

OAO Severstal and subsidiaries

Consolidated interim condensed financial statements
for the six months ended June 30, 2012 and 2011

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

Board of Directors

ОАО Severstal

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of ОАО Severstal (the "Company") and its subsidiaries (the "Group") as at 30 June 2012, the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and six-month periods ended 30 June 2012 and 2011, the related consolidated interim condensed statements of changes in equity and cash flows for the six-month periods ended 30 June 2012 and 2011, and notes to the consolidated interim condensed financial statements (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 June 2012 and for the three- and six-month periods ended 30 June 2012 and 2011 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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28 August 2012

OAO Severstal and subsidiaries

Consolidated interim condensed income statements Six months ended June 30, 2012 and 2011

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

	Note	Six months ended June 30,		Three months ended June 30,	
		2012 (unaudited)	2011 (unaudited)*	2012 (unaudited)	2011 (unaudited)*
Revenue					
Revenue - third parties		7,286,795	7,446,225	3,664,133	3,987,997
Revenue - related parties	4	109,847	119,869	53,722	95,468
	3	7,396,642	7,566,094	3,717,855	4,083,465
Cost of sales		(5,552,204)	(5,126,833)	(2,736,553)	(2,745,040)
Gross profit		1,844,438	2,439,261	981,302	1,338,425
General and administrative expenses		(341,044)	(350,602)	(175,475)	(177,113)
Distribution expenses		(577,617)	(537,860)	(286,939)	(302,560)
Other taxes and contributions		(66,142)	(74,474)	(29,589)	(37,343)
Share of associates' and joint ventures' profit		9,095	2,044	3,314	3,481
Loss on remeasurement and disposal of financial investments		(4,379)	(2,426)	(2,714)	(300)
Loss on disposal of property, plant and equipment and intangible assets		(14,095)	(9,921)	(8,751)	(6,039)
Net other operating income		15,561	4,729	152	9,404
Profit from operations		865,817	1,470,751	481,300	827,955
(Impairment)/reversal of impairment of non-current assets		(13,669)	2,711	(570)	2,700
Net other non-operating expenses		(39,295)	(22,848)	(24,454)	(18,641)
Profit before financing and taxation		812,853	1,450,614	456,276	812,014
Interest income		35,909	22,248	19,765	10,047
Interest expense		(220,652)	(225,683)	(109,990)	(113,927)
Foreign exchange differences		(21,022)	211,057	(143,086)	55,706
Profit before income tax		607,088	1,458,236	222,965	763,840
Income tax expense		(125,085)	(306,039)	(49,260)	(152,210)
Profit from continuing operations		482,003	1,152,197	173,705	611,630
Profit/(loss) from discontinued operations	2	147,038	71,201	(6,759)	52,556
Profit for the period		629,041	1,223,398	166,946	664,186
Attributable to:					
shareholders of OAO Severstal		582,124	1,143,226	155,124	624,146
non-controlling interests		46,917	80,172	11,822	40,040
Weighted average number of shares outstanding during the period (millions of shares)		869.4	1,005.2	812.3	1,005.2
Basic and diluted earnings per share (US dollars)		0.67	1.14	0.19	0.62
Basic and diluted earnings per share - continuing operations (US dollars)		0.52	1.12	0.20	0.59
Basic and diluted earnings/(loss) per share - discontinued operations (US dollars)		0.15	0.02	(0.01)	0.03

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

These consolidated interim condensed financial statements were approved by the Board of Directors on August 28, 2012.

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of comprehensive income Six months ended June 30, 2012 and 2011

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

	Six months ended June 30,		Three months ended June 30,	
	2012 (unaudited)	2011 (unaudited)*	2012 (unaudited)	2011 (unaudited)*
Profit for the period	629,041	1,223,398	166,946	664,186
Other comprehensive (loss)/income				
Foreign exchange differences	(43,109)	401,253	(595,989)	61,801
Changes in fair value of cash flow hedges	1,027	281	286	(195)
Changes in fair value of available-for-sale financial assets	4,887	(8,385)	(752)	(13,696)
Deferred tax on changes in fair value of available-for-sale financial assets	150	1,057	183	1,871
Actuarial losses	(5,104)	(21,671)	(5,116)	(20,714)
Reclassification of Gold segment's reserves to net profit from discontinued operations (Note 2)	(76,089)	-	-	-
Other comprehensive (loss)/income for the period, net of tax	(118,238)	372,535	(601,388)	29,067
Total comprehensive income/(loss) for the period	<u>510,803</u>	<u>1,595,933</u>	<u>(434,442)</u>	<u>693,253</u>
Attributable to:				
shareholders of OAO Severstal	454,866	1,505,003	(430,353)	652,957
non-controlling interests	<u>55,937</u>	<u>90,930</u>	<u>(4,089)</u>	<u>40,296</u>

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

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of financial position June 30, 2012 and December 31, 2011

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

	Note	June 30, 2012 (unaudited)	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents		1,942,884	1,863,538
Short-term financial investments		16,892	10,500
Trade accounts receivable		1,270,717	1,219,961
Accounts receivable from related parties	5	25,825	27,349
Inventories		2,229,502	2,519,154
VAT recoverable		216,489	193,885
Income tax recoverable		79,365	90,916
Other current assets		338,612	327,163
Assets held for sale	2	-	2,677,310
Total current assets		<u>6,120,286</u>	<u>8,929,776</u>
Non-current assets:			
Long-term financial investments		182,753	182,262
Investments in associates and joint ventures		310,761	301,315
Property, plant and equipment		7,633,539	7,463,394
Intangible assets		797,163	770,454
Restricted financial assets		27,318	22,638
Deferred tax assets		95,398	99,651
Other non-current assets		153,808	140,301
Total non-current assets		<u>9,200,740</u>	<u>8,980,015</u>
Total assets		<u>15,321,026</u>	<u>17,909,791</u>
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		987,026	1,115,110
Accounts payable to related parties	5	42,662	1,583,031
Short-term debt finance		1,576,099	1,185,467
Income tax payable		20,473	28,086
Other taxes and social security payable		157,911	141,353
Dividends payable		195,915	111,208
Other current liabilities		614,870	655,420
Liabilities related to assets held for sale	2	-	550,123
Total current liabilities		<u>3,594,956</u>	<u>5,369,798</u>
Non-current liabilities:			
Long-term debt finance		4,116,140	4,790,631
Deferred tax liabilities		301,273	287,126
Retirement benefit liabilities		163,391	161,734
Other non-current liabilities		286,278	233,179
Total non-current liabilities		<u>4,867,082</u>	<u>5,472,670</u>
Equity:			
Share capital		3,311,288	3,311,288
Treasury shares		(1,703,466)	(1,586,293)
Additional capital		1,165,530	1,165,530
Foreign exchange differences		(725,639)	(642,228)
Retained earnings		4,687,002	4,386,461
Other reserves		5,843	44,738
Total equity attributable to shareholders of OAO Severstal		<u>6,740,558</u>	<u>6,679,496</u>
Non-controlling interests		<u>118,430</u>	<u>387,827</u>
Total equity		<u>6,858,988</u>	<u>7,067,323</u>
Total equity and liabilities		<u>15,321,026</u>	<u>17,909,791</u>

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

OAO Severstal and subsidiaries

Consolidated interim condensed statements of cash flows Six months ended June 30, 2012 and 2011

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

	Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)*
Operating activities:		
Profit before financing and taxation	812,853	1,450,614
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	347,364	319,096
Impairment/(reversal of impairment) of non-current assets	13,669	(2,711)
Movements in provision for inventories, receivables and other provisions	71,548	11,932
Loss on disposal of property, plant and equipment and intangible assets	14,095	9,921
Gain on disposal of subsidiaries and associates	(8,090)	(10,429)
Loss on remeasurement and disposal of financial investments	4,379	2,426
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(9,095)	2,996
Changes in operating assets and liabilities:		
Trade accounts receivable	(57,683)	(376,881)
Amounts receivable from related parties	328	(60,011)
VAT recoverable	(57,524)	(34,000)
Inventories	200,734	(532,277)
Trade accounts payable	(155,097)	172,172
Amounts payable to related parties	7,125	17,533
Other taxes and social security payables	25,063	38,989
Other non-current liabilities	(8,814)	(12,335)
Assets held for sale	-	3,141
Net other changes in operating assets and liabilities	(48,304)	27,212
Cash generated from operations	1,152,551	1,027,388
Interest paid	(216,765)	(222,438)
Income tax paid	(106,365)	(253,374)
Net cash from operating activities - continuing operations	829,421	551,576
Net cash (used in)/from operating activities - discontinued operations	(8,253)	169,210
Net cash from operating activities	821,168	720,786
Investing activities:		
Additions to property, plant and equipment	(603,779)	(690,141)
Additions to intangible assets	(45,449)	(24,751)
Net decrease in short-term bank deposits	-	14,202
Additions to financial investments and associates	(30,008)	(40,137)
Proceeds from disposals of subsidiaries	-	96,995
Proceeds from disposal of property, plant and equipment	757	6,887
Proceeds from disposal of financial investments	342,076	9,478
Interest received	74,825	21,338
Dividends received	4,191	3,948
Net cash used in investing activities - continuing operations	(257,387)	(602,181)
Net cash used in investing activities - discontinued operations	(42,518)	(135,211)
Cash used in investing activities	(299,905)	(737,392)
Financing activities:		
Proceeds from debt finance	656,103	565,650
Repayment of debt finance	(901,672)	(861,931)
Repayments under lease obligations	(2,759)	(2,524)
Dividends paid	(107,840)	(11,042)
Repurchase of issued shares	(10,847)	-
Acquisitions of non-controlling interests	(72,936)	(3,020)
Contributions of non-controlling interests	-	8,036
Cash used in financing activities - continuing operations	(439,951)	(304,831)
Cash used in financing activities - discontinued operations	-	(62,419)
Cash used in financing activities	(439,951)	(367,250)
Effect of exchange rates on cash and cash equivalents	(44,134)	85,189
Net increase/(decrease) in cash and cash equivalents	37,178	(298,667)
Less change in cash and cash equivalents of discontinued operation	42,168	-
Cash and cash equivalents at beginning of the period	1,863,538	2,012,662
Cash and cash equivalents at end of the period	1,942,884	1,713,995

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

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

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Consolidated interim condensed statements of changes in equity Six months ended June 30, 2012 and 2011

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

	Attributable to shareholders of OAO Severstal						Non- controlling interests	Total	
	Share capital	Treasury shares	Additional capital	Foreign exchange differences	Retained earnings	Other reserves	Total		
Balances at December 31, 2010	3,311,288	(26,303)	1,165,530	(297,219)	2,805,232	76,411	7,034,939	314,714	7,349,653
Profit for the period (unaudited)*	-	-	-	-	1,143,226	-	1,143,226	80,172	1,223,398
Foreign exchange differences (unaudited)	-	-	-	387,710	-	-	387,710	13,543	401,253
Other comprehensive loss (unaudited)*	-	-	-	-	(21,671)	(4,920)	(26,591)	(3,184)	(29,775)
Deferred tax on other comprehensive loss (unaudited)	-	-	-	-	-	658	658	399	1,057
Total comprehensive income/(loss) for the period (unaudited)*	-	-	-	387,710	1,121,555	(4,262)	1,505,003	90,930	1,595,933
Dividends (unaudited)	-	-	-	-	(226,116)	-	(226,116)	-	(226,116)
Effect of acquisitions without a change in control (unaudited)	-	-	-	-	283	-	283	(30,829)	(30,546)
Effect of disposals with a change in control (unaudited)	-	-	-	41,567	33,719	(21,414)	53,872	-	53,872
Balances at June 30, 2011 (unaudited)*	3,311,288	(26,303)	1,165,530	132,058	3,734,673	50,735	8,367,981	374,815	8,742,796
Balances at December 31, 2011	3,311,288	(1,586,293)	1,165,530	(642,228)	4,386,461	44,738	6,679,496	387,827	7,067,323
Profit for the period (unaudited)	-	-	-	-	582,124	-	582,124	46,917	629,041
Foreign exchanges difference (unaudited)	-	-	-	(52,281)	-	-	(52,281)	9,172	(43,109)
Other comprehensive loss (unaudited)	-	-	-	(31,130)	(4,952)	(39,045)	(75,127)	(152)	(75,279)
Deferred tax on other comprehensive loss (unaudited)	-	-	-	-	-	150	150	-	150
Total comprehensive (loss)/income for the period (unaudited)	-	-	-	(83,411)	577,172	(38,895)	454,866	55,937	510,803
Repurchase of issued shares (unaudited) (Note 2)	-	(13,324)	-	-	-	-	(13,324)	-	(13,324)
Dividends (unaudited)	-	-	-	-	(189,754)	-	(189,754)	-	(189,754)
Gold segment separation (unaudited) (Note 2)	-	(103,849)	-	-	-	-	(103,849)	(274,892)	(378,741)
Effect of acquisitions without a change in control (unaudited)	-	-	-	-	(86,877)	-	(86,877)	(50,442)	(137,319)
Balances at June 30, 2012 (unaudited)	3,311,288	(1,703,466)	1,165,530	(725,639)	4,687,002	5,843	6,740,558	118,430	6,858,988

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

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

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Notes to the consolidated interim condensed financial statements Six months ended June 30, 2012 and 2011

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

1. Accounting policies and estimates

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

Adoption of amended and revised IFRS

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended December 31, 2011, except that the Group has adopted those amended standards mandatory for financial annual periods beginning on January 1, 2012.

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

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

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

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

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Notes to the consolidated interim condensed financial statements Six months ended June 30, 2012 and 2011

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

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

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

	Six months ended June 30, 2012
Increase in property, plant and equipment	21,260
Decrease in cost of sales	21,260

New accounting pronouncements

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

Standards	Effective for annual periods beginning on or after
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, 2014
IAS 34 (Amended) "Interim Financial Reporting"	January 1, 2013
IFRS 1 (Amended) "First-time adoption of international financial reporting standards"	January 1, 2013
IFRS 7 (Amended) "Financial instruments: disclosure"	January 1, 2013
IFRS 9 (Amended) "Financial instruments"	January 1, 2015
IFRS 10 "Consolidated financial statements"	January 1, 2013
IFRS 11 "Joint arrangements"	January 1, 2013
IFRS 12 "Disclosure of interests in other entities"	January 1, 2013
IFRS 13 "Fair value measurement"	January 1, 2013

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

Amended IAS 1 *Presentation of Financial Statements* requires a separate presentation of items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Amended IAS 1 will be effective for annual periods beginning on or after 1 July, 2012 and requires retrospective application.

Amended IAS 34 *Interim Financial Reporting* requires a separate presentation of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the Group's management and if there has been a material change from the amount disclosed in the last

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Notes to the consolidated interim condensed financial statements Six months ended June 30, 2012 and 2011

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

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

IFRS 9 *Financial Instruments* becomes effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

The first and second phases of IFRS 9 were finalised in November 2009 and October 2010, respectively, and relate to the recognition and measurement of financial assets and liabilities. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

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

IFRS 12 *Disclosures of interests in other entities* requires extended disclosures for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 will be effective for annual periods beginning on or after 1 January 2013 and requires retrospective application.

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

Restatements

In order to conform to the current period's presentation the following reclassification to the prior period was made for the netting of additions and disposals of highly liquid promissory notes used for settlements with suppliers and customers in the Statement of cash flows:

	Six months ended June 30, 2011
Decrease in additions to financial investments and associates	1,295,852
Decrease in proceeds from disposal of financial investments	(1,295,852)

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Notes to the consolidated interim condensed financial statements Six months ended June 30, 2012 and 2011

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

2. Discontinued operations and assets held for sale

The Group's discontinued operations represent the Lucchini segment and Severstal Sparrows Point LLC, Severstal Warren LLC, Severstal Wheeling Inc and Mountain State Carbon LLC, which are collectively an operating segment within the Severstal International (formerly Severstal North America) reporting segment, and the Gold segment, following management's decision to dispose of these businesses.

The results of the discontinued operations were as follows:

	Six months ended June 30,		Three months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Revenue	161,072	1,310,838	-	299,402
Expenses	(73,252)	(1,277,105)	-	(216,922)
Profit before income tax	87,820	33,733	-	82,480
Income tax expense	(10,112)	(44,237)	-	(29,924)
Profit/(loss), net of tax	77,708	(10,504)	-	52,556
Net gain/(loss) on disposal	69,330	81,705	(6,759)	-
Profit/(loss) for the period	147,038	71,201	(6,759)	52,556
Attributable to:				
shareholders of OAO Severstal	130,272	23,767	(6,759)	33,907
non-controlling interests	16,766	47,434	-	18,649

Lucchini segment and North America disposal group

In June 2010, the Group sold its 50.8% stake in Lucchini S.p.A. to the Majority Shareholder for a total consideration of €1 (US\$ 1.2 at the transaction date exchange rate). The Group continued to consolidate the Lucchini segment primarily due to a call option exercisable within the following five years and a contractual entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party. In view of the projected disposal the Group classified the Lucchini segment as assets held for sale and discontinued operations.

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

In March 2011, the Group sold its 100% stake in Severstal Sparrows Point LLC, Severstal Warren LLC, Severstal Wheeling Inc and a 50% stake in Mountain State Carbon LLC. The remaining share in Mountain State Carbon LLC of 50% is accounted for using the equity method.

Upon deconsolidation, the Group's investments in Lucchini and Mountain State Carbon LLC were stated at fair values of US\$ nil and US\$ 116.1 million, respectively, with the difference on re-measuring to fair value recognized within the net profit from discontinued operations.

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Gold segment

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

The effect of the Gold segment separation on the Group's treasury shares is presented below:

	Treasury shares
Balance before Gold segment separation	26,303
Gold segment separation effect:	
Gold segment's net identifiable assets	2,290,388
Net identifiable assets attributable to non-controlling interests	(274,892)
Disposal costs	12,507
Intercompany debts	(364,164)
Repurchase of issued shares	13,324
Balance at June 30, 2012	1,703,466
recognized at December 31, 2011	1,559,990
recognized for the period*	103,849
repurchase of issued shares for the period	13,324

* Related to a further increase in the Group's share in the Gold segment's net assets compared to December 31, 2011.

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

	Six months ended June 30,		Three months ended June 30,	
	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Assets held for sale	(2,827,037)	(3,599,109)	-	-
Liabilities related to assets held for sale	536,649	3,495,149	-	-
Net identifiable assets	(2,290,388)	(103,960)	-	-
Foreign exchange differences and other reserves	76,089	(53,872)	-	-
Fair value adjustment for equity accounted investments	-	83,943	-	-
Consideration:				
Consideration in cash	-	84,094	-	-
Consideration in other financial assets	(6,759)	83,500	(6,759)	-
Selling costs	-	(12,000)	-	-
Net gain on disposal	69,330	81,705	(6,759)	-
Net change in cash and cash equivalents	-	84,094	-	-

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

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

	June 30, 2012	December 31,
	(unaudited)	2011
Current assets:		
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
Total current assets	-	742,663
Non-current assets:		
Long-term financial investments	-	86,370
Investments in associates and joint ventures	-	4,775
Property, plant and equipment	-	582,709
Intangible assets	-	1,252,227
Deferred tax assets	-	2,812
Other non-current assets	-	5,754
Total non-current assets	-	1,934,647
Total assets	-	2,677,310
Current liabilities:		
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
Total current liabilities	-	274,634
Non-current liabilities:		
Deferred tax liabilities	-	200,930
Other non-current liabilities	-	74,559
Total non-current liabilities	-	275,489
Total liabilities	-	550,123

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

3. Revenue

Revenue by product was as follows:

	Six months ended June 30,		Three months ended June 30,	
	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	2,466,810	2,331,267	1,146,014	1,220,512
Galvanized and other metallic coated sheet	1,063,336	964,056	551,305	509,506
Cold-rolled sheet	703,152	820,507	353,945	411,979
Metalware products	488,611	501,445	253,326	269,804
Shipping and handling costs billed to customers	481,920	363,895	245,309	214,816
Coal and coking coal concentrate	357,367	440,905	171,283	218,692
Semi-finished products	344,399	384,200	183,023	246,215
Pellets and iron ore	335,940	283,932	195,999	191,610
Large diameter pipes	289,756	550,724	135,656	267,017
Other tubes and pipes, formed shapes	235,857	250,994	125,476	133,322
Long products	231,944	267,863	140,915	147,962
Colour-coated sheet	190,538	140,498	107,443	87,224
Scrap	10,309	57,325	3,733	35,411
Other	196,703	208,483	104,428	129,395
	<u>7,396,642</u>	<u>7,566,094</u>	<u>3,717,855</u>	<u>4,083,465</u>

Revenue by delivery destination was as follows:

	Six months ended June 30,		Three months ended June 30,	
	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Russian Federation	3,158,482	3,670,064	1,630,161	1,894,019
North America	2,342,705	1,796,719	1,123,081	950,819
Europe	1,010,190	1,355,365	569,929	772,480
China and Central Asia	330,321	226,643	186,410	119,741
Central and South America	262,250	134,493	111,467	107,804
The Middle East	144,786	161,368	68,860	58,603
South-East Asia	86,851	173,561	13,868	154,281
Africa	61,057	47,881	14,079	25,718
	<u>7,396,642</u>	<u>7,566,094</u>	<u>3,717,855</u>	<u>4,083,465</u>

OAO Severstal and subsidiaries

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

4. Related party transactions

	Six months ended June 30,		Three months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Sales to related parties:				
Sales to associates	59,046	85,177	17,565	67,116
Sales to joint ventures	28,505	12,140	25,001	12,140
Sales to other related parties	22,296	22,552	11,156	16,212
Interest income from related parties:				
Interest income from joint ventures	1,420	1,706	700	1,706
Interest income from other related parties	16,054	11,944	7,467	7,624
	<u>127,321</u>	<u>133,519</u>	<u>61,889</u>	<u>104,798</u>
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	36,485	36,761	24,254	22,376
Purchases from joint ventures:				
Non-capital expenditures	140,747	100,651	73,557	73,128
Purchases from other related parties:				
Non-capital expenditures	15,109	16,425	7,508	4,753
Capital expenditures	28	552	17	148
Interest expense	26	-	16	-
	<u>192,395</u>	<u>154,389</u>	<u>105,352</u>	<u>100,405</u>

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5. Related party balances

	June 30, 2012	December 31,
	(unaudited)	2011
Joint ventures' balances		
Short-term trade accounts receivable	6,358	8,048
Short-term loans	1,235	-
Long-term loans	40,461	35,821
Short-term trade accounts payable	31,067	26,284
Associates' balances		
Short-term trade accounts receivable	13,342	10,040
Long-term loans	5,272	3,965
Long-term trade accounts receivable	8,293	8,859
Short-term trade accounts payable	9,308	8,760
Other related party balances		
Cash and cash equivalents at related party banks and pension fund	862,613	689,388
Accounts receivable from other related parties:		
Trade accounts receivable	4,179	3,040
Advances paid	1,255	5,506
Other receivables	691	715
Short-term loans	958	1,741
Short-term promissory notes	12	207
Long-term loans	-	2,490
Available-for-sale financial assets	741	5,434
	7,836	19,133
Short-term trade accounts payable to other related parties:		
Trade accounts payable	945	705
Advances received	716	208
Liability related to Gold segment separation	-	1,546,951
Other accounts payable	593	123
	2,254	1,547,987
Debt financing includes the following balances with other related parties:		
Short-term debt financing	197	19
Long-term debt financing	4,045	4,104
	4,242	4,123

The amounts outstanding are expected to be settled in cash, except liability related to Gold segment separation (*Note 2*). The Group did not hold any collateral for amounts owed by related parties.

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6. Acquisitions and disposals

Investments in associates and other equity investments

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

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

Acquisitions of non-controlling interests

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

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

In April 2012, the Group acquired an additional 38.5% stake in Severstal Liberia Iron Ore Ltd for a total consideration of US\$ 127.9 million, of which US\$ 62.9 million are payable during the next three years, increasing its ownership interest up to 100%.

Disposal of associates

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

Disposal of subsidiaries (other than discontinued operations)

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

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A summary of assets and liabilities disposed during the six months ended June 30, 2012 is presented below:

	Six months ended June 30,		Three months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Assets held for sale	-	(13,375)	-	-
Liabilities related to assets held for sale	-	11,316	-	-
Net identifiable assets	-	(2,059)	-	-
Consideration in cash	-	12,900	-	-
Net gain on disposal	-	10,841	-	-
Net change in cash and cash equivalents	-	12,900	-	-

Transactions within discontinued operations

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

Dilution of Group's ownership

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

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7. Segment information

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

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

Severstal Russian Steel produces a wide range of products, including hot-rolled sheets, profiles, large-diameter pipes and cold-rolled coated sheets encompassing special-grade sheets for the automotive industry, hot-rolled plates, metalware and long products on steel production facilities located in the Russian Federation. It sells steel products on domestic Russian market, serving the needs of the Russian automotive, construction, shipbuilding, oil and gas, engineering and other industries, as well as on the international market.

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

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

	Six months ended June 30,		Three months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Revenue				
Severstal Resources	1,597,448	1,767,636	785,966	1,003,218
Severstal Russian Steel	4,434,574	5,216,322	2,208,711	2,807,473
Severstal International	2,158,169	1,568,309	1,062,771	810,814
Intersegment transactions	(793,549)	(986,173)	(339,593)	(538,040)
	<u>7,396,642</u>	<u>7,566,094</u>	<u>3,717,855</u>	<u>4,083,465</u>
Profit before financing and taxation				
Severstal Resources*	1,041,702	687,044	768,907	417,323
Severstal Russian Steel	239,287	708,196	166,469	357,303
Severstal International	57,181	67,236	34,716	49,141
Intersegment transactions*	(525,317)	(11,862)	(513,816)	(11,753)
	<u>812,853</u>	<u>1,450,614</u>	<u>456,276</u>	<u>812,014</u>

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

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

	June 30, 2012 (unaudited)	December 31, 2011
Total assets		
Severstal Resources*	6,084,557	4,782,766
Severstal Russian Steel	14,806,564	15,077,510
Severstal International	4,257,481	4,481,838
Gold (discontinued)	-	2,680,066
Intersegment balances	<u>(9,827,576)</u>	<u>(9,112,389)</u>
	<u>15,321,026</u>	<u>17,909,791</u>

*Total assets of Severstal Resources at June 30, 2012 included a US\$ 1,200.1 million of receivable for the transfer of OA O Severstal shares and GDR's to Severstal Russian Steel and a US\$ 210.0 million of Severstal treasury shares, measured at the Group's share in the Gold segment's net assets as at the date of its separation.

8. Capital commitments

As of June 30, 2012 the Group had capital commitments of US\$ 874.2 million (December 31, 2011: US\$ 1,085.9 million).

9. Dividends

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

On 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.

10. Subsequent events

During July 2012, the Group repurchased 553,062 shares of OA O Severstal for a total consideration of US\$ 6.6 million.

On July 26, 2012 the Parent Company's share capital was reduced by cancellation of its 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.