2.02
Basic and diluted earnings per share - continuing operations (US dollars)		0.10	0.87	1.89
Basic and diluted earnings per share - discontinued operations (US dollars)		-	0.04	0.13

\* These amounts reflect adjustments made in connection with the change in presentation described in Note 2 of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on February 25, 2014.

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

# OAO Severstal and subsidiaries

## Consolidated statements of comprehensive income Years ended December 31, 2013, 2012 and 2011

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

	Year ended December 31,		
	2013	2012	2011
<b>Profit for the period</b>	89,203	819,799	2,173,735
<b>Other comprehensive (loss)/income:</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial losses	(8,068)	(32,645)	(8,884)
Translation to presentation currency	(225,148)	158,598	(398,645)
<b>Total items that will not be reclassified to profit or loss</b>	(233,216)	125,953	(407,529)
<b>Items that may be reclassified subsequently to profit or loss</b>			
Translation to presentation currency - foreign operations	92,170	117,955	(8,600)
Changes in fair value of cash flow hedges	(2,965)	2,303	1,109
Deferred tax on changes in fair value of cash flow hedges	422	(405)	(120)
Changes in fair value of available-for-sale financial assets	(569)	4,503	(20,158)
Deferred tax on changes in fair value of available-for-sale financial assets	467	(380)	4,850
<b>Total items that may be reclassified subsequently to profit or loss</b>	89,525	123,976	(22,919)
<b>Items that were reclassified to profit or loss</b>			
Realised gains on disposal of available-for-sale financial assets	(2,111)	-	-
Reclassification of the Gold segment's reserves to profit from discontinued operations (Note 26)	-	(76,089)	-
<b>Total items that were reclassified to profit or loss</b>	(2,111)	(76,089)	-
<b>Other comprehensive (loss)/income for the period, net of tax</b>	(145,802)	173,840	(430,448)
<b>Total comprehensive (loss)/income for the period</b>	(56,599)	993,639	1,743,287
Attributable to:			
shareholders of OAO Severstal	(60,624)	921,155	1,628,462
non-controlling interests	4,025	72,484	114,825

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

# OAO Severstal and subsidiaries

## Consolidated statements of financial position

December 31, 2013, 2012 and 2011

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

	Note	December 31, 2013	December 31, 2012	December 31, 2011
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	12	1,035,948	1,726,275	1,863,538
Short-term financial investments	13	60,016	23,778	10,500
Trade accounts receivable	14	1,356,916	1,040,567	1,219,961
Accounts receivable from related parties	11	18,620	15,468	27,349
Restricted financial assets		1,114	-	-
Inventories	15	2,018,760	2,352,898	2,519,154
VAT recoverable		119,151	214,419	193,885
Income tax recoverable		19,048	21,169	90,916
Other current assets	16	276,863	302,120	327,163
Assets held for sale	26	-	-	2,677,310
<b>Total current assets</b>		<u>4,906,436</u>	<u>5,696,694</u>	<u>8,929,776</u>
<b>Non-current assets:</b>				
Long-term financial investments	17	115,481	108,060	182,262
Investments in associates and joint ventures	18	256,671	316,503	301,315
Property, plant and equipment	19	8,254,192	8,462,711	7,463,394
Intangible assets	20	678,910	820,935	770,454
Restricted financial assets		39,478	32,970	22,638
Deferred tax assets	9	78,118	100,796	99,651
Other non-current assets		204,441	168,546	140,301
<b>Total non-current assets</b>		<u>9,627,291</u>	<u>10,010,521</u>	<u>8,980,015</u>
<b>Total assets</b>		<u><u>14,533,727</u></u>	<u><u>15,707,215</u></u>	<u><u>17,909,791</u></u>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Trade accounts payable		1,145,873	1,057,621	1,115,110
Accounts payable to related parties	11	42,998	36,234	1,583,031
Short-term debt finance	21	627,519	1,382,128	1,185,467
Income taxes payable		10,660	16,604	28,086
Other taxes and social security payable		138,657	152,590	141,353
Dividends payable		28,065	86,538	111,208
Other current liabilities	22	555,401	637,947	655,420
Liabilities related to assets held for sale	26	-	-	550,123
<b>Total current liabilities</b>		<u>2,549,173</u>	<u>3,369,662</u>	<u>5,369,798</u>
<b>Non-current liabilities:</b>				
Long-term debt finance	21	4,126,575	4,327,412	4,790,631
Deferred tax liabilities	9	312,736	338,078	287,126
Retirement benefit liabilities	23	189,913	201,552	161,734
Other non-current liabilities	24	355,073	255,268	233,179
<b>Total non-current liabilities</b>		<u>4,984,297</u>	<u>5,122,310</u>	<u>5,472,670</u>
<b>Equity:</b>				
Share capital	25	2,752,728	2,752,728	3,311,288
Treasury shares		(235,657)	(235,657)	(1,586,293)
Additional capital		315,922	315,922	1,165,530
Translation reserve		(542,186)	(411,658)	(642,228)
Retained earnings		4,692,475	4,767,325	4,386,461
Other reserves		1,044	5,800	44,738
<b>Total equity attributable to shareholders of OAO Severstal</b>		<u>6,984,326</u>	<u>7,194,460</u>	<u>6,679,496</u>
<b>Non-controlling interests</b>		<u>15,931</u>	<u>20,783</u>	<u>387,827</u>
<b>Total equity</b>		<u>7,000,257</u>	<u>7,215,243</u>	<u>7,067,323</u>
<b>Total equity and liabilities</b>		<u><u>14,533,727</u></u>	<u><u>15,707,215</u></u>	<u><u>17,909,791</u></u>

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

# OAO Severstal and subsidiaries

## Consolidated statements of cash flows

**Years ended December 31, 2013, 2012 and 2011**

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

	Year ended December 31,		
	2013	2012*	2011*
<b>Operating activities:</b>			
Profit before financing and taxation	852,372	1,258,077	2,864,490
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization	788,231	726,045	646,821
Impairment/(reversal of impairment) of non-current assets (Note 7)	355,697	54,117	(438)
Movements in provision for inventories, receivables and other provisions	(29,644)	128,333	34,295
(Gain)/loss on disposal of property, plant and equipment and intangible assets	(11,961)	25,962	20,939
Loss/(gain) on disposal of subsidiaries and associates (Note 27)	1,195	(9,873)	(21,033)
Share of associates' and joint ventures' results less dividends from associates and joint ventures	25,509	6,839	16,176
Changes in operating assets and liabilities:			
Trade accounts receivable	(366,907)	228,989	(280,836)
Amounts receivable from related parties	(3,847)	1,340	(59,578)
VAT recoverable	87,832	(39,866)	42,708
Inventories	246,277	153,922	(535,842)
Trade accounts payable	81,581	(155,580)	272,951
Amounts payable to related parties	4,515	(198)	11,290
Other taxes and social security payable	(863)	7,841	22,882
Other non-current liabilities	(37,999)	(8,342)	3,335
Assets held for sale	-	-	7,242
Net other changes in operating assets and liabilities	36,510	2,035	94,406
<b>Cash generated from operations</b>	<b>2,028,498</b>	<b>2,379,641</b>	<b>3,139,808</b>
Interest paid	(386,524)	(429,638)	(448,719)
Income tax paid	(64,067)	(191,391)	(514,150)
Net cash from operating activities - continuing operations	<u>1,577,907</u>	<u>1,758,612</u>	<u>2,176,939</u>
Net cash (used in)/from operating activities - discontinued operations	-	(8,253)	402,496
<b>Net cash from operating activities</b>	<b>1,577,907</b>	<b>1,750,359</b>	<b>2,579,435</b>
<b>Investing activities:</b>			
Additions to property, plant and equipment	(1,061,794)	(1,336,450)	(1,609,493)
Additions to intangible assets	(115,958)	(111,729)	(106,722)
Net decrease in short-term bank deposits	-	-	13,150
Additions to financial investments and associates	(49,759)	(103,920)	(40,619)
Net cash inflow from disposals of subsidiaries (Note 27)	3,628	-	96,994
Proceeds from disposal of property, plant and equipment	57,226	8,762	16,722
Proceeds from disposal of financial investments	15,147	364,262	7,892
Interest received	26,173	105,825	44,236
Dividends received	4,856	13,742	28,435
Cash used in investing activities - continuing operations	<u>(1,120,481)</u>	<u>(1,059,508)</u>	<u>(1,549,405)</u>
Cash used in investing activities - discontinued operations	-	(42,518)	(352,115)
<b>Cash used in investing activities</b>	<b>(1,120,481)</b>	<b>(1,102,026)</b>	<b>(1,901,520)</b>
<b>Financing activities:</b>			
Proceeds from debt finance	3,149,086	2,825,787	2,000,414
Repayment of debt finance	(4,070,475)	(3,098,195)	(2,010,250)
Repayments under lease obligations	(2,485)	(4,542)	(8,020)
Dividends paid	(213,246)	(344,396)	(380,162)
Repurchase of issued shares	-	(19,874)	-
Acquisitions of non-controlling interests	(4,083)	(193,883)	(3,020)
Contributions from non-controlling interests	-	-	13,610
Cash used in financing activities - continuing operations	<u>(1,141,203)</u>	<u>(835,103)</u>	<u>(387,428)</u>
Cash used in financing activities - discontinued operations	-	-	(151,626)
<b>Cash used in financing activities</b>	<b>(1,141,203)</b>	<b>(835,103)</b>	<b>(539,054)</b>
Effect of exchange rates on cash and cash equivalents	(6,550)	7,339	(70,852)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(690,327)</b>	<b>(179,431)</b>	<b>68,009</b>
Less change in cash and cash equivalents of discontinued operations	-	42,168	-
Less cash and cash equivalents of discontinued operations and assets held for sale at the end of the period	-	-	(217,133)
<b>Cash and cash equivalents at beginning of the period</b>	<u>1,726,275</u>	<u>1,863,538</u>	<u>2,012,662</u>
<b>Cash and cash equivalents at end of the period</b>	<u>1,035,948</u>	<u>1,726,275</u>	<u>1,863,538</u>

\* These amounts reflect adjustments made in connection with the change in presentation described in Note 2 of these consolidated financial statements.

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



## OAO Severstal and subsidiaries

### Consolidated statements of changes in equity Years ended December 31, 2013, 2012 and 2011

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

	Attributable to the shareholders of OAO Severstal						Non- controlling interests	Total	
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves	Total		
Balances at December 31, 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	-	-	-	-	2,034,833	-	2,034,833	138,902	2,173,735
Translation to presentation currency	-	-	-	(387,822)	-	-	(387,822)	(19,423)	(407,245)
Other comprehensive loss	-	-	-	-	(8,661)	(13,297)	(21,958)	(5,975)	(27,933)
Deferred tax on other comprehensive loss	-	-	-	-	-	3,409	3,409	1,321	4,730
Total comprehensive (loss)/income for the period	-	-	-	(387,822)	2,026,172	(9,888)	1,628,462	114,825	1,743,287
Dividends	-	-	-	-	(469,434)	-	(469,434)	-	(469,434)
Gold segment separation (Note 26)	-	(1,559,990)	-	-	-	-	(1,559,990)	-	(1,559,990)
Effect of acquisitions without a change in control	-	-	-	-	(9,228)	-	(9,228)	(41,712)	(50,940)
Effect of disposals with a change in control	-	-	-	42,813	33,719	(21,785)	54,747	-	54,747
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	-	-	-	-	761,962	-	761,962	57,837	819,799
Translation to presentation currency	-	-	-	261,700	-	-	261,700	14,853	276,553
Other comprehensive loss	-	-	-	(31,130)	(32,439)	(38,153)	(101,722)	(206)	(101,928)
Deferred tax on other comprehensive loss	-	-	-	-	-	(785)	(785)	-	(785)
Total comprehensive income/(loss) for the period	-	-	-	230,570	729,523	(38,938)	921,155	72,484	993,639
Dividends	-	-	-	-	(311,921)	-	(311,921)	-	(311,921)
Repurchase of issued shares (Note 25)	-	(20,480)	-	-	-	-	(20,480)	-	(20,480)
Cancellation of shares (Note 25)	(558,560)	1,474,965	(916,405)	-	-	-	-	-	-
Issue of convertible bonds (Note 21)	-	-	66,797	-	-	-	66,797	-	66,797
Gold segment separation (Note 26)	-	(103,849)	-	-	-	-	(103,849)	(274,892)	(378,741)
Effect of acquisitions without a change in control	-	-	-	-	(36,738)	-	(36,738)	(164,636)	(201,374)
Balances at December 31, 2012	2,752,728	(235,657)	315,922	(411,658)	4,767,325	5,800	7,194,460	20,783	7,215,243
Profit for the period	-	-	-	-	82,728	-	82,728	6,475	89,203
Translation to presentation currency	-	-	-	(130,528)	-	-	(130,528)	(2,450)	(132,978)
Other comprehensive loss	-	-	-	-	(8,068)	(5,645)	(13,713)	-	(13,713)
Deferred tax on other comprehensive loss	-	-	-	-	-	889	889	-	889
Total comprehensive (loss)/income for the period	-	-	-	(130,528)	74,660	(4,756)	(60,624)	4,025	(56,599)
Dividends	-	-	-	-	(154,305)	-	(154,305)	-	(154,305)
Effect of acquisitions and disposals without a change in control	-	-	-	-	4,795	-	4,795	(8,877)	(4,082)
Balances at December 31, 2013	2,752,728	(235,657)	315,922	(542,186)	4,692,475	1,044	6,984,326	15,931	7,000,257

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

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011

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

### 1. Operations

These consolidated financial statements of OAO Severstal and subsidiaries comprise the parent company, OAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in Note 27.

Severstal began operations on August 24, 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On September 24, 1993, as a part of the Russian privatization program, Severstal was registered as a Joint Stock Company ('OAO') and privatized. Through participating in Severstal's privatization auctions and other purchases, Alexey Mordashov (the 'Majority Shareholder') had purchased shares in Severstal such that as at December 31, 2013 he controlled indirectly 79.17% of Severstal's share capital (at December 31, 2012 - 79.17%; at December 31, 2011 - 82.94%).

Severstal's global depository receipts (GDRs) have been quoted on the London Stock Exchange since November 2006. Severstal's shares are quoted on the Moscow Exchange ('MICEX'). Severstal's registered office is located at Ul. Mira 30, Cherepovets, Russia.

The Group comprises the following segments:

- *Severstal Resources* – this segment comprises two iron ore complexes, Karelsky Okatysh and Olcon in northwest Russia, and two coal mining complexes, Vorkutaugol in northwest Russia and PBS Coals located in the USA.
- *Gold* (discontinued, Note 26) – this segment comprised the extraction and refining facilities that were located in the Russian Federation, Burkina Faso, Guinea and Kazakhstan which was classified as held for sale and discontinued operations as at December 31, 2011 and separated in 2012.
- *Severstal Russian Steel* – this segment consists primarily of the Group's steel production and high-grade automotive galvanizing facilities in Cherepovets; rolling mill 5000 in Kolpino; a large-diameter pipe mill in Izhora, all in northwest Russia; metalware plants located in Russia, Ukraine and Italy; a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various worldwide supporting functions for trading, maintenance and transportation.
- *Severstal International* – this segment includes an integrated iron and steel mill, Severstal Dearborn LLC, in the Midwest region; a mini-mill, Severstal Columbus LLC, in the southeast of the USA. The Severstal International segment also included three integrated iron and steel mills: Severstal Sparrows Point LLC, in the South Atlantic located on the East Coast of the USA, Severstal Wheeling Inc in the Midwest region of the USA, Severstal Warren LLC in the Midwest region of the USA and a coking coal production facility, Mountain State Carbon LLC located on the border of the South and Midwest regions of the USA, which were disposed in 2011 (Note 26).
- *Lucchini* (discontinued, Note 26) – this segment included two integrated steel producers in Italy, four electric furnace based steel plants in France and several processing plants and joint ventures in Italy. All Lucchini segment assets were combined into the Piombino and Ascometal business units based on geographical location (Italy and France, respectively). Products of the segment included rails, wire rod, special and high quality bars and commercial slabs. The segment also included a distribution network serving both business units from locations primarily in Western Europe and an engineering research center located in France.

A segmental analysis of the consolidated statements of financial position and consolidated income statements is given in Note 28.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *Economic environment*

A large part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Group and the realization and settlement of its assets and liabilities.

International sales of rolled steel from the Group's Russian operations have been the subject of several anti-dumping investigations. The Group has taken steps to address the concerns of such investigations and participates actively in their resolution. A brief description of protective measures effective at Severstal's key export markets is given below:

- Exports of hot-rolled coils and thin sheets from Russia to the USA are subject to annual quotas and minimum prices issued quarterly by the US Department of Commerce;
- Exports of hot-rolled plates from Russia to the USA are subject to minimum prices established based on the producer's actual cost and profit on the domestic market. Severstal is the first and currently only Russian company, for which, since September 2005, the hot-rolled plates market is open.

In the past years the European Union ('EU') market was also protected by quotas, however, on August 22, 2012 the Russian Federation acceded to the World Trade Organization ('WTO'). Therefore beginning from August 23, 2012, there are no quantitative restrictions against import of certain steel products originating from the Russian Federation into the EU. Despite the Russian Federation accession to the WTO, the risk of new trade restrictions in the EU against the Russian Federation steel producers persists in the long-term.

## **2. Basis for preparation of the consolidated financial statements**

### *Statement of compliance*

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

The Group additionally prepared IFRS consolidated financial statements presented in Russian rubles and in Russian language in accordance with the Federal Law No. 208 – FZ 'On consolidated financial reporting'.

### *Basis of measurement*

The consolidated financial statements are prepared on the historic cost basis except for financial assets at fair value through profit and loss and available-for-sale financial assets stated at fair value.

The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these consolidated financial statements are set out in Note 3.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *Critical accounting judgments, estimates and assumptions*

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving inventories;
- decommissioning liability;
- retirement benefit liabilities;
- litigations; and
- deferred income tax assets.

### *Useful lives of property, plant and equipment*

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

### *Impairment of assets*

The Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

### *Allowance for doubtful debts*

The Group makes allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

### *Allowance for obsolete and slow-moving inventories*

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realizable value. Estimates of net realizable value of finished goods are based on the most reliable evidence available at the time the estimates are

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

### *Decommissioning liability*

The Group reviews its decommissioning liability, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities'. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

### *Retirement benefit liabilities*

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

### *Litigations*

The Group exercises judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

### *Deferred income tax assets*

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the income statement.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *Functional and presentation currency*

The presentation currency of these consolidated financial statements is the US dollar.

The functional currency is determined separately for each of the Group's entities. For the Russian entities the functional currency is the Russian ruble. The functional currency of the Group's entities located in North America is the US dollar. The functional currency of the majority of the Group's entities located in Western Europe is the Euro.

The translation into the presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rates at the dates of each statement of financial position presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are recognized as a separate component in other comprehensive income.

Any conversion of amounts into US dollars should not be construed as a representation that such amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates used, or at any other exchange rate.

### *Adoption new and amended Standards*

A number of new and amended Standards were adopted for the year ended December 31, 2013, and have been applied in these consolidated 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, January 1, 2013
IAS 16 (Amended) "Property, Plant and Equipment"	January 1, 2013
IAS 27 (Amended) "Separate Financial Statements"	January 1, 2013
IAS 28 (Amended) "Investments in Associates and Joint ventures"	January 1, 2013
IAS 32 (Amended) "Financial Instruments: Presentation"	January 1, 2013
IAS 36 (Amended) "Impairment of assets"	January 1, 2013
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	January 1, 2013
IFRS 7 (Amended) "Financial Instruments: Disclosure"	January 1, 2013
IFRS 10 (Amended) "Consolidated Financial Statements"	January 1, 2013
IFRS 11 (Amended) "Joint Arrangements"	January 1, 2013
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	January 1, 2013
IFRS 13 " Fair Value Measurement"	January 1, 2013

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

## OA0 Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011

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

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

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

Amended IAS 36 *Impairment of assets* requires extended disclosures of the recoverable amount of the Group's cash-generating unit and the basis on which the recoverable amount has been determined in case the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to this unit is significant in comparison with the Group's total carrying amount of goodwill or intangible assets with indefinite useful lives. Amended IAS 36 did not have a significant effect on the Group's consolidated financial statements.

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

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

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

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

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011

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

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

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

### *New accounting pronouncements*

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the year ended December 31, 2013, and have not been applied in these consolidated financial statements.

<u>Standards and Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
IAS 16 (Amended) "Property, Plant and Equipment"	July 1, 2014
IAS 19 (Amended) "Employee benefits"	July 1, 2014
IAS 24 (Amended) "Related Party Disclosures"	July 1, 2014
IAS 37 (Amended) "Provisions, Contingent Liabilities and Contingent Assets"	July 1, 2014
IAS 38 (Amended) "Intangible assets"	July 1, 2014
IAS 40 (Amended) "Investment Property"	July 1, 2014
IAS 27 (Amended) "Separate Financial Statements"	January 1, 2014
IAS 32 (Amended) "Financial Instruments: Presentation"	January 1, 2014
IAS 36 (Amended) "Impairment of assets"	January 1, 2014
IAS 39 (Amended) "Financial Instruments: Recognition and Measurement"	January 1, 2014, July 1, 2014
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	July 1, 2014
IFRS 2 (Amended) "Share-based Payment"	July 1, 2014
IFRS 3 (Amended) "Business Combinations"	July 1, 2014
IFRS 7 (Amended) "Financial Instruments: Disclosure"	January 1, 2015
IFRS 8 (Amended) "Operating Segments"	July 1, 2014
IFRS 9 (Amended) "Financial Instruments"	partially from July 1, 2014
IFRS 10 (Amended) "Consolidated Financial Statements"	January 1, 2014
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	January 1, 2014
IFRS 13 "Fair Value Measurement"	July 1, 2014
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The adoption of the pronouncements listed above is not expected to have a significant impact on the Group's consolidated financial statements in future periods except for those discussed below.

IFRS 9 *Financial Instruments* is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*. Amended IFRS 7 *Financial Instruments: Disclosure* requires additional disclosure on transition from IAS 39 to IFRS 9. The first and second phases of IFRS 9 were finalised in November 2009 and October 2010, respectively, and relate to the recognition and measurement of financial assets and liabilities. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements.



# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### Restatements

During the current year the Group changed the classification of income and expenses related to finance operations between general and administrative expenses, loss on remeasurement and disposal of financial investments, net other operating income/(expenses) and net finance costs to more appropriately reflect their nature.

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

#### Consolidated income statements:

	Year ended December 31,	
	2012	2011
Decrease in general and administrative expenses	5,276	6,510
Decrease in loss on remeasurement and disposal of financial investments	6,581	4,652
Increase in net other operating income	40	914
Increase in finance costs, net	(11,897)	(12,076)

#### Consolidated statements of cash flows:

	Year ended December 31,	
	2012	2011
Decrease in loss on remeasurement and disposal of financial investments	(6,581)	(4,652)
Increase in profit before financing and taxation	11,897	12,076
Increase in interest paid	(5,316)	(7,424)

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### 3. Summary of the principal accounting policies

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements throughout the Group.

#### a. Basis of consolidation

##### *Subsidiaries*

Subsidiaries are those enterprises controlled, directly or indirectly, by the Parent Company. Consolidation of an investee begins from the date the Group obtains control over the investee and ceases when the Group loses control over the investee. The non-controlling interests represent the non-controlling proportion of the net identifiable assets of the subsidiaries, including the non-controlling share of fair value adjustments on acquisitions. The Group presents non-controlling interests in its consolidated statement of financial position within equity, separately from the parent's shareholders' equity. Changes in the Group's interest in a subsidiary that do not result in losing control of the subsidiary are equity transactions.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements; unrealized losses are also eliminated unless the transaction provides an evidence of impairment of the asset transferred.

##### *Acquisition of Subsidiaries*

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, the liabilities assumed and the consideration transferred. If the initial accounting for a business combination is incomplete by the end of the period in which the combination is effected, the Group accounts for the combination using the provisional values for the items for which the accounting is incomplete. The Group recognizes any adjustments to those provisional values as a result of completing the initial accounting within twelve months from the acquisition date. As a result goodwill or gain from bargain purchase is adjusted accordingly.

Comparative information for the periods before the completion of the initial accounting for the acquisition is presented as if the initial accounting had been completed at the acquisition date.

##### *Accounting for business combinations of entities under common control*

IFRS provides no guidance on accounting for business combinations of entities under common control. Management adopted the accounting policy for such transactions based on the relevant guidance of accounting principles generally accepted in the United States ('US GAAP'). Management believes that this approach and the accounting policy disclosed below are in compliance with IFRS.

Acquisitions of controlling interests in companies that were previously under the control of the Majority Shareholder are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the Majority Shareholder. The assets and liabilities acquired are recognized at their book values. The components of equity of the acquired companies are added to the same components within Group equity, except that any share capital of the acquired companies is recorded as a part of additional

# **OA0 Severstal and subsidiaries**

## **Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011**

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

capital. The cash consideration for such acquisitions is recognized as a liability to or a reduction of receivables from related parties, with a corresponding reduction in equity, from the date the acquired company is included in these consolidated financial statements until the cash consideration is paid. Parent Company shares issued in consideration for the acquired companies are recognized from the moment the acquired companies are included in these financial statements.

No goodwill is recognized where the Group acquires additional interests in the acquired companies from the Majority shareholder. The difference between the share of net assets acquired and consideration transferred is recognized directly in equity.

### ***Business combination achieved in stages***

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the associates or joint ventures at its acquisition date fair value and recognizes the resulting gain or loss, if any, in profit or loss in the income statement.

### ***Investments in associates***

Associates are those enterprises in which the Group has significant influence, but does not have control or joint control over the financial and operating policies.

Investments in associates are accounted for under the equity method and are initially recognized at cost, from the date that significant influence commences until the date that significant influence ceases. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any, after adjustments to align the accounting policies with those of the Group. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### ***Joint arrangements***

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

A joint arrangement that is not structured through a separate vehicle is a joint operation. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

The Group applies the following accounting to joint operations and joint ventures.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for joint ventures using the equity method.

Unrealized gains on transactions between the Group and its jointly controlled vehicle are eliminated to the extent of the Group's interest in a joint venture and a joint operation; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### *Goodwill*

Goodwill is measured as the difference between:

- the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any non-controlling interest, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree; and
- the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill in respect of subsidiaries is disclosed as an intangible asset and goodwill relating to associates and jointly controlled entities is included within the carrying value of the investments in these entities.

No goodwill is recognized where the Group acquires additional interests in the acquired companies (acquisitions of non-controlling interest). The difference between the share of net assets acquired and the consideration transferred is recognized directly in equity.

Where goodwill forms a part of a cash-generating unit and the part of the operations within that unit is disposed of, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Gain from bargain purchase represents the excess of the Group's share in the fair value of acquired identifiable assets and the liabilities assumed over the consideration transferred, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree. It is recognized in the income statement at the date of the acquisition.

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### **b. Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency of each entity at the foreign exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of each entity at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency of the entity at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses arising on the translation are recognized in the income statement.

### **c. Exploration for and evaluation of mineral resources**

Expenditures associated with search for specific mineral resources are recognized as exploration and evaluation assets. The following expenditure comprises cost of exploration and evaluation assets:

- obtaining of the rights to explore and evaluate mineral reserves and resources including costs directly related to this acquisition;
- researching and analyzing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling prefeasibility and feasibility studies;
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Administration and other overhead costs are charged to the cost of exploration and evaluation assets only if directly related to an exploration and evaluation project.

If a project does not prove viable, all irrecoverable exploration and evaluation expenditure associated with the project net of any related impairment allowances is written off to the income statement.

The Group measures its exploration and evaluation assets at cost and classifies as tangible or intangible according to the nature of the assets acquired and applies the classification consistently. Exploration and evaluation assets considered to be tangible are recorded as a component of property, plant and equipment at cost less impairment charges. Otherwise, they are recorded as intangible assets, such as licenses. To the extent that tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is capitalized as a part of the cost of the intangible asset.

As the asset is not available for use, it is not depreciated. All exploration and evaluation assets are monitored for indications of impairment.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the development of the deposit is sanctioned by management. The carrying amount of such exploration and evaluation asset is reclassified into development asset.

### **d. Development expenditure**

Development expenditure includes costs directly attributable to the construction of a mine and the related infrastructure and is accumulated separately for each area of interest. Development expenditure is capitalized and is recorded as a component of property, plant and equipment or intangible assets, as

# OAo Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

appropriate. No depreciation is charged on the development expenditure before the start of commercial production.

To the extent that revenue arises from test production during the development stage, an amount is charged from development expenditure to the cost of sales so as to reflect a zero net margin.

### e. Stripping costs

The Group separates two different types of stripping costs that are incurred in surface mining activity:

- Stripping activity asset; and
- Current stripping costs.

Stripping activity asset is created as part of usual surface activity in order to obtain improved access to further quantities of minerals that will be mined in future periods.

Current stripping costs are costs that are incurred in order to mine the mineral ore only in current period.

The Group recognizes a stripping activity asset if, and only if, all of the following are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the improved access to that component can be measured reliably.

After initial recognition, stripping activity assets are carried at cost less accumulated depreciation and impairment loss. Depreciation is calculated using the units of production method.

### f. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalized. In the case of assets constructed by the Group, related works and direct project overheads are included in cost. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognized in the income statement.

Depreciation is provided so as to write off property, plant and equipment over its expected useful life. Depreciation is calculated using the straight-line basis, except for depreciation on vehicles and certain metal-rolling equipment, which is calculated on the basis of mileage and units of production, respectively. The estimated useful lives of assets are reviewed regularly and revised when necessary.

# OAo Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

The principal periods over which assets are depreciated are as follows:

Buildings and constructions	20 – 50 years
Plant and machinery	10 – 20 years
Other productive assets	5 – 20 years
Infrastructure assets	5 – 50 years

### g. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement as a part of interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### h. Intangible assets (excluding goodwill)

Intangible assets acquired by the Group are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized over their estimated useful lives using the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The table below presents the useful lives of intangible assets:

Mineral rights	12 - 25 years
Software	3 - 10 years
Other intangible assets	3 - 50 years

The asset of Severstal Liberia Iron Ore Ltd attributable to the exploration and evaluation of its iron ore reserves constitutes the major component of the exploration and evaluation assets. The coal mining mineral rights of PBS Coals Limited constitute the major component of the mineral rights. The major component of the software is SAP business system. The major component of the other intangible assets is land lease rights. Amortization of intangible assets is included in the captions “Cost of sales” and “General and administrative expenses” in the consolidated income statement.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### **i. Impairment of assets**

The carrying amount of goodwill is tested for impairment annually. At each reporting date the Group assesses whether there is any indication of impairment of the Group's other assets. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

#### *Calculation of recoverable amount*

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and its recoverable amount that is the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For other assets the recoverable amount is the greater of the fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### *Reversals of impairment*

An impairment loss in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **j. Inventories**

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads. Allowances are recorded against slow-moving and obsolete inventories.

### **k. Financial assets**

Financial assets include cash and cash equivalents, investments, and loans and receivables.

Cash and cash equivalents comprise cash balances, bank deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.



# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *Effective interest method*

The effective interest method is a method of calculating the carrying value of a financial asset held at amortized cost and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial instruments, which are managed and performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in the income statement incorporates any dividend or interest earned on the financial asset.

### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment.

### *Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *AFS financial assets*

Available for sale financial assets are those non-derivative financial assets that are not classified as financial assets at FVTPL, held-to-maturity or loans and receivables and are stated at fair value. Listed shares that are traded in an active market are stated at their market value. Investments in unlisted shares that do not have a quoted market price in an active market are measured at management's estimate of fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income with the exception of impairment losses, which are recognized directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the equity is included in the income statement for the period.

Dividends on AFS equity instruments are recognized in the income statement when the Group's right to receive the dividends is established.

### *Derecognition of financial assets*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

## **I. Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms a part of a group of financial instruments, which are managed and where performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Borrowing costs on loans specifically for the purchase or construction of a qualifying asset are capitalized as a part of the cost of the asset they are financing.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized in the income statement.

### *Derecognition of financial liabilities*

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### **m. Hedging instruments**

The Group holds cash flow hedging instruments in order to hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and which could affect profit or loss.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss that has been previously recognized in other comprehensive income remains in equity until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount that has been recognized in other comprehensive income is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

### **n. Dividends payable**

Dividends are recognized as a liability in the period in which they are authorized by the shareholders.

### **o. Other taxes and contributions**

Other taxes and contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits, value added taxes calculated on revenues and purchases and social security costs calculated on wages and salaries. Social security costs are included in cost of sales, distribution expenses and general and administrative expenses in accordance with the nature of related wages and salaries expenses.

### **p. Income tax**

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income, in which case it is recognized in other comprehensive income.

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011

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

Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of the country, in which the entity is incorporated, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which these assets can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax income will be realized.

Deferred tax is not recognized in respect of the following:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future;
- if it arises from the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss;
- initial recognition of goodwill.

### q. Provisions

#### *Employee benefits*

The Group pays retirement, healthcare and other long-term benefits to its employees.

The Group has two types of retirement benefits: defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts in respect of those benefits. The Group's only obligation is to pay contributions as they fall due, including contributions to the Russian Federation State pension fund. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans are post-employment benefits plans other than defined contribution plans. The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.). The discount rate used is the yield at the balance sheet date on high quality corporate bonds for a respective country that have maturity dates approximating the terms of the Group's obligations. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually using the projected unit credit method. In accordance with this method, the Group's net obligation is calculated separately for each defined benefit plan. Any actuarial gain or loss arising

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

from the calculation of the retirement benefit liability is fully recognized in other comprehensive income.

Other long-term employee benefits include various compensations, non-monetary benefits and a long-term incentive program.

### *Decommissioning liability*

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of certain of its production sites. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate. Future decommissioning costs, discounted to net present value, are capitalized and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future decommissioning costs are capitalized in property, plant and equipment and are depreciated over the life of the related asset. The effect of the time value of money on the decommissioning liability is recognized in the consolidated income statement as an interest expense. Ongoing rehabilitation costs are expensed when incurred.

### *Onerous contracts*

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

### *Other provisions*

Other provisions are recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

## **r. Share capital**

### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

### *Repurchase of issued shares*

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### s. Operating income and expenses

The Group presents profit or loss from operations, which includes various types of income and expenses arising in the course of production and sale of the Group's products, disposal of property, plant and equipment, participation in joint ventures and associates and other Group's regular activities.

Certain items are presented separately from profit or loss from operations by virtue of their size, incidence or nature to enable a full understanding of the Group's financial performance. Such items, which are included in profit or loss before financing and taxation, primarily include impairment of non-current assets, negative goodwill and other non-operating income and expenses, as, for example, gain or loss from disposal of subsidiaries and associates and charitable donations.

### t. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

#### *Sale of goods*

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### *Rendering of services*

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

### u. Finance costs, net

#### *Interest income*

Interest income is recognized in the income statement on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### *Interest expense*

Interest expense is recognized in the income statement as it accrues, taking into account the effective yield on the liability.

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### ***Gain/(loss) on remeasurement and disposal of financial investments***

Gain/(loss) on remeasurement and disposal of financial investments comprises dividend income (except for dividends from equity associates and joint ventures), realized and unrealized gains on financial assets at fair value through profit or loss, realized gains and impairment losses on available-for-sale and held-to-maturity investments.

### ***Other finance costs***

Other finance costs include costs incurred for bank operating services and other related charges.

### **v. Earnings per share**

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year, assuming that shares issued in consideration for the companies acquired from the Majority Shareholder were issued from the moment these companies are included in these consolidated financial statements.

### **w. Discontinued operations**

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale at the reporting date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

The comparative income statement is presented as if the operation had been discontinued from the beginning of the comparative period.

Assets and liabilities of a disposal group are presented in the statement of financial position separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the balance sheet.

### **x. Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The reportable segments' amounts in the disclosure are stated before intersegment elimination and are measured on the same basis as those in the consolidated financial statements, except that:

- non-monetary long-term investments in subsidiaries are translated into the presentation currency at the historic exchange rate;
- no impairment is recognized on investments in subsidiaries;
- no discounting is applied for intersegment loans;
- in case of transfers of equity investments between segments, such investments are accounted at their historic cost.

## **OAQ Severstal and subsidiaries**

**Notes to the consolidated financial statements  
for the years ended December 31, 2013, 2012 and 2011**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

**y. Government grants**

Government grants are recognized when there is a reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Government grants related to assets are presented as a deduction from the cost of the asset.



# OA0 Severstal and subsidiaries

**Notes to the consolidated financial statements**  
**for the years ended December 31, 2013, 2012 and 2011**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

## 4. Revenue

Revenue by product was as follows:

	<b>Year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Hot-rolled strip and plate	4,447,051	4,541,333	5,002,608
Galvanized and other metallic coated sheet	1,997,064	2,022,553	1,998,091
Cold-rolled sheet	1,298,744	1,406,266	1,655,157
Metalware products	909,885	967,628	964,353
Shipping and handling costs billed to customers	859,404	875,889	876,119
Pellets and iron ore	665,533	668,060	725,764
Long products	522,959	547,235	595,173
Large diameter pipes	511,765	562,266	1,006,714
Other tubes and pipes, formed shapes	507,243	482,746	511,805
Coal and coking coal concentrate	505,031	697,424	843,197
Colour-coated sheet	474,475	428,642	305,777
Semi-finished products	196,467	459,993	769,474
Scrap	12,140	17,315	76,849
Others	403,841	426,356	481,319
	<b>13,311,602</b>	<b>14,103,706</b>	<b>15,812,400</b>

Revenue by delivery destination was as follows:

	<b>Year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Russian Federation	5,927,208	6,412,704	7,476,438
North America	4,018,682	4,138,335	3,912,225
Europe	1,979,266	1,959,044	2,506,408
China and Central Asia	427,016	571,728	735,692
The Middle East	367,120	329,467	446,919
Central and South America	315,399	458,281	335,059
South-East Asia	196,676	135,948	273,322
Africa	80,235	98,199	126,337
	<b>13,311,602</b>	<b>14,103,706</b>	<b>15,812,400</b>

## 5. Staff costs

Employment costs were as follows:

	<b>Year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Wages and salaries	(1,518,715)	(1,586,361)	(1,455,418)
Social security costs	(466,710)	(479,263)	(427,759)
Retirement benefit service costs	(5,550)	(4,856)	(4,107)
	<b>(1,990,975)</b>	<b>(2,070,480)</b>	<b>(1,887,284)</b>

Key management's remuneration for the year ended December 31, 2013, consisting of salaries and bonuses, totalled US\$ 38.9 million (2012: US\$ 38.1 million; 2011: US\$ 43.0 million). Additionally, in 2013, a provision for their long-term incentive programmes was reversed in the amount of US\$ 6.4 million (in 2012 and 2011 the provision was accrued in the amounts of US\$ 16.1 million and

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

US\$ 34.2 million, respectively). This provision is subject to further adjustments, depending on a range of the Group's and its industry peers' financial indicators.

### 6. Finance costs, net

	Year ended December 31,		
	2013	2012	2011
Interest expense	(368,014)	(440,938)	(436,141)
Interest income	34,220	68,169	49,681
Loss on remeasurement and disposal of financial investments:	(9,626)	(6,581)	(4,652)
<b>Held-for-trading securities</b>			
Loss on disposal	-	-	(111)
Remeasurement to fair value	-	(559)	-
<b>Held-to-maturity securities and loans</b>			
Loss on disposal	(14,886)	(21,615)	(32,866)
(Impairment)/reversal of impairment	(693)	1,851	(835)
<b>Available-for-sale financial assets</b>			
Net gain on disposal transferred from equity	1,540	-	725
Impairment	(443)	-	-
<b>Dividend income</b>	4,856	13,742	28,435
Other finance costs	(3,178)	(5,316)	(7,424)
	<u>(346,598)</u>	<u>(384,666)</u>	<u>(398,536)</u>

### 7. (Impairment)/reversal of impairment of non-current assets

	Year ended December 31,		
	2013	2012	2011
Impairment of intangible assets	(154,617)	-	-
(Impairment)/reversal of impairment of property, plant and equipment	(138,016)	(5,462)	438
Impairment of goodwill	(63,064)	(48,655)	-
	<u>(355,697)</u>	<u>(54,117)</u>	<u>438</u>

For the purpose of impairment testing, the recoverable amount of each cash-generating unit has been determined based on value in use calculations. The value in use calculation uses cash flow projections based on actual operating results and the business plan approved by management and a corresponding discount rate which reflects the time value of money and risks associated with each individual cash-generating unit. Key assumptions management used in their value in use calculations are as follows:

- For all cash-generating units, apart from the Severstal Resources segment, cash flow projections cover a period of five years. Cash flows beyond the five-year period have been extrapolated taking into account business cycles. Cash flow projections for cash-generating units of the Severstal Resources segment cover a period which corresponds to the contractual time of the respective mining licenses.
- Cash flow projections were prepared in nominal terms.
- Cash flow projections during the forecast period are based on long-term price trends for both sales prices and material costs specific for each segment and geographic region and operating cost inflation in line with consumer price inflation for each country. Consumer price inflation expectations (in local currency) during the forecast period are as follows in percentage terms:

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
for the years ended December 31, 2013, 2012 and 2011**  
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	Year ended December 31,		
	2013	2012	2011
USA	1.9 - 2.3	0.3 - 3.0	2.1 - 2.3
Italy	n/a	n/a	1.9 - 2.5

- Discount rates for each cash-generating unit were estimated in nominal terms based on the weighted average cost of capital. These rates, presented by segment, are as follows in percentage terms:

	Year ended December 31,		
	2013	2012	2011
Severstal Resources:			
USA	13.2	14.7	17.0
Severstal Russian Steel:			
Italy*	n/a	n/a	17.3
Severstal International	10.3	n/a	n/a

\*US\$ rate

Values assigned to key assumptions and estimates used to measure the unit's recoverable amount are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

### *Severstal Resources segment*

#### *PBS Coals Limited*

#### *2011*

As a result of value in use calculation no impairment loss was recognized in 2011.

The carrying amount of goodwill allocated to the cash-generating unit was US\$ 111.7 million as of December 31, 2011.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase by 17% in 2012 and remain constant at the 2012 level thereafter;
- the forecast coking coal concentrate prices decrease by 22% in 2012, increase on average by 4% p.a. in 2013 to 2015, increase by 2% in 2016, increase by 3% in 2017 and remain constant at the 2017 level thereafter;
- the forecast steam coal prices decrease by 7% in 2012, increase on average by 4% p.a. in 2013 to 2015, increase by 2% in 2016, increase by 3% in 2017 and remain constant at the 2017 level thereafter;
- operating costs are forecast to increase by 8% in 2012, further grow on average by 2% p.a. in 2013 to 2016, decrease by 2% in 2017 and remain constant at the 2017 level thereafter;
- pre-tax discount rate of 17.0% (in US\$ terms).

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of the cash-generating unit to exceed its recoverable amount by US\$ 31.7 million.

### 2012

The impairment loss was recognized in 2012 in the amount of US\$ 48.7 million and was allocated fully to goodwill.

The carrying amount of goodwill allocated to the cash-generating unit before the impairment loss was US\$ 111.7 million as of December 31, 2012.

The following assumptions were used in the impairment test:

- the forecast extraction volumes decrease by 9% in 2013, decrease by 3% in 2014 and remain at this level in 2015, increase by 24% in 2016 and remain constant at the 2016 level thereafter;
- the forecast coking coal concentrate prices decrease by 18% in 2013, increase by 13% in 2014, increase on average by 6% p.a. in 2015 to 2022, further grow on average by 2% p.a.;
- the forecast steam coal prices decrease by 15% in 2013, increase by 13% in 2014, increase on average by 6% p.a. in 2015 to 2022, further grow on average by 2% p.a.;
- operating costs are forecast to decrease by 14% in 2013, remain constant at the 2013 level in 2014 to 2015, increase by 26% in 2016, further grow on average by 4% p.a.;
- pre-tax discount rate of 14.7% (in US\$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 31.5 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 267.4 million.

### 2013

The impairment loss was recognized in 2013 in the amount of US\$ 217.7 million and was allocated to goodwill in the amount of US\$ 63.0 million and to intangible assets in the amount of US\$ 154.7 million.

The carrying amount of goodwill allocated to the cash-generating unit before the impairment loss was US\$ 63.0 million as of December 31, 2013.

The following assumptions were used in the impairment test:

- the forecast extraction volumes decrease by 41% in 2014, increase by 6% in 2015, increase by 41% in 2016, increase on average by 20% p.a. in 2017 to 2019, and remain constant at the 2019 level thereafter;
- the forecast coking coal concentrate prices increase by 1% in 2014, increase by 9% in 2015, increase by 5% in 2016 to 2017, further grow on average by 2% p.a.;
- operating costs are forecast to decrease by 23% in 2014, increase by 10% in 2015, increase by 35% in 2016, further grow on average by 5% p.a.;
- pre-tax discount rate of 13.2% (in US\$ terms).

## OA0 Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Changes in the assumptions in 2013 compared to 2012 mainly relate to a decrease in forecasted thermal coal extraction volumes as a result of macroeconomic changes in the USA coal market. Management believes the outlook for thermal coal will continue to face declining structural domestic demand and continued natural gas competition.

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 21.8 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 65.6 million.

#### *Other units*

##### *2012*

The impairment loss was recognized in 2012 in the amount of US\$ 3.0 million in relation to specific items of property, plant and equipment.

##### *2013*

The reversal of impairment loss related to other cash-generating units within the segment was recognized in 2013 in the amount of US\$ 0.2 million in relation to specific items of property, plant and equipment.

#### *Severstal Russian Steel segment*

##### *Redaelli Tecna S.p.A.*

##### *2011*

As a result of value in use calculation no impairment loss was recognized in 2011.

The carrying amount of goodwill allocated to the cash-generating unit was US\$ 30.4 million as of December 31, 2011.

The following assumptions were used in the impairment test:

- the forecast sales volumes decrease by 7% in 2012 and increase on average by 4% p.a. in 2013 to 2016 and remain constant at the 2016 level thereafter;
- forecast sales prices decrease by 8% in 2012, increase by 12% in 2013, decrease by 6% in 2014, increase on average by 9% p.a. in 2015 to 2016 and remain constant at the 2016 level thereafter;
- operating costs are forecast to decrease by 14% in 2012, increase on average by 7% p.a. in 2013 to 2016 and remain constant at the 2016 level thereafter;
- pre-tax discount rate of 17.3% (in US\$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate causes the carrying amount of the cash-generating unit to exceed its recoverable amount by US\$ 12.8 million;
- a 10% decrease in future planned revenues causes the carrying amount of the cash-generating unit to exceed its recoverable amount by US\$ 64.2 million.

## OA0 Severstal and subsidiaries

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### *Other units*

#### *2011*

The reversal of impairment loss related to other cash-generating units within the segment was recognized in the amount of US\$ 0.4 million in 2011 in relation to specific items of property, plant and equipment.

#### *2012*

The impairment loss was recognized in the amount of US\$ 2.4 million in 2012 in relation to specific items of property, plant and equipment.

#### *2013*

The impairment loss was recognized in the amount of US\$ 24.2 million in 2013 in relation to specific items of property, plant and equipment.

### ***Severstal International segment***

#### *Severstal Dearborn LLC*

#### *2013*

The impairment loss was recognized in 2013 in the amount of US\$ 71.0 million and was allocated fully to property, plant and equipment.

The following assumptions were used in the impairment test:

- the forecast sales volumes increase by 2% in 2014 and remain constant at the 2014 level thereafter;
- the forecast sales prices decrease by 5% in 2014, increase on average by 2% p.a. in 2015 to 2019 and remain constant thereafter;
- operating costs are forecast to decrease by 2% in 2014 and remain constant at this level in 2015, increase on average by 2% p.a. in 2016 to 2019 and remain constant at the 2019 level thereafter;
- pre-tax discount rate of 10.3% (in US\$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 99.7 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 1,274.1 million.

Furthermore, a specific impairment loss in the amount of US\$ 43.0 million was recognized in 2013 in relation to property, plant and equipment.

# OAO Severstal and subsidiaries

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## 8. Net other non-operating expenses

	Year ended December 31,		
	2013	2012	2011
Social expenditure	(33,770)	(31,995)	(43,314)
Charitable donations	(29,417)	(47,423)	(39,504)
Depreciation of infrastructure assets	(4,577)	(3,405)	(1,776)
(Loss)/gain on disposal of subsidiaries and associates (Note 27)	(1,195)	9,873	21,033
Net gain related to North America disposal group	19,955	-	-
Other	(1,274)	2,414	(1,820)
	<u>(50,278)</u>	<u>(70,536)</u>	<u>(65,381)</u>

## 9. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31,		
	2013	2012	2011
Current tax charge	(62,216)	(226,811)	(481,303)
Corrections to prior year's current tax charge	6,769	3,325	(4,806)
Deferred tax (expense)/benefit	(11,140)	(39,999)	20,097
Income tax expense	<u>(66,587)</u>	<u>(263,485)</u>	<u>(466,012)</u>

The following table is a reconciliation of the reported net income tax expense and the amount calculated by applying the Russian statutory tax rate of 20% to reported profit before income tax.

	Year ended December 31,		
	2013	2012	2011
Profit before income tax	155,790	1,036,921	2,428,974
Tax charge at Russian statutory rate	(31,158)	(207,384)	(485,795)
Profits taxed at different rates	93,848	54,709	4,287
Corrections to prior years' current tax charge	6,769	3,325	(4,806)
Non-tax deductible expenses, net	(28,429)	(48,656)	(41,550)
Tax-loss carry forwards expired	-	(1,057)	(4,638)
Changes in non-recognized deferred tax assets	(93,836)	(73,361)	71,572
Reassessment of deferred tax liabilities	(13,781)	8,939	(5,082)
Income tax expense	<u>(66,587)</u>	<u>(263,485)</u>	<u>(466,012)</u>

## OAO Severstal and subsidiaries

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The composition of the net deferred tax liability based on the temporary differences arising between the fiscal and reporting balance sheets of the consolidated companies, is given below:

	December 31,		
	2013	2012	2011
Deferred tax assets:			
Tax-loss carry forwards	80,740	187,088	276,782
Property, plant and equipment	3,199	5,973	8,839
Intangible assets	162	262	281
Inventory	38,121	46,650	35,030
Accounts receivable	63,262	65,198	38,373
Provisions	140,164	134,284	117,206
Financial investments	89,317	94,087	93,734
Other	71,083	73,268	52,742
Gross deferred tax assets	486,048	606,810	622,987
Less offsetting with deferred tax liabilities	(407,930)	(506,014)	(523,336)
Recognized deferred tax assets	78,118	100,796	99,651
	December 31,		
	2013	2012	2011
Deferred tax liabilities:			
Property, plant and equipment	(574,671)	(615,756)	(555,062)
Provisions	(1,096)	(4,072)	(7,812)
Intangible assets	(89,667)	(143,862)	(138,536)
Inventory	(18,857)	(19,469)	(17,290)
Investments in associates and joint ventures	(22,799)	(29,521)	(36,817)
Accounts receivable	(2,187)	(2,286)	(249)
Financial liabilities	(207)	(7,152)	(6,988)
Other	(11,182)	(21,974)	(47,708)
Gross deferred tax liabilities	(720,666)	(844,092)	(810,462)
Less offsetting with deferred tax assets	407,930	506,014	523,336
Recognized deferred tax liabilities	(312,736)	(338,078)	(287,126)
Net deferred tax liability	(234,618)	(237,282)	(187,475)

The movement in the net deferred tax liability was as follows:

	Year ended December 31,		
	2013	2012	2011
Opening balance	(237,282)	(187,475)	(411,294)
Recognized in income statement	(11,140)	(39,999)	8,515
Recognized in other comprehensive income	889	(785)	4,730
Reclassified to liabilities related to assets held for sale	-	-	198,118
Translation to presentation currency	12,915	(9,023)	12,456
Closing balance	(234,618)	(237,282)	(187,475)



## OAO Severstal and subsidiaries

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The Group has not recognized cumulative tax-loss carry forwards in the following amounts and with the following expiry dates (stated in millions of US dollars):

	December 31,		
	2013	2012	2011
Between one and five years	93.2	86.8	-
Between five and ten years	119.7	116.0	49.9
Between ten and twenty years	2,475.0	2,216.4	2,014.3
	2,687.9	2,419.2	2,064.2

Taxable differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US\$ 6,449.8 million at December 31, 2013 (December 31, 2012: US\$ 6,336.6 million; December 31, 2011: US\$ 5,066.2 million).

### 10. Related party transactions

	Year ended December 31,		
	2013	2012	2011
Revenue - related parties:			
Revenue - associates	47,909	86,041	147,345
Revenue - joint ventures	55,130	60,443	48,235
Revenue - other related parties	42,831	41,617	43,730
Interest income from related parties:			
Interest income from joint ventures	6,375	3,245	3,240
Interest income from other related parties	10,454	31,022	23,350
	162,699	222,368	265,900
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	146,020	122,177	134,200
Purchases from joint ventures:			
Non-capital expenditures	181,638	205,672	195,021
Purchases from other related parties:			
Non-capital expenditures	30,031	38,808	33,657
Capital expenditures	190	153	874
Interest expense	47	53	68
	357,926	366,863	363,820

# OAO Severstal and subsidiaries

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## 11. Related party balances

	December 31,		
	2013	2012	2011
<b>Joint ventures' balances</b>			
Short-term trade accounts receivable	4,804	4,557	8,048
Short-term loans	29,383	-	-
Long-term loans	39,026	53,550	35,821
Long-term promissory notes	29,258	19,900	-
Short-term trade accounts payable	9,701	21,886	26,284
<b>Associates' balances</b>			
Short-term trade accounts receivable	4,501	5,136	10,040
Short-term loans	4,585	-	-
Long-term loans	-	5,446	3,965
Long-term trade accounts receivable	-	-	8,859
Short-term trade accounts payable	25,642	11,392	8,760
<b>Other related party balances</b>			
Cash and cash equivalents at related party banks and pension fund	373,359	561,946	689,388
Accounts receivable from other related parties:			
Short-term trade accounts receivable	6,274	4,852	3,040
Advances paid	856	625	5,506
Short-term other receivables	2,185	298	715
Short-term loans	457	1,027	1,741
Short-term promissory notes	1,427	2,407	207
Long-term other receivables	3,441	-	-
Long-term loans	-	-	2,490
Available-for-sale financial assets	891	812	5,434
	15,531	10,021	19,133
Accounts payable to other related parties:			
Short-term trade accounts payable	1,446	1,909	705
Advances received	168	433	208
Liability related to Gold segment separation (Note 26)	-	-	1,546,951
Short-term other accounts payable	6,041	614	123
Long-term other accounts payable	2,917	-	-
	10,572	2,956	1,547,987
Debt financing includes the following balances with other related parties:			
Short-term debt financing	92	-	19
Long-term debt financing	-	4,391	4,104
	92	4,391	4,123

The amounts outstanding are expected to be settled in cash, except the liability related to Gold segment separation at 31 December 2011. The Group did not hold any collateral for amounts owed by related parties.

Loans given to related parties were provided at interest rates ranging from nil to 13% per annum in 2013 and 2012, from nil to 15% per annum in 2011 and were given to finance working capital and investments.

## OAO Severstal and subsidiaries

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### 12. Cash and cash equivalents

	December 31,		
	2013	2012	2011
Petty cash	307	374	368
Cash at bank	235,720	586,216	813,417
Bank deposits	799,921	1,139,685	1,049,753
	1,035,948	1,726,275	1,863,538

### 13. Short-term financial investments

	December 31,		
	2013	2012	2011
Loans	38,452	4,981	2,772
Held-to-maturity securities	21,564	5,797	3,619
Available-for-sale financial assets	-	12,970	16
Held-for-trading securities	-	30	4,093
	60,016	23,778	10,500

### 14. Trade accounts receivable

	December 31,		
	2013	2012	2011
Customers	1,401,207	1,092,309	1,277,898
Allowance for doubtful debts	(44,291)	(51,742)	(57,937)
	1,356,916	1,040,567	1,219,961

### 15. Inventories

	December 31,		
	2013	2012	2011
Raw materials and supplies	1,001,722	1,107,363	1,201,155
Finished goods	536,239	746,310	780,984
Work-in-progress	480,799	499,225	537,015
	2,018,760	2,352,898	2,519,154

Of the above amounts US\$ 21.3 million (December 31, 2012: US\$ 36.8 million; December 31, 2011: US\$ 24.2 million) were stated at net realizable value.

During the year ended December 31, 2013, the Group recognized a US\$ 52.4 million release and a US\$ 50.3 million allowance to reduce the carrying amount to a net realizable value (2012: US\$ 48.5 million and US\$ 163.3 million, respectively; 2011: US\$ 70.8 million and US\$ 68.9 million, respectively).

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### 16. Other current assets

	December 31,		
	2013	2012	2011
Advances paid and prepayments	109,288	135,846	247,250
Incentives receivable	70,000	-	-
Other taxes and social security prepaid	15,912	16,431	10,159
Derivative financial assets	-	34,808	-
Other assets	81,663	115,035	69,754
	<u>276,863</u>	<u>302,120</u>	<u>327,163</u>

### 17. Long-term financial investments

	December 31,		
	2013	2012	2011
Available-for-sale financial assets	46,075	26,870	32,347
Loans	39,046	59,079	146,621
Held-to-maturity securities	30,360	22,111	3,294
	<u>115,481</u>	<u>108,060</u>	<u>182,262</u>

### 18. Investments in associates and joint ventures

The Group's investments in associates and joint ventures companies are described in the table below. The Group structure and certain additional information on investments in associates and joint ventures, including ownership percentages, are presented in Note 27.

	December 31,		
	2013	2012	2011
<b>Associates</b>			
Spartan Steel Coating LLC	43,700	44,297	46,810
Iron Mineral Beneficiation Services (Proprietary) Ltd	40,768	39,711	17,169
ZAO Air Liquide Severstal	28,360	26,971	21,858
SPG Mineracao SA	-	43,123	42,290
Intex Resources ASA	-	-	12,264
Other	-	-	1,429
<b>Joint ventures</b>			
Mountain State Carbon LLC	67,535	83,832	102,135
Gestamp-Severstal-Kaluga LLC	30,987	17,379	16,316
Gestamp Severstal Vsevolozhsk LLC	16,481	14,976	13,868
Double Eagle Steel Coating Company	13,285	15,166	14,269
Severstal-Gonvarri-Kaluga LLC	10,648	13,794	8,918
Todlem S.L.	-	12,252	3,605
Other	4,907	5,002	384
	<u>256,671</u>	<u>316,503</u>	<u>301,315</u>

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The following is summarized financial information in respect of associates:

	December 31,		
	2013	2012	2011
Current assets	61,905	985,327	1,601,547
Non-current assets	193,321	209,831	243,423
Short-term liabilities	33,811	1,227,467	1,503,799
Long-term liabilities	45,832	67,055	165,916
Equity	175,583	(99,364)	175,255
	Year ended December 31,		
	2013	2012	2011
Revenue	144,249	1,350,980	2,810,305
Net income/(loss)	29,137	(202,467)	158,037
Other comprehensive income/(loss)	4,496	6,640	(17,339)
Total comprehensive income/(loss)	33,633	(195,827)	140,698

The Group's unrecognized share of losses in Lucchini S.p.A. amounted to US\$ 113.9 million for the year ended December 31, 2012.

The following is summarized financial information in respect of joint ventures:

	December 31,		
	2013	2012	2011
Current assets	263,087	205,531	221,121
Non-current assets	506,042	464,199	422,042
Short-term liabilities	180,747	122,533	143,944
Long-term liabilities	232,895	161,498	114,210
Equity	355,487	385,699	385,009
	Year ended December 31,		
	2013	2012	2011
Revenue	451,083	497,000	546,354
Net loss	(52,423)	(25,266)	(1,987)
Other comprehensive (loss)/income	(13,219)	8,532	(7,472)
Total comprehensive loss	(65,642)	(16,734)	(9,459)

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## 19. Property, plant and equipment

	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Other productive assets</b>	<b>Infrastructure assets</b>	<b>Construction- in-progress</b>	<b>Total</b>
<b>Cost:</b>						
December 31, 2010	2,160,365	6,647,112	281,434	105,606	2,147,744	11,342,261
Reclassifications	4,451	(16,244)	12,773	(864)	(116)	-
Additions	-	-	-	-	1,873,516	1,873,516
Disposals	(16,121)	(104,408)	(9,354)	(1,023)	(24,345)	(155,251)
Reclassified to assets held for sale	(254,136)	(352,456)	(15,006)	(96)	(196,147)	(817,841)
Transfers (to)/from other assets and liabilities	(30,694)	(206)	30,279	(868)	(124,153)	(125,642)
Transfers	417,072	1,314,725	114,945	3,323	(1,850,065)	-
Translation to presentation currency	(103,389)	(298,464)	(16,464)	(5,666)	(91,612)	(515,595)
December 31, 2011	2,177,548	7,190,059	398,607	100,412	1,734,822	11,601,448
Reclassifications	(27,282)	63,793	(31,341)	(5,170)	-	-
Additions	-	-	-	-	1,424,817	1,424,817
Disposals	(8,535)	(195,882)	(25,364)	(613)	(2,182)	(232,576)
Business de-combinations	(754)	(11,685)	(72)	-	-	(12,511)
Transfers from/(to) other assets and liabilities	3,809	22,502	6,202	346	(5,445)	27,414
Transfers	118,418	1,051,357	113,747	18,445	(1,301,967)	-
Translation to presentation currency	94,938	307,827	14,914	6,730	80,711	505,120
December 31, 2012	2,358,142	8,427,971	476,693	120,150	1,930,756	13,313,712
Reclassifications	(3,036)	(22,946)	25,640	342	-	-
Additions	-	-	-	-	1,147,147	1,147,147
Disposals	(10,824)	(157,111)	(24,823)	(12,071)	(7,374)	(212,203)
Business de-combinations	(10,751)	(3,349)	(433)	-	-	(14,533)
Transfers from/(to) other assets and liabilities	6,974	684	5,760	(2,143)	(14,408)	(3,133)
Transfers	136,874	721,052	79,928	12,181	(950,035)	-
Translation to presentation currency	(123,290)	(417,247)	(22,526)	(8,602)	(128,947)	(700,612)
December 31, 2013	2,354,089	8,549,054	540,239	109,857	1,977,139	13,530,378

Of the above amounts of additions to construction-in-progress US\$ 54.7 million (2012: US\$ 34.7 million, 2011: US\$ 62.1 million) is interest capitalized.

The Group applied the weighted average capitalization rate of 7.2% to determine the amount of borrowing costs eligible for capitalization for the year ended December 31, 2013 (2012: 8.3%).

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	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction- in-progress	Total
<b>Depreciation and impairment:</b>						
December 31, 2010	767,418	2,972,764	167,670	63,196	71,364	4,042,412
Reclassifications	2,613	(12,581)	10,468	(500)	-	-
Depreciation expense	95,373	523,985	47,987	1,776	-	669,121
Disposals	(8,965)	(86,333)	(8,937)	(536)	(10,721)	(115,492)
Reclassified to assets held for sale	(90,245)	(133,912)	(7,885)	(29)	(3,061)	(235,132)
Transfers	-	4,285	82	445	(4,812)	-
Transfers from/(to) other assets and liabilities	6,840	(2,913)	(2,575)	3,447	(11,323)	(6,524)
Impairment of assets	-	-	15	391	2,226	2,632
Translation to presentation currency	(44,055)	(162,499)	(7,461)	(3,628)	(1,320)	(218,963)
December 31, 2011	728,979	3,102,796	199,364	64,562	42,353	4,138,054
Reclassifications	(10,265)	35,225	(22,394)	(2,566)	-	-
Depreciation expense	77,655	542,783	59,585	3,405	-	683,428
Disposals	(5,578)	(167,428)	(24,286)	(561)	-	(197,853)
Business de-combinations	(655)	(10,154)	(68)	-	-	(10,877)
Transfers from/(to) other assets and liabilities	4,725	19,303	(268)	(232)	(4,223)	19,305
Impairment of assets	-	28	29	1,172	4,233	5,462
Translation to presentation currency	40,191	159,948	7,375	3,906	2,062	213,482
December 31, 2012	835,052	3,682,501	219,337	69,686	44,425	4,851,001
Reclassifications	(1,570)	(405)	1,798	177	-	-
Depreciation expense	80,943	604,008	66,517	4,577	-	756,045
Disposals	(5,772)	(131,759)	(19,287)	(11,227)	-	(168,045)
Business de-combinations	(10,568)	(2,774)	(300)	-	-	(13,642)
Transfers from other assets and liabilities	219	4,696	710	-	-	5,625
Impairment of assets	4,452	72,463	18	1,973	59,110	138,016
Translation to presentation currency	(54,164)	(222,058)	(9,195)	(4,926)	(2,471)	(292,814)
December 31, 2013	848,592	4,006,672	259,598	60,260	101,064	5,276,186
<b>Net book values:</b>						
December 31, 2011	1,448,569	4,087,263	199,243	35,850	1,692,469	7,463,394
December 31, 2012	1,523,090	4,745,470	257,356	50,464	1,886,331	8,462,711
December 31, 2013	1,505,497	4,542,382	280,641	49,597	1,876,075	8,254,192

Other productive assets include transmission equipment, transportation equipment and tools.

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011

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

### 20. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation and exploration assets	Other intangible assets	Total
<b>Cost:</b>						
December 31, 2010	636,222	1,280,005	86,560	386,568	197,905	2,587,260
Reclassifications	-	61,499	8,472	(44,328)	(25,643)	-
Additions	-	44,058	57,112	120,507	1,961	223,638
Transfers from/(to) other assets	-	6,731	5,888	73,052	(12,162)	73,509
Disposals	-	(101)	-	-	(812)	(913)
Reclassified to assets held for sale	(87,554)	(988,781)	(2,577)	(388,262)	(674)	(1,467,848)
Translation to presentation currency	(5,907)	(11,699)	(8,088)	(17,631)	(6,030)	(49,355)
December 31, 2011	542,761	391,712	147,367	129,906	154,545	1,366,291
Reclassifications	-	-	312	1,233	(1,545)	-
Additions	-	7,940	48,937	55,953	211	113,041
Transfers from other assets	-	-	2,244	2,241	953	5,438
Translation to presentation currency	9,739	4,586	7,856	1,192	4,414	27,787
December 31, 2012	552,500	404,238	206,716	190,525	158,578	1,512,557
Reclassifications	-	-	(429)	429	-	-
Additions	-	11,682	57,622	46,618	1,037	116,959
Transfers from other assets	-	-	13,386	1,077	18	14,481
Disposals	-	(1,107)	-	-	(44)	(1,151)
Translation to presentation currency	(589)	(6,045)	(14,561)	(2,751)	(5,558)	(29,504)
December 31, 2013	551,911	408,768	262,734	235,898	154,031	1,613,342
<b>Amortization and impairment:</b>						
December 31, 2010	388,325	144,829	15,667	956	106,541	656,318
Reclassifications	-	1,556	5,278	683	(7,517)	-
Amortization expense	-	121,049	11,388	-	1,135	133,572
Impairment	-	19	-	3,684	-	3,703
Transfers from/(to) other assets	-	20,660	(1,555)	(231)	6,295	25,169
Reclassified to assets held for sale	-	(210,563)	(879)	(4,179)	-	(215,621)
Translation to presentation currency	(1,492)	(3,397)	(663)	(176)	(1,576)	(7,304)
December 31, 2011	386,833	74,153	29,236	737	104,878	595,837
Reclassifications	-	-	(189)	460	(271)	-
Amortization expense	-	20,237	15,249	1,683	5,448	42,617
Impairment	48,655	-	-	-	-	48,655
Transfers from other assets	-	-	66	-	-	66
Translation to presentation currency	1,589	164	1,025	75	1,594	4,447
December 31, 2012	437,077	94,554	45,387	2,955	111,649	691,622
Reclassifications	-	-	(211)	211	-	-
Amortization expense	-	9,251	18,664	1,569	2,702	32,186
Impairment	63,064	154,617	-	-	-	217,681
Transfers (to)/from other assets	-	(25)	88	(7)	(7)	49
Translation to presentation currency	(2,021)	(384)	(2,194)	(292)	(2,215)	(7,106)
December 31, 2013	498,120	258,013	61,734	4,436	112,129	934,432
<b>Net book values:</b>						
December 31, 2011	155,928	317,559	118,131	129,169	49,667	770,454
December 31, 2012	115,423	309,684	161,329	187,570	46,929	820,935
December 31, 2013	53,791	150,755	201,000	231,462	41,902	678,910



# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### 21. Debt finance

	December 31,		
	2013	2012	2011
Eurobonds 2013	-	543,552	543,552
Eurobonds 2014	375,000	375,000	375,000
Eurobonds 2016	500,000	500,000	500,000
Eurobonds 2017	1,000,000	1,000,000	1,000,000
Eurobonds 2018	600,000	-	-
Eurobonds 2022	750,000	750,000	-
Convertible bonds 2017	475,000	475,000	-
Ruble bonds 2012	-	-	465,895
Ruble bonds 2013	-	493,865	465,895
Severstal Columbus bonds	525,000	525,000	525,000
Other issued notes and bonds	-	-	1,783
Bank financing	519,259	991,393	2,017,230
Factoring of receivables	4,540	9,632	-
Other financing	22,146	60,195	44,124
Accrued interest	73,122	110,664	110,675
Discounting	(52,662)	(71,061)	-
Unamortized balance of transaction costs	(37,311)	(53,700)	(73,056)
	<u>4,754,094</u>	<u>5,709,540</u>	<u>5,976,098</u>

Total debt is denominated in the following currencies:

US Dollars	4,455,459	4,743,206	4,285,094
Euro	295,671	448,332	642,089
Rubles	2,964	518,002	1,048,915
	<u>4,754,094</u>	<u>5,709,540</u>	<u>5,976,098</u>

Total debt is contractually repayable after the balance sheet date as follows:

Less than one year	627,519	1,382,128	1,185,467
Between one and five years	3,373,431	3,070,645	3,256,897
After more than five years	753,144	1,256,767	1,533,734
	<u>4,754,094</u>	<u>5,709,540</u>	<u>5,976,098</u>

#### *Bonds issued*

In April 2004, Citigroup Germany, a non-related party, issued US dollar-denominated loan participation notes in an aggregate principal amount of US\$ 375.0 million for the sole purpose of financing a loan facility between the Group and Citigroup Germany. The loan is due in April 2014 and bears interest at an annual rate of 9.25% payable semi-annually in April and in October each year. As at December 31, 2013 the amount outstanding under this facility was US\$ 375.0 million.

In February 2010, the Group's subsidiary Severstal Columbus issued US dollar-denominated bonds in an aggregate principal amount of US\$ 525.0 million 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. As at December 31, 2013 the amount outstanding under this facility was US\$ 525.0 million.

## OAO Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

In October 2010, the Group issued US\$ 1.0 billion US dollar-denominated bonds maturing in 2017. Bonds bear an interest rate of 6.7% per annum which is payable semi-annually in April and October each year, beginning in April 2011. These bonds were issued under the Group's newly established US\$ 3.0 billion Loan Participation Note Programme. The proceeds from the bonds issuance were used to fund the purchase of US\$ 706.4 million nominal of Group's US\$ 1,250.0 million Eurobonds in US dollars and for refinancing of certain other Group's debts. As at December 31, 2013 the amount outstanding under this facility was US\$ 1.0 billion.

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. As at December 31, 2013 the amount outstanding under this facility was US\$ 500.0 million.

In September 2012, the Group issued US\$ 475.0 million senior unsecured convertible bonds maturing in 2017. The initial conversion price was set at US\$ 19.08 per share. The conversion rights may be exercised at any time on or after November 5, 2012. The bonds bear an interest rate of 1.0% per annum, which is payable semi-annually in March and September each year, beginning in March 2013, and a yield-to-maturity of 2.0% per annum. Holders of the bonds have an option to require an early redemption of their bonds in September 2015 at the accreted principal amount at such time plus accrued interest. The Group also has an option for early redemption, exercisable starting from October 2015, provided the market value of the Group's GDRs deliverable on conversion of the bonds exceeds 140.0% of the accreted principal amount of the bonds over a period specified in terms and conditions of the bonds. The proceeds from the bonds issuance were mainly used to refinance existing indebtedness and for other general corporate purposes. As a result of this transaction US\$ 66.8 million was recognized in equity, determined based on the market rate of 5.3% per annum. As at December 31, 2013 the amount outstanding under this facility was US\$ 475.0 million.

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 were used for general corporate purposes, including refinancing of debt maturing in 2013. As at December 31, 2013 the amount outstanding under this facility was US\$ 750.0 million.

In March 2013, the Group issued US\$ 600.0 million bonds denominated in US dollars maturing in 2018. These bonds bear an interest rate of 4.45% per annum, which is payable semi-annually in March and September each year, beginning in September 2013. The proceeds from the bonds issuance were used for general corporate purposes, including refinancing of debt maturing in 2013. As at December 31, 2013 the amount outstanding under this facility was US\$ 600.0 million.

#### *Bank financing*

In December 2007 the Group entered into a syndicated facility with the European Bank for Reconstruction and Development (EBRD) (subsequently amended in March 2008), for a maximum principal amount of € 600.0 million. The facility expires in 2017 with the outstanding principal amount being amortized from 2009 until the expiration date and bear interest at EURIBOR six month plus 2.0-2.2%. As at December 31, 2013 the amount outstanding under this facility was US\$ 222.3 million.

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Debt finance arising from banks and committed unused credit lines were secured by the following charges:

- US\$ 2,522.5 million (December 31, 2012: US\$ 2,716.6 million; December 31, 2011: US\$ 2,677.9 million) of the net book value of plant and equipment;
- US\$ 1,100.0 million (December 31, 2012: US\$ 1,058.6 million; December 31, 2011: US\$ 1,280.8 million) of current assets and revenues from export contracts;
- US\$ nil (December 31, 2012: US\$ nil; December 31, 2011: US\$ 5.7 million) of investments to available-for-sale financial assets;
- all Group's investment in Mountain State Carbon LLC and Double Eagle Steel Coating Company, the Group's joint ventures, and Spartan Steel Coating LLC, the Group's associate, at December 31, 2013, 2012 and 2011.

A part of the Group's debt financing is subject to certain covenants. The Group complied with all debt covenants, including equity ratios, during the years ended December 31, 2013, 2012 and 2011.

At the reporting date the Group had US\$ nil (December, 31, 2012: US\$ 150.0 million; December, 31, 2011: US\$ nil) of committed unused short-term credit lines and US\$ 1,517.6 million (December 31, 2012: US\$ 772.1 million; December 31, 2011: US\$ 393.4 million) of committed unused long-term credit lines available to it.

## 22. Other current liabilities

	December 31,		
	2013	2012	2011
Amounts payable to employees	230,708	279,831	229,245
Advances received	190,428	207,304	269,094
Deferred income	31,911	1,592	1,393
Accrued expenses	30,986	17,620	24,302
Provisions (Note 24)	13,412	41,261	64,269
Retirement benefit liability (Note 23)	11,005	4,917	8,942
Decommissioning liability (Note 24)	3,000	7,195	12,403
Lease liabilities	1,000	2,109	6,112
Derivative financial liabilities	-	10,341	13,242
Other payables	42,951	65,777	26,418
	<u>555,401</u>	<u>637,947</u>	<u>655,420</u>

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
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### 23. Retirement benefit liabilities

The Group provides for its employees the following retirement benefits, which are actuarially calculated as defined benefit obligations: lump sums payable to employees on retirement, monthly pensions, jubilee benefits, invalidity and death lump sums, burial expenses compensations, healthcare benefits, life insurance and other benefits.

The current portion of retirement benefit liabilities is included in caption 'Other current liabilities'. The total amount of the retirement benefit liabilities is presented in the table below:

	December 31,		
	2013	2012	2011
Current portion	11,005	4,917	8,942
Non-current portion	189,913	201,552	161,734
	200,918	206,469	170,676

The Group's weighted average duration of the defined benefit obligations equaled to 15 years as at December 31, 2013.

The following assumptions were used to calculate the retirement benefit liability:

	December 31,		
	2013	2012	2011
Discount rates:			
Russia	7.8% to 7.9%	6.6% to 7.0%	8.3% to 8.4%
USA	4.5%	3.5%	4.3%
Future rates of benefit increase:			
Russia	4.7% to 4.9%	4.7% to 5.3%	4.7%
USA	Fixed at 0%	Fixed at 0%	Fixed at 0%

The present value of the defined benefit obligation less the fair value of plan assets is recognized as a retirement benefit liability in the statement of financial position.

	December 31,				
	2013	2012	2011	2010	2009
Present value of the defined benefit obligation	263,045	273,059	230,517	237,109	1,008,654
Fair value of the plan assets	(62,127)	(66,590)	(59,841)	(55,427)	(220,940)
Retirement benefit liability	200,918	206,469	170,676	181,682	787,714

The movements in the defined benefit obligation were as follows:

	Year ended December 31,		
	2013	2012	2011
Opening balance	273,059	230,517	237,109
Benefits paid	(24,618)	(23,876)	(23,820)
Interest cost	16,112	16,940	17,210
Service cost	5,550	4,856	4,107
Curtailement	(526)	-	-
Actuarial losses*	8,337	33,998	7,475
Translation to presentation currency	(14,869)	10,624	(11,564)
Closing balance	263,045	273,059	230,517

\* Actuarial losses arise primarily from changes in financial assumptions.

## OAO Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

The movements in the plan assets were as follows:

	Year ended December 31,		
	2013	2012	2011
Opening balance	66,590	59,841	55,427
Contributions made during the year	10,378	13,546	11,409
Benefits paid	(14,619)	(16,650)	(5,703)
Return on assets	4,315	5,045	4,162
Actuarial gains/(losses)*	269	1,353	(1,409)
Translation to presentation currency	(4,806)	3,455	(4,045)
Closing balance	<u>62,127</u>	<u>66,590</u>	<u>59,841</u>

\* Actuarial gains/(losses) arise primarily from changes in financial assumptions.

The defined benefit obligation analysis was as follows:

	December 31,		
	2013	2012	2011
Wholly unfunded	163,683	161,850	139,994
Partly funded	99,362	111,209	90,523
	<u>263,045</u>	<u>273,059</u>	<u>230,517</u>

The plan assets analysis was as follows:

	December 31,		
	2013	2012	2011
Corporate bonds	41,819	36,839	32,283
Deposits	10,395	8,252	4,488
Government bonds	5,625	2,511	2,658
Equity instruments	4,167	4,231	3,661
Cash	121	324	545
Shares in mutual funds	-	14,028	13,830
Other investments	-	405	2,376
	<u>62,127</u>	<u>66,590</u>	<u>59,841</u>

The Group's best estimate of contributions expected to be paid to the plan in 2014 is US\$ 12.8 million.

The Group's retirement benefit service costs are allocated and recognized in the income statement as part of 'Cost of sales' and 'General and administrative expenses' proportionally to related salary expenses.

Interest cost and return on plan assets are recognized as part of 'Finance costs, net'; actuarial gains/(losses) are recognized as a separate component in other comprehensive income.

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
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### 24. Other non-current liabilities

	December 31,		
	2013	2012	2011
Decommissioning liability	149,068	129,300	106,899
Deferred income	142,712	28,545	29,837
Amounts payable to employees	28,126	41,229	24,562
Provisions	11,815	15,266	15,404
Lease liabilities	1,110	1,502	1,821
Derivative financial liabilities	-	1,191	24,938
Other liabilities	22,242	38,235	29,718
	<u>355,073</u>	<u>255,268</u>	<u>233,179</u>

#### *Decommissioning liability*

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2014 – 2045. The present value of expected cash outflows were estimated using existing technology, and discounted using a real discount rate. These rates, presented by Severstal Resources, are as follows:

	Discount rates, %		
	2013	2012	2011
Severstal Resources:			
Russia	2.3 - 5.4	2.1 - 3.7	3.0 - 4.7
USA	0.8 - 3.0	4.0 - 6.5	3.4 - 4.6

The movements in the decommissioning liability were as follows:

	Year ended December 31,		
	2013	2012	2011
Opening balance	136,495	119,302	182,894
Additional accrual	12,594	9,798	66,146
Change in assumptions	(738)	8,730	(76,860)
Interest cost	17,982	11,918	15,505
Usage of decommissioning liability	(7,985)	(16,601)	(1,103)
Reclassified to liabilities related to assets held for sale	-	-	(61,262)
Translation to presentation currency	(6,280)	3,348	(6,018)
Closing balance	<u>152,068</u>	<u>136,495</u>	<u>119,302</u>

The change in assumptions in 2013, 2012 and 2011 related to the re-scheduling of the decommissioning of the Vorkutaugol and PBS Coals mines and the change in the discount rate.

	December 31,		
	2013	2012	2011
Current portion	3,000	7,195	12,403
Non-current portion	149,068	129,300	106,899
	<u>152,068</u>	<u>136,495</u>	<u>119,302</u>

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
for the years ended December 31, 2013, 2012 and 2011**  
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### *Provisions*

The current portion of provisions is included in the caption 'Other current liabilities'. The total amount of the provisions is presented in the table below:

	December 31,		
	2013	2012	2011
Legal claims	6,460	32,551	32,375
Other employee related	4,359	6,066	7,400
Environmental claims	1,799	4,062	2,092
Tax and social security claims	1,512	757	26,837
Other	11,097	13,091	10,969
	25,227	56,527	79,673

  

	December 31,		
	2013	2012	2011
Current portion	13,412	41,261	64,269
Non-current portion	11,815	15,266	15,404
	25,227	56,527	79,673

These provisions represent management's best estimate of the potential losses arising in these cases, calculated based on available information and appropriate assumptions used. The actual outcome of those cases is currently uncertain and might differ from the recorded provisions.

The movements in the provisions were as follows:

	Year ended December 31,		
	2013	2012	2011
Opening balance	56,527	79,673	47,432
Charge to the income statement	(30,552)	(24,277)	62,987
Usage of provisions	(702)	-	(6,582)
Reclassified to liabilities related to assets held for sale	-	-	(23,442)
Translation to presentation currency	(46)	1,131	(722)
Closing balance	25,227	56,527	79,673

# OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
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## 25. Shareholders' equity

### *Share Capital*

The Parent Company's share capital consists of ordinary shares with a nominal value of RUB 0.01 each. Authorized share capital of Severstal at December 31, 2013 comprised 837,718,660 issued and fully paid shares (December 31, 2012: 837,718,660; December 31, 2011: 1,007,701,355).

The nominal amount of initial share capital was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions.

The total value of issued share capital presented in these consolidated financial statements comprised:

	<u>Number of shares, mln.</u>	<u>US\$'000</u>
Share capital at December 31, 2011	<u>1,007.7</u>	<u>3,311,288</u>
Share capital at December 31, 2012	<u>837.7</u>	<u>2,752,728</u>
Share capital at December 31, 2013	<u>837.7</u>	<u>2,752,728</u>

All shares carry equal voting and distribution rights.

### *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 26).

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.



# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *Earnings per share*

In 2012 the Group issued US\$ 475.0 million convertible bonds (Note 21), which had an anti-dilutive effect on earnings per share as demonstrated below:

	Year ended December 31,		
	2013	2012	2011
Profit for the period attributable to shareholders of OAO Severstal	82,728	761,962	2,034,833
Interest expense on convertible bonds, net of tax	20,312	6,574	-
Adjusted profit for the period attributable to shareholders of OAO Severstal	103,040	768,536	2,034,833
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)	810.6	839.8	1,005.2
Effect on conversion of convertible bonds (millions of shares)	24.9	6.6	-
Adjusted weighted average number of shares outstanding during the period (millions of shares)	835.5	846.4	1,005.2
Basic and diluted earnings per share (US dollars)	0.10	0.91	2.02
Adjusted earnings per share (US dollars)	0.12	0.91	2.02

### *Capital management*

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This policy includes compliance with certain externally imposed minimum capital requirements. The Group's management constantly monitors profitability and leverage ratios and compliance with the minimum capital requirements. The Group uses the return on capital employed ratio which is defined as profit before financing and taxation for the last twelve months divided by capital employed and the leverage ratio calculated as net debt, comprising of long-term and short-term indebtedness less cash, cash equivalents and short-term bank deposits, divided by shareholder's equity. The level of dividends is also monitored by the Board of Directors of the Group.

There were no changes in the Group's approach to capital management during the year.

### *Dividends*

The maximum dividend payable is restricted to the total accumulated retained earnings of the Parent Company determined according to Russian law.

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 December 30, 2011 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 3.36 (US\$ 0.10 at December 30, 2011 exchange rate) per share and per GDR for the first nine months of 2011.

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

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

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

On December 20, 2012 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 3.18 (US\$ 0.10 at December 20, 2012 exchange rate) per share and per GDR for the nine months of 2012.

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

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

On December 17, 2013 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 2.01 (US\$ 0.06 at December 17, 2013 exchange rate) per share and per GDR for the nine months of 2013.

### 26. Discontinued operations and assets held for sale

The Group's discontinued operations represented the Lucchini segment, Severstal Sparrows Point LLC, Severstal Warren LLC, Severstal Wheeling Inc and Mountain State Carbon LLC, which were an operating segment within the Severstal International reporting segment, and the Gold segment, following the management's decision to dispose of these businesses.

The results of discontinued operations were as follows:

	Year ended December 31,		
	2013	2012	2011
Revenue	-	161,072	1,949,534
Expenses	-	(73,252)	(1,720,251)
<b>Profit before income tax</b>	-	87,820	229,283
Income tax expense	-	(10,112)	(77,605)
<b>Profit net of tax</b>	-	77,708	151,678
Net (loss)/gain on disposal	-	(31,345)	59,095
<b>Profit for the period</b>	-	46,363	210,773
Attributable to:			
shareholders of OAO Severstal	-	29,597	127,563
non-controlling interests	-	16,766	83,210

## **OAo Severstal and subsidiaries**

### **Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011** *(Amounts expressed in thousands of US dollars, except as otherwise stated)*

#### *Lucchini segment*

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 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.

Upon deconsolidation, the Group's investments in Lucchini were stated at fair values of US\$ nil with the difference on remeasuring to fair value recognized within the profit from discontinued operations.

#### *North America disposal group*

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 investment in Mountain State Carbon LLC was stated at fair value of US\$ 116.1 million with the difference on remeasuring to fair value recognized within the profit from discontinued operations.

#### *Gold segment*

In November 2011, the Group decided to separate the Gold segment by exchange of 100% shares of Nord Gold N.V., the segment's holding company, for OAO Severstal shares and GDRs based on the relative fair values.

At December 31, 2011 the Group recognized the liability for the Gold segment separation of US\$ 1,547.0 million (Note 11) in treasury shares equal to the book value of the Gold segment's net assets attributable to shareholders of OAO Severstal at that date. The book value was used for the assessment of liability since the Gold segment continued to be controlled by the Group's majority shareholder after separation. The transaction costs of US\$ 13.0 million were also recognized in treasury shares as at December 31, 2011.

In the year ended December 31, 2012 the Group additionally recognised in treasury shares the amount of US\$ 103.8 million as a result of further increase in the Group's share in the Gold segment's net assets compared to December 31, 2011.

A cumulative net income of US\$ 119.5 million was recognized in the Group's other comprehensive income as at December 31, 2011 in relation to translation of foreign operations and changes in fair value of available-for-sale financial assets for the Gold segment's foreign operations.

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.

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
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A summary of assets and liabilities disposed during the years ended December 31, 2013, 2012 and 2011 is presented below:

	Year ended December 31,		
	2013	2012	2011
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)
Translation to presentation currency - foreign operations 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*	-	(107,434)	67,600
Selling costs	-	-	(18,710)
Net (loss)/gain on disposal	-	(31,345)	59,095
Net change in cash and cash equivalents	-	-	84,094

\* In the year ended December 31, 2012 the Group recognised an impairment allowance in the amount of US\$ 107.4 million within the profit from discontinued operations in respect of consideration in other financial assets receivable from the sale of the North America disposal group.

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
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The Group's assets held for sale represented the Gold segment that was classified as held for sale as at December 31, 2011.

The major classes of assets and liabilities of the disposal group measured at the lower of carrying amount and fair value less costs to sell at December 31, 2013, 2012 and 2011 were as follows:

	December 31,		
	2013	2012	2011
<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 joint venture	-	-	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 financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### 27. Subsidiaries, associates and joint ventures

The following is a list of the Group's significant subsidiaries, associates and joint ventures and the effective ownership holdings therein:

Company	December 31,			Location	Activity
	2013	2012	2011		
<b>Severstal Russian Steel segment:</b>					
<i>Subsidiaries:</i>					
CJSC Severgal	100.0%	100.0%	100.0%	Russia	Hot dip galvanizing
CJSC Severstal SMC-Kolpino	n/a	100.0%	100.0%	Russia	Steel constructions
Severstal TPZ-Sheksna LLC	100.0%	100.0%	100.0%	Russia	Steel constructions
CJSC Severstal Steel Solutions	100.0%	100.0%	100.0%	Russia	Steel constructions
ZAO Severstal LPM Balakovo	100.0%	100.0%	100.0%	Russia	Iron & steel mill
SSM-Tyazhmash LLC	100.0%	100.0%	100.0%	Russia	Repairs&construction
JSC Domnaremont	77.3%	65.5%	65.5%	Russia	Repairs&construction
Severstal-Promservice LLC	100.0%	99.9%	99.9%	Russia	Repairs&construction
JSC Metallurgremont	n/a	75.0%	75.0%	Russia	Repairs&construction
Victory Industries Inc	n/a	99.9%	99.9%	USA	Repairs&construction
Aircompany Severstal Ltd	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	99.8%	99.8%	99.8%	Switzerland*	Steel sales
JSC Severstallat	100.0%	100.0%	84.2%	Latvia*	Steel sales
AS Latvijas Metals	100.0%	100.0%	84.2%	Latvia*	Steel sales
ZAO SeverstalBel	100.0%	100.0%	100.0%	Belarus*	Steel sales
Severstal-Ukraine LLC	100.0%	100.0%	100.0%	Ukraine*	Steel sales
JSC Neva-Metall	100.0%	100.0%	100.0%	Russia	Shipping operations
Upcroft Limited	100.0%	100.0%	100.0%	Cyprus*	Holding company
Baracom Limited	100.0%	100.0%	100.0%	Cyprus*	Holding company
JSC Vtorchermet	85.6%	85.6%	85.6%	Russia	Processing scrap
ZAO Rospromresursy	100.0%	100.0%	100.0%	Russia	Processing scrap
JSC Murmanskvtormet	n/a	74.6%	74.6%	Russia	Processing scrap
JSC Arhangelski Vtormet	75.0%	75.0%	75.0%	Russia	Processing scrap
ZAO Trade House Severstal-Invest	100.0%	100.0%	100.0%	Russia	Metal sales
ZAO North Steel Company	99.9%	99.9%	99.9%	Russia	Leasing
JSC Rostovmetall	100.0%	100.0%	84.8%	Russia	Leasing
PPTK-1 LLC	100.0%	100.0%	100.0%	Russia	Leasing
JSC RC Group	n/a	100.0%	100.0%	Russia	Leasing
CJSC Izhora Pipe Mill	100.0%	100.0%	100.0%	Russia	Wide pipes
JSC Severstal-Metiz	100.0%	100.0%	100.0%	Russia	Steel machining
JSC Dneprometiz	98.7%	98.7%	98.7%	Ukraine	Steel machining
Redaelli Tecna S.p.A.	100.0%	100.0%	100.0%	Italy	Steel machining
UniFence LLC	100.0%	100.0%	100.0%	Russia	Steel machining
<i>Associates:</i>					
ZAO Air Liquide Severstal	25.0%	25.0%	25.0%	Russia	Production liquid oxy gen
Lucchini S.p.A.	n/a	49.2%	49.2%	France	Holding company
G.S.I. Lucchini S.p.A.	n/a	34.1%	34.1%	Italy	Steel spheres
Servola S.p.A.	n/a	49.2%	49.2%	Italy	Asset holding
Sideris Steel S.A.S	n/a	49.2%	49.2%	France	Investment holding
Lucchini Holland B.V.	n/a	49.2%	49.2%	The Netherlands	Investment holding
Bari Fonderie Meridionali S.p.A.	n/a	n/a	49.2%	Italy	Forgings
<i>Joint ventures:</i>					
Todlem S.L.	25.0%	25.0%	25.0%	Spain	Holding company
Severstal-Gonvarri-Kaluga LLC	50.0%	50.0%	50.0%	Russia	Iron & steel mill
Gestamp-Severstal-Kaluga LLC	25.0%	25.0%	25.0%	Russia	Production car body components
Gestamp Severstal Vsevolozhsk LLC	25.0%	25.0%	25.0%	Russia	Production car body components

(\*) – Severstal Russian Steel segment contains Russian production entities, foreign trading companies, which sell products primarily produced in Russia, and other foreign companies, which either provide services to Russian production entities or are managed from Russia.

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Company	December 31,			Location	Activity
	2013	2012	2011		
<b>Severstal International segment:</b>					
<i>Subsidiaries:</i>					
Severstal US Holdings LLC	100.0%	100.0%	100.0%	USA	Holding company
Severstal Dearborn LLC	100.0%	100.0%	100.0%	USA	Iron & steel mill
Severstal Columbus LLC	100.0%	100.0%	100.0%	USA	Steel mill
<i>Associates:</i>					
Delaco Processing LLC	49.0%	49.0%	49.0%	USA	Steel slitting
Spartan Steel Coating LLC	48.0%	48.0%	48.0%	USA	Hot dip galvanizing
<i>Joint ventures:</i>					
Double Eagle Steel Coating Company	50.0%	50.0%	50.0%	USA	Electro-galvanizing
Mississippi Steel Processing LLC	20.0%	20.0%	20.0%	USA	Steel service center
Mountain State Carbon LLC	50.0%	50.0%	50.0%	USA	Coking coal
<b>Severstal Resources segment:</b>					
<i>Subsidiaries:</i>					
JSC Karelsky Okatysh	100.0%	100.0%	100.0%	Russia	Iron ore pellets
JSC Olcon	100.0%	100.0%	100.0%	Russia	Iron ore concentrate
Severstal Liberia Iron Ore Ltd	100.0%	100.0%	61.5%	Liberia	Iron ore
JSC Vorkutaugol	100.0%	99.0%	88.1%	Russia	Coking coal concentrate
PBS Coals Limited	100.0%	100.0%	100.0%	USA	Coking coal concentrate
SPB-Giproshakht Limited	100.0%	100.0%	100.0%	Russia	Engineering
Mining Holding Company LLC	100.0%	100.0%	100.0%	Russia	Holding company
Lybica Holding B.V.	100.0%	100.0%	100.0%	The Netherlands	Holding company
7029740 Canada Limited	100.0%	100.0%	100.0%	Canada	Holding company
Altcom Limited	n/a	100.0%	100.0%	Cyprus	Holding company
<i>Associates:</i>					
Iron Mineral Beneficiation Services (Proprietary) Ltd	33.2%	33.0%	33.0%	Republic of South Africa	Research & investing
Intex Resources ASA	n/a	n/a	21.7%	Norway	Mining and exploration
SPG Mineracao SA	n/a	25.0%	25.0%	Brazil	Iron ore
<b>Gold segment (classified as discontinued operation)*:</b>					
<i>Subsidiaries:</i>					
OOO Neryungri Metallic	n/a	n/a	100.0%	Russia	Gold mining
ZAO Mine Aprelkovo	n/a	n/a	100.0%	Russia	Gold mining
Celtic Resources Holdings Ltd	n/a	n/a	100.0%	Ireland	Holding company
JSC FIC Alel	n/a	n/a	100.0%	Kazakhstan	Gold mining
Zherek LLP	n/a	n/a	100.0%	Kazakhstan	Gold mining
High River Gold Mines Ltd	n/a	n/a	75.1%	Canada	Holding company
OJSC Buryatzoloto	n/a	n/a	63.8%	Russia	Gold mining
Berezitovy Rudnik LLC	n/a	n/a	75.0%	Russia	Gold mining
Societe Des Mines de Taparko	n/a	n/a	67.6%	Burkina Faso	Gold mining
Semgeo LLP	n/a	n/a	100.0%	Kazakhstan	Gold mining
Crew Gold Corporation	n/a	n/a	100.0%	Canada	Holding company
Societe Miniere de Dinguiraye	n/a	n/a	100.0%	Guinea	Gold mining
Nord Gold N.V.	n/a	n/a	100.0%	The Netherlands	Holding company

(\*) – Note 26.

In addition, at the reporting date, a further 49 (December 31, 2012: 70; December 31, 2011: 111) subsidiaries, associates and a joint venture, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

Information on carrying amounts of associates and joint ventures is disclosed in Note 18 of these consolidated financial statements.

## **OAO Severstal and subsidiaries**

### **Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011** *(Amounts expressed in thousands of US dollars, except as otherwise stated)*

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

##### *Investments in 2011*

In March 2011, the Group acquired a 7.4% stake in Iron Mineral Beneficiation Services (Proprietary) Ltd (IMBS) for a total consideration of US\$ 7.4 million, increasing its ownership interest up to 33.0%.

In May 2011, the Group acquired a 25.0% stake in SPG Mineracao SA 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 SA owns exploration licenses for a number of high prospective iron ore properties in the northern state of Amapa, Brazil.

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

##### *Acquisition in 2011*

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%.

##### *Acquisitions in 2012*

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

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

During October – December 2012, the Group acquired an additional 14.8% stake in JSC Vorkutaugol for a total consideration of US\$ 70.9 million, increasing its ownership interest up to 99.0%.

#### ***Disposals of associates***

##### *Disposal in 2012*

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

##### *Disposal in 2013*

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



## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
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### *Disposals of subsidiaries (other than discontinued operations)*

#### *Disposals in 2011*

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 2013, 2012 and 2011 is presented below:

	Year ended December 31,		
	2013	2012	2011
Assets held for sale	-	-	(14,884)
Liabilities related to assets held for sale	-	-	23,003
Net identifiable assets	-	-	8,119
Consideration in cash	-	-	12,914
Net gain on disposal	-	-	21,033
Net change in cash and cash equivalents	-	-	12,914

### *Dilution of Group's ownership*

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

### *Transactions within discontinued operations*

#### *Crew Gold Corporation*

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%.

#### *High River Gold Mines Ltd*

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 %.

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### 28. Segment information

Segmental statements of financial position as at December 31, 2013:

	<u>Severstal Resources</u>	<u>Severstal Russian Steel</u>	<u>Severstal International</u>	<u>Inter segment balances</u>	<u>Conso- lidated</u>
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	340,280	676,229	19,439	-	1,035,948
Short-term financial investments	2,354,554	292,095	-	(2,586,633)	60,016
Trade accounts receivable	181,790	870,958	304,168	-	1,356,916
Amounts receivable from related parties	130,589	63,639	2,533	(178,141)	18,620
Restricted financial assets	1,114	-	-	-	1,114
Inventories	131,532	1,184,583	722,359	(19,714)	2,018,760
VAT recoverable	25,642	93,509	-	-	119,151
Income tax recoverable	9,198	9,715	135	-	19,048
Other current assets	49,711	184,135	43,017	-	276,863
<b>Total current assets</b>	<u>3,224,410</u>	<u>3,374,863</u>	<u>1,091,651</u>	<u>(2,784,488)</u>	<u>4,906,436</u>
<b>Non-current assets:</b>					
Long-term financial investments	1,000,563 *	6,157,697	29,258	(7,072,037)	115,481
Investments in associates and joint ventures	41,471	89,514	125,686	-	256,671
Property, plant and equipment	1,681,216	4,143,905	2,448,774	(19,703)	8,254,192
Intangible assets	404,505	271,511	2,894	-	678,910
Restricted financial assets	39,463	-	15	-	39,478
Deferred tax assets	3,621	26,929	47,568	-	78,118
Other non-current assets	9,208	67,787	127,446	-	204,441
<b>Total non-current assets</b>	<u>3,180,047</u>	<u>10,757,343</u>	<u>2,781,641</u>	<u>(7,091,740)</u>	<u>9,627,291</u>
<b>Total assets</b>	<u>6,404,457</u>	<u>14,132,206</u>	<u>3,873,292</u>	<u>(9,876,228)</u>	<u>14,533,727</u>
<b>Liabilities</b>					
<b>Current liabilities:</b>					
Trade accounts payable	156,983	544,295	444,595	-	1,145,873
Amounts payable to related parties	22,585	152,688	45,939	(178,214)	42,998
Short-term debt finance	266,399	1,692,438	1,362,510	(2,693,828)	627,519
Income taxes payable	2	10,458	200	-	10,660
Other taxes and social security payable	45,727	88,475	4,455	-	138,657
Dividends payable	-	28,065	-	-	28,065
Other current liabilities	100,536	397,155	57,710	-	555,401
<b>Total current liabilities</b>	<u>592,232</u>	<u>2,913,574</u>	<u>1,915,409</u>	<u>(2,872,042)</u>	<u>2,549,173</u>
<b>Non-current liabilities:</b>					
Long-term debt finance	726,945	3,861,133	731,524	(1,193,027)	4,126,575
Deferred tax liabilities	153,597	163,059	-	(3,920)	312,736
Retirement benefit liabilities	18,816	106,132	64,965	-	189,913
Other non-current liabilities	173,877	147,227	33,969	-	355,073
<b>Total non-current liabilities</b>	<u>1,073,235</u>	<u>4,277,551</u>	<u>830,458</u>	<u>(1,196,947)</u>	<u>4,984,297</u>
<b>Equity</b>	<u>4,738,990</u> **	<u>6,941,081</u>	<u>1,127,425</u>	<u>(5,807,239)</u>	<u>7,000,257</u>
<b>Total equity and liabilities</b>	<u>6,404,457</u>	<u>14,132,206</u>	<u>3,873,292</u>	<u>(9,876,228)</u>	<u>14,533,727</u>

\* This amount includes 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.

\*\* This amount includes US\$ 66.8 million effect of convertible bonds issue (Note 21).

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental statements of financial position as at December 31, 2012:

	<b>Severstal Resources</b>	<b>Severstal Russian Steel</b>	<b>Severstal International</b>	<b>Inter segment balances</b>	<b>Conso- lidated</b>
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	317,014	1,361,450	47,811	-	1,726,275
Short-term financial investments	2,079,173	957,347	-	(3,012,742)	23,778
Trade accounts receivable	162,990	648,050	229,527	-	1,040,567
Amounts receivable from related parties	117,983	56,389	1,275	(160,179)	15,468
Inventories	178,618	1,424,633	767,219	(17,572)	2,352,898
VAT recoverable	31,246	183,173	-	-	214,419
Income tax recoverable	9,827	11,207	135	-	21,169
Other current assets	79,267	178,403	44,450	-	302,120
<b>Total current assets</b>	<b>2,976,118</b>	<b>4,820,652</b>	<b>1,090,417</b>	<b>(3,190,493)</b>	<b>5,696,694</b>
<b>Non-current assets:</b>					
Long-term financial investments	951,207 *	5,674,938	19,900	(6,537,985)	108,060
Investments in associates and joint ventures	82,835	89,360	144,308	-	316,503
Property, plant and equipment	1,530,367	4,318,481	2,640,935	(27,072)	8,462,711
Intangible assets	586,374	229,748	4,813	-	820,935
Restricted financial assets	32,970	-	-	-	32,970
Deferred tax assets	7,605	47,236	45,955	-	100,796
Other non-current assets	6,616	21,527	140,403	-	168,546
<b>Total non-current assets</b>	<b>3,197,974</b>	<b>10,381,290</b>	<b>2,996,314</b>	<b>(6,565,057)</b>	<b>10,010,521</b>
<b>Total assets</b>	<b>6,174,092</b>	<b>15,201,942</b>	<b>4,086,731</b>	<b>(9,755,550)</b>	<b>15,707,215</b>
<b>Liabilities</b>					
<b>Current liabilities:</b>					
Trade accounts payable	127,094	538,106	392,421	-	1,057,621
Amounts payable to related parties	5,674	128,670	58,861	(156,971)	36,234
Short-term debt finance	126,148	2,879,696	852,022	(2,475,738)	1,382,128
Income taxes payable	1,575	14,829	200	-	16,604
Other taxes and social security payable	54,177	93,534	4,879	-	152,590
Dividends payable	-	89,079	-	(2,541)	86,538
Other current liabilities	144,955	424,466	68,526	-	637,947
<b>Total current liabilities</b>	<b>459,623</b>	<b>4,168,380</b>	<b>1,376,909</b>	<b>(2,635,250)</b>	<b>3,369,662</b>
<b>Non-current liabilities:</b>					
Long-term debt finance	687,477	3,865,661	1,278,280	(1,504,006)	4,327,412
Deferred tax liabilities	170,530	170,888	-	(3,340)	338,078
Retirement benefit liabilities	23,363	111,031	67,158	-	201,552
Other non-current liabilities	177,185	36,037	42,046	-	255,268
<b>Total non-current liabilities</b>	<b>1,058,555</b>	<b>4,183,617</b>	<b>1,387,484</b>	<b>(1,507,346)</b>	<b>5,122,310</b>
<b>Equity</b>	<b>4,655,914 **</b>	<b>6,849,945</b>	<b>1,322,338</b>	<b>(5,612,954)</b>	<b>7,215,243</b>
<b>Total equity and liabilities</b>	<b>6,174,092</b>	<b>15,201,942</b>	<b>4,086,731</b>	<b>(9,755,550)</b>	<b>15,707,215</b>

\* This amount includes 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.

\*\* This amount includes US\$ 66.8 million effect of convertible bonds issue (Note 21).

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental statements of financial position as at December 31, 2011:

	Severstal Resources	Gold	Severstal Russian Steel	Severstal International	Inter segment balances	Conso- lidated
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	429,801	-	1,184,963	248,774	-	1,863,538
Short-term financial investments	332,557	-	871,805	-	(1,193,862)	10,500
Trade accounts receivable	243,453	-	675,514	300,994	-	1,219,961
Amounts receivable from related parties	161,756	-	41,548	1,186	(177,141)	27,349
Inventories	155,062	-	1,604,877	807,752	(48,537)	2,519,154
VAT recoverable	23,558	-	170,327	-	-	193,885
Income tax recoverable	6,618	-	73,822	10,476	-	90,916
Other current assets	97,753	-	186,590	42,820	-	327,163
Assets held for sale	-	2,680,066	-	-	(2,756)	2,677,310
<b>Total current assets</b>	<b>1,450,558</b>	<b>2,680,066</b>	<b>4,809,446</b>	<b>1,412,002</b>	<b>(1,422,296)</b>	<b>8,929,776</b>
<b>Non-current assets:</b>						
Long-term financial investments	1,437,168	-	6,307,481	100,000	(7,662,387)	182,262
Investments in associates and joint ventures	71,211	-	66,196	163,908	-	301,315
Property, plant and equipment	1,186,872	-	3,645,189	2,659,039	(27,706)	7,463,394
Intangible assets	582,820	-	182,297	5,337	-	770,454
Restricted financial assets	21,455	-	1,001	182	-	22,638
Deferred tax assets	14,323	-	40,804	44,524	-	99,651
Other non-current assets	18,359	-	25,096	96,846	-	140,301
<b>Total non-current assets</b>	<b>3,332,208</b>	<b>-</b>	<b>10,268,064</b>	<b>3,069,836</b>	<b>(7,690,093)</b>	<b>8,980,015</b>
<b>Total assets</b>	<b>4,782,766</b>	<b>2,680,066</b>	<b>15,077,510</b>	<b>4,481,838</b>	<b>(9,112,389)</b>	<b>17,909,791</b>
<b>Liabilities</b>						
<b>Current liabilities:</b>						
Trade accounts payable	114,471	-	507,656	492,983	-	1,115,110
Amounts payable to related parties	4,995	-	158,756	49,070	1,370,210 *	1,583,031
Short-term debt finance	488,060	-	1,161,699	64,309	(528,601)	1,185,467
Income taxes payable	17,135	-	10,916	35	-	28,086
Other taxes and social security payable	78,599	-	62,632	122	-	141,353
Dividends payable	-	-	111,208	-	-	111,208
Other current liabilities	120,852	-	441,547	93,021	-	655,420
Liabilities related to assets held for sale	-	894,094	-	-	(343,971)	550,123
<b>Total current liabilities</b>	<b>824,112</b>	<b>894,094</b>	<b>2,454,414</b>	<b>699,540</b>	<b>497,638</b>	<b>5,369,798</b>
<b>Non-current liabilities:</b>						
Long-term debt finance	209,307	-	3,926,889	2,172,470	(1,518,035)	4,790,631
Deferred tax liabilities	160,421	-	135,551	-	(8,846)	287,126
Retirement benefit liabilities	19,975	-	83,621	58,138	-	161,734
Other non-current liabilities	144,677	-	35,776	52,726	-	233,179
<b>Total non-current liabilities</b>	<b>534,380</b>	<b>-</b>	<b>4,181,837</b>	<b>2,283,334</b>	<b>(1,526,881)</b>	<b>5,472,670</b>
<b>Equity</b>	<b>3,424,274</b>	<b>1,785,972</b>	<b>8,441,259</b>	<b>1,498,964</b>	<b>(8,083,146)</b>	<b>7,067,323</b>
<b>Total equity and liabilities</b>	<b>4,782,766</b>	<b>2,680,066</b>	<b>15,077,510</b>	<b>4,481,838</b>	<b>(9,112,389)</b>	<b>17,909,791</b>

\* This amount includes US\$ 1,547.0 million liability related to Gold segment separation (Note 11).

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental income statements for the year ended December 31, 2013:

	<b>Severstal Resources</b>	<b>Severstal Russian Steel</b>	<b>Severstal International</b>	<b>Inter segment transactions</b>	<b>Conso- lidated</b>
<b>Revenue</b>					
Revenue - third parties	1,469,498	7,830,080	3,866,154	-	13,165,732
Revenue - related parties	1,195,243	202,827	11,904	(1,264,104)	145,870
	<u>2,664,741</u>	<u>8,032,907</u>	<u>3,878,058</u>	<u>(1,264,104)</u>	<u>13,311,602</u>
<b>Cost of sales</b>	<u>(1,652,023)</u>	<u>(6,222,619)</u>	<u>(3,725,361)</u>	<u>1,260,587</u>	<u>(10,339,416)</u>
<b>Gross profit</b>	1,012,718	1,810,288	152,697	(3,517)	2,972,186
General and administrative expenses	(97,365)	(465,705)	(86,092)	10,166	(638,996)
Distribution expenses	(292,845)	(642,257)	(5,252)	125	(940,229)
Other taxes and contributions	(60,836)	(71,116)	(7,170)	-	(139,122)
Share of associates' and joint ventures' loss	(439)	(3,747)	(10,574)	-	(14,760)
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(9,994)	22,467	(512)	-	11,961
Net other operating income	<u>2,900</u>	<u>3,714</u>	<u>6,590</u>	<u>(5,897)</u>	<u>7,307</u>
<b>Profit from operations</b>	554,139	653,644	49,687	877	1,258,347
Impairment of non-current assets	(217,564)	(24,150)	(113,983)	-	(355,697)
Net other non-operating (expenses)/income	<u>(16,684)</u>	<u>(53,549)</u>	<u>19,955</u>	<u>-</u>	<u>(50,278)</u>
<b>Profit/(loss) before financing and taxation</b>	319,891	575,945	(44,341)	877	852,372
Interest income	76,773	57,036	4,269	(103,858)	34,220
Interest expense	(63,389)	(293,497)	(119,185)	108,057	(368,014)
Gain/(loss) on remeasurement and disposal of financial investments	5,375	245,452	-	(260,453)	(9,626)
Other finance costs	(232)	(2,796)	(150)	-	(3,178)
Foreign exchange gain/(loss), net	<u>12,641</u>	<u>(322,778)</u>	<u>(39,847)</u>	<u>-</u>	<u>(349,984)</u>
<b>Profit/(loss) before income tax</b>	351,059	259,362	(199,254)	(255,377)	155,790
Income tax (expense)/benefit	<u>(30,278)</u>	<u>(40,954)</u>	<u>3,324</u>	<u>1,321</u>	<u>(66,587)</u>
<b>Profit/(loss) for the period</b>	<u>320,781</u>	<u>218,408</u>	<u>(195,930)</u>	<u>(254,056)</u>	<u>89,203</u>
<b>Additional information:</b>					
depreciation and amortization expense	250,232	360,018	181,000	(3,019)	788,231
capital expenditures	553,231	606,461	100,903	3,511	1,264,106
intersegment revenue (incl. in revenue from related parties)	1,181,466	82,638	-	(1,264,104)	-

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental income statements for the year ended December 31, 2012:

	Severstal Resources	Gold	Severstal Russian Steel	Severstal International	Inter segment transactions	Conso- lidated
<b>Revenue</b>						
Revenue - third parties	1,611,174	-	8,426,091	3,878,340	-	13,915,605
Revenue - related parties	1,393,381	-	191,039	145	(1,396,464)	188,101
	3,004,555	-	8,617,130	3,878,485	(1,396,464)	14,103,706
<b>Cost of sales</b>	(1,724,862)	-	(6,711,442)	(3,774,920)	1,425,932	(10,785,292)
<b>Gross profit</b>	1,279,693	-	1,905,688	103,565	29,468	3,318,414
General and administrative expenses	(154,884)	-	(512,583)	(91,023)	9,153	(749,337)
Distribution expenses	(313,893)	-	(729,349)	(5,336)	183	(1,048,395)
Other taxes and contributions	(66,726)	-	(65,622)	(1,918)	-	(134,266)
Share of associates' and joint ventures' (loss)/profit	(990)	-	7,889	(4,906)	-	1,993
Loss on disposal of property, plant and equipment and intangible assets	(3,866)	-	(19,887)	(2,209)	-	(25,962)
Net other operating income/(expenses)	3,726	-	27,307	(5,025)	(5,725)	20,283
<b>Profit/(loss) from operations</b>	743,060	-	613,443	(6,852)	33,079	1,382,730
Impairment of non-current assets	(51,687)	-	(2,430)	-	-	(54,117)
Net other non-operating income/(expenses)	517,830 *	-	(49,189)	(222)	(538,955)	(70,536)
<b>Profit/(loss) before financing and taxation</b>	1,209,203	-	561,824	(7,074)	(505,876)	1,258,077
Interest income	81,908	-	110,965	3,386	(128,090)	68,169
Interest expense	(58,001)	-	(365,360)	(141,818)	124,241	(440,938)
Gain/(loss) on remeasurement and disposal of financial investments	8,021	-	381,510	-	(396,112)	(6,581)
Other finance costs	(471)	-	(4,761)	(84)	-	(5,316)
Foreign exchange (loss)/gain, net	(23,465)	-	194,219	(7,244)	-	163,510
<b>Profit/(loss) before income tax</b>	1,217,195	-	878,397	(152,834)	(905,837)	1,036,921
Income tax (expense)/benefit	(132,051)	-	(127,284)	1,498	(5,648)	(263,485)
<b>Profit/(loss) from continuing operations</b>	1,085,144	-	751,113	(151,336)	(911,485)	773,436
Profit/(loss) from discontinued operations	-	153,797	-	(107,434)	-	46,363
<b>Profit/(loss) for the period</b>	1,085,144	153,797	751,113	(258,770)	(911,485)	819,799
<b>Additional information:</b>						
depreciation and amortization expense	240,357	-	318,297	170,342	(2,951)	726,045
capital expenditures	555,507	-	829,553	155,348	(2,550)	1,537,858
intersegment revenue (incl. in revenue from related parties)	1,301,001	-	95,463	-	(1,396,464)	-

\* This amount includes 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.

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental income statements for the year ended December 31, 2011:

	Severstal Resources	Gold	Severstal Russian Steel	Lucchini	Severstal International	Inter segment transactions	Conso- lidated
<b>Revenue</b>							
Revenue - third parties	1,762,604	-	10,388,391	-	3,422,095	-	15,573,090
Revenue - related parties	1,948,828	-	158,440	-	-	(1,867,958)	239,310
	3,711,432	-	10,546,831	-	3,422,095	(1,867,958)	15,812,400
<b>Cost of sales</b>	<u>(1,745,500)</u>	-	<u>(7,748,673)</u>	-	<u>(3,291,548)</u>	<u>1,882,499</u>	<u>(10,903,222)</u>
<b>Gross profit</b>	1,965,932	-	2,798,158	-	130,547	14,541	4,909,178
General and administrative expenses	(159,452)	-	(491,847)	-	(82,596)	15,362	(718,533)
Distribution expenses	(326,582)	-	(774,609)	-	-	-	(1,101,191)
Other taxes and contributions	(63,524)	-	(82,807)	-	477	-	(145,854)
Share of associates' (loss)/profit	(2,727)	-	1,873	-	8,173	-	7,319
Loss on disposal of property, plant and equipment and intangible assets	(7,848)	-	(11,140)	-	(1,951)	-	(20,939)
Net other operating (expenses)/income	<u>(9,880)</u>	-	<u>20,643</u>	-	<u>6,993</u>	<u>(18,303)</u>	<u>(547)</u>
<b>Profit from operations</b>	1,395,919	-	1,460,271	-	61,643	11,600	2,929,433
Reversal of impairment of non-current assets	-	-	438	-	-	-	438
Net other non-operating expenses	<u>(21,207)</u>	-	<u>(53,283)</u>	-	-	<u>9,109</u>	<u>(65,381)</u>
<b>Profit before financing and taxation</b>	1,374,712	-	1,407,426	-	61,643	20,709	2,864,490
Interest income	24,768	-	183,677	-	79	(158,843)	49,681
Interest expense	(106,751)	-	(358,642)	-	(98,178)	127,430	(436,141)
Gain/(loss) on remeasurement and disposal of financial investments	33	-	(4,685)	-	-	-	(4,652)
Other finance costs	(1,736)	-	(5,586)	-	(102)	-	(7,424)
Foreign exchange gain/(loss), net	<u>65,689</u>	-	<u>(102,669)</u>	-	-	-	<u>(36,980)</u>
<b>Profit/(loss) before income tax</b>	1,356,715	-	1,119,521	-	(36,558)	(10,704)	2,428,974
Income tax expense	<u>(285,097)</u>	-	<u>(171,056)</u>	-	<u>(4,884)</u>	<u>(4,975)</u>	<u>(466,012)</u>
<b>Profit/(loss) from continuing operations</b>	1,071,618	-	948,465	-	(41,442)	(15,679)	1,962,962
Profit/(loss) from discontinued operations	-	277,582	-	129,217	(226,231)	30,205	210,773
<b>Profit/(loss) for the period</b>	<u>1,071,618</u>	<u>277,582</u>	<u>948,465</u>	<u>129,217</u>	<u>(267,673)</u>	<u>14,526</u>	<u>2,173,735</u>
<b>Additional information:</b>							
depreciation and amortization expense	201,974	155,873	329,613	-	117,432	(2,199)	802,693
capital expenditures	490,833	320,306	712,319	-	573,696	-	2,097,154
intersegment revenue (incl. in revenue from related parties)	1,789,829	-	78,129	-	-	(1,867,958)	-

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
for the years ended December 31, 2013, 2012 and 2011**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

The following is a summary of non-current assets other than financial instruments, investments in associates and joint ventures and deferred tax assets by location:

	December 31,		
	2013	2012	2011
Russian Federation	5,916,835	5,861,457	4,784,705
North America	2,847,254	3,293,635	3,336,165
Africa	203,229	168,931	128,910
Europe	118,791	115,816	92,863
	<u>9,086,109</u>	<u>9,439,839</u>	<u>8,342,643</u>

The locations are primarily represented by the following countries:

- In Europe: Latvia, Italy and Ukraine;
- In Africa: Liberia;
- In North America: the USA.



# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### 29. Financial instruments

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures. The Group's Audit Committee reviews the adequacy of the risk management framework in relation to the risks faced by the Group on a quarterly basis.

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The Severstal Resources segment of the Group has not used derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. The use in the Severstal Russian Steel and Severstal International segments of derivatives to hedge their interest rates, commodity inputs and foreign exchange rate exposures were not material to these consolidated financial statements.

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for the following borrowings:

	<b>December 31, 2013</b>		
	<b>Market value</b>	<b>Book value</b>	<b>Difference</b>
Eurobonds 2014	384,799	375,000	9,799
Eurobonds 2016	533,270	500,000	33,270
Eurobonds 2017	1,079,640	1,000,000	79,640
Eurobonds 2018	593,790	600,000	(6,210)
Eurobonds 2022	727,148	750,000	(22,852)
Convertible bonds 2017	476,344	475,000	1,344
Severstal Columbus bonds	557,813	525,000	32,813
	<u>4,352,804</u>	<u>4,225,000</u>	<u>127,804</u>
	<b>December 31, 2012</b>		
	<b>Market value</b>	<b>Book value</b>	<b>Difference</b>
Ruble bonds 2013	492,087	493,865	(1,778)
Eurobonds 2013	569,632	543,552	26,080
Eurobonds 2014	409,234	375,000	34,234
Eurobonds 2016	535,780	500,000	35,780
Eurobonds 2017	1,096,900	1,000,000	96,900
Eurobonds 2022	759,608	750,000	9,608
Convertible bonds 2017	480,268	475,000	5,268
Severstal Columbus bonds	553,875	525,000	28,875
	<u>4,897,384</u>	<u>4,662,417</u>	<u>234,967</u>
	<b>December 31, 2011</b>		
	<b>Market value</b>	<b>Book value</b>	<b>Difference</b>
Ruble bonds 2012	464,404	465,895	(1,491)
Ruble bonds 2013	476,471	465,895	10,576
Eurobonds 2013	581,503	543,552	37,951
Eurobonds 2014	399,578	375,000	24,578
Eurobonds 2016	468,240	500,000	(31,760)
Eurobonds 2017	943,910	1,000,000	(56,090)
Severstal Columbus bonds	547,313	525,000	22,313
	<u>3,881,419</u>	<u>3,875,342</u>	<u>6,077</u>

The above amounts exclude accrued interest. The market value of the Group's Eurobonds was determined based on London Stock Exchange quotations. The market value of the Group's Ruble bonds was determined based on MICEX.

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
for the years ended December 31, 2013, 2012 and 2011**  
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### *Credit risk*

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position and guarantees (Note 30e).

Part of the Group's sales are made on terms of letters of credit. In addition, the Group requires prepayments from certain customers. The Group also holds bank and other guarantees provided as a collateral for certain financial assets. The amount of collateral held does not fully cover the Group's exposure to credit risk.

The Group has developed policies and procedures for the management of credit exposure, including the establishment of credit committee that actively monitors credit risk. Additionally, in order to minimize credit risk of the counterparty banks, the Group has centralized Treasury function which carries out the analysis of banks in respect of their financial stability, defines and reviews the risks limits for banks on a quarterly basis and executes Group's operations within those established limits.

The maximum exposure to credit risk for financial instruments, including accounts receivable from related parties, was:

	December 31,		
	2013	2012	2011
Cash and cash equivalents	1,035,948	1,726,275	1,863,538
Loans and receivables	1,613,025	1,180,733	1,465,579
Derivative financial assets	-	34,808	-
Held-to-maturity securities	51,924	27,908	6,913
Available-for-sale financial assets	46,075	39,840	32,363
Held-for-trading securities	-	30	4,093
Restricted financial assets	40,592	32,970	22,638
	<u>2,787,564</u>	<u>3,042,564</u>	<u>3,395,124</u>

The maximum exposure to credit risk for trade receivables, including trade receivables from related parties by geographic region, was:

	December 31,		
	2013	2012	2011
Russian Federation	674,788	600,511	549,392
North America	345,743	258,131	332,720
Europe	304,624	177,984	216,797
China and Central Asia	18,987	4,145	24,625
The Middle East	17,684	9,925	79,088
Central and South America	5,439	3,722	18,352
South-East Asia	4,729	712	32,129
Africa	519	54	35
	<u>1,372,513</u>	<u>1,055,184</u>	<u>1,253,138</u>

The maximum exposure to credit risk for trade receivables, including trade receivables from related parties by type of customer, was:

	December 31,		
	2013	2012	2011
Industrial consumers	954,456	804,000	751,943
Wholesale customers	332,060	177,709	412,155
Retail customers	14,821	13,629	18,219
Other customers	71,176	59,846	70,821
	<u>1,372,513</u>	<u>1,055,184</u>	<u>1,253,138</u>

## OAO Severstal and subsidiaries

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### *Impairment losses*

The aging of trade receivables, including trade receivables from related parties, was:

	<b>December 31,</b>					
	<b>2013</b>		<b>2012</b>		<b>2011</b>	
	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>
Not past due	1,237,219	(40,821)	887,464	(47,569)	1,116,018	(49,251)
Past due less than 30 days	122,122	(20)	173,504	(1,672)	118,613	(487)
Past due 31-90 days	50,111	(5,428)	36,335	(1,641)	39,223	(92)
Past due 91-180 days	10,400	(4,104)	4,658	(577)	10,605	(1,073)
Past due 181-365 days	5,095	(2,912)	2,997	(2,631)	10,799	(1,724)
More than one year	37,814	(36,963)	55,271	(50,955)	47,839	(37,332)
	<u>1,462,761</u>	<u>(90,248)</u>	<u>1,160,229</u>	<u>(105,045)</u>	<u>1,343,097</u>	<u>(89,959)</u>

The impairment allowance at December 31, 2013 included the impairment allowance in respect of trade receivables from related parties for the total amount of US\$ 2.0 million (December 31, 2012: US\$ 50.1 million; December 31, 2011: US\$ 31.9 million).

The movement in allowance for impairment in respect of trade receivables, including trade receivables from related parties, during the years was as follows:

	<b>Year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Opening balance	(105,045)	(89,959)	(67,250)
Impairment loss recognized	(25,780)	(45,653)	(58,445)
Impairment loss reversed	37,581	34,661	27,234
Reclassified to assets held for sale	-	-	6,474
Translation to presentation currency	2,996	(4,094)	2,028
Closing balance	<u>(90,248)</u>	<u>(105,045)</u>	<u>(89,959)</u>

The allowance account in respect of trade receivables, including trade receivables from related parties, is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

The allowance for doubtful debts contains primarily individually impaired trade receivables from debtors placed under liquidation or companies which are in breach of contract terms.

## **OAo Severstal and subsidiaries**

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### ***Concentration of credit risk***

2013

The Group has a concentration of cash and short-term bank deposits with OAO Metcombank, OAO Gazprombank, OAO Bank VTB and AB Russia that at December 31, 2013 represented US\$ 373.1 million, US\$ 289.4 million, US\$ 144.3 million and US\$ 100.7 million, respectively.

2012

The Group has a concentration of cash and short-term bank deposits with OAO Bank VTB, OAO Metcombank, AB Russia and OAO Sberbank Russia that at December 31, 2012 represented US\$ 428.5 million, US\$ 290.3 million, US\$ 271.6 million and US\$ 254.9 million, respectively.

2011

The Group has a concentration of cash and short-term bank deposits with AB Russia, OAO Bank VTB, OAO Metcombank and OAO Gazprombank that at December 31, 2011 represented US\$ 373.8 million, US\$ 335.7 million, US\$ 259.0 million and US\$ 326.5 million, respectively.

### ***Liquidity risk***

Liquidity risk arises when the Group encounters difficulties to meet commitments associated with liabilities and other settlements.

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times to honor all cash obligations as they become due by preparing annual budgets, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group also maintains committed credit lines and overdraft facilities that can be drawn down to meet short-term financing needs. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of indebtedness.

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The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

### December 31, 2013

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
<b>Non-derivative financial liabilities</b>						
Debt finance	4,754,094	(6,015,345)	(820,905)	(283,484)	(3,977,556)	(933,400)
Lease liabilities	2,110	(2,294)	(682)	(647)	(965)	-
Trade and other payables	1,280,784	(1,280,957)	(1,258,682)	(20,055)	(2,220)	-
	<u>6,036,988</u>	<u>(7,298,596)</u>	<u>(2,080,269)</u>	<u>(304,186)</u>	<u>(3,980,741)</u>	<u>(933,400)</u>

### December 31, 2012

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
<b>Non-derivative financial liabilities</b>						
Debt finance	5,709,540	(7,209,143)	(1,623,905)	(888,299)	(3,166,531)	(1,530,408)
Lease liabilities	3,611	(3,611)	(1,878)	(27)	(1,706)	-
Trade and other payables	1,284,405	(1,287,610)	(1,248,073)	(35,444)	(4,093)	-
<b>Derivative financial liabilities</b>	11,532	(13,487)	(11,899)	(1,588)	-	-
	<u>7,009,088</u>	<u>(8,513,851)</u>	<u>(2,885,755)</u>	<u>(925,358)</u>	<u>(3,172,330)</u>	<u>(1,530,408)</u>

### December 31, 2011

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
<b>Non-derivative financial liabilities</b>						
Debt finance	5,976,098	(7,265,954)	(1,457,545)	(1,769,545)	(2,336,373)	(1,702,491)
Lease liabilities	7,933	(7,933)	(5,880)	(238)	-	(1,815)
Trade and other payables	1,318,534	(1,322,204)	(1,289,456)	(10,024)	(22,724)	-
<b>Derivative financial liabilities</b>	38,180	(43,089)	(15,286)	(26,360)	(1,443)	-
	<u>7,340,745</u>	<u>(8,639,180)</u>	<u>(2,768,167)</u>	<u>(1,806,167)</u>	<u>(2,360,540)</u>	<u>(1,704,306)</u>

### 2013

At December 31, 2013, the Group has a concentration of bank financing with European Bank for Reconstruction and Development and Bank of America N.A. of US\$ 222.3 million and US\$ 226.2 million, respectively.

### 2012

At December 31, 2012, the Group has a concentration of bank financing with European Bank for Reconstruction and Development and Citibank N.A. of US\$ 349.2 million and US\$ 415.6 million, respectively.

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

2011

At December 31, 2011, the Group has a concentration of bank financing with Deutsche Bank AG and European Bank for Reconstruction and Development of US\$ 560.0 million and US\$ 473.0 million, respectively.

### **Covenant compliance risk**

The Group actively monitors compliance with all debt covenants and, in case of the risk of default, approaches the lenders to amend the respective facility agreement, before any event of default occurs.

### **Currency risk**

Currency risk arises when a Group entity enters into transactions and balances denominated in a currency other than its functional currency. The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	<b>December 31, 2013</b>				
	<b>Euro</b>	<b>USD</b>	<b>GBP</b>	<b>RUB</b>	<b>CHF</b>
Held-to-maturity securities	-	24,621	-	-	-
Loans and receivables	149,843	950,629	41	77,039	-
Cash and cash equivalents	98,593	507,672	-	2,633	-
Debt finance	(2,121,497)	(4,259,482)	-	(19,974)	-
Trade and other payables	(169,192)	(133,261)	(177)	(203)	(4,342)
Net exposure	<u>(2,042,253)</u>	<u>(2,909,821)</u>	<u>(136)</u>	<u>59,495</u>	<u>(4,342)</u>

  

	<b>December 31, 2012</b>					
	<b>Euro</b>	<b>USD</b>	<b>GBP</b>	<b>RUB</b>	<b>CAD</b>	<b>NOK</b>
Held-to-maturity securities	-	24,621	-	-	-	-
Loans and receivables	154,816	1,270,082	-	11,659	3,693	2,186
Cash and cash equivalents	201,895	1,156,546	-	44	-	-
Derivative financial assets	-	34,808	-	-	-	-
Debt finance	(2,047,611)	(4,135,921)	-	(21,559)	(3,671)	-
Trade and other payables	(188,811)	(156,424)	(92)	(126)	-	(4)
Net exposure	<u>(1,879,711)</u>	<u>(1,806,288)</u>	<u>(92)</u>	<u>(9,982)</u>	<u>22</u>	<u>2,182</u>

  

	<b>December 31, 2011</b>					
	<b>Euro</b>	<b>USD</b>	<b>GBP</b>	<b>RUB</b>	<b>CAD</b>	<b>NOK</b>
Available-for-sale financial assets	-	14,349	-	-	-	-
Loans and receivables	824,868	1,738,321	24	53	49,406	1,833
Cash and cash equivalents	184,146	703,401	-	4,716	-	-
Restricted financial assets	1,001	-	-	-	-	-
Debt finance	(703,474)	(3,500,569)	-	(1,730)	(49,366)	-
Finance lease liabilities	(26)	-	-	-	-	-
Trade and other payables	(148,425)	(224,059)	(45)	(5)	-	-
Derivative financial liabilities	-	(12,048)	-	-	-	-
Net exposure	<u>158,090</u>	<u>(1,280,605)</u>	<u>(21)</u>	<u>3,034</u>	<u>40</u>	<u>1,833</u>

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
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### *Sensitivity analysis*

A 10 percent strengthening of the following currencies against the functional currency at December 31, 2013 would have increased/(decreased) profit and equity by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant and no translation difference into the presentation currency is included. The analysis is performed on the same basis for 2012 and 2011.

	Year ended December 31,		
	2013	2012	2011
<b>Net profit</b>			
Euro	(179,229)	(154,348)	12,724
USD	(229,096)	(143,282)	(100,897)
GBP	(11)	(8)	(2)
CHF	(347)	-	-
CAD	-	3	3
RUB	5,919	(902)	212
NOK	-	143	128

A 10 percent weakening of these currencies against the functional currency at December 31, 2013 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

### *Interest rate risk*

Interest rates on the Group's debt finance are either fixed or variable, at a fixed spread over LIBOR, EURIBOR and MOSPRIME for the duration of each contract. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure relates to fixed or variable rates, but the most part of the Group's public debt has a fixed rate. Each time of raising new loans or borrowings management uses its judgment to decide whether a fixed or variable rate would be more favorable for the Group over the expected period until maturity.

The Group also constantly monitors capital markets and, if required, takes actions, i.e. converts floating rates into fixed and vice versa, uses existing cash cushion to repay loan facilities in case floating interest rates increase considerably.

The Group's interest-bearing financial instruments at variable rates were:

	December 31,		
	2013	2012	2011
<b>Variable rate instruments</b>			
Financial assets	45,828	44,219	21,091
Financial liabilities	(494,515)	(978,008)	(1,942,638)
	(448,687)	(933,789)	(1,921,547)

Other Group's interest-bearing financial instruments are at fixed rate.

## OAO Severstal and subsidiaries

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### *Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates would not affect profit or loss.

### *Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates would have increased/(decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012 and 2011.

	<u>Net profit</u>	
	<u>100 bp increase</u>	<u>100 bp decrease</u>
<b>December 31, 2013</b>		
Financial assets	424	(424)
Financial liabilities	<u>(4,381)</u>	<u>4,381</u>
Cash flow sensitivity (net)	<u><u>(3,957)</u></u>	<u><u>3,957</u></u>
<b>December 31, 2012</b>		
Financial assets	442	(442)
Financial liabilities	<u>(8,897)</u>	<u>8,897</u>
Cash flow sensitivity (net)	<u><u>(8,455)</u></u>	<u><u>8,455</u></u>
<b>December 31, 2011</b>		
Financial assets	28	(28)
Financial liabilities	<u>(14,304)</u>	<u>14,304</u>
Cash flow sensitivity (net)	<u><u>(14,276)</u></u>	<u><u>14,276</u></u>



# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *Fair value hierarchy*

The table below analyzes financial instruments carried at fair value, except financial instruments measured at amortized cost, by valuation method. The levels in the fair value hierarchy into which the fair value measurements are categorized were disclosed in accordance with IFRS.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Balance at 31 December 2013	1,276	-	44,799	46,075
Available-for-sale financial assets	1,276	-	44,799	46,075
Balance at 31 December 2012	6,078	23,306	33,762	63,146
Available-for-sale financial assets	6,078	-	33,762	39,840
Held-for-trading securities	-	30	-	30
Derivative financial assets	-	34,808	-	34,808
Derivative financial liabilities	-	(11,532)	-	(11,532)
Balance at 31 December 2011	8,098	(34,196)	24,374	(1,724)
Available-for-sale financial assets	8,098	-	24,265	32,363
Held-for-trading securities	-	3,984	109	4,093
Derivative financial liabilities	-	(38,180)	-	(38,180)

The description of the levels is presented below:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – inputs for the asset or liability that are not based on observable market data.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	<u>Available-for- sale financial assets</u>	<u>Held-for- trading securities</u>
Balance at 31 December 2013	44,799	-
Purchases of financial instruments	160	-
Reclassification from investments in associates (Note 27)	22,941	-
Other reclassifications	(12,064)	-
Balance at 31 December 2012	33,762	-
Issues of financial instruments	8,450	-
Other movements	1,047	(109)
Balance at 31 December 2011	24,265	109
Gains recognized in other comprehensive income	276	-
Purchases of financial instruments	-	109
Sales of financial instruments	(3,417)	-
Issues of financial instruments	415	-
Transfers out of Level 3	(6,942)	-
Other movements	(796)	-
Balance at 31 December 2010	34,729	-

# **OA0 Severstal and subsidiaries**

## **Notes to the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011** *(Amounts expressed in thousands of US dollars, except as otherwise stated)*

### **30. Commitments and contingencies**

#### **a. For litigation, tax and other liabilities**

As of 31 December, 2013, the actual contingent claims related to land rent agreements, utilities supply agreements and post-retirement obligation made by counterparties to certain Group's entities amounted to approximately US\$ 31.2 million, US\$ 43.8 million and US\$ 26.9 million, respectively. Management does not agree with these claims and has made all necessary steps to protect its position. Management is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any.

The taxation system and regulatory environment of the Russian Federation are relatively new and characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during recent years suggest that the regulatory authorities within this country are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks. Management believes that it has complied in all material respects with all relevant legislation. At the reporting date, the actual and potential contingent claims for taxes, fines and penalties made by the Russian tax authorities to certain Group's entities amounted to approximately US\$ 19.6 million (December 31, 2012: US\$ 18.1 million; December 31, 2011: US\$ 17.7 million). Management does not agree with the tax authorities' claims and believes that the Group has complied with existing legislation in all material respects. Management is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any. Management believes that it has made adequate provisions for other probable tax claims.

#### **b. Long-term purchase and sales contracts**

In the normal course of business group companies enter into long-term purchase contracts for raw materials, and long-term sales contracts. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

#### **c. Capital commitments**

At the reporting date the Group had contractual capital commitments of US\$ 488.3 million (December 31, 2012: US\$ 777.0 million; December 31, 2011: US\$ 1,085.9 million).

#### **d. Insurance**

The Group has insured major part of its property and equipment to compensate for expenses arising from accidents. In addition, certain Group's entities have insurance for business interruption on various basis, from reimbursement of certain fixed costs to a gross profit reimbursement and/or insurance of a third party liability in respect of property or environmental damage. The Group believes that, with respect to each of its production facilities, it maintains insurance at levels generally in line with the relevant local market standards. However, the Group does not have full insurance coverage.

#### **e. Guarantees**

At the reporting date the Group had US\$ 21.3 million (December 31, 2012: US\$ 39.1 million; December 31, 2011: US\$ 88.2 million) of guarantees issued, including guarantees issued for related parties, of US\$ 8.5 million (December 31, 2012: US\$ 23.0 million; December 31, 2011: US\$ 74.9 million).